

NEWS RELEASE

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CBRE releases Q4 2018 Japan Office MarketView Tokyo Office Vacancy Rate Falls Below 1% Across All Grades Rents Rise in All Cities; Tokyo All-Grade Rents Increase 2% q-o-q

CBRE today released its Q4 2018 Japan Office MarketView covering market trends in office buildings in 13 cities across Japan.

HIGHLIGHTS FOR MAJOR CITIES

- ◆ Tokyo Grade A vacancy rate fell 0.2 points q-o-q to 0.7%; vacancy rate is now below 1% across all grades
- ◆ Osaka Grade A vacancy rate rose 0.1 point q-o-q to 1.0%; All-Grade vacancy rate stands at record low of 1.7%
- ◆ Nagoya Grade A vacancy rate fell 0.1 point q-o-q to 0.5%, a record low

CBRE RENT FORECASTS (Q4 2018 – Q4 2019)

- ◆ Tokyo Grade A rents: Forecast to increase by 0.3% over the next year
- ◆ Osaka Grade A rents: Forecast to increase by 4.1% over the next year
- ◆ Nagoya Grade A rents: Forecast to increase by 2.4% over the next year

■Tokyo 23 Wards

Newly constructed buildings continued to see high levels of occupancy in 2018, while existing buildings also saw spaces being filled. Net absorption for the year was 300,000 tsubo, exceeding new supply of 250,000 tsubo, the third highest level since CBRE's surveys began recording this figure in 1992. As a result, the vacancy rate dropped below 1% across all grades in Q4 2018, with the All-Grade vacancy rate at 0.8%, a survey record low. All buildings completed this quarter were almost fully occupied, regardless of grade. Even at existing buildings with units available for lease, space continued to be filled as tenants took additional space within their existing building or landlords subdivided units. There continued to be solid demand from coworking operators, with occupiers in this category securing more than 5,000 tsubo of space across several buildings during the quarter.

All-Grade rents stood at JPY 22,210. This 2.0% q-o-q increase was mainly driven by Grade B buildings and other small-to-medium sized properties. Grade A rents rose by 0.9% q-o-q which was slightly lower than in the previous quarter (+1.4%).

Large buildings scheduled for completion in 2019 are expected to fill up their spaces with tenants

that will be relocating from other existing buildings. With the risk of an economic downturn growing, it may take longer for these existing buildings to find replacement tenants. Grade A rents are expected to rise by 0.3% this year but are then expected to decline by around 4% in 2020.

Takashi Katono, executive director of CBRE's Advisory & Transaction Services (Office), commented: "Demand from tenants seeking to consolidate offices or improve their office environment remains solid. Limited availability in existing buildings is prompting many tenants to focus on the new supply of around 500,000 tsubo scheduled for completion over the next two years. The pre-lease ratio is currently 80% for buildings scheduled for completion in 2019, and 30% for buildings scheduled for completion in 2020. However, as many tenants in these new buildings will relocate from existing properties, there is concern that vacancy could arise in those existing buildings, depending on economic performance."

■ Osaka

The **Osaka All-Grade vacancy rate** stood at 1.7% in Q4 2018, the lowest level since CBRE's survey began recording this figure in 1993. The severe shortage of space is insufficient to meet robust demand from tenants seeking to establish new offices or relocate to a larger premise. **All-Grade rents** rose by 2.1% q-o-q to JPY 12,690 per tsubo, mainly driven by rents for offices which are below Grade B.

The **Grade A vacancy rate** increased by 0.1 point q-o-q to 1.0%. There was very little available space for tenants in existing buildings. **Grade A rents** rose by 0.8% q-o-q to JPY 23,850 per tsubo. As an increasing number of tenants are seeking space in Grade B or lower buildings, there has also been a marked rise in rents for non-Grade A properties. Grade A rents are expected to increase by a further 4.1% over the next year.

Hideo Oue, senior director of CBRE's Advisory & Transaction Services (Office), Kansai office, commented: "There is robust demand for office space, even in low-grade buildings. Tenants are increasingly aware that they need to secure space now, as availability is shrinking rapidly."

■ Nagoya

The **Nagoya All-Grade vacancy rate** decreased by 0.2 points q-o-q to 1.1% in Q4 2018. This marked the third consecutive quarterly decline, with vacancy now standing at the lowest level since the survey began recording this figure in Q4 1993. The limited remaining space in Grade A buildings was filled this quarter, a move that led to the vacancy rate falling by 0.1 point q-o-q to a record low of 0.5%. In the Grade B market, space in several buildings was occupied as tenants moved away from the suburbs to improve their location or establish new offices. As a result, the Grade B vacancy rate fell below 1%, a survey first.

All-Grade rents rose by 0.8% q-o-q to JPY 12,720 per tsubo, while Grade A rents rose by 2.7% q-o-q to JPY 26,450 per tsubo. Grade A rents are now approaching the record high of JPY 27,350 per tsubo set in Q4 2007. No new large properties are scheduled for completion until May 2020, meaning that Nagoya will remain a tenant's market. CBRE expects rents to rise by 2.4% over the next year.

Junichi Miyazaki, director of CBRE's Advisory & Transaction Services (Office), Nagoya office, commented: "The pre-lease ratio for medium-sized buildings scheduled for completion in 2019 is already estimated to be over 90%. Relocation options for tenants are dwindling rapidly."

HIGHLIGHTS FOR REGIONAL CITIES

- ◆ **Sendai:** Vacancy rate at lowest level for fifth quarter running, tenants intensify search for space
- ◆ **Yokohama:** Whole-building lease finalized for property due for completion in 2020
- ◆ **Fukuoka:** Vacancy rate at record low for second quarter running, rents at record high

In Q4 2018, out of the 10 regional cities surveyed by CBRE, the vacancy rate fell in six and was flat in one.

Available space became even more scarce as tenants relocated, established new offices, or expanded their floor space within their existing building. In **Sendai**, several companies intensified efforts to secure space, with the vacancy rate hitting a new low for the fifth consecutive quarter. In **Yokohama**, with few units available even in large buildings, a leading manufacturer decided to take up the entire space of a property due for completion in 2020. In **Kanazawa**, the vacancy rate fell for the second quarter running as several tenants relocated to improve their location and establish new offices. **Hiroshima** saw strong relocation demand from tenants looking to improve their office environment. Large buildings scheduled for completion in Q1 2019 are expected to launch with high levels of occupancy.

Assumed achievable rents rose in all 10 cities for the fourth consecutive quarter. With supply still tight, rents in many cities remain at record highs. In **Fukuoka**, assumed achievable rents rose by 2.2% q-o-q, and by 11.5% over full-year 2018, the strongest rate of growth among the 10 cities surveyed. Rents hit record highs in **Sapporo**, where there is a chronic shortage of space for tenants looking to relocate, and in **Saitama** and **Kyoto**. In **Sendai**, rental growth exceeded 1% for the fourth consecutive quarter.

■ **NATIONWIDE VACANCY RATES AND ASSUMED ACHIEVABLE RENT**

		Vacancy Rate					Average Assumed Achievable Rent				
		Q4 2017	Q3 2018	Q4 2018	q-o-q	y-o-y	Q4 2017	Q3 2018	Q4 2018	q-o-q	y-o-y
Tokyo 23 Wards	Grade A	1.8%	0.9%	0.7%	- 0.2pts	- 1.1pts	36,450	37,050	37,400	+ 0.9%	+ 2.6%
	Grade A-Minus	1.5%	1.1%	0.9%	- 0.2pts	- 0.6pts	25,150	25,800	26,150	+ 1.4%	+ 4.0%
	Grade B	1.5%	1.0%	0.7%	- 0.3pts	- 0.8pts	21,350	22,100	22,500	+ 1.8%	+ 5.4%
	All-Grade	1.5%	0.9%	0.8%	- 0.1pts	- 0.7pts	21,010	21,770	22,210	+ 2.0%	+ 5.7%
	All-Grade Tokyo 5 Wards	1.4%	0.8%	0.5%	- 0.3pts	- 0.9pts	22,090	22,930	23,390	+ 2.0%	+ 5.9%
Osaka	Grade A	0.3%	0.9%	1.0%	+ 0.1pts	+ 0.7pts	21,950	23,650	23,850	+ 0.8%	+ 8.7%
	Grade B	2.4%	1.4%	1.2%	- 0.2pts	- 1.2pts	12,300	13,050	13,300	+ 1.9%	+ 8.1%
	All-Grade	2.5%	1.9%	1.7%	- 0.2pts	- 0.8pts	11,620	12,430	12,690	+ 2.1%	+ 9.2%
Nagoya	Grade A	2.3%	0.6%	0.5%	- 0.1pts	- 1.8pts	24,550	25,750	26,450	+ 2.7%	+ 7.7%
	Grade B	2.5%	1.2%	0.9%	- 0.3pts	- 1.6pts	12,550	12,900	13,050	+ 1.2%	+ 4.0%
	All-Grade	2.6%	1.3%	1.1%	- 0.2pts	- 1.5pts	12,000	12,620	12,720	+ 0.8%	+ 6.0%
Yokohama	All-Grade	5.5%	3.1%	2.3%	- 0.8pts	- 3.2pts	14,600	15,040	15,120	+ 0.5%	+ 3.6%
Saitama	All-Grade	0.6%	0.3%	0.3%	± 0.0pts	- 0.3pts	16,940	17,960	18,080	+ 0.7%	+ 6.7%
Sapporo	All-Grade	0.4%	0.9%	1.1%	+ 0.2pts	+ 0.7pts	12,940	13,680	13,830	+ 1.1%	+ 6.9%
Sendai	All-Grade	3.9%	3.0%	2.4%	- 0.6pts	- 1.5pts	9,970	10,330	10,490	+ 1.5%	+ 5.2%
Kanazawa	All-Grade	6.2%	6.5%	6.2%	- 0.3pts	± 0.0pts	10,120	10,370	10,430	+ 0.6%	+ 3.1%
Kyoto	All-Grade	0.7%	0.4%	0.6%	+ 0.2pts	- 0.1pts	13,020	13,810	13,980	+ 1.2%	+ 7.4%
Kobe	All-Grade	3.6%	1.9%	1.8%	- 0.1pts	- 1.8pts	10,980	11,280	11,390	+ 1.0%	+ 3.7%
Hiroshima	All-Grade	2.8%	2.9%	2.3%	- 0.6pts	- 0.5pts	10,890	11,130	11,230	+ 0.9%	+ 3.1%
Takamatsu	All-Grade	8.3%	7.1%	7.2%	+ 0.1pts	- 1.1pts	8,910	9,160	9,240	+ 0.9%	+ 3.7%
Fukuoka	All-Grade	0.5%	0.5%	0.4%	- 0.1pts	- 0.1pts	13,270	14,480	14,800	+ 2.2%	+ 11.5%

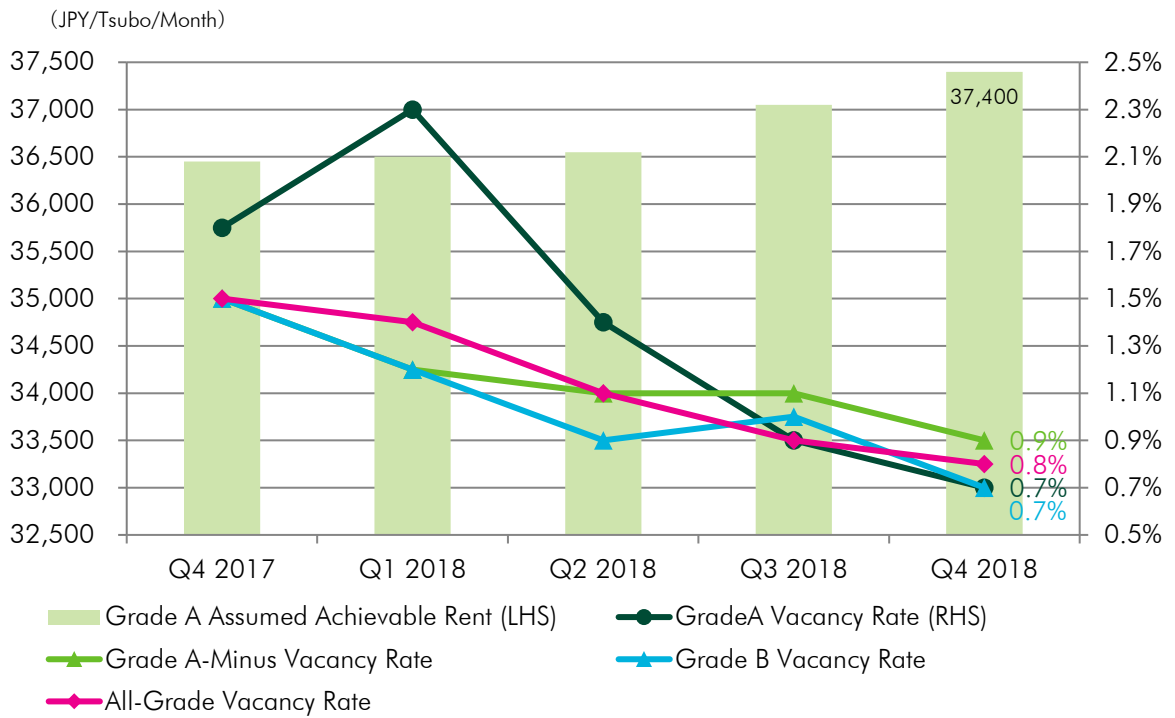
Source: CBRE, Q4 2018

■ **VACANCY RATES & RENT FORECASTS IN THREE MAJOR CITIES (GRADE A)**

		Vacancy Rate			Average Assumed Achievable Rent		
		Q4 2018	Q4 2019	Pts Change	Q4 2018	Q4 2019	% Change
Tokyo 23 Wards	Grade A	0.7%	1.2%	+0.5pts	37,400	37,500	+0.3%
Osaka	Grade A	1.0%	0.7%	-0.3pts	23,850	24,820	+4.1%
Nagoya	Grade A	0.5%	0.3%	-0.2pts	26,450	27,080	+2.4%

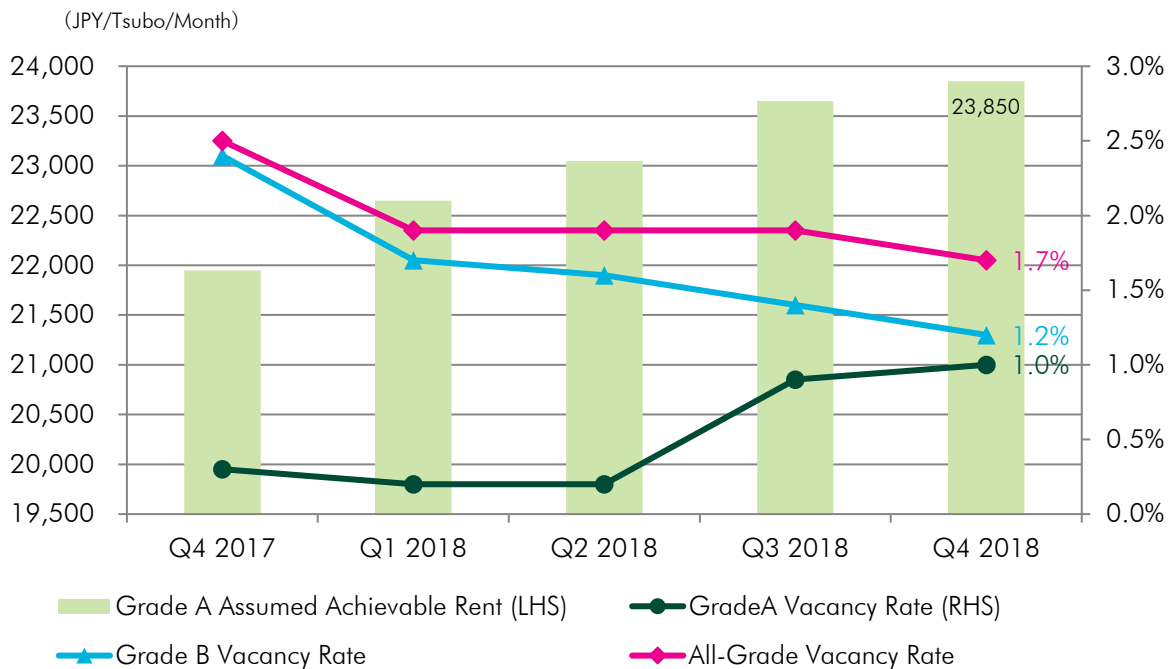
Source: CBRE, Q4 2018

■Tokyo



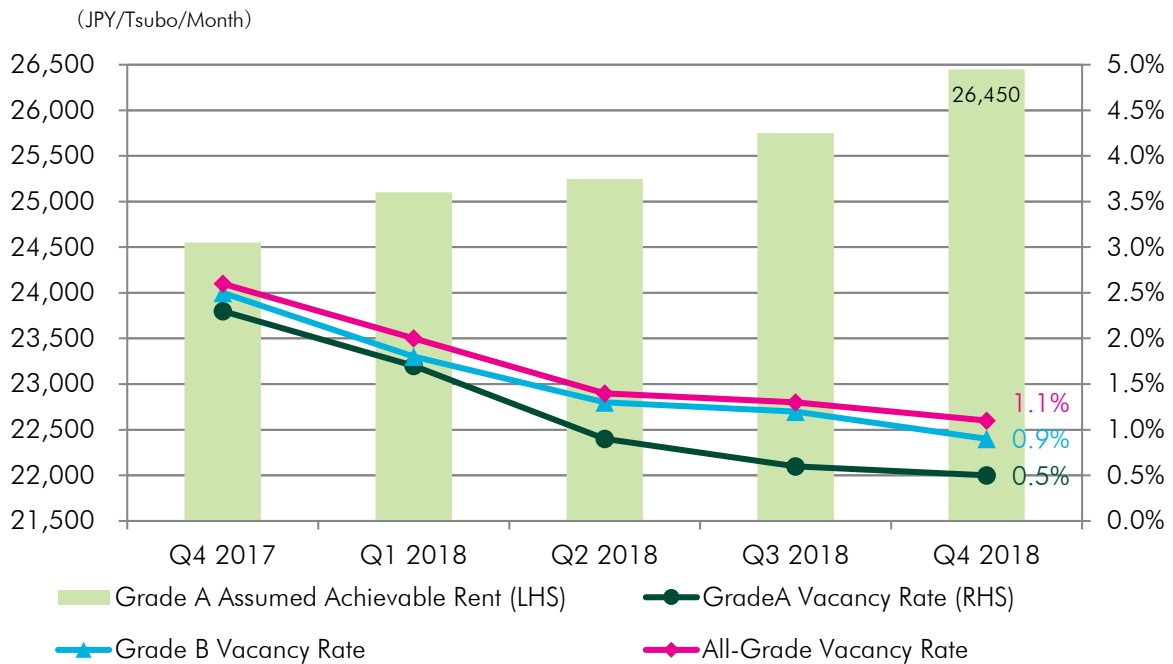
Source: CBRE, Q4 2018

■Osaka



Source: CBRE, Q4 2018

■ Nagoya



Source: CBRE, Q4 2018

TERMS AND DEFINITIONS	
Space Measurement	1 tsubo = 3.3058 square meters = 35.58 square feet
Surveyed Buildings	Office buildings for lease located in office markets in 13 major cities nationwide, with gross floor area of 1,000 tsubo or more, and compliant with the new earthquake resistance standards.
Surveyed Period	Quarterly Vacancy rate: (1) End of March (2) End of June (3) End of September (4) End of December Quarterly Assumed achievable rents: (1) End of March (2) End of June (3) End of September (4) End of December Annual Vacancy rate: End of December each year Assumed achievable rents: January to December each year
Vacancy Rate	Vacancies are those that are ready to receive tenants at time of survey
Assumed Achievable Rent	Assumed achievable rent of floorplate (including common area maintenance fee)
Floor Space of New Supply	Leasing floor space of buildings completed during each period
Net Absorption	Difference between occupied floor space (floor space used by tenants) in a given period and that of the previous period
Grade A Samples	Tokyo 89, Osaka 27, Nagoya 11 (as of Q4 2018)

BUILDING GRADE DEFINITION					
	All-Grade				
	Grade A	Grade A-Minus	Grade B		Office area in 13 cities nationwide set by CBRE
Location	Tokyo: Central 5 Wards* Osaka, Nagoya: Office area	Office area in Tokyo 23 Wards	Office area in Tokyo 23 Wards	Office area in Osaka & Nagoya	
Size	GFA: 10,000 tsubo or more NLA: 6,500 tsubo or more Typical floor plate: Greater than 500 tsubo**	GFA: 7,000 tsubo or more NLA: 4,500 tsubo or more Typical floor plate: Greater than 250 tsubo (except Grade A)	GFA: 2,000-7,000 tsubo Typical floor plate: Greater than 200 tsubo (except Grade A & GradeA-Minus)	GFA: 2,000 tsubo or more (except Grade A)	GFA: 1,000 tsubo or more
Age	Less than 11 years Buildings satisfying the 1981 anti-seismic standards				

*Central 5 Wards: Chiyoda Ward, Chuo Ward, Minato Ward, Shinjuku Ward, Shibuya Ward **350 tsubo for Osaka and Nagoya

For further details of the market data in each city and an overview of market conditions, please refer to the Japan Office MarketView Q4 2018 which is also available on the CBRE website.

<https://www.cbre.co.jp/ja-jp/research-reports/japan-research-archives>

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