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**CBRE releases Q1 2019 Japan Office MarketView
Tokyo All-Grade Vacancy Rate Falls Below 1% for Second Consecutive Quarter
Rents Rise in All Cities; Tokyo All-Grade Rents Rise by 0.7% q-o-q**

CBRE today released its Q1 2019 Japan Office MarketView covering market trends in office buildings in 13 cities across Japan.

HIGHLIGHTS FOR MAJOR CITIES

- ◆ Tokyo Grade A vacancy rate fell 0.1 point q-o-q to 0.6%, recording a new low for the fourth quarter running
- ◆ Osaka Grade A vacancy rate fell 0.5 points q-o-q to 0.5%; All-Grade vacancy rate reported a record low of 1.3%
- ◆ Nagoya Grade A vacancy rate fell 0.4 points q-o-q to 0.1%; All-Grade vacancy rate reported a record low of 1.0%

CBRE RENTAL FORECAST (Q1 2019 – Q1 2020)

- ◆ Tokyo Grade A rents: Forecast to increase by 0.3% over the next year
- ◆ Osaka Grade A rents: Forecast to increase by 5.7% over the next year
- ◆ Nagoya Grade A rents: Forecast to increase by 2.7% over the next year

■Tokyo 23 Wards

In Q1 2019, the vacancy rate for all grades was lower than the previous quarter, with the All-Grade vacancy rate standing at 0.6%, setting a new low for the fourth consecutive quarter. As there are almost no large units available at existing buildings in the central five wards, pre-leasing is brisk at buildings still to be completed. Grade A buildings completed this quarter also opened fully let. Future-tenants for these properties included the subsidiaries of large manufacturers and IT-related firms, such as e-commerce platforms. Many leases involved relocations, either to establish new offices or to consolidate premises under one roof. Among other grades, several buildings were completed fully let. There were also instances of whole-building leases by coworking operators and IT firms. Meanwhile, space in existing buildings was filled as companies brought affiliates together under the same roof or expedited leasing decisions to secure space in order to accommodate new headcount.

All-Grade rents stood at JPY 22,360 per tsubo in Q1 2019, a rise of 0.7% q-o-q. The Grade B

segment saw the strongest increase among all grades, with rents rising by 1.3% q-o-q. Grade A rents increased by 0.5% q-o-q, slightly lower than last quarter's 0.9% rise.

As of end-March 2019, the pre-leasing ratio for unfinished Grade A buildings was over 80% at buildings scheduled for completion in 2019, and over 50% at buildings scheduled for completion in 2020. Despite leasing progressing well, some owners are wary of the 300,000 tsubo of new supply scheduled to be completed in 2020, a figure 70% higher than the historical average of 180,000 tsubo. While Grade A rents are expected to rise by 0.3% over the next year, CBRE sees them falling by around 5% over the subsequent year.

Takashi Katono, executive director of CBRE's Advisory & Transaction Services (Office), commented: "Although occupancy rates are continuing to rise in view of the tight supply conditions, asking rents are being pitched conservatively at some existing buildings. Given the growing risk of an economic downturn, this could lead to tenants relocating to new buildings and therefore vacancies at existing buildings."

■ Osaka

The **Osaka All-Grade vacancy rate** was 1.3% in Q1 2019, marking the lowest level since CBRE's surveys began recording this figure in 1993. With supply becoming tighter, interest is growing in coworking as a means to accommodate occupier demand for additional floor area. It also reflects the high level of demand for flexible working environments as companies look to enhance work style reform. **All-Grade rents** stood at JPY 13,220 per tsubo, a rise of 4.2% q-o-q which is the strongest rate of growth recorded. As no new supply is scheduled to be completed in 2019, rents are likely to rise further, with CBRE forecasting an increase in All-Grade rent of 6.3% over the next year.

The **Grade A vacancy rate** fell by 0.5 points q-o-q to 0.5%. The little available space was filled as tenants took additional space within their existing building, and the vacancy rate was again well below 1%. **Grade A rents** rose by 2.1% q-o-q to JPY 24,350. Amid tightening supply-demand conditions, rents are likely to climb further, with CBRE forecasting an increase in Grade A rents of 5.7% over the next year.

Hideo Oue, senior director of CBRE's Advisory & Transaction Services (Office), Kansai office, commented: "Even though the shortage of space is forcing some tenants to seek space in low-grade buildings, they are still finding it hard to secure the space they need. Interest in coworking space is likely to strengthen as it could help to eliminate the space shortage while also promoting work style reform."

■ Nagoya

The **Nagoya All-Grade vacancy rate** decreased 0.1 point q-o-q to 1.0% in Q1 2019, falling for the fourth consecutive quarter to the lowest level since 1993, when CBRE's surveys began this figure. The little remaining space available for lease was occupied this quarter as companies moved from the suburbs to improve their location or establish new premises. The sole Grade A building with a whole floor available for lease was occupied by a large coworking operator during the period. As a result, the Nagoya Grade A vacancy rate fell 0.4 points q-o-q to 0.1%, meaning that there is now almost no space remaining.

All-Grade rents rose by 1.7% q-o-q to JPY 12,930 per tsubo, while Grade A rents rose by 0.8% q-o-q to JPY 26,650 per tsubo. Even at buildings where space was marketed for the first time in several

quarters, replacement tenants were found at rents above the prevailing market level. Furthermore, these tenants were secured even before the previous occupants vacated. This environment continues to allow owners to raise asking rents. CBRE expects Grade A rents to rise by 2.7% over the next year.

Junichi Miyazaki, director of CBRE's Advisory & Transaction Services (Office), Nagoya office, commented: "Space was filled at a faster pace this quarter. Tenants planning to establish new offices or relocate to larger premises are advised to move swiftly."

HIGHLIGHTS FOR REGIONAL CITIES

- ◆ **Sapporo: Buildings completed this quarter were fully let upon opening; vacancy rate fell under 1% for first time in three quarters**
- ◆ **Hiroshima: Largest rental office building in Hiroshima opens with high occupancy**
- ◆ **Fukuoka: Two new buildings were almost fully let upon completion; surge in rents continues**

In Q1 2019, vacancy rates fell in eight out of the 10 surveyed cities and rose in two cities. There is strong demand among companies to establish new offices or relocate to larger premises, and space was taken in new buildings and existing buildings with unlet space. In **Sapporo**, a new building completed this quarter opened fully let as tenants moved to improve their location or to increase floor space. In **Sendai**, space in existing properties was filled as tenants expanded within their existing building or set up satellite offices, with the vacancy rate hitting a record low for the sixth consecutive quarter. In **Yokohama**, the vacancy rate fell below 2% for the first time since 2007 as manufacturers relocated to increase floor space or establish new shared office spaces. In **Kobe**, units were occupied in the Sannomiya Station area and in other areas, with the vacancy rate recording a new low for the seventh quarter running. In **Hiroshima**, the city's largest office building was completed and commenced operations at high occupancy after having secured several major companies tenants. Lastly, in **Fukuoka**, two new buildings were completed almost fully let.

Assumed achievable rents rose in all 10 regional cities for the fifth consecutive quarter. In **Fukuoka** and **Kyoto**, where supply remains extremely tight, assumed achievable rents rose by more than 2% q-o-q. In **Sapporo**, rents again recorded their highest level since Q2 2017. In **Sendai**, **Yokohama**, **Kobe**, and **Hiroshima**, rental growth also exceeded 1%.

■ NATIONWIDE VACANCY RATES AND ASSUMED ACHIEVABLE RENT

		Vacancy Rate					Average Assumed Achievable Rent				
		Q1 2018	Q4 2018	Q1 2019	q-o-q	y-o-y	Q1 2018	Q4 2018	Q1 2019	q-o-q	y-o-y
Tokyo 23 Wards	Grade A	2.3%	0.7%	0.6%	- 0.1pts	- 1.7pts	36,500	37,400	37,600	+ 0.5%	+ 3.0%
	Grade A-Minus	1.2%	0.9%	0.8%	- 0.1pts	- 0.4pts	25,250	26,150	26,400	+ 1.0%	+ 4.6%
	Grade B	1.2%	0.7%	0.5%	- 0.2pts	- 0.7pts	21,550	22,500	22,800	+ 1.3%	+ 5.8%
	All-Grade	1.4%	0.8%	0.6%	- 0.2pts	- 0.8pts	21,130	22,210	22,360	+ 0.7%	+ 5.8%
	All-Grade Tokyo 5 Wards	1.3%	0.5%	0.5%	± 0.0pts	- 0.8pts	22,210	23,390	23,590	+ 0.9%	+ 6.2%
Osaka	Grade A	0.2%	1.0%	0.5%	- 0.5pts	+ 0.3pts	22,650	23,850	24,350	+ 2.1%	+ 7.5%
	Grade B	1.7%	1.2%	0.9%	- 0.3pts	- 0.8pts	12,550	13,300	13,700	+ 3.0%	+ 9.2%
	All-Grade	1.9%	1.7%	1.3%	- 0.4pts	- 0.6pts	11,940	12,690	13,220	+ 4.2%	+ 10.7%
Nagoya	Grade A	1.7%	0.5%	0.1%	- 0.4pts	- 1.6pts	25,100	26,450	26,650	+ 0.8%	+ 6.2%
	Grade B	1.8%	0.9%	1.0%	+ 0.1pts	- 0.8pts	12,700	13,050	13,250	+ 1.5%	+ 4.3%
	All-Grade	2.0%	1.1%	1.0%	- 0.1pts	- 1.0pts	12,320	12,720	12,930	+ 1.7%	+ 5.0%
Yokohama	All-Grade	4.9%	2.3%	1.6%	- 0.7pts	- 3.3pts	14,650	15,120	15,330	+ 1.4%	+ 4.6%
Saitama	All-Grade	0.2%	0.3%	0.4%	+ 0.1pts	+ 0.2pts	17,040	18,080	18,190	+ 0.6%	+ 6.7%
Sapporo	All-Grade	0.3%	1.1%	0.8%	- 0.3pts	+ 0.5pts	13,360	13,830	13,970	+ 1.0%	+ 4.6%
Sendai	All-Grade	3.6%	2.4%	1.9%	- 0.5pts	- 1.7pts	10,070	10,490	10,680	+ 1.8%	+ 6.1%
Kanazawa	All-Grade	5.7%	6.2%	5.7%	- 0.5pts	± 0.0pts	10,170	10,430	10,440	+ 0.1%	+ 2.7%
Kyoto	All-Grade	0.8%	0.6%	0.5%	- 0.1pts	- 0.3pts	13,250	13,980	14,300	+ 2.3%	+ 7.9%
Kobe	All-Grade	3.2%	1.8%	1.7%	- 0.1pts	- 1.5pts	11,120	11,390	11,580	+ 1.7%	+ 4.1%
Hiroshima	All-Grade	2.9%	2.3%	3.2%	+ 0.9pts	+ 0.3pts	10,940	11,230	11,420	+ 1.7%	+ 4.4%
Takamatsu	All-Grade	7.7%	7.2%	6.9%	- 0.3pts	- 0.8pts	8,940	9,240	9,310	+ 0.8%	+ 4.1%
Fukuoka	All-Grade	0.4%	0.4%	0.2%	- 0.2pts	- 0.2pts	13,590	14,800	15,190	+ 2.6%	+ 11.8%

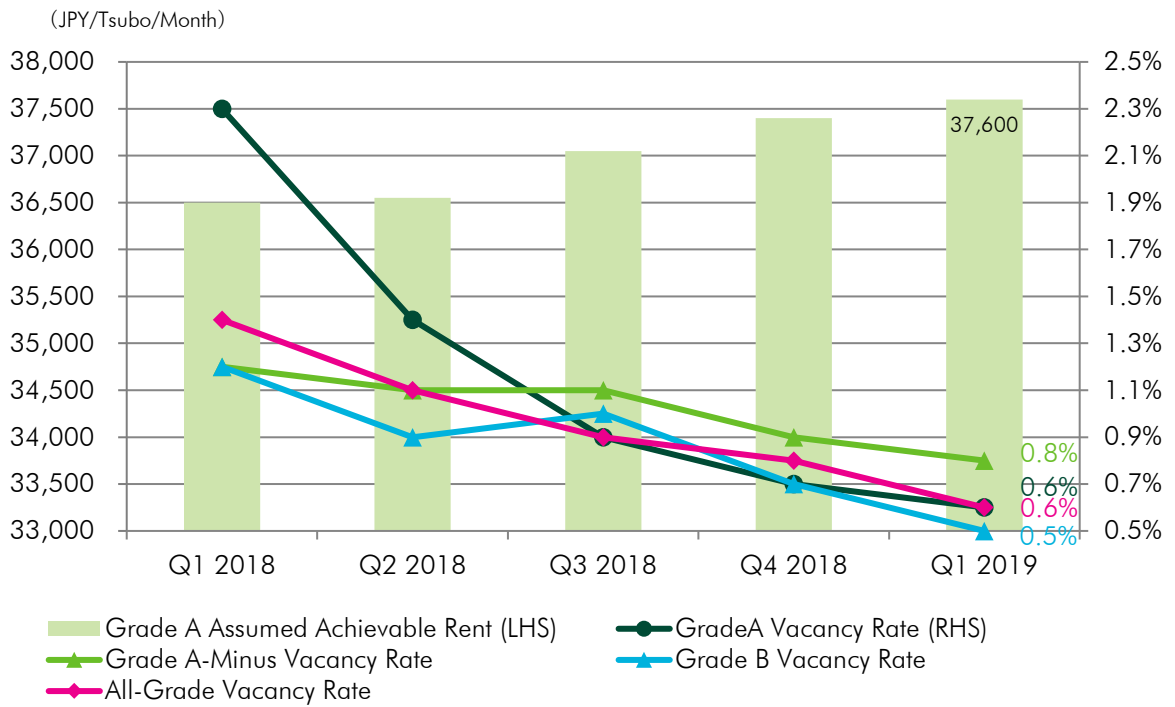
Source: CBRE, Q1 2019

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

		Vacancy Rate			Average Assumed Achievable Rent		
		Q1 2019	Q1 2020	Pts Change	Q1 2019	Q1 2020	% Change
Tokyo 23 Wards	Grade A	0.6%	1.8%	+1.2pts	37,600	37,700	+0.3%
Osaka	Grade A	0.5%	0.5%	±0.0pts	24,350	25,740	+5.7%
Nagoya	Grade A	0.1%	0.0%	-0.1pts	26,650	27,360	+2.7%

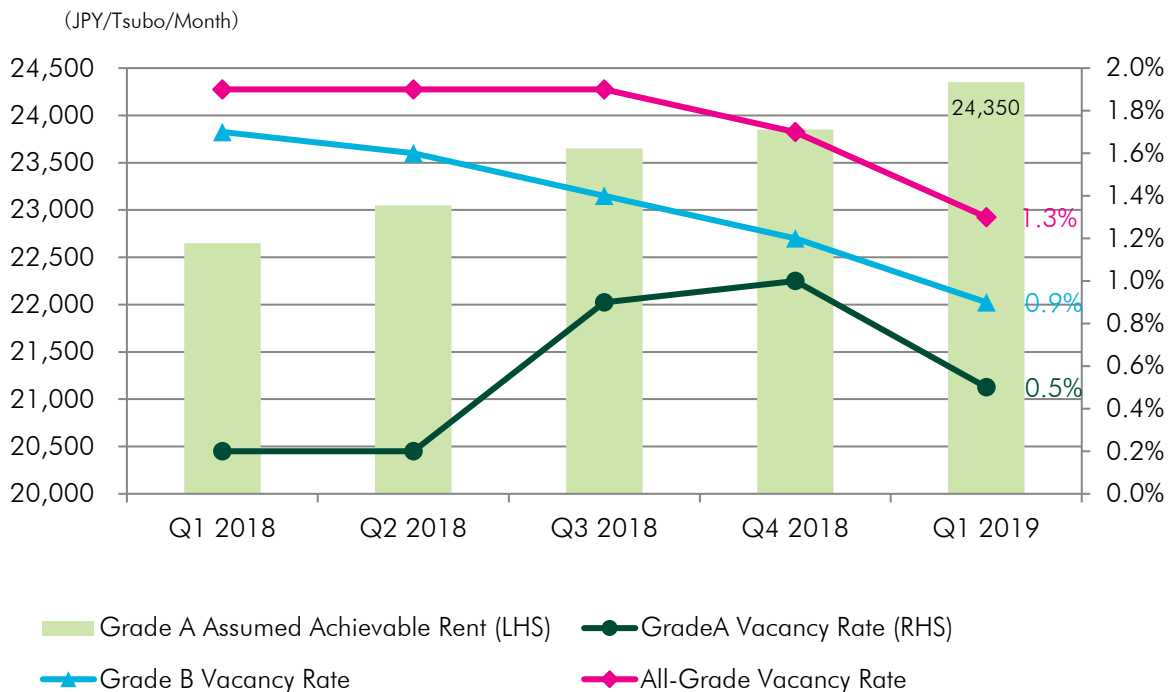
Source: CBRE, Q1 2019

■Tokyo



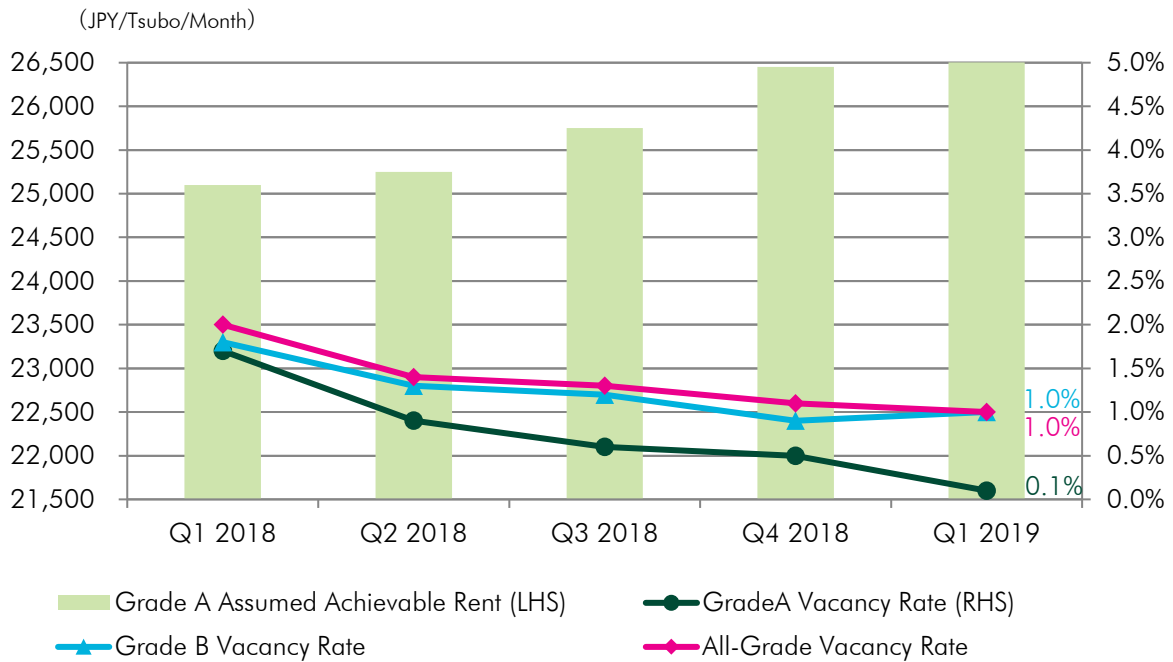
Source: CBRE, Q1 2019

■Osaka



Source: CBRE, Q1 2019

■ Nagoya



Source: CBRE, Q1 2019

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 84, Osaka 27, Nagoya 11 (as of Q1 2019)

BUILDING GRADE DEFINITION					
	All-Grade				
	Grade A	Grade A-Minus	Grade B		
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	Office area in 13 cities nationwide set by CBRE
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 Q1 2019 which is also available on the CBRE website.

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

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