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CBRE

Corporate Communications

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CBRE releases Q2 2019 Japan Office MarketView  
**Tokyo All-Grade vacancy rate rises for first time in two years**  
**Tokyo Grade A rents expected to fall 1.7% Q2 2019 to Q2 2020**

CBRE today released its Q2 2019 Japan Office MarketView covering market trends in office buildings in 13 cities across Japan.

#### HIGHLIGHTS FOR MAJOR CITIES

- ◆ Tokyo All-Grade vacancy rate rises by 0.1 point q-o-q to 0.7%, the first increase since Q2 2017; Grade A vacancy rate rises 0.2 points q-o-q to 0.8%, the first increase in five quarters
- ◆ Osaka vacancy rates stand at historic lows across all grades; Grade A vacancy rate falls 0.3 points q-o-q to 0.2%
- ◆ No vacancy for Nagoya Grade A; All-Grade vacancy rate falls under 1% for the first time

#### CBRE RENT FORECASTS (Q2 2019 – Q2 2020)

- ◆ Tokyo Grade A rents: Forecast to fall by 1.7% over the next year
- ◆ Osaka Grade A rents: Forecast to rise by 3.5% over the next year
- ◆ Nagoya Grade A rents: Forecast to rise by 2.7% over the next year

#### ■Tokyo 23 Wards

The Tokyo All-Grade vacancy rate increased by 0.1 point q-o-q to 0.7% in Q2 2019. Although only a minor rise, it nevertheless marked the first increase in the vacancy rate since Q2 2017. The uptick was mainly due to secondary vacancies opening up after tenants relocated to buildings completed in 2018. Also this quarter, one new Grade A building reached completion with vacant space remaining, meaning that the Grade A vacancy rate also rose - the first time in five quarters. Meanwhile, the market continues to see expansionary moves or relocations relating to redevelopment of existing premises. As available space still remains limited overall, companies looking to move to larger premises are also considering leasing spaces that became vacant this quarter.

Tokyo All-Grade rents stood at JPY 22,490 per tsubo in Q2 2019, a rise of 0.6% q-o-q. Grade B, which was the only segment to see a decline in the vacancy rate this quarter, saw rents rise q-o-q by as much as 1.3%.

A total of 300,000 tsubo of new Grade A space is scheduled for completion in 2019 and 2020. To be sure, leasing has been progressing well for the upcoming new buildings. As of the end of Q2, the tenant pre-lease ratio was over 90% for buildings scheduled for completion in 2019, and over 60% for buildings scheduled for completion in 2020. However, many of the tenants signing pre-leases in these properties are relocating from existing buildings, some of which may find difficulty in back-filling their vacated space, given growing economic uncertainty. As such, it is increasingly likely that such vacancies in existing buildings may continue to push up the overall vacancy rates. CBRE expects that this would lead to Tokyo Grade A rents to fall by 1.7% over the next year (Q2 2019–Q2 2020).

Takashi Katono, executive director of CBRE's Advisory & Transaction Services (Office), commented: "We are seeing signs of change in the market. While there remains strong demand from companies seeking to increase floor space, some properties are requiring more time than before to secure replacement tenants due to the gap in rental expectations between owners and candidate tenants. With vacancies in existing properties starting to emerge, other owners are becoming more flexible on asking rents and other terms."

#### ■Osaka

The Osaka All-Grade vacancy rate was 1.2% in Q2 2019, marking the lowest level since this survey began recording this figure in 1993. The period saw a large number of tenants looking to secure space, regardless of location or building grade. Supply-demand conditions are expected to remain tight until 2022 when a large volume of new supply is expected to enter the market. Osaka All-Grade rents rose by 1.7% q-o-q to JPY 13,440 per tsubo.

The Osaka Grade A vacancy rate fell by 0.3 points q-o-q to a record low of 0.2% in Q2 2019 as the little available space was filled by tenants leasing additional space within their existing building. Osaka Grade A rents rose by 3.5% q-o-q to JPY 25,200, the first time to surpass the JPY 25,000 level. Further Grade A rental growth is expected amid tightening supply-demand conditions, with CBRE forecasting an increase of 3.5% over the next year.

Hideo Oue, senior director of CBRE's Advisory & Transaction Services (Office), Kansai office, commented: "Amid the tight supply conditions, there have been an increasing number of cases involving tenants having to accept aggressive terms presented by owners. Rents are likely to remain firm for some time."

#### ■Nagoya

The Nagoya All-Grade vacancy rate declined by 0.1 point q-o-q to 0.9% in Q2 2019, falling below 1% since the survey began recording this figure in 1993. This quarter saw companies that were urgently looking to expand their offices relocate to the Nagoya Higashi area where there were still some vacancies. As a result, the vacancy rate in this area fell by 1.9 points q-o-q. Meanwhile, the central area continued to see strong demand from tenants seeking to expand, and in several cases, tenants were finalized before the spaces were even marketed. The Nagoya Grade A vacancy rate fell by 0.1 point q-o-q to 0.0%, i.e. there is now no space available for lease.

All-Grade rents rose by 1.4% q-o-q to JPY 13,110 per tsubo, while Grade A rents rose by 0.9% q-o-q to JPY 26,900 per tsubo. No new Grade A supply is scheduled for the next five years, meaning that it will remain a landlord's market. CBRE expects Nagoya 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 marketed at high-quality buildings is attracting enquiries from multiple potential tenants. This is forcing tenants with urgent relocation needs to seek properties over a wider geographic area."

#### HIGHLIGHTS FOR REGIONAL CITIES

- ◆ **Sapporo:** Rents reach JPY 14,000 level for first time
- ◆ **Yokohama:** All-Grade vacancy rate reaches historic low at 1.2%
- ◆ **Fukuoka:** Historic high recorded for rents (JPY 15,630); Rents continue to rise sharply at 2.9%

In Q2 2019, the vacancy rate fell q-o-q in six out of the 10 surveyed cities, rose in three cities, and was flat in one city. As well as enquiries to establish new offices, the period saw robust demand from tenants seeking to relocate from the suburbs to the central area to improve their location. In **Sapporo**, one new building completed this quarter opened almost fully-let as tenants established new offices or moved to increase floor space. Space in **Sendai** was filled by a call center setting up a satellite office and by other firms establishing new offices, while in **Yokohama**, relocation to improve building grade or location was focused on the Minato Mirai area. In **Kyoto**, supply-demand conditions remained tight and the shortage of office space is becoming critical. Tenant activity in **Hiroshima** was brisk in the Hiroshima Station area where redevelopment is ongoing. **Fukuoka** continued to see solid demand and widespread requirements from tenants seeking to establish new offices and relocate to increase floor space.

Assumed achievable rents rose in all 10 cities for the sixth consecutive quarter. In **Fukuoka**, **Sapporo**, **Sendai**, and **Kyoto**, where supply remains extremely tight, assumed achievable rents rose by more than 2% q-o-q. In **Sapporo**, rents reached the JPY 14,000 level for first time since this survey began recording this figure in 2003, while in **Fukuoka**, rents continued to record an all-time high. **Yokohama**, **Saitama**, **Kanazawa**, and **Kobe** also enjoyed rental growth of more than 1%.

■ NATIONWIDE VACANCY RATES AND ASSUMED ACHIEVABLE RENT

	Vacancy Rate					Average Assumed Achievable Rent				
	Q2 2018	Q1 2019	Q2 2019	q-o-q	y-o-y	Q2 2018	Q1 2019	Q2 2019	q-o-q	y-o-y
Tokyo 23 Ward: Grade A	1.4%	0.6%	0.8%	+ 0.2pts	- 0.6pts	36,550	37,600	37,950	+ 0.9%	+ 3.8%
Grade A-Minus	1.1%	0.8%	1.0%	+ 0.2pts	- 0.1pts	25,500	26,400	26,600	+ 0.8%	+ 4.3%
Grade B	0.9%	0.5%	0.3%	- 0.2pts	- 0.6pts	21,800	22,800	23,100	+ 1.3%	+ 6.0%
All-Grade	1.1%	0.6%	0.7%	+ 0.1pts	- 0.4pts	21,380	22,360	22,490	+ 0.6%	+ 5.2%
All-Grade Tokyo 5 Wards	1.0%	0.5%	0.5%	± 0.0pts	- 0.5pts	22,490	23,590	23,720	+ 0.6%	+ 5.5%
Osaka										
Grade A	0.2%	0.5%	0.2%	- 0.3pts	± 0.0pts	23,050	24,350	25,200	+ 3.5%	+ 9.3%
Grade B	1.6%	0.9%	0.8%	- 0.1pts	- 0.8pts	12,800	13,700	14,000	+ 2.2%	+ 9.4%
All-Grade	1.9%	1.3%	1.2%	- 0.1pts	- 0.7pts	12,170	13,220	13,440	+ 1.7%	+ 10.4%
Nagoya										
Grade A	0.9%	0.1%	0.0%	- 0.1pts	- 0.9pts	25,250	26,650	26,900	+ 0.9%	+ 6.5%
Grade B	1.3%	1.0%	1.0%	± 0.0pts	- 0.3pts	12,750	13,250	13,350	+ 0.8%	+ 4.7%
All-Grade	1.4%	1.0%	0.9%	- 0.1pts	- 0.5pts	12,440	12,930	13,110	+ 1.4%	+ 5.4%
Yokohama										
All-Grade	3.7%	1.6%	1.2%	- 0.4pts	- 2.5pts	14,760	15,330	15,560	+ 1.5%	+ 5.4%
Saitama										
All-Grade	0.3%	0.4%	0.5%	+ 0.1pts	+ 0.2pts	17,520	18,190	18,390	+ 1.1%	+ 5.0%
Sapporo										
All-Grade	1.1%	0.8%	0.6%	- 0.2pts	- 0.5pts	13,530	13,970	14,350	+ 2.7%	+ 6.1%
Sendai										
All-Grade	3.2%	1.9%	1.9%	± 0.0pts	- 1.3pts	10,170	10,680	10,980	+ 2.8%	+ 8.0%
Kanazawa										
All-Grade	6.7%	5.7%	5.6%	- 0.1pts	- 1.1pts	10,320	10,440	10,600	+ 1.5%	+ 2.7%
Kyoto										
All-Grade	0.7%	0.5%	0.4%	- 0.1pts	- 0.3pts	13,500	14,300	14,640	+ 2.4%	+ 8.4%
Kobe										
All-Grade	2.3%	1.7%	1.8%	+ 0.1pts	- 0.5pts	11,200	11,580	11,740	+ 1.4%	+ 4.8%
Hiroshima										
All-Grade	3.0%	3.2%	3.1%	- 0.1pts	+ 0.1pts	11,030	11,420	11,510	+ 0.8%	+ 4.4%
Takamatsu										
All-Grade	8.4%	6.9%	6.6%	- 0.3pts	- 1.8pts	9,030	9,310	9,370	+ 0.6%	+ 3.8%
Fukuoka										
All-Grade	0.5%	0.2%	0.4%	+ 0.2pts	- 0.1pts	13,980	15,190	15,630	+ 2.9%	+ 11.8%

Source: CBRE, Q2 2019

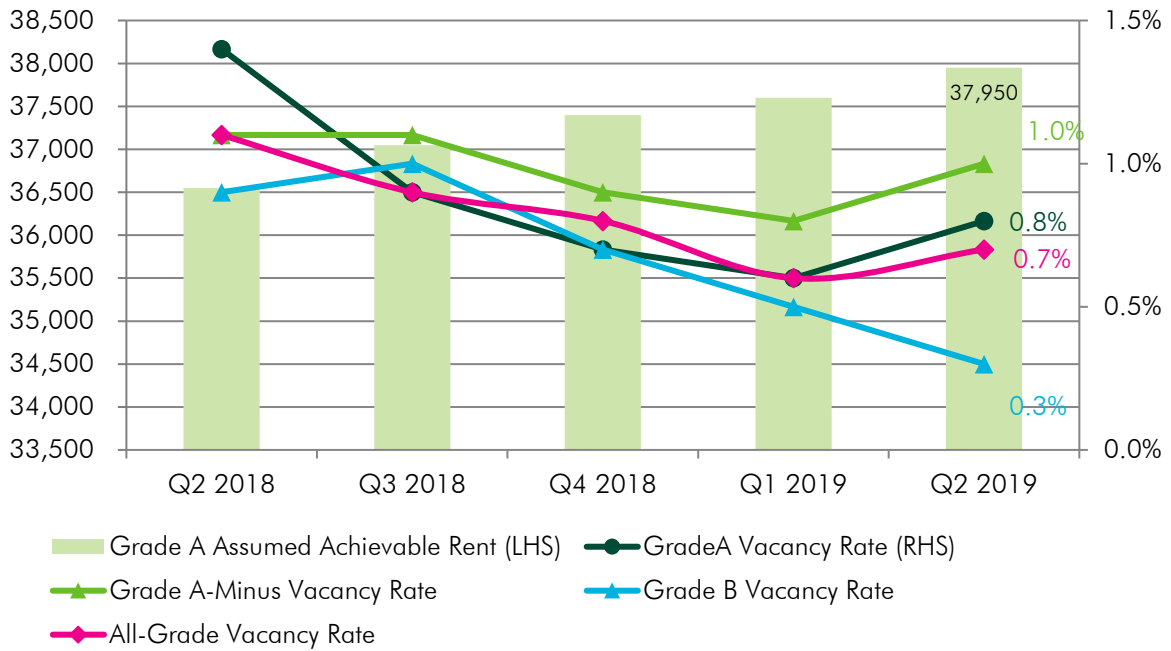
■ VACANCY RATES & RENT FORECASTS IN THREE MAJOR CITIES (GRADE A)

	Vacancy Rate			Average Assumed Achievable Rent		
	Q2 2019	Q2 2020	Pts Change	Q2 2019	Q2 2020	% Change
Tokyo 23 Ward: Grade A	0.8%	2.0%	+ 1.2pts	37,950	37,300	- 1.7%
Osaka Grade A	0.2%	0.2%	± 0.0pts	25,200	26,080	+ 3.5%
Nagoya Grade A	0.0%	0.0%	± 0.0pts	26,900	27,630	+ 2.7%

Source: CBRE, Q2 2019

■Tokyo

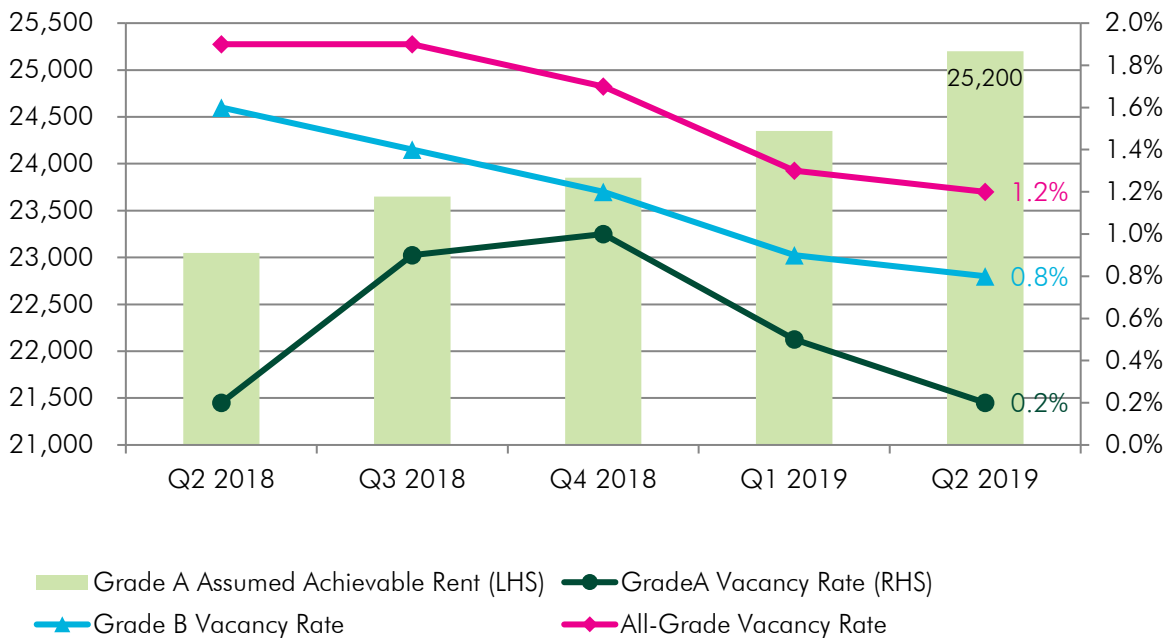
(JPY/Tsubo/Month)



Source: CBRE, Q2 2019

■Osaka

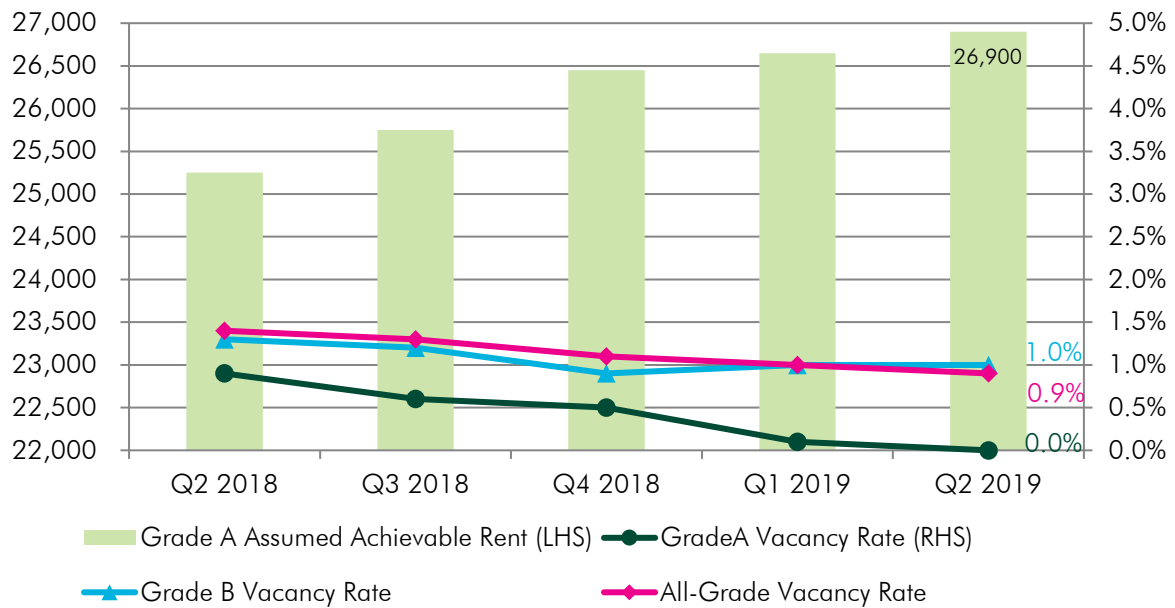
(JPY/Tsubo/Month)



Source: CBRE, Q2 2019

■ Nagoya

(JPY/Tsubo/Month)



Source: CBRE, Q2 2019

TERMS AND DEFINITIONS	
<b>Space Measurement</b>	1 tsubo = 3.3058 square meters = 35.58 square feet
<b>Surveyed Buildings</b>	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.
<b>Surveyed Period</b>	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
<b>Vacancy Rate</b>	Vacancies are those that are ready to receive tenants at time of survey
<b>Assumed Achievable Rent</b>	Assumed achievable rent of floorplate (including common area maintenance fee)
<b>Floor Space of New Supply</b>	Leasing floor space of buildings completed during each period
<b>Net Absorption</b>	Difference between occupied floor space (floor space used by tenants) in a given period and that of the previous period
<b>Grade A Samples</b>	Tokyo 85, Osaka 27, Nagoya 11 (as of Q2 2019)

BUILDING GRADE DEFINITION					
	All-Grade				
	Grade A	Grade A-Minus	Grade B		
<b>Location</b>	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
<b>Size</b>	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
<b>Age</b>	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 Q2 2019 which is also available on the CBRE website.

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

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