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## CBRE releases Q3 2019 Japan Office MarketView All-Grade Vacancy Rate Under 1% in Eight of Japan's Major Cities

CBRE today released its Q3 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 0.7%. All-Grade vacancy rate is unchanged at 0.7%.
- ◆ Osaka All-Grade vacancy rate fell below the 1% mark for the first time, down 0.3 points q-o-q to 0.9%.
- ◆ Nagoya Grade A vacancy rate rose 0.1 point q-o-q to 0.1%.

### CBRE RENT FORECASTS (Q3 2019 – Q3 2020)

- ◆ Tokyo Grade A rents: Forecast to fall by 2.9% over the next year
- ◆ Osaka Grade A rents: Forecast to rise by 4.3% over the next year
- ◆ Nagoya Grade A rents: Forecast to rise by 2.6% over the next year

### ■Tokyo 23 Wards

The Tokyo All-Grade vacancy rate was unchanged at 0.7% in Q3 2019. Secondary vacancy arose at some existing buildings, while a small amount of vacant spaces remained in three out of the 10 new buildings completed this quarter. The period also saw several large units being filled by group companies consolidating premises and by companies establishing new offices. Coworking operators were also active, securing space totaling over 8,000 tsubo.

While there remains strong demand among companies to relocate to larger premises and to establish new offices, CBRE has also observed some tenants considering relocation to relatively inexpensive areas/buildings to avoid substantial rent hikes upon renewal. Several examples of this was seen this quarter. At the same time, in areas where rents are comparatively high, space vacated by tenants have begun to appear on the market. In the Marunouchi/Otemachi area, the Grade A vacancy rate rose by 0.6 points q-o-q.

Tokyo All-Grade rents rose 1.7% q-o-q to JPY 22,870 per tsubo and Grade A rents also rose by 1.1% q-o-q to JPY 38,350. Although rents are rising in areas where they are lower than prevailing

market levels, rents were flat in the Marunouchi/Otemachi area.

Around 200,000 tsubo of new Grade A office space is scheduled for completion in 2020. As of September 2019, pre-leasing was progressing well, with the tenant pre-lease ratio exceeding 80%. However, many tenants signing pre-leases are relocating from existing buildings. Amid growing risk of a slowdown or downturn in the domestic economy, secondary vacancy has already started to emerge, a trend that is expected to continue in future. CBRE therefore expects Grade A rents to decline by 2.9% over the next year.

Takashi Katono, executive director of CBRE's Advisory & Transaction Services (Office), commented: "Buildings where tenants have decided to relocate to a new property have seen a lull in existing tenants taking up the vacant space. Landlords of buildings with a less central location or average facilities are now offering reasonably long rent-free periods to secure replacement tenants."

### ■Osaka

The Osaka All-Grade vacancy rate stood at 0.9% in Q3 2019, the first time it has fallen below 1% since CBRE's surveys began recording this figure in 1993. The quarter saw many tenants looking to secure a space, regardless of location or grade. As a result of the increasingly tight market conditions, All-Grade rents rose to the JPY 13,500 – JPY 14,000 level for the first time since 2008, and are now not far from the historical high of JPY 14,080 recorded in Q1 2008.

The Osaka Grade A vacancy rate rose by 0.1 point q-o-q to 0.3%. Despite the slight q-o-q increase, tenant enquiries are extremely brisk at present, with vacancy that arose this quarter expected to be filled quickly. Osaka Grade A rents rose by 1.8% q-o-q to JPY 25,650 per tsubo. Amid tightening supply-demand conditions, rents are likely to climb further in the coming quarters. CBRE forecasts an increase in Grade A rents of 4.3% over the next year.

Hideo Oue, senior director of CBRE's Advisory & Transaction Services (Office), Kansai office, commented: "Several new development plans have emerged in recent months, with building completion scheduled around the mid-2020s. While this will not alleviate demand from tenants with immediate space requirements, this comes as good news for tenants planning their long-term Osaka office strategy. Until recently, there had been no prospect of the current space shortage being resolved, but there are now signs of change."

### ■Nagoya

The Nagoya All-Grade vacancy rate was unchanged at 0.9% in Q3 2019. Several small-scale units became vacant, while at buildings with large units available, space was filled by tenants consolidating premises or being obliged to vacate their existing building. While there is strong demand among tenants to upgrade facilities and move into larger premises, there remains a shortage of available space. As a consequence, buildings completed this quarter opened at almost full occupancy. Even at one building where the lease of a large unit was terminated due to the tenant relocating to a company-owned building, potential tenants were quick to respond to the availability.

Nagoya All-Grade rents rose by 2.8% q-o-q to JPY 13,480 per tsubo this quarter. Grade A rents rose by 1.5% q-o-q to JPY 27,300 per tsubo, with the historical high of JPY 27,350 set in Q4 2007 likely to be surpassed within the year.

Since there will continue to be very little new supply in Nagoya, market conditions are poised to remain tight. CBRE therefore expects a 2.6% rise in Grade A rents over the coming year.

Junichi Miyazaki, director of CBRE's Advisory & Transaction Services (Office), Nagoya office, commented: "Occupier demand remains solid. When the occasional space opens up and enters the market, multiple tenants are quick to respond and competition is fierce."

## HIGHLIGHTS FOR REGIONAL CITIES

- ◆ **Yokohama: Vacancy rate stands at 0.8%, falls under 1% for the first time**
- ◆ **Kanazawa: Vacancy rate registered at 4.7%, a record low**
- ◆ **Hiroshima: Vacancy rate edged lower to 2.1%, a record low**

On a q-o-q basis, in Q3 2019, the vacancy rate fell in five out of the 10 surveyed regional cities, rose in three cities, and remained flat in two. Consequently, the All-Grade vacancy rate came at under 1% in eight out of 13 cities nationwide, including Tokyo, Osaka, and Nagoya.

In regional cities, space continued to be filled on the back of strong demand from tenants to establish new offices or expand into larger premises. In **Sapporo**, space is expected to be steadily filled by tenants establishing new offices or satellite offices, despite a slight rise in the vacancy rate. In **Yokohama**, the vacancy rate fell to below 1% for the first time on record, mainly due to manufacturers establishing new offices or taking up additional space within their existing building, namely in the Minato Mirai area. This caused a drop in the vacancy rate. In **Kanazawa**, a large unit was filled by a construction-related firm setting up a satellite office (albeit on a short-term lease) which prompted the vacancy rate to hit the lowest level since CBRE's survey began recording this figure. Even in **Hiroshima**, the vacancy rate is now at its lowest level since surveys began. Vacant space at a new building completed in Q1 2019 this year was also steadily filled. Similarly in **Kobe** and **Fukuoka**, the period saw widespread requirements for new offices and larger premises, and brisk leasing activity. In **Fukuoka**, while the period saw strong demand among tenants to set up new offices or relocate to increase floor space, there were some cases of tenants avoiding buildings with rents diverging significantly from the prevailing market level, leading to prolonged vacancy.

Assumed achievable rents rose in all 10 cities for the seventh consecutive quarter. Market conditions remained extremely tight in **Kyoto**, where the period saw a 3.1% q-o-q rise in assumed achievable rents, the highest rate of increase among the 10 cities and also a record high for that market. In **Sendai**, assumed achievable rents hit the JPY 11,000 level for the first time in 10 years. In **Sapporo**, **Saitama**, **Kanazawa**, and **Fukuoka**, assumed achievable rents again rose to a record high this quarter.

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

	Vacancy Rate					Average Assumed Achievable Rent				
	Q3 2018	Q2 2019	Q3 2019	q-o-q	y-o-y	Q3 2018	Q2 2019	Q3 2019	q-o-q	y-o-y
Tokyo 23 Ward: Grade A	0.9%	0.8%	0.7%	- 0.1pts	- 0.2pts	37,050	37,950	38,350	+ 1.1%	+ 3.5%
Grade A-Minus	1.1%	1.0%	0.9%	- 0.1pts	- 0.2pts	25,800	26,600	26,800	+ 0.8%	+ 3.9%
Grade B	1.0%	0.3%	0.6%	+ 0.3pts	- 0.4pts	22,100	23,100	23,400	+ 1.3%	+ 5.9%
All-Grade	1.0%	0.7%	0.7%	± 0.0pts	- 0.3pts	21,770	22,490	22,870	+ 1.7%	+ 5.1%
All-Grade Tokyo 5 Wards	0.8%	0.5%	0.6%	+ 0.1pts	- 0.2pts	22,930	23,720	24,170	+ 1.9%	+ 5.4%
Osaka										
Grade A	0.9%	0.2%	0.3%	+ 0.1pts	- 0.6pts	23,650	25,200	25,650	+ 1.8%	+ 8.5%
Grade B	1.4%	0.8%	0.7%	- 0.1pts	- 0.7pts	13,050	14,000	14,350	+ 2.5%	+ 10.0%
All-Grade	1.9%	1.2%	0.9%	- 0.3pts	- 1.0pts	12,430	13,440	13,660	+ 1.6%	+ 9.9%
Nagoya										
Grade A	0.6%	0.0%	0.1%	+ 0.1pts	- 0.5pts	25,750	26,900	27,300	+ 1.5%	+ 6.0%
Grade B	1.2%	1.0%	1.0%	± 0.0pts	- 0.2pts	12,900	13,350	13,700	+ 2.6%	+ 6.2%
All-Grade	1.3%	0.9%	0.9%	± 0.0pts	- 0.4pts	12,620	13,110	13,480	+ 2.8%	+ 6.8%
Yokohama										
All-Grade	3.1%	1.2%	0.8%	- 0.4pts	- 2.3pts	15,040	15,560	15,740	+ 1.2%	+ 4.7%
Saitama										
All-Grade	0.3%	0.5%	0.3%	- 0.2pts	± 0.0pts	17,960	18,390	18,580	+ 1.0%	+ 3.5%
Sapporo										
All-Grade	0.9%	0.6%	0.9%	+ 0.3pts	± 0.0pts	13,680	14,350	14,540	+ 1.3%	+ 6.3%
Sendai										
All-Grade	3.0%	1.9%	1.9%	± 0.0pts	- 1.1pts	10,330	10,980	11,120	+ 1.3%	+ 7.6%
Kanazawa										
All-Grade	6.5%	5.6%	4.7%	- 0.9pts	- 1.8pts	10,370	10,600	10,720	+ 1.1%	+ 3.4%
Kyoto										
All-Grade	0.4%	0.4%	0.5%	+ 0.1pts	+ 0.1pts	13,810	14,640	15,100	+ 3.1%	+ 9.3%
Kobe										
All-Grade	1.9%	1.8%	1.8%	± 0.0pts	- 0.1pts	11,280	11,740	11,750	+ 0.1%	+ 4.2%
Hiroshima										
All-Grade	2.9%	3.1%	2.1%	- 1.0pts	- 0.8pts	11,130	11,510	11,600	+ 0.8%	+ 4.2%
Takamatsu										
All-Grade	7.1%	6.6%	6.0%	- 0.6pts	- 1.1pts	9,160	9,370	9,460	+ 1.0%	+ 3.3%
Fukuoka										
All-Grade	0.5%	0.4%	0.6%	+ 0.2pts	+ 0.1pts	14,480	15,630	15,850	+ 1.4%	+ 9.5%

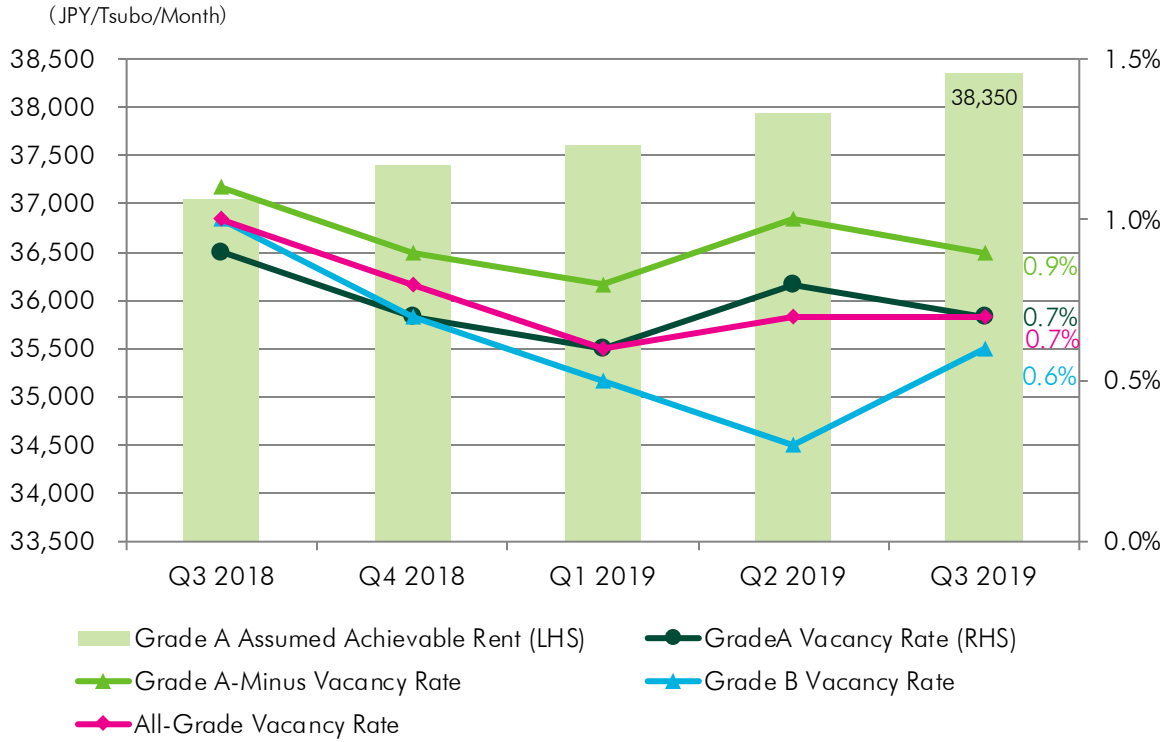
Source: CBRE, Q3 2019

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

	Vacancy Rate			Average Assumed Achievable Rent		
	Q3 2019	Q3 2020	Pts Change	Q3 2019	Q3 2020	% Change
Tokyo 23 Ward: Grade A	0.7%	2.3%	+ 1.6pts	38,350	37,250	- 2.9%
Osaka Grade A	0.3%	0.3%	± 0.0pts	25,650	26,750	+ 4.3%
Nagoya Grade A	0.1%	0.5%	+ 0.4pts	27,300	28,010	+ 2.6%

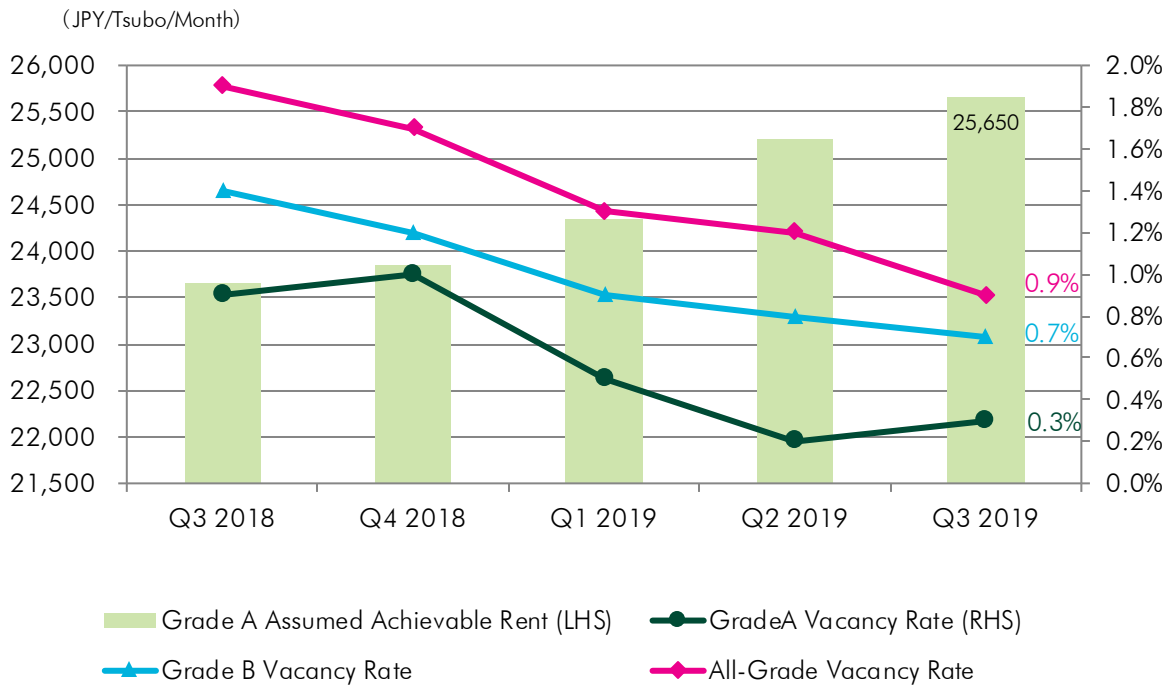
Source: CBRE, Q3 2019

■Tokyo



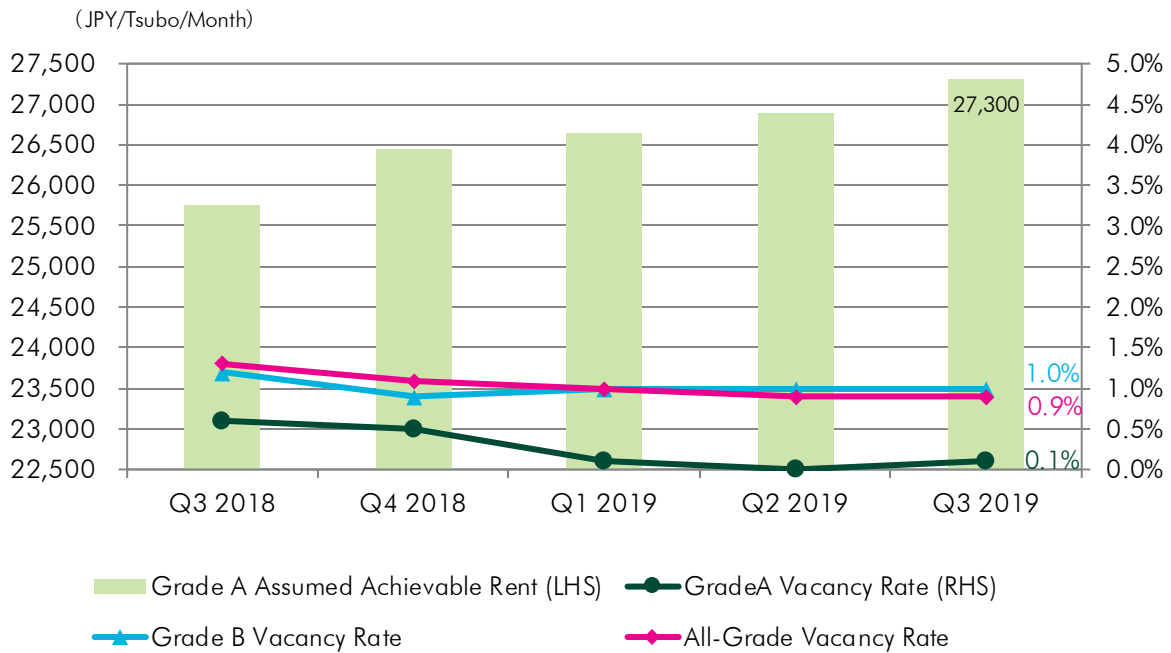
Source: CBRE, Q3 2019

■Osaka



Source: CBRE, Q3 2019

■ Nagoya



Source: CBRE, Q3 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 87, Osaka 27, Nagoya 11 (as of Q3 2019)

BUILDING GRADE DEFINITION					
	All-Grade				
	Grade A	Grade A-Minus	Grade B		Office area in 13 cities nationwide set by CBRE
<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	
<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 Q3 2019 which is also available on the CBRE website.

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

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