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CBRE

Marketing & Communications

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CBRE releases latest market trends for office buildings in Japan
**Demand Buoyed by Strong Corporate Earnings; Vacancy Rates Decline in Most cities
 Osaka Grade A Sees The Rise in Rents Accelerating**

CBRE today released market trends for office buildings in thirteen cities across Japan.

HIGHLIGHTS FOR MAJOR CITIES

- ◆ Tokyo Grade A vacancy rate rises 0.5 points q-o-q to 2.3%
- ◆ Osaka vacancy rate hits record low since this survey began reporting this figure in 1993
- ◆ Nagoya All-Grade vacancy rate falls 0.6 points q-o-q to 2.0%, also a record low

CBRE RENT FORECASTS (Q1 2018 – Q1 2019)

- ◆ Tokyo Grade A rents are forecast to fall by 0.4% over the next year as rents are cut for existing buildings.
- ◆ Osaka Grade A rents are forecast to start rising at a faster pace and are expected to increase by 2.6%.
- ◆ Nagoya Grade A rents are forecast to rise by 1.2% due to the tight market.

■ Tokyo 23 Wards

The Tokyo **All-Grade vacancy rate** decreased by 0.1 percentage points q-o-q to 1.4% in Q1 2018. Strong corporate earnings generated solid demand from companies wanting to relocate to new and recently completed buildings.

In the **Grade A market**, around 80% of space in buildings due to be completed in 2018 has already been let, but mostly to tenants relocating from existing buildings. Larger buildings are due to come onto the market this year and beyond. At the same time, the risk of increase in costs (particularly wage) is rising. In these circumstances, existing buildings with rents that are above the prevailing level of their respective markets will likely need to lower rents in order to attract new tenants. CBRE therefore estimates that **Grade A rents** will decline by 0.4% over the next year.

"There continues to be plenty of enquiries from companies looking to relocate," says Takashi Katono, executive director of CBRE's Advisory & Transaction Services (Office). "Companies seeking large offices will need to consider buildings due for completion in 2019 and beyond, or seek existing buildings that are likely to become vacant. That being said, several large tenants are securing longer rent-free periods, suggesting that the tide is gradually turning towards an occupiers' market."

■ Osaka

The **Osaka All-Grade vacancy rate** declined by 0.6 points q-o-q to 1.9% in Q1 2018, dipping below 2% for the first time since this survey started recording this figure back in 1993. With the market tightening, some tenants were seen to have committed to space in areas or buildings that did not necessarily meet their search criteria.

The **Grade A vacancy rate** declined by 0.1 points q-o-q to 0.2%, the lowest since surveys began in 2005. Demand remains buoyant for well-located and high-grade buildings, but there is still little space to meet this demand. **Grade A rental growth** accelerated to 3.2% q-o-q, marking the first quarterly rise of over 3.0% since Q2 2005. CBRE estimates that Grade A rents will rise further, increasing by 2.6% over the next one year.

"An increasing number of tenants are concerned about being unable to find space," commented Junichi Miyazaki, director of CBRE's Advisory & Transaction Services (Office), Kansai office. "Growth in rent prices have begun to accelerate and it is a very challenging environment for tenants."

■ Nagoya

The **Nagoya All-Grade vacancy rate** declined by 0.6 points q-o-q to 2.0% in Q1 2018, the lowest since this survey began recording this data in Q4 1993. The period saw strong demand from tenants seeking a better location in larger premises and a higher grade of building. Overall, companies across a wide range of sectors were observed to be moving for positive reasons. Tenants moved to larger premises in new Grade A buildings or added to their existing space, especially in the Nagoya Station area, and occupancy rose in other recent Grade A buildings.

The only new large office building due for completion this year entered the market fully occupied in Q1 2018. Now that there is finally a shortage of vacant space, a number of successful companies in the IT sector and others have been quick to sign leases. **Grade A rents** rose by 2.2% q-o-q as more owners implemented rental increases alongside rising occupancy. CBRE estimates that Grade A rents will rise by 1.2% over the next year.

"Lower vacancy is supporting an increase in asking rents and rents for renewals," said Hideo Oue, senior director of CBRE's Advisory & Transaction Services (Office), Nagoya branch office. "Tenants should move quickly and decide to either stay where they are or relocate."

Highlights for regional cities

- ◆ **Kobe registers stronger demand amidst a wave of redevelopment projects and the rebuilding of the City Hall**
- ◆ **The vacancy rate in Kanazawa falls below 6% for first time since surveys began**
- ◆ **Kyoto rents hit a record high**

Vacant space was filled in all ten regional cities surveyed in Q1 2018, supported by strong demand from companies looking to expand or open new offices, or to improve their location or grade of building. In Kobe, demand was boosted by several ongoing redevelopment projects and the rebuilding of the City Hall, which brought the vacancy rate down to 3.2%. In Kanazawa, the vacancy rate fell below 6% for the first time since surveys began. Vacancy rates in Kyoto and Hiroshima rose

by 0.1 points q-o-q, but are likely to resume their downward trend in Q2 2018. The market is expected to remain tight in regional cities as there will be limited new supply.

Assumed achievable rents again rose in all regional cities this quarter. As occupancy rises, rental increases are no longer limited to large buildings, and have also spread to relatively new, mid-size properties. In Kyoto, rents in Q1 2018 exceeded the peak recorded before the onset of the Global Financial Crisis (GFC) in 2008, marking the highest figure since surveys began. In Sendai, rents rose above JPY 10,000 for the first time in eight years, while in Sapporo, the pace of rental increases picked up to 3.2% q-o-q, eclipsing the 2.8% q-o-q gain recorded in Q4 2017. Supported by robust demand and limited supply, rents in regional cities are likely to continue their upward trend.

■ NATIONWIDE VACANCY RATES AND ASSUMED ACHIEVABLE RENT

		Vacancy Rate					Average Assumed Achievable Rent				
		Q1 2017	Q4 2017	Q1 2018	q-o-q	y-o-y	Q1 2017	Q4 2017	Q1 2018	q-o-q	y-o-y
Tokyo 23 Wards	Grade A	4.2%	1.8%	2.3%	+ 0.5pts	- 1.9pts	35,950	36,450	36,500	+ 0.1%	+ 1.5%
	Grade A-Minus	1.8%	1.5%	1.2%	- 0.3pts	- 0.6pts	24,650	25,150	25,250	+ 0.4%	+ 2.4%
	Grade B	2.1%	1.5%	1.2%	- 0.3pts	- 0.9pts	20,900	21,350	21,550	+ 0.9%	+ 3.1%
	All-Grade	2.4%	1.5%	1.4%	- 0.1pts	- 1.0pts					
	All-Grade Tokyo 5 Wards	2.3%	1.4%	1.3%	- 0.1pts	- 1.0pts					
Osaka	Grade A	1.1%	0.3%	0.2%	- 0.1pts	- 0.9pts	20,900	21,950	22,650	+ 3.2%	+ 8.4%
	Grade B	2.9%	2.4%	1.7%	- 0.7pts	- 1.2pts	11,850	12,300	12,550	+ 2.0%	+ 5.9%
	All-Grade	3.2%	2.5%	1.9%	- 0.6pts	- 1.3pts					
Nagoya	Grade A	5.2%	2.3%	1.7%	- 0.6pts	- 3.5pts	23,800	24,550	25,100	+ 2.2%	+ 5.5%
	Grade B	2.9%	2.5%	1.8%	- 0.7pts	- 1.1pts	12,300	12,550	12,700	+ 1.2%	+ 3.3%
	All-Grade	3.9%	2.6%	2.0%	- 0.6pts	- 1.9pts					
Yokohama	All-Grade	3.0%	5.5%	4.9%	- 0.6pts	+ 1.9pts	14,330	14,600	14,650	+ 0.3%	+ 2.2%
Saitama	All-Grade	0.6%	0.6%	0.2%	- 0.4pts	- 0.4pts	15,980	16,940	17,040	+ 0.6%	+ 6.6%
Sapporo	All-Grade	0.7%	0.4%	0.3%	- 0.1pts	- 0.4pts	12,090	12,940	13,360	+ 3.2%	+ 10.5%
Sendai	All-Grade	5.5%	3.9%	3.6%	- 0.3pts	- 1.9pts	9,630	9,970	10,070	+ 1.0%	+ 4.6%
Kanazawa	All-Grade	8.3%	6.2%	5.7%	- 0.5pts	- 2.6pts	9,810	10,120	10,170	+ 0.5%	+ 3.7%
Kyoto	All-Grade	1.4%	0.7%	0.8%	+ 0.1pts	- 0.6pts	12,140	13,020	13,250	+ 1.8%	+ 9.1%
Kobe	All-Grade	5.6%	3.6%	3.2%	- 0.4pts	- 2.4pts	10,780	10,980	11,120	+ 1.3%	+ 3.2%
Hiroshima	All-Grade	3.0%	2.8%	2.9%	+ 0.1pts	- 0.1pts	10,440	10,890	10,940	+ 0.5%	+ 4.8%
Takamatsu	All-Grade	9.6%	8.3%	7.7%	- 0.6pts	- 1.9pts	8,790	8,910	8,940	+ 0.3%	+ 1.7%
Fukuoka	All-Grade	1.0%	0.5%	0.4%	- 0.1pts	- 0.6pts	12,270	13,270	13,590	+ 2.4%	+ 10.8%

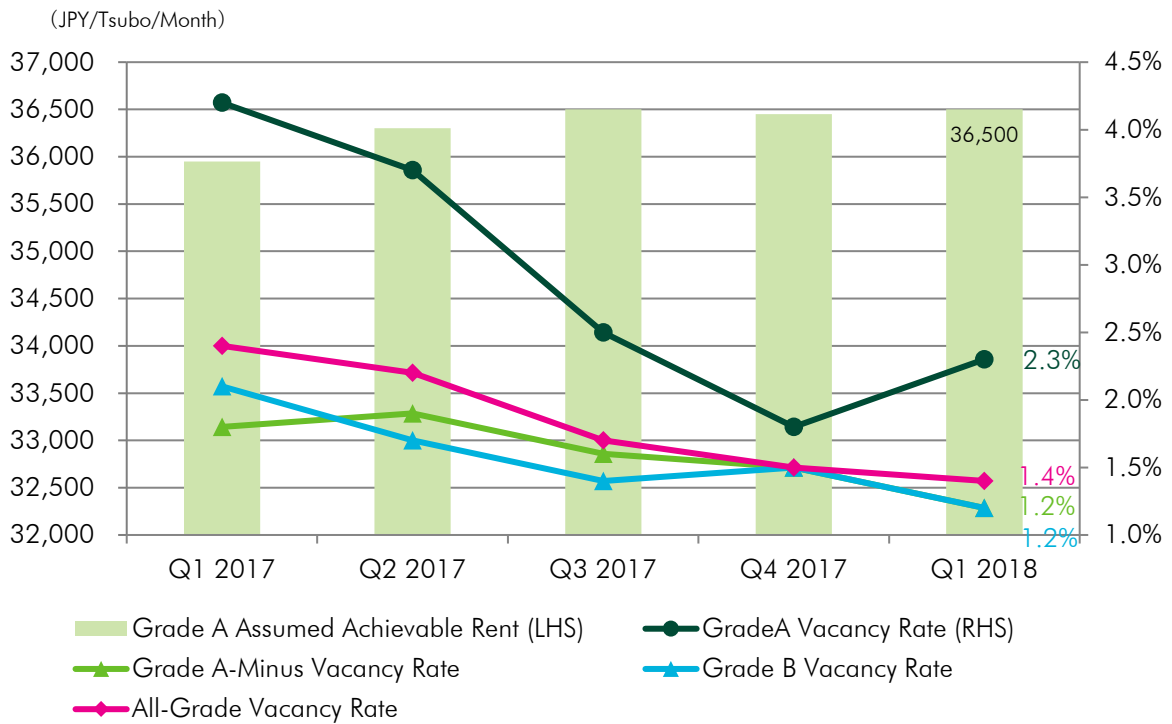
Source: CBRE, Q1 2018

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

		Vacancy Rate			Average Assumed Achievable Rent		
		Q1 2018	Q1 2019	Pts Change	Q1 2018	Q1 2019	% Change
Tokyo 23 Wards	Grade A	2.3%	2.9%	+0.6pts	36,500	36,350	-0.4%
Osaka	Grade A	0.2%	0.9%	+0.7pts	22,650	23,250	+2.6%
Nagoya	Grade A	1.7%	1.2%	-0.5pts	25,100	25,400	+1.2%

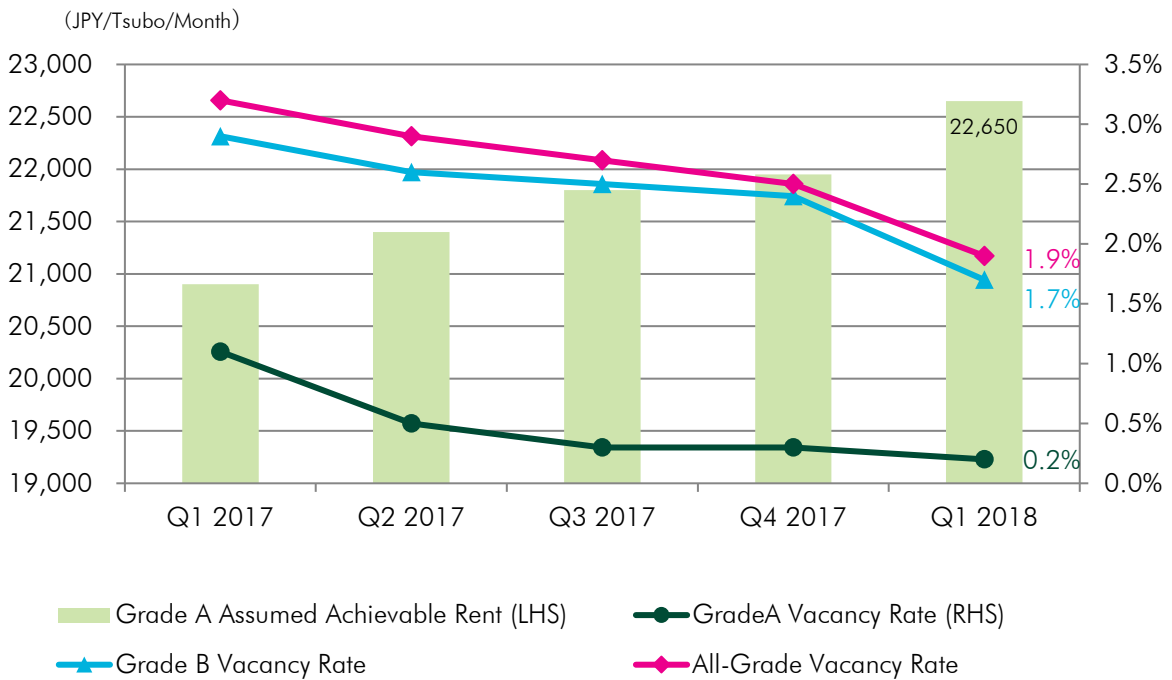
Source: CBRE, Q1 2018

■ **TOKYO**



Source: CBRE, Q1 2018

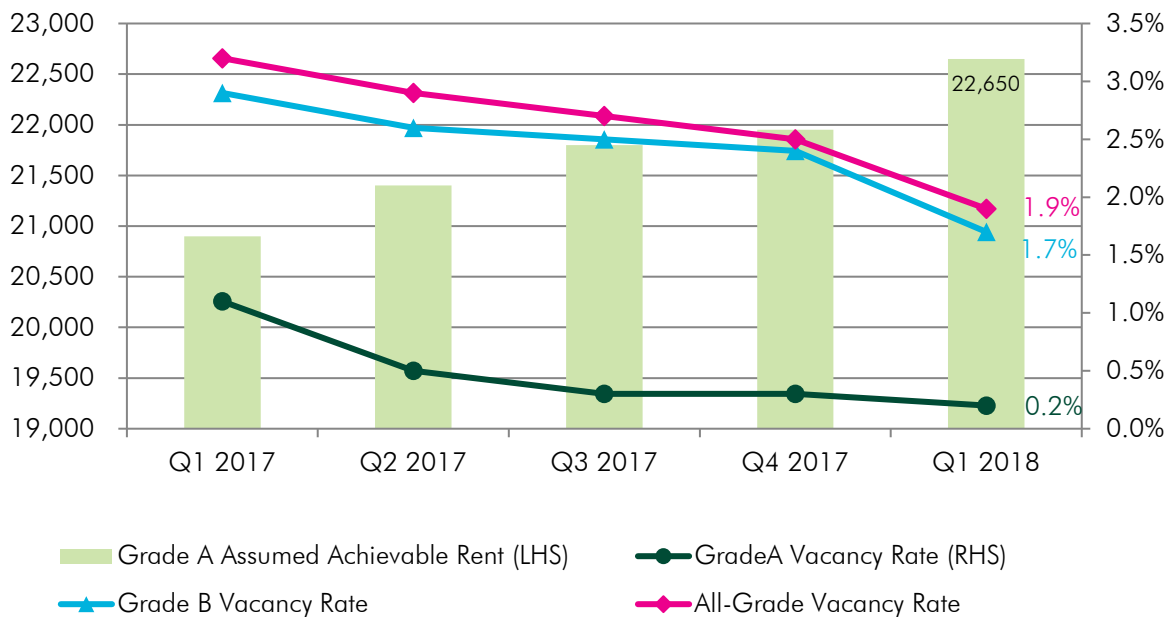
■ **Osaka**



Source: CBRE, Q1 2018

■ Nagoya

(JPY/Tsubo/Month)



Source: CBRE, Q1 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 82, Osaka 26, Nagoya 11 (as of Q1 2018)

For further details of the market data in each city and an overview of market conditions, please refer to the Japan Office MarketView Q1 2018 released on April 26th, which is also available on the CBRE website.

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

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