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CBRE releases latest market trends for office buildings in Japan  
**Rents Rise in All Cities, All Grades**  
**Tokyo Grade A Rents Likely to Maintain Current Level for Next Few Quarters**

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CBRE today released market trends for office buildings in 13 cities across Japan.

#### HIGHLIGHTS FOR MAJOR CITIES

- ◆ Tokyo Grade A vacancy rate fell 0.9 points q-o-q to 1.4%
- ◆ Osaka Grade A vacancy rate was unchanged at 0.2%, the lowest figure recorded for this survey
- ◆ Nagoya Grade A vacancy rate fell 0.8 points q-o-q to 0.9%, falling below 1% for first time since the survey began

#### CBRE RENT FORECASTS (Q2 2018 – Q2 2019)

- ◆ Tokyo Grade A rents forecast has been revised up; is now expected to rise by 0.3% over the next year
- ◆ Osaka Grade A rents are expected to increase by 3.1% over the next year
- ◆ Nagoya Grade A rents are expected to increase by 1.0% over the next year

#### ■Tokyo 23 Wards

The **Tokyo All-Grade vacancy rate** declined by 0.3 points q-o-q to 1.1% in Q2 2018 (the lowest level since the survey began) as large units were occupied in relatively new buildings and recent completions. The main driver for demand came from IT-related firms seeking to consolidate their premises and/or relocate to a larger office.

The **Grade A vacancy rate** fell 0.9 points q-o-q to 1.4%. Two Grade A buildings were completed this quarter and were fully let to tenants seeking to upgrade their location and/or building.

Occupiers seeking relocation are having to target buildings scheduled for future completion due to a lack of availability in existing buildings. The pre-leasing rate of buildings due to be completed in 2018 is estimated to be close to 90%, and therefore buildings scheduled for completion in 2019 and 2020 are now the focus of attention.

**Grade A rents rose** q-o-q, albeit marginally, by 0.1%. As the pre-leasing rate of buildings due for completion over the next year has exceeded expectations, our rent forecast has been adjusted accordingly. We now expect a 0.3% rise in Grade A rents over the coming year, followed by

approximately a 4% drop in the subsequent year.

Takashi Katono, executive director of CBRE's Advisory & Transaction Services (Office), commented: "Companies are displaying solid relocation demand. As there is little vacant space at existing buildings, companies are considering buildings scheduled for future completion. That said, many of the properties contracted at an early stage have relatively inexpensive rents, even buildings in prime locations."

#### ■Osaka

The **Osaka All-Grade vacancy rate** was flat at 1.9% in Q2 2018. While demand for new office openings and expansions remains significant, a shortage of available space has hindered relocations from actually happening.

The **Grade A vacancy rate** was also flat on a quarterly basis at 0.2%. **Grade A rents** rose by 1.8% q-o-q, exceeding the JPY 23,000 mark for the first time since Q2 2008. It is increasingly likely that they may surpass the highest level at JPY 23,450 (recorded in Q1 2008) since the survey began in 2005. CBRE forecasts a further increase of 3.1% over the next year.

Junichi Miyazaki, director of CBRE's Advisory & Transaction Services (Office), Kansai office, commented: "With the lack of availability and rents continuing to increase, conditions look set to remain tough for occupiers."

#### ■Nagoya

The **Nagoya All-Grade vacancy rate** decreased by 0.6 points q-o-q to 1.4% in Q2 2018, falling below 2% for the first time since Q4 1993 when the survey began. In addition to companies relocating for expansions and/or upgrades, the period saw a sharp increase in tenants taking up additional space within their existing premises. With vacancy continuing to decline, companies across a wide range of sectors are rushing to secure space. In some cases, tenants are having to set up satellite offices in neighboring buildings. As a result, the Grade A vacancy rate also fell below 1% for the first time since the survey began in Q1 2005.

Tenants in the Meieki area are likely to seek relocation due to a number of buildings being demolished for the development surrounding the new linear shinkansen station. As there is little available space at existing nearby buildings, tenants are likely to seek out new buildings due for future completion.

Grade A rents rose 0.6% q-o-q. There are now more buildings with asking rents around JPY 30,000, but only a limited number of tenants can afford this level in Nagoya. Accordingly, rents are expected to rise at a more moderate pace in the forthcoming quarter. CBRE forecasts a 1.0% rise in Grade A rents over the next year.

Hideo Oue, senior director of CBRE's Advisory & Transaction Services (Office), Nagoya office, commented: "Tenants have already been finalized for the two buildings scheduled for completion this year. It is no longer unusual for there to be competing tenants and several different negotiations for a single office unit."

### HIGHLIGHTS FOR REGIONAL CITIES

- ◆ **Sapporo - Still an owners market, despite first large new supply in four years**

- ◆ **Kobe - Vacancy rate falling at a faster pace, down 2.9 points y-o-y**
- ◆ **Fukuoka - Marked rise in rents, now 11.3% above the last year's level**

Demand in regional cities remains strong and is comprised of tenants aiming to relocate to larger offices, open new offices, or upgrade their location and/or buildings. However, the vacancy rate stands below 3% in five out of the ten regional cities tracked by CBRE, highlighting the lack of available space. Meanwhile, assumed achievable rents rose in all cities. New supply in regional cities will be limited, meaning that the shortage of space looks set to persist.

In Sapporo, a new large building was completed for the first time in four years. Some availability in the property raised the vacancy rate, although it remained low at 1.1%, and the city is still very much an owners market. In Sendai, the vacancy rate fell further and reached a new record low. This was driven by an IT firm's opening, as well as relocations relating to rebuilding of an old premise. In Kanazawa, the vacancy rate rose by 1.0 point q-o-q, but space remains scarce in the area around Kanazawa Station, which continues to see strong demand from occupiers seeking to upgrade their location. In Kyoto, the vacancy rate was under 1% for the fifth consecutive quarter, with supply remaining very tight. In Kobe, the vacancy rate dropped to a record low due to relocation demand associated with the rebuilding of the City Hall. In Hiroshima, the vacancy rate rose slightly as tenants are becoming more selective ahead of new supply scheduled for 2019. In Takamatsu, the vacancy rate rose by 0.7 points q-o-q, but with increasing demand, the vacancy rate is expected to fall again next quarter. Fukuoka saw new supply for the first time in two years, but this did not lead to any loosening in what remains a very tight market. The new building opened almost fully let, and this is not expected to result in much availability in existing buildings either.

Assumed achievable rents rose in all cities again this quarter. In Kyoto, Saitama, and Fukuoka, where the vacancy rate is under 1%, rents rose in almost all surveyed buildings, and achieved the strongest rental growth of all CBRE surveyed cities. Other cities are also seeing more buildings whose rents are rising, reflecting higher occupancy.

## ■ NATIONWIDE VACANCY RATES AND ASSUMED ACHIEVABLE RENT

		Vacancy Rate					Average Assumed Achievable Rent				
		Q2 2017	Q1 2018	Q2 2018	q-o-q	y-o-y	Q2 2017	Q1 2018	Q2 2018	q-o-q	y-o-y
Tokyo 23 Wards	Grade A	3.7%	2.3%	1.4%	- 0.9pts	- 2.3pts	36,300	36,500	36,550	+ 0.1%	+ 0.7%
	Grade A-Minus	1.9%	1.2%	1.1%	- 0.1pts	- 0.8pts	24,800	25,250	25,500	+ 1.0%	+ 2.8%
	Grade B	1.7%	1.2%	0.9%	- 0.3pts	- 0.8pts	21,000	21,550	21,800	+ 1.2%	+ 3.8%
	All-Grade	2.2%	1.4%	1.1%	- 0.3pts	- 1.1pts					
	All-Grade Tokyo 5 Wards	2.1%	1.3%	1.0%	- 0.3pts	- 1.1pts					
Osaka	Grade A	0.5%	0.2%	0.2%	± 0.0pts	- 0.3pts	21,400	22,650	23,050	+ 1.8%	+ 7.7%
	Grade B	2.6%	1.7%	1.6%	- 0.1pts	- 1.0pts	12,000	12,550	12,800	+ 2.0%	+ 6.7%
	All-Grade	2.9%	1.9%	1.9%	± 0.0pts	- 1.0pts					
Nagoya	Grade A	4.6%	1.7%	0.9%	- 0.8pts	- 3.7pts	24,200	25,100	25,250	+ 0.6%	+ 4.3%
	Grade B	2.5%	1.8%	1.3%	- 0.5pts	- 1.2pts	12,350	12,700	12,750	+ 0.4%	+ 3.2%
	All-Grade	3.4%	2.0%	1.4%	- 0.6pts	- 2.0pts					
Yokohama	All-Grade	2.9%	4.9%	3.7%	- 1.2pts	+ 0.8pts	14,390	14,650	14,760	+ 0.8%	+ 2.6%
Saitama	All-Grade	0.5%	0.2%	0.3%	+ 0.1pts	- 0.2pts	16,220	17,040	17,520	+ 2.8%	+ 8.0%
Sapporo	All-Grade	0.5%	0.3%	1.1%	+ 0.8pts	+ 0.6pts	12,320	13,360	13,530	+ 1.3%	+ 9.8%
Sendai	All-Grade	4.5%	3.6%	3.2%	- 0.4pts	- 1.3pts	9,770	10,070	10,170	+ 1.0%	+ 4.1%
Kanazawa	All-Grade	7.7%	5.7%	6.7%	+ 1.0pts	- 1.0pts	9,900	10,170	10,320	+ 1.5%	+ 4.2%
Kyoto	All-Grade	0.9%	0.8%	0.7%	- 0.1pts	- 0.2pts	12,420	13,250	13,500	+ 1.9%	+ 8.7%
Kobe	All-Grade	5.2%	3.2%	2.3%	- 0.9pts	- 2.9pts	10,830	11,120	11,200	+ 0.7%	+ 3.4%
Hiroshima	All-Grade	3.0%	2.9%	3.0%	+ 0.1pts	± 0.0pts	10,540	10,940	11,030	+ 0.8%	+ 4.6%
Takamatsu	All-Grade	9.4%	7.7%	8.4%	+ 0.7pts	- 1.0pts	8,840	8,940	9,030	+ 1.0%	+ 2.1%
Fukuoka	All-Grade	0.6%	0.4%	0.5%	+ 0.1pts	- 0.1pts	12,560	13,590	13,980	+ 2.9%	+ 11.3%

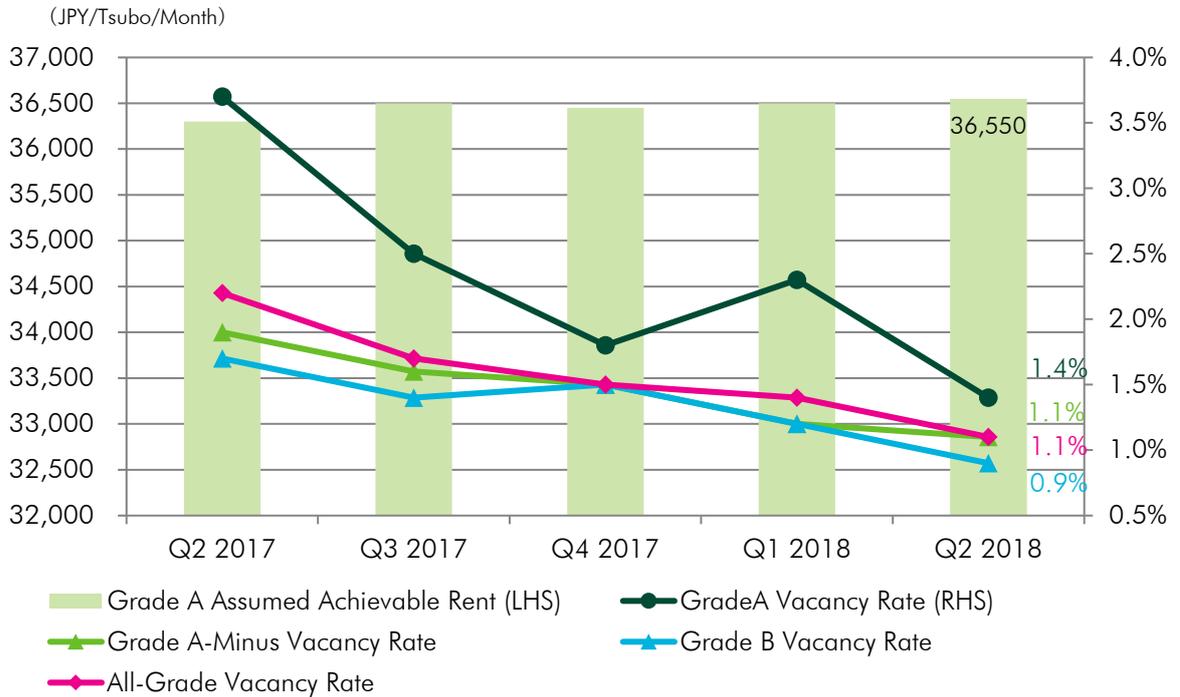
Source: CBRE, Q2 2018

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

		Vacancy Rate			Average Assumed Achievable Rent		
		Q2 2018	Q2 2019	Pts Change	Q2 2018	Q2 2019	% Change
Tokyo 23 Wards	Grade A	1.4%	1.8%	+0.4pts	36,550	36,650	+0.3%
Osaka	Grade A	0.2%	0.4%	+0.2pts	23,050	23,770	+3.1%
Nagoya	Grade A	0.9%	0.6%	-0.3pts	25,250	25,500	+1.0%

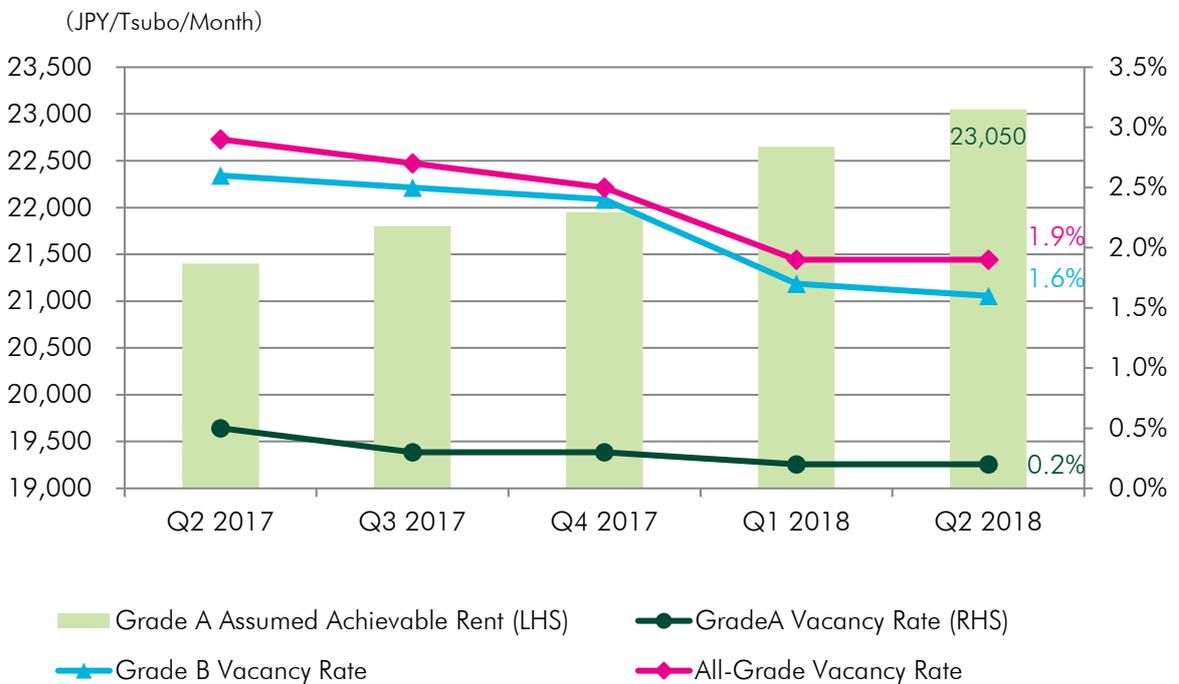
Source: CBRE, Q2 2018

■Tokyo



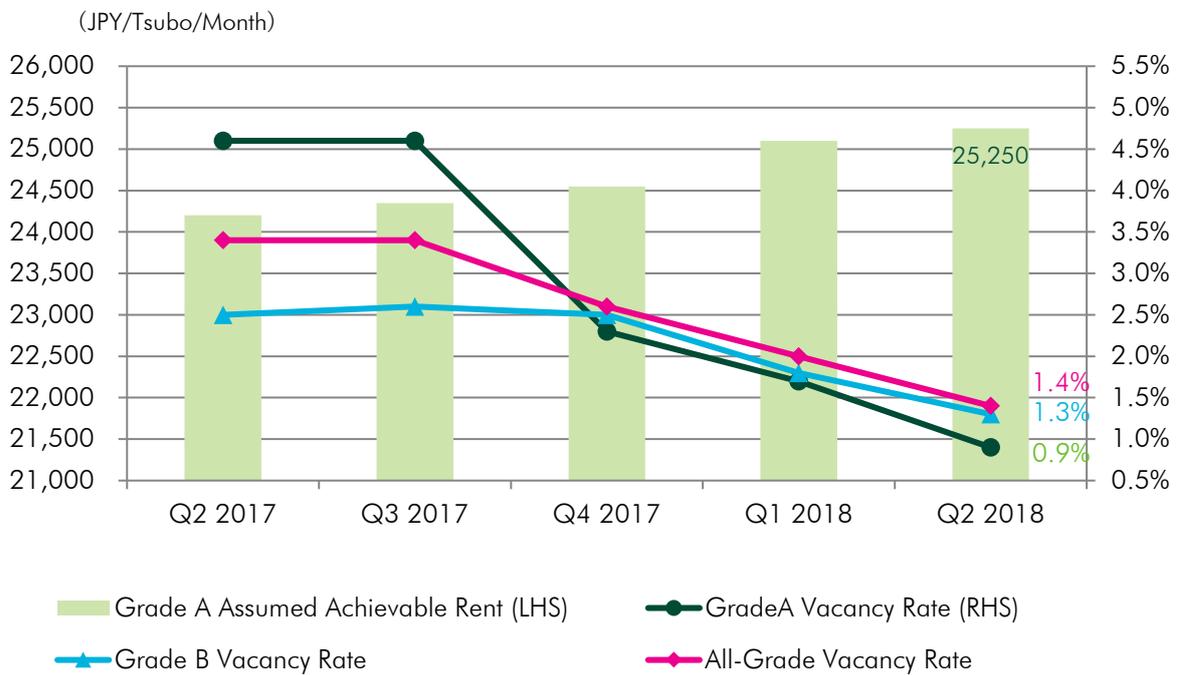
Source: CBRE, Q2 2018

■Osaka



Source: CBRE, Q2 2018

■ Nagoya



Source: CBRE, Q2 2018

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 84, Osaka 26, Nagoya 11 (as of Q2 2018)

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 2018 released on July 30th, which is also available on the CBRE website.

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

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