

NEWS RELEASE



Meiji Yasuda Seimei Building, 18F
2-1-1, Marunouchi,
Chiyoda-ku, Tokyo
100-0005, Japan
T 03 5288 9288
www.cbre.co.jp
Twitter: @cbrejapan

January 21, 2020

For Further Information:
CBRE
Marketing & Communications
03-5288-9283

CBRE Publishes 2020 Japan Real Estate Market Outlook

CBRE today released the 2020 Japan Real Estate Market Outlook which looks at the office, retail, logistics, and investment market over 2019 and discusses the expected trends for 2020-2021.

HIGHLIGHTS FOR EACH SECTOR

- **Office:** Rents are expected to rise in all major cities except for Tokyo, reflecting the tight supply-demand balance.
- **Retail (Ginza high street):** Demand to open new stores on the high street remain strong. Industries that have successfully captured inbound demand.
- **Logistics:** Over the next two years, the supply-demand balance will remain tight in all three major metropolitan areas.
- **Investment:** Investor sentiment remains high and investment into Japan is predicted to increase by 2% compared to 2019.

CBRE RENT FORECASTS (Q4 2019 – Q4 2021)

- ◆ **Tokyo Grade A:** Forecast to fall by 0.5% over the next two years, with moderate decline in 2020, followed by some pick-up in 2021.
- ◆ **Ginza high street:** Forecast to rise by 1.4% over the next two year.
- ◆ **Tokyo Large Multi-Tenant (LMT) logistics facilities:** Forecast to rise by 2.4% over the next two years.

Office

Office vacancy declined further in 2019, with eight cities (Sapporo, Saitama, Tokyo, Yokohama, Nagoya, Osaka, Kyoto, and Fukuoka) of the 13 tracked by CBRE expected to record vacancy rates of under 1% at the close of 2019, the highest number of cities ever recorded. Reflecting the tight supply-demand balance, rents rose in all cities over the course of the year, with full-year rental growth in Sendai, Yokohama, Kanazawa, Kyoto, Osaka, Kobe, and Hiroshima surpassing that recorded in 2018. As corporate leasing activity was not necessarily strong, the following factors appear to be behind the ongoing tight supply-demand conditions. Firstly, there are still many companies that are eager to upgrade their office environments. Secondly, CBRE has observed more cases of companies moving out of older buildings to make way for redevelopment, as well as companies selling their own building on the back of higher real estate prices, and then relocating

to a leased property. Thirdly, Tokyo has seen an increase in the establishment of coworking spaces, which now represent a considerable source of leasing demand. In regional cities, the main reason for the tight supply-demand conditions has been the lack of new supply. On the macroeconomic front, inflation rates are being kept to a minimum globally, and the low-interest environment also looks set to continue for some time. There also appears to be a respite in U.S.-China trade friction and Brexit. Given these circumstances, corporate sentiment in Japan is likely to recover in 2020, meaning that the office market is expected to remain tight. Tokyo Grade A rents may see a moderate downturn from around mid-2020 due to the slowdown of the Japanese economy and increase in supply, but are expected to pick up in 2021 in tandem with potential pick up in the economy.

Retail (Ginza high street*)

As in 2018, there was robust leasing demand from retailers in 2019, particularly among those catering to inbound demand. Ginza high street rents have risen 1.6% since bottoming out in Q3 2017, reaching JPY 258,000 per tsubo in Q3 2019. CBRE expects rents to continue rising moderately overall, and although we expect to see some downward move in 2020, rents over the next two years is forecast to rise by 1.4%. 2019 saw an increase in the number of stores with an emphasis on showroom or experiential features, rather than product sales. Among these, pop-up stores – short-term sales spaces that temporarily open to promote new product launches or cater to seasonal demand – are attracting interest among retailers from a wide range of sectors. This format enables retailers to develop new customer segments by creating topical interest and benefits owners by enhancing the value of their property by attracting highly popular and newsworthy brands. Demand for pop-up stores is likely to grow further in 2020 as owners become familiar with this format as a new alternative for leasing street level store space.

*Ginza high street: CBRE's own definition of streets in the Ginza area where trade is particularly thriving

Logistics

Net absorption in the Large Multi-Tenant (LMT) logistics facilities market is set to reach 1,000,000 tsubo in 2019 for the three main metropolitan areas combined. Should this figure be attained, it would mark the highest ever level, exceeding the previous record set in 2018 by some 40%. Reform in the logistics sector is leading directly to stronger LMT demand, supported by key trends including the expansion of e-commerce; the deployment of automation facilities and robots in logistics centers; and the creation of delivery relay points to tackle the shortage of truck drivers. Over the next two years, the tight supply-demand balance looks set to persist in the Greater Tokyo, Greater Osaka, and Greater Nagoya areas. Effective rents in the Greater Tokyo Area LMT market are expected to increase by 2.4% y-o-y to JPY 4,250 per tsubo in Q4 2019. CBRE forecasts a further increase of 2.1% by Q4 2021, a more moderate rate of increase due to the fact that it is difficult to envisage the record low vacancy rate of around 2% falling significantly further, and because 2021 will also see a record level of new supply. The Greater Osaka Area will also experience a record level of new supply in 2021, in line with that seen in 2017. However, the vacancy rate is unlikely to exceed 8% over the next two years, reflecting landlords' steady progress in securing tenants in emerging areas and a recovery in demand in the waterfront area. Two facilities have been announced for development in the Greater Nagoya Area by 2021. Both facilities will be in emerging LMT areas, and as the available options are limited, demand is likely to be solid. Although the vacancy rate is likely to rise temporarily due to the impact of new supply, it is expected to be around 4% at the close of 2021.

Investment

Real estate transaction volume between Q1 2019-Q3 2019 (deals worth JPY 1 billion or more) stood at JPY 2.4 trillion, an increase of 6.5% y-o-y. While the total number of transactions fell y-o-y, an increase in large transactions led to the higher overall transaction volume. Amid a continued shortage of properties, capital is focusing on larger properties and portfolio deals. By asset type, retail, hotels, and logistics facilities drove the increase in transactions. By investor type, the biggest increase in investment came from institutional buyers at +62% y-o-y, with more groups increasing their allocation to real estate. Total transaction volume for 2019 is expected to increase by around 7% y-o-y, while transaction volume in 2020 is expected to rise by 2% y-o-y. Large deals are again expected to drive transaction volume in 2020 as capital from institutional investors flows into the property market. However, with many investors believing that price appreciation is coming to an end, buyers are likely to turn more selective. Yields for Tokyo prime assets look set to record new lows or maintain current levels in 2020. Tokyo Bay Area Large Multi-Tenant (LMT) yields are forecast to fall further through 2020.

For further details, please refer to the 2020 Japan Real Estate Market Outlook published by CBRE. <https://www.cbre.co.jp/en/research-reports/all-japan-reports>

About CBRE Group, Inc.

CBRE Group, Inc. (NYSE:CBRE), a Fortune 500 and S&P 500 company headquartered in Los Angeles, is the world's largest commercial real estate services and investment firm (based on 2018 revenue). The company has more than 90,000 employees (excluding affiliates) and serves real estate investors and occupiers through more than 480 offices (excluding affiliates) worldwide. CBRE offers a broad range of integrated services, including facilities, transaction and project management; property management; investment management; appraisal and valuation; property leasing; strategic consulting; property sales; mortgage services and development services. Please visit our website at www.cbre.com. Official Twitter account for Japan: @cbrejapan

DISCLAIMER: Neither CBRE nor its affiliated companies make any warranties or claims on the implied accuracy of the information contained herein.