Intelligent Investment

Market Outlook 2026

REPORT

JAPAN
REAL ESTATE

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Contents

01 **Macro Environment**

The Japanese economy is expected to see moderate growth through 2026. Private consumption should remain firm given government measures to address economic and inflationary issues, while continued accommodative lending conditions are anticipated to lead to an expansion of corporate capital investment. Interest rates are expected to continue to trend gradually upward.

02 **Investment**

Full-year investment volume for 2025 is set to top JPY 6 trillion, establishing a new single-year record high. Activity should remain robust in 2026, with CBRE projecting investment volumes to reach a level not far from 2025's figure. While interest rate increases have accelerated somewhat, the accommodative stance maintained by financial institutions and steadily rising rents should support investors' appetite for real estate investments.

03 **Office**

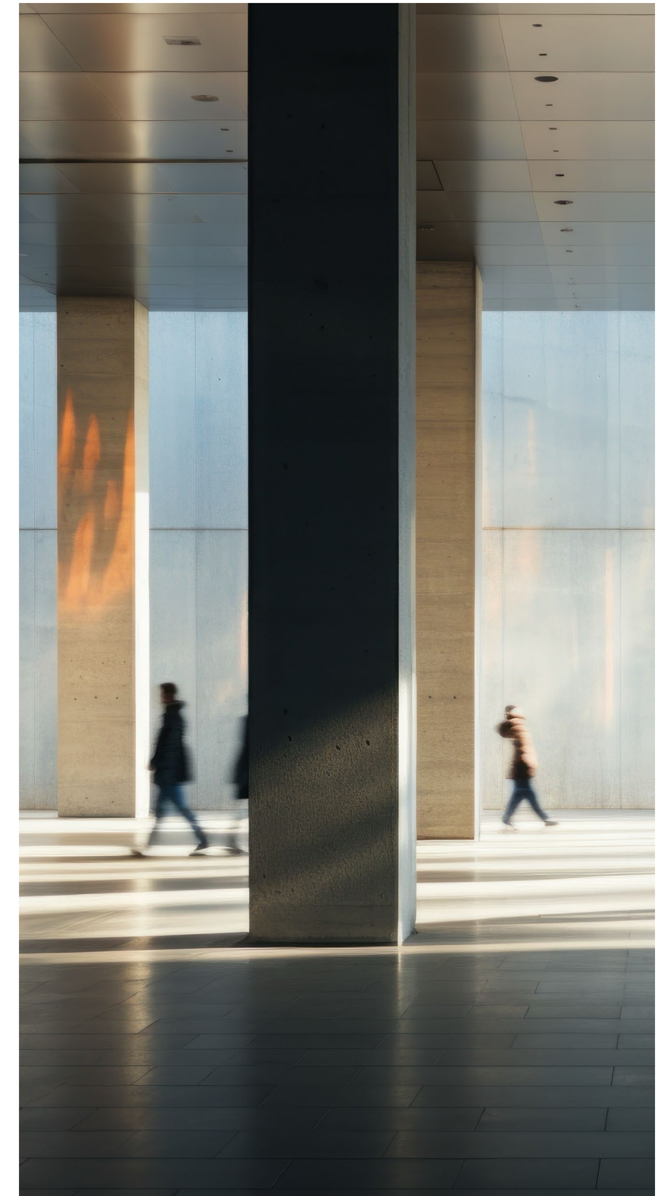
Office rents rose across all cities in 2025 on the back of robust leasing activity from tenants whose strong corporate performance encouraged them to improve office environments or expand floor space. Structural labor deficiencies should ensure that demand remains solid into 2026 and beyond. Vacancy rates continue to hover at extremely low levels in most cities, with any loosening of the supply-demand balance resulting from localized supply expected to be limited. Rents are projected to increase in all cities.

04 **Logistics**

The vacancy rate in Greater Tokyo has already begun to fall from its peak in Q1 2025, and is projected to drop to the 7% range with the sharp decline in new supply in 2027. Greater Osaka is expected to maintain a robust supply-demand balance even after seeing record-breaking new supply. On the back of efforts to achieve logistics efficiency, tenant demand is spreading from Greater Tokyo to other regions across the country.

05 **Retail**

In Q3 2025, the supply-demand balance in Japan's retail market remained extremely tight nationwide, with four of the nine surveyed high street areas recording vacancy rates of 0.0% and two areas below 1.0%. Rents are projected to continue rising nationwide on the back of robust retailer demand for storefront space.



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01

Macro Environment

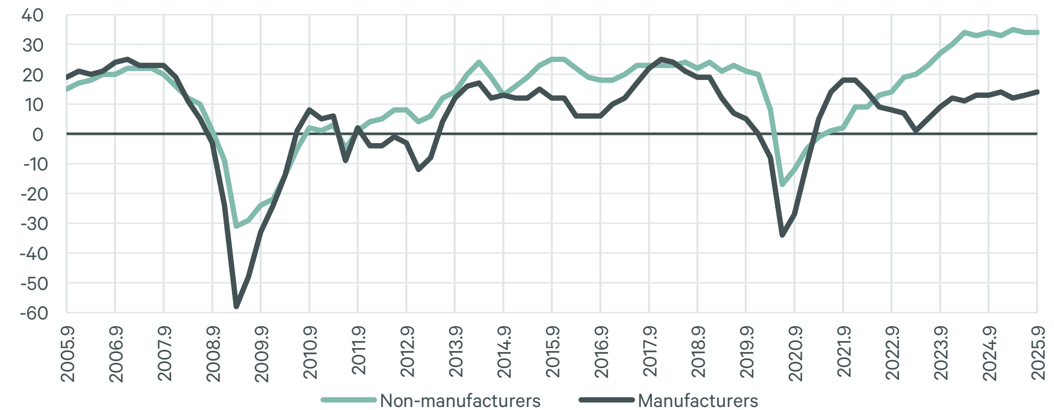
01 Macro Environment

Gradual economic growth set to continue

Japan recorded positive real GDP growth for five consecutive quarters from Q2 2024 to Q2 2025. While real GDP dropped by 1.8% q-o-q in Q3 2025 (first preliminary estimate), private consumption and corporate capital investment continued to make positive contributions, suggesting that the economy is continuing to recover gradually. On April 2, 2025, the Trump administration announced the implementation of reciprocal tariffs on the U.S.'s trading partners, creating concerns of economic stagnation in both the U.S. and elsewhere. However, progress in trade negotiations and the removal of some of these tariffs ensured that the U.S. economy remains resilient. In Japan, while increasing tariff costs have exerted downward pressure on earnings for some manufacturing companies, corporate performance has been generally strong. This has been due primarily to the avoidance of price hikes in order to mitigate the effects of tariffs, as well as robust performance by AI-related sectors and growth in non-manufacturing industries. The large corporate business conditions diffusion index in both the manufacturing and non-manufacturing sectors has remained stable and in positive territory (Figure 1-1) .

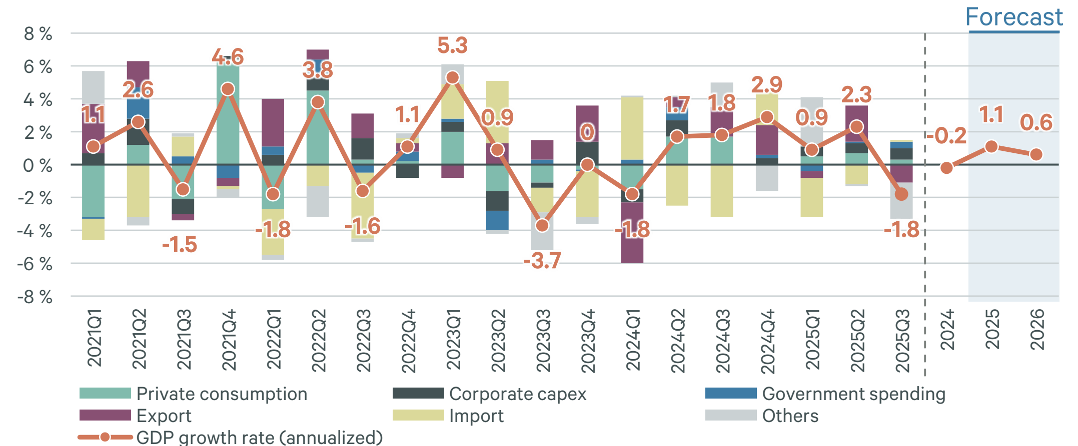
Japan's GDP growth is projected to remain moderate through 2026 (Figure 1-2). While private consumption is somewhat underwhelming as a result of increasing prices, expectations are high that government measures to address economic and inflationary issues, including support for pay rises for small-to-mid-sized companies, tax reductions, and the provision of stimulus payments, should help support consumption. Continued accommodative lending conditions should lead to an expansion of corporate capital investment, particularly in the areas of labor reduction, AI and digitization, and supply chain reinforcement. However, should companies see their profits depressed by being forced to continue absorbing additional tariff costs, or should uncertainty around economic or foreign demand increase further, capital investment may decline. Other headwinds include the possibility of a continuation of the current tensions between Japan and China, which could lead to a drop in inbound demand and a stagnation of exports from Japan to China.

Figure 1-1: Bank of Japan Tankan Survey - Large Corporates' Business Conditions Diffusion Index



Source: Macrobond, CBRE Research, November 2025.

Figure 1-2: Real GDP Growth (q-o-q change, annualized) and Contributions of Major Components



Source: Macrobond, CBRE Research, November 2025.

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01 Macro Environment

Moderate rate hike seen as most likely scenario

Several unforeseen events over the course of 2025 generated unease with regard to Japan's economic outlook, leading to increased volatility in the financial markets. The Trump administration's announcement of reciprocal tariffs in April 2025 triggered fears of adverse effects on Japanese companies and the economy as a whole, leading to the purchasing of bonds and the benchmark 10-year government bond yield (long-term interest rates) falling from above 1.5% at the end of March to just over 1.1% on April 7. However, the subsequent easing of U.S.-China trade tensions and the successful conclusion of trade negotiations between Japan and the U.S. have alleviated much of this uncertainty, pushing long-term interest rates back up to their original levels. In October 2025, Sanae Takaichi won a surprising victory in the Liberal Democratic Party leadership elections, with the Komeito subsequently withdrawing from the ruling coalition. While concerns regarding political instability eased following the establishment of a new ruling coalition with the Japan Innovation Party, new PM Takaichi's plans to pursue a policy of aggressive fiscal spending have once again raised concerns, leading to a further rise in long-term interest rates (Figure 1-3).

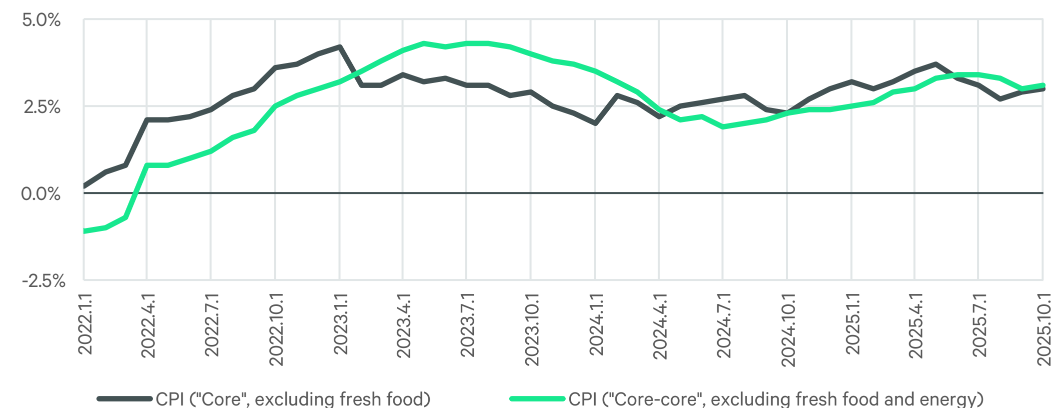
At its January 2025 monetary policy meeting, the Bank of Japan (BoJ) lifted its policy rate by 25bps, to 0.5%. While further rate increases later in the year were anticipated at the time, the impact of U.S. tariff policy and changes in the domestic political scene have pushed these back. During a press conference following the BoJ's latest monetary policy meeting in October 2025, BoJ governor Ueda stated that downside risks to the U.S. economic outlook have receded, and that he would be closely monitoring movements leading up to the "shunto" spring wage negotiations in early 2026.

The consumer price index (the core index, excluding fresh foodstuffs) has now maintained the BoJ's target level of above 2% for three and a half years (Figure 1-4). The BoJ anticipated in its latest outlook report that the rate would come down to +1.8% in FY 2026 but rise again to +2.0% in FY 2027. While the Takaichi administration is said to be maintaining a cautious stance toward rate hikes, it should be keen to avoid a drastic weakening of the yen that could drive up inflation. The market is therefore expecting two or three further policy rate hikes between December 2025 and the end of 2026. The most likely scenario for long-term interest rates is also a gradual increase. However, the pace of increase has accelerated more recently due to the possibility of further policy rate hikes, as well as the rise in concerns regarding Japan's fiscal condition and the loosening supply-demand balance in the bond market under the Takaichi-led government's "responsible and proactive fiscal policy".

Figure 1-3: Japan's Interest Rates

Source: Macrobond, CBRE Research, November 2025.

Figure 1-4: Consumer Price Index (y-o-y change)



Source: Macrobond, CBRE Research, November 2025.

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02

Investment

Investment Market Summary

Investment set to remain robust in 2026 following record-breaking 2025

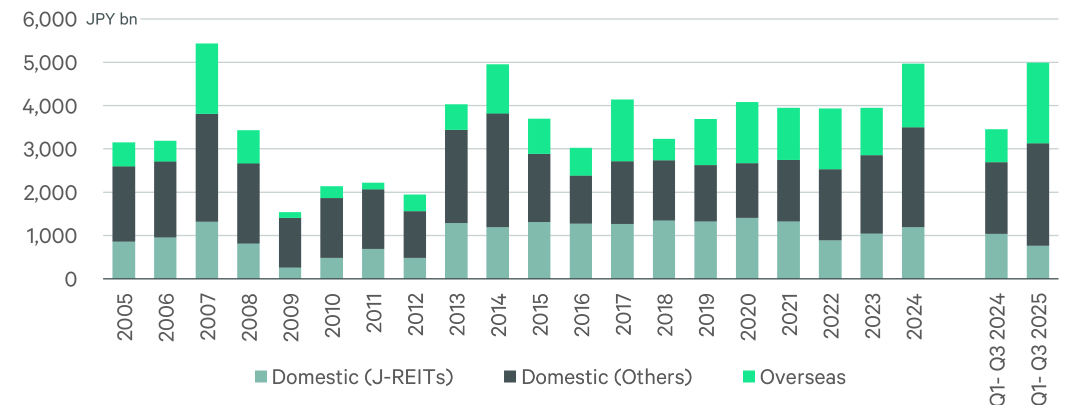
Full-year investment volume for 2025 (transactions of JPY 1 billion or more) is set to comfortably outstrip 2024's figure of JPY 4.97 trillion and is projected to exceed JPY 6 trillion. This would surpass 2007's JPY 5.4 trillion and establish a new single-year record high (Figure 2-1).

Following the BoJ's policy rate hike in January 2025, both long-term and short-term interest rates have risen. Despite this, investment appetite has continued to be strong, with several major transactions completed during the year, most notably in the office sector, which continues to see steady rent hikes. While several J-REITs and corporations disposed of real estate assets during the year, a strong appetite for new acquisitions by both domestic and foreign investors pushed up total investment volume.

Market activity should continue to be robust in 2026, with CBRE projecting transaction volume to reach levels close to those of 2025 (Figure 2-2).

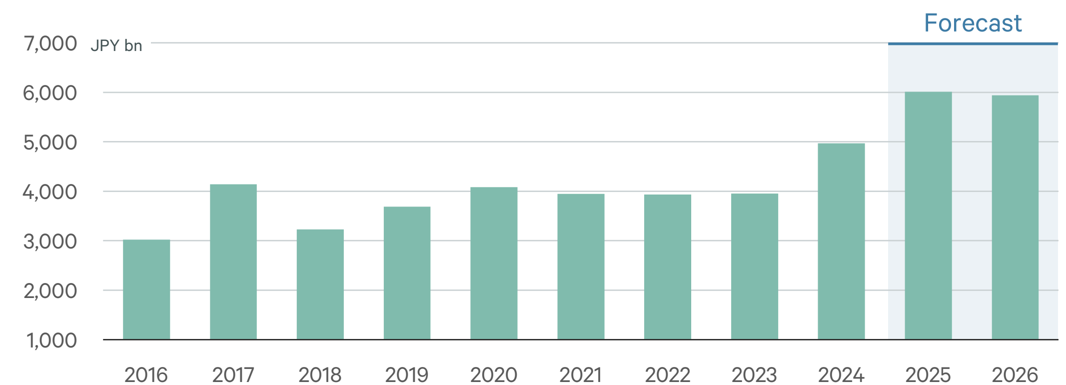
While interest rate increases have accelerated somewhat recently, the accommodative stance maintained by financial institutions and steadily rising rents should support investors' appetite for real estate. In terms of foreign investment, several overseas-based funds have indicated their intent to invest in Japanese real estate over the next several years. Domestic investors should continue to proactively seek to invest in real estate in an inflationary environment. Other buyers should include J-REITs, which may face challenges due to higher financing costs, but make more acquisitions via equity fundraising on the back of rising unit prices. Transactions for Security Tokens (ST) targeting retail investors are also expected to increase, and those due to business restructuring could further accelerate. Such robust activity makes it likely that yield spreads could tighten further.

Figure 2-1: Investment Volume by Investor Type (Acquisition)



Note: Includes transactions of JPY 1bn or larger, excluding acquisitions by J-REITs at IPO.
Source: MSCI Real Capital Analytics, CBRE Research, Q3 2025.

Figure 2-2: Real Estate Investment Volume



Note: Includes transactions of JPY 1bn or larger, excluding acquisitions by J-REITs at IPO.
Source: MSCI Real Capital Analytics, CBRE Research, November 2025.

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02 Investment

Investment Market in 2025

Total investment volume over first three quarters of 2025 exceeds investment volume for entire 2024 calendar year

Full-year investment volume for 2025 is anticipated to exceed JPY 6 trillion, well above the previous annual record of JPY 5.4 trillion set in 2007.

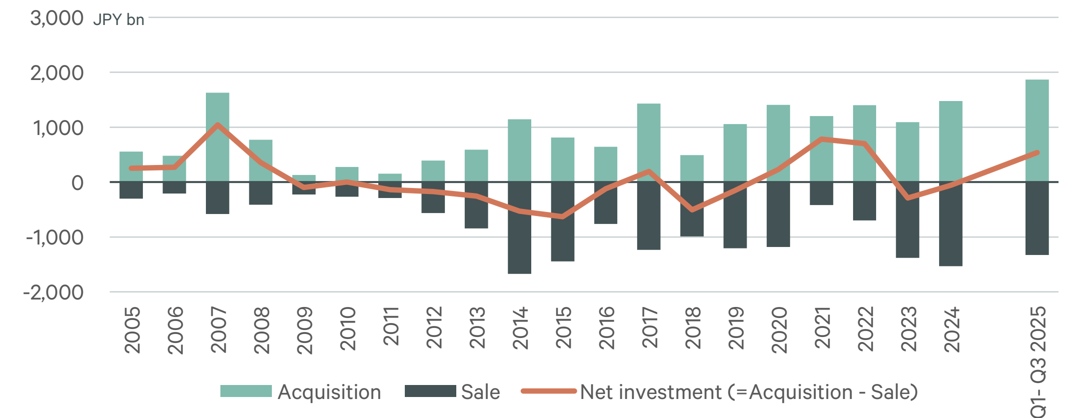
Commercial real estate investment volume for 2025 up to and including Q3 2025 (transactions of JPY 1 billion or more) grew 45% y-o-y to reach JPY 4.99 trillion. The total for the first three quarters of 2025 exceeded the JPY 4.97 trillion in investment volume recorded across the entire 2024 calendar year.

Led by several major deals of in excess of JPY 100 billion, including the Tokyo Garden Terrace Kioicho transaction (JPY 400 billion) and the Tokyu Plaza Ginza transaction (JPY 150 billion) in Q1 2025, acquisition volume by overseas investors reached a total of JPY 1.87 trillion across the first three quarters of 2025, a rise of 2.4x the figure of the same period in 2024, and exceeding the full-year record of JPY 1.63 trillion set in 2007. With foreign acquisition volume outstripping sales volume by JPY 540 billion as of Q3 2025 (Figure 2-3), net investment volume is also set to hit its highest annual mark since 2022.

Among non-J-REIT domestic investors, acquisitions have been observed from a broad range of investors, including private funds and REITs, and insurance companies, with total acquisition volume in the year up to and including Q3 2025 up by 43% y-o-y to JPY 2.36 trillion. Meanwhile, several major asset sales by corporations were seen during the year. Nissan Motor's announcement in November 2025 of its intent to sell its Yokohama headquarters for JPY 97 billion before the end of the year is likely to push up the full year investment volume.

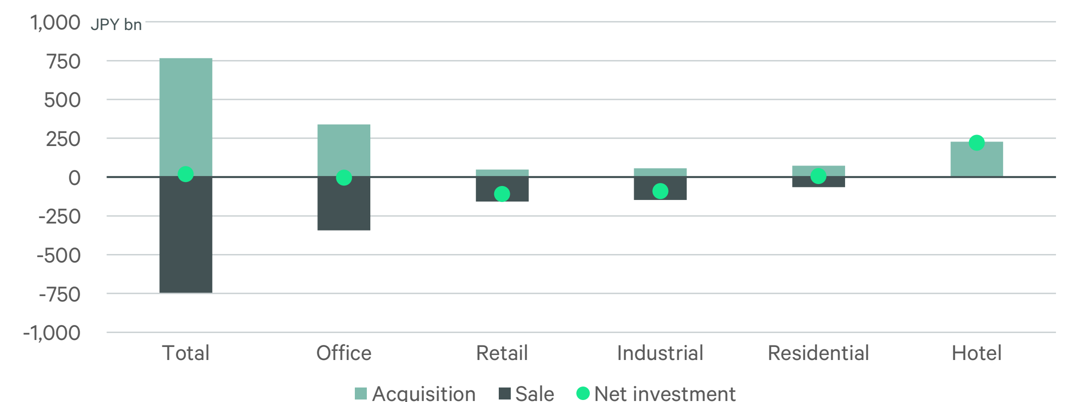
Total acquisitions by J-REITs across the first three quarters of 2025 slipped by 26% y-o-y to just JPY 760 billion. In contrast, total sales volume has risen by 36% to JPY 750 billion, only marginally below 2024's full-year figure of JPY 760 billion, the all-time record. Sales volume by J-REITs for retail and logistics facilities has already exceeded previous annual record levels in just the first three quarters of the year. With J-REIT acquisition volume and sales volume almost perfectly balanced, this indicates that J-REITs are making aggressive moves to overhaul their asset portfolios (Figure 2-4).

Figure 2-3: Overseas Investors Sale and Acquisition Volumes and Net Investment



Note: Includes transactions of JPY 1bn or larger.
Source: MSCI Real Capital Analytics, CBRE Research, Q3 2025.

Figure 2-4: J-REITs' Acquisition, Sale and Net Investment by Asset Type



Note: Includes transactions for the first three quarters of 2025 of JPY 1bn or larger, excluding acquisitions by J-REITs at IPO.
Source: MSCI Real Capital Analytics, CBRE Research, Q3 2025.

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Investment Market in 2025 (cont.)

Major deals drive up office investment volume by 80% y-o-y

Driven by several major transactions, office investment volume for the year to Q3 2025 totalled JPY 2.15 trillion, up 80% y-o-y (Figure 2-5). The largest of these transactions was the sale of Tokyo Garden Terrace Kioicho for JPY 400 billion. Another feature of note is that several major transactions related to ST offerings targeting retail investors were observed during the year. Shiodome City Center and Osaka Dojimahama Tower were each acquired by SPCs set up by KKR for the former (for JPY 130.1 billion) and Mitsubishi UFJ Financial Group for the latter (for JPY 100.0 billion). Both properties were acquired as underlying assets for STs.

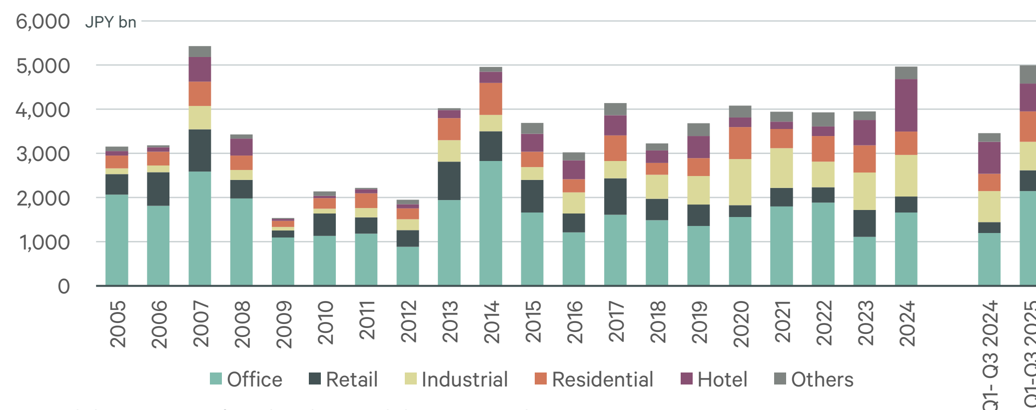
Residential has been the second most popular sector in 2025, with total cumulative investment volume for the year to Q3 2025 up 74% y-o-y to JPY 690 billion. Major deals included several portfolio transactions, headlined by U.S. investor Warburg Pincus's acquisition of the share house portfolio, TOKYO β, consisting of 1,195 assets and over 16,000 rooms. Residential portfolio transactions alone accounted for JPY 490 billion in the first three quarters of 2025, eclipsing the record full-year figure in 2022 (Figure 2-6).

The logistics sector saw cumulative investment volume across the first three quarters of 2025 drop by 8% to JPY 640 billion. While acquisitions by J-REITs were limited, several major acquisitions were made by funds financed or established by domestic investors.

While hotel investment volume was above average at JPY 630 billion in the year to Q3 2025, activity has lagged 2024's record-breaking levels by 12%. In addition to foreign purchases, J-REITs completed several acquisitions in 2025. In the retail segment, cumulative investment volume to Q3 2025 rose 89% y-o-y to JPY 470 billion, driven by the sale of Tokyu Plaza Ginza for JPY 150.0 billion.

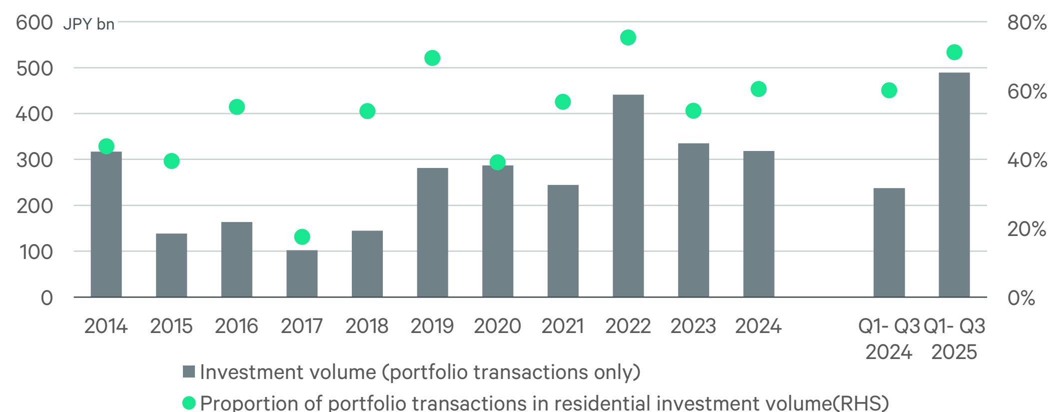
Investment in other assets logged JPY 410 billion in the year to Q3 2025 (2.5x the figure of the same period in 2024), already exceeding the full-year record of JPY 320 billion set in 2022. This was predominantly underpinned by several data center transactions, with several acquisitions by overseas investors including the purchase of a data center in Chiba Prefecture's Inzai City by Singaporean listed REIT Keppel DC REIT for JPY 82.1 billion.

Figure 2-5: Investment Volume by Asset Type



Note: Includes transactions of JPY 1bn or larger, excluding acquisitions by J-REITs at IPO.
Source: MSCI Real Capital Analytics, CBRE Research, Q3 2025.

Figure 2-6: Investment Volume of Residential Portfolios



Note: Includes transactions of JPY 1bn or larger, excluding acquisitions by J-REITs at IPO.
Source: MSCI Real Capital Analytics, CBRE Research, Q3 2025.

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02 Investment

Outlook for 2026

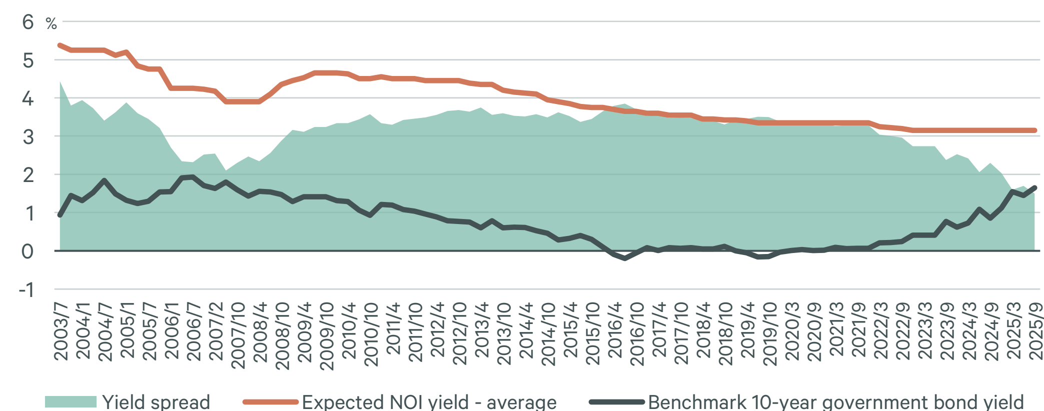
Financing environment projected to remain accommodative

CBRE projects commercial real estate investment volume to approach the level seen in 2025.

Interest rates continued to climb throughout 2025, with long-term interest rates (benchmark 10-year government bond yields) rising from 1.08% at the start of the year to reach 1.65% by the end of September, an increase of 57 bps. According to the results of CBRE's quarterly investor cap rate surveys, robust demand from investors led expected NOI yields to maintain record low levels throughout 2025 for all major asset types. As a result, yield spreads, as a measure of the gap between expected NOI yields and long-term interest rates, are shrinking, with the yield spread for the office sector falling to just 1.50% at the end of Q3 2025, a figure below the levels recorded just prior to the global financial crisis (Figure 2-7).

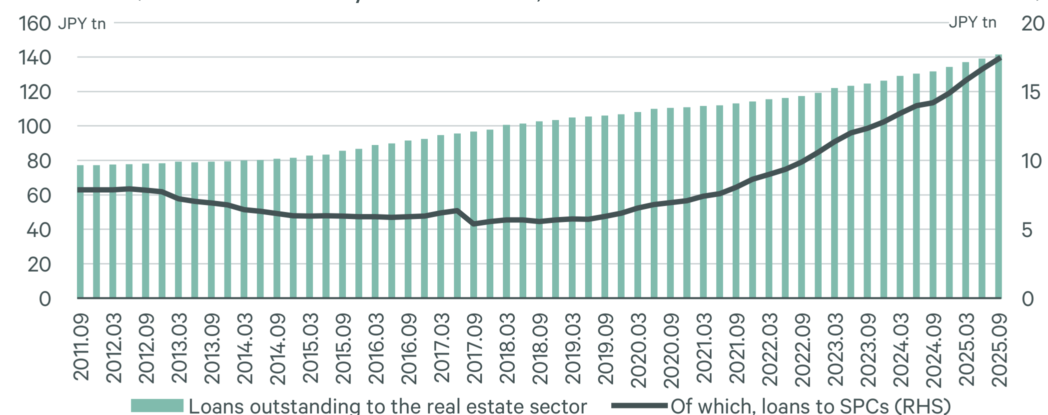
Investment volume for the 2025 calendar year is nevertheless set to reach a new record high, as financial institutions remain generally accommodative toward real estate lending. BoJ data show outstanding real estate loan volume by Japanese financial institutions reached JPY 141 trillion as of the end of September 2025, with the growth of this figure accelerating since 2024 (Figure 2-8) .The results of CBRE's survey of lenders carried out in April and May also showed that almost all respondents expected their loan volume for FY 2025 to either increase or remain unchanged from FY 2024 (see "Japan Lender Survey 2025", June 2025), underscoring the fact that financial institutions are unlikely to change their accommodative approach in the foreseeable future.

Figure 2-7: Office Expected NOI Yield, Benchmark 10-year Government Bond Yield, and Yield Spread



Source: CBRE Cap Rate Survey, Macrobond, Q3 2025.

Figure 2-8: Loans Outstanding to Real Estate Sector
(Total of Domestically Licensed Banks, Shinkin Banks and Other Financial Institutions)



Source: Bank of Japan, Macrobond, CBRE Research, November 2025.

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02 Investment

Outlook for 2026 (cont.)

Robust leasing market to support investor appetite

Investor appetite remained strong throughout 2025 due also to an understanding of the fundamentals underlying the Japanese real estate leasing market, in which rising rent levels can be expected to off set cost increases caused by interest rate hikes and inflation. This momentum is likely to be maintained throughout 2026.

The office sector is looking particularly healthy, with Tokyo Grade A office rents expected to end 2025 with growth of over 10% y-o-y, and further double-digit growth projected in 2026 (Figure 2-9). In CBRE's latest investor survey of market opinion, carried out in September 2025, some 65% of respondents indicated that they anticipated office NOI to be in the "recovery/boom" phase in a year's time (Figure 2-10). 69% of respondents in the same survey stated that NOI in the hotel sector would be in the "recovery/boom" phase in a year's time, which is also the highest figure among all asset types. This suggests that the office and hotel sectors will continue to have a major presence in the real estate market in 2026.

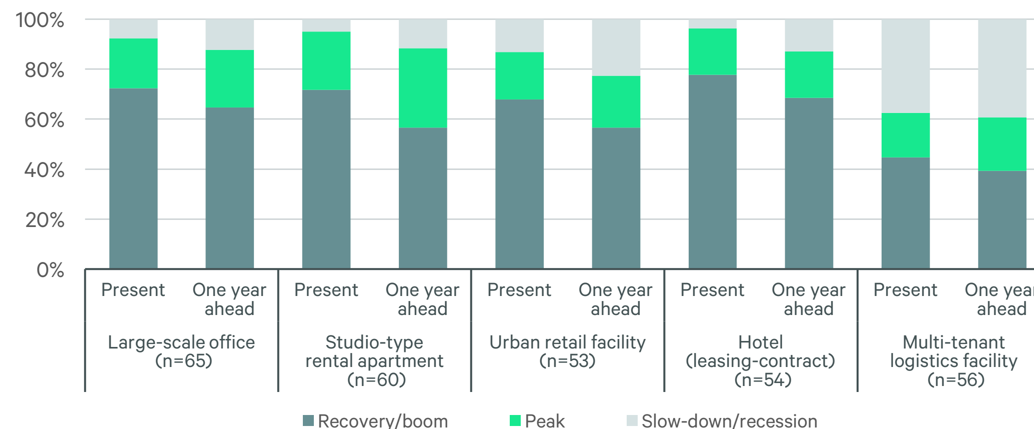
Rising residential rents are boosting the sector's popularity among investors. While the portfolio transactions that dominated the market in 2025 may not be quite as prevalent, standalone properties, including those previously traded as part of a portfolio, are expected to be the target in 2026. CBRE projects rents for high street retail properties to also continue increasing. While transactions in the sector are limited in comparison to other asset types, investor interest is high on the back of solid rental growth and the scarcity of available properties.

For logistics properties, CBRE is projecting rents in Greater Tokyo to gradually halt their decline and begin rising once again in 2026. While 39% of respondents in the aforementioned survey projected logistics NOI to be in the "slow-down/recession" phase in a year's time, acquisitions in the sector may increase on expectations of a future tightening of the supply-demand balance and a subsequent boost in occupancy rates and rent levels.

Figure 2-9: Rental Forecast for Major Asset Types (Y-o-Y Change)

Source: CBRE Research, Q3 2025.

Figure 2-10: Market Cycle by Asset Type (NOI; Tokyo / Greater Tokyo)



Source: CBRE Cap Rate Survey, September 2025.

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02 Investment

Outlook for 2026 (cont.)

Investment activity to be underpinned by overseas investors' commitment to Japan; recovering J-REIT unit prices; and corporate transactions

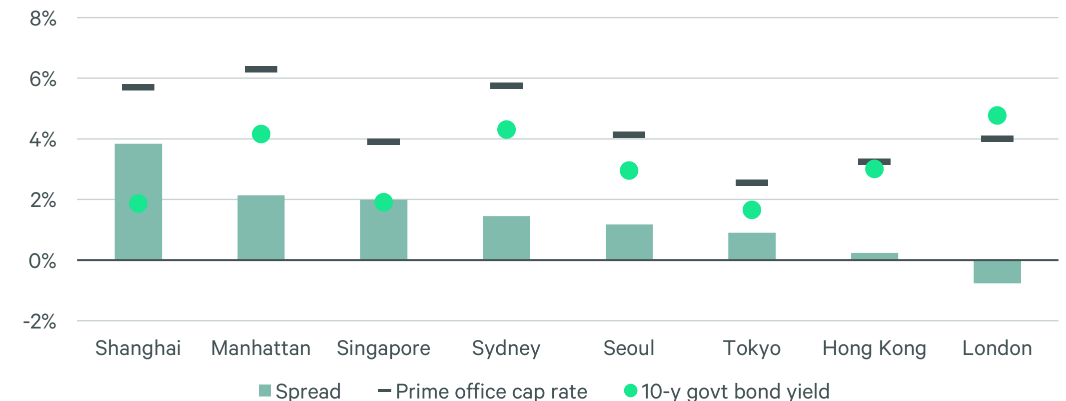
The tightening of yield spreads in 2025 made Japan a less attractive investment destination compared to other markets, particularly if yield spreads are the only criterion (Figure 2-11). Investors' expected yields may remain at a low level, meaning that yield spreads could tighten further in 2026.

Even amid this environment, several overseas-based funds have announced their intent to invest more than JPY 1 trillion in Japanese properties over the next several years. Some overseas investors are understood to be aiming to purchase real estate assets divested by Japanese corporations. Potential major transactions in this area in 2026 should involve the sale of the real estate business of Sapporo Holdings.

J-REIT acquisitions may also see a resurgence in the coming year. As of the end of October 2025, a total of just three public equity offerings had been made by J-REITs over the course of the year. However, the recovery of J-REIT unit prices from midway through the year has led to a 19% increase in the Tokyo Stock Exchange REIT Index year-to-date. This has also resulted in the recovery of J-REITs' price to NAV ratio (defined as unit price divided by net asset value per unit). Should unit prices continue their strong recovery, J-REITs may be able to resume making acquisitions via raising of public equity (Figure 2-12).

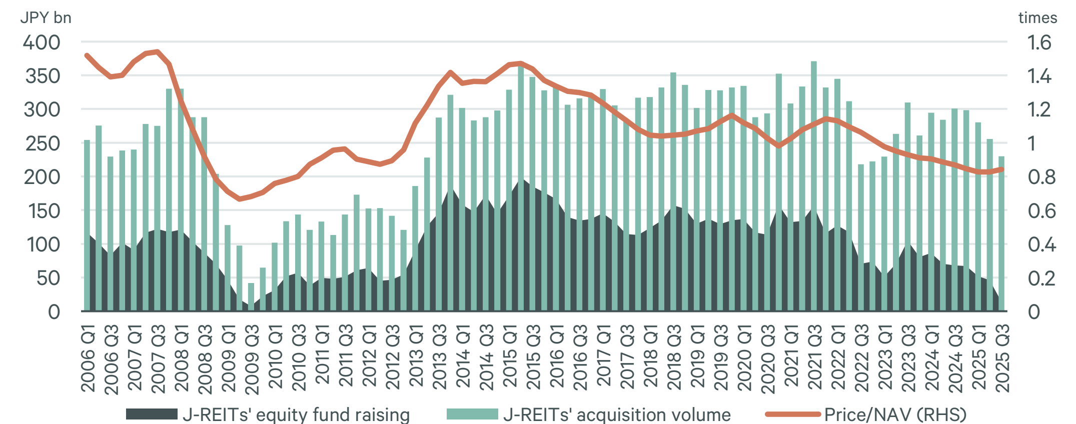
Among non-J-REIT domestic investors, major transactions are likely to be those by corporations. In addition to divestment of real estate assets to secure funds and improve capital efficiency, recent years have seen purchases by corporations, most notably in the infrastructure sector, such as power, gas, and railway. From 2027, new lease accounting standards will come into effect, under which right-of-use assets will have to be included in balance sheets when leasing real estate properties. Corporate decisions regarding whether to own or lease properties considering these changes in regulations are also likely to exert an influence on investment activity. Finally, as the volume of STs targeting retail investors rises, this may have a bearing on acquisitions of underlying assets.

Figure 2-11: Estimated Prime Office Yield Spreads in Major Cities



Note: Spread between estimated yields of top-class office in prime location and 10-year government bond yields.
Source: CBRE Research, Q3 2025.

Figure 2-12: J-REITs' Acquisition Volume, Equity Fund Raising and Price/NAV



Note: All figures are calculated as 4-quarter moving average.
Source: CBRE Research, ARES J-REIT Databook, Q3 2025.

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03

Office

03 Office

Office Market Summary

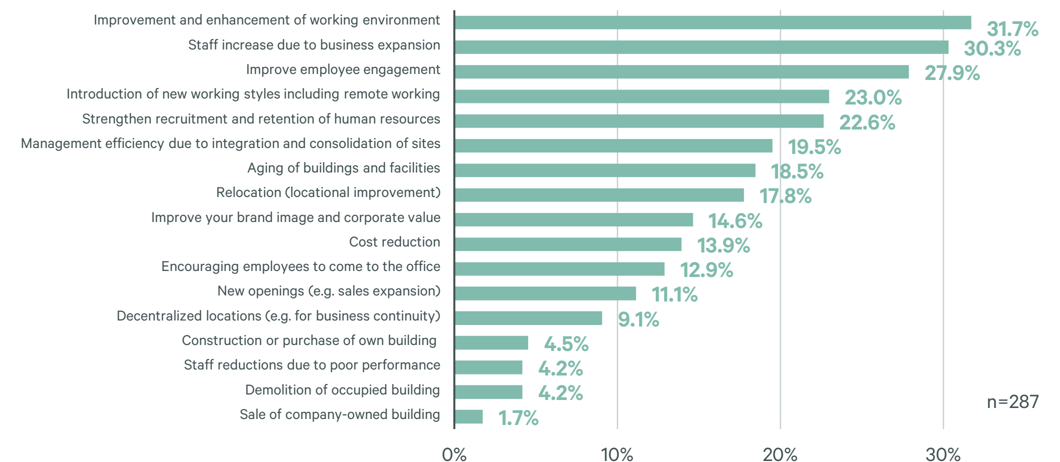
Solid demand should ensure rents continue to increase in all cities

Strong corporate performance and positive economic conditions underpinned robust demand for office space throughout 2025. Relocations for the purposes of upgrading, expansion, or moving to superior locations were common, along with some new office openings and on-premise expansions. This drove down vacancy rates in most cities. Looking ahead, corporate appetite for improving office environments and expanding floor space is expected to remain strong. According to the results of CBRE's latest office tenant survey, the most-selected reasons for office recalibrations were given as "improvement and enhancement of working environment" and "staff increase due to business expansion" (Figure 3-1). When asked about their plans for future office floor space, the percentage of companies indicating they planned to expand floor space significantly outnumbered those planning to reduce it, across all current office size brackets (Figure 3-2).

New supply across all grades for the Tokyo office market for the three years between 2026 and 2028 is slated to reach an annual average of 153,000 tsubo, below past average levels. With pre-leasing proceeding well, particularly in larger buildings, the vacancy rate is expected to continue to hover at just above the 1% mark. While a record amount of new supply came on stream in Osaka in 2024, vacancies continue to be steadily filled. With new supply for 2026 and beyond extremely scant, the vacancy rate is projected to fall below the 2% threshold. While several new large office buildings are due for completion in Nagoya in 2026, they are expected to enter operation with high occupancy rates, limiting the likelihood that the supply-demand balance will loosen significantly. Sapporo, Yokohama, Hiroshima, and Fukuoka are projected to receive a higher amount of new supply as a proportion of existing stock compared to other cities, but robust demand should ensure any loosening of the market is minimal. Vacancy rates should generally keep falling in all other cities.

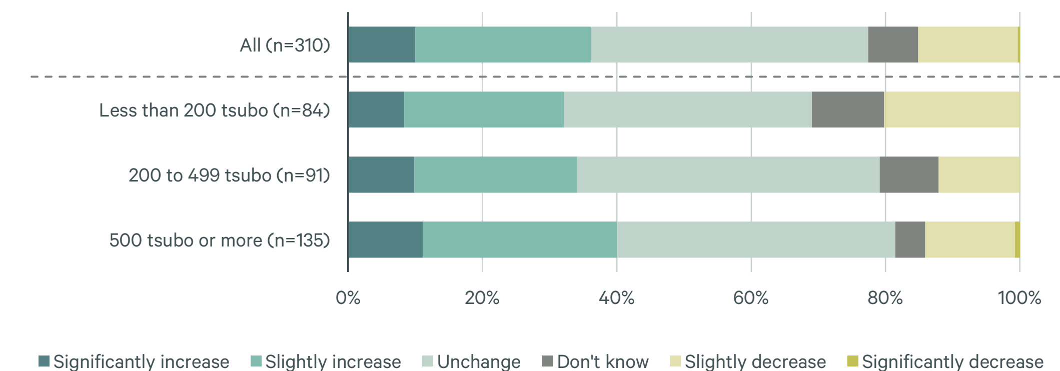
Assumed achievable All-Grade office rents as of Q3 2025 registered y-o-y increases in all cities. Tokyo had the highest rate of increase, while average rents set new record highs in both Osaka and Nagoya. Sapporo, Saitama, and Hiroshima continued to report record high rents. As structural labor deficiencies are likely to ensure that demand for office space remains robust, rents should continue to rise across the nation.

Figure 3-1: Reasons for Changes in Office Functionality or Floor Space (Question for Management)



Source: Media Business, Nikkei Inc./ Investigation: Nikkei Research Inc./ Cooperation for investigation: CBRE "Survey on office usage", July 2025.

Figure 3-2: Outlook for Overall Office Space in Japan (By Occupied Area Band)



Source: Media Business, Nikkei Inc./ Investigation: Nikkei Research Inc./ Cooperation for investigation: CBRE "Survey on office usage", July 2025.

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03 Office

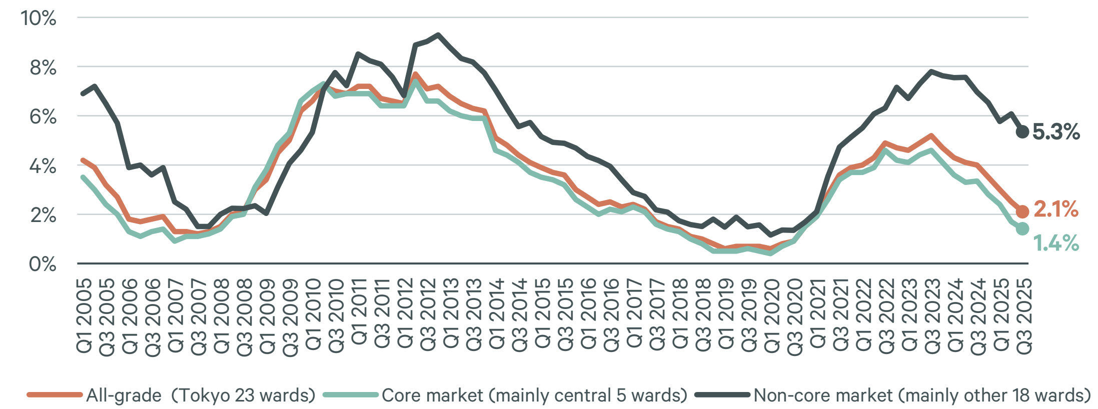
Tokyo

All-Grade net absorption to set new record of 312,000 tsubo in 2025

The All-Grade vacancy rate stood at 2.1% in Q3 2025, down 1.9 pp. from the same quarter of the previous year and marking an eighth consecutive quarter of decrease (Figure 3-3). In addition to relocations for the purposes of upgrading, expansion, or moving to superior locations, new office openings and on-premise expansions were widely noted over the course of 2025. Companies with offices of all sizes were seen looking to relocate, with a return to in-office work and the desire to create an office environment conducive to staff retention the key factors driving demand. Large centrally-located properties are now seen as increasingly rare and valuable, creating competition between potential tenants. The Grade A vacancy rate fell by 4.0 pp. y-o-y to 1.0% as of Q3 2025, reflecting an extremely tight supply-demand balance, with major vacancies in the core area of mainly the five central wards of Tokyo almost nonexistent. As a result, large office buildings with significant availabilities in the non-core area comprising primarily the 18 peripheral wards are seeing increased tenant interest, pulling down the vacancy rate in the area by 1.7 pp. y-o-y to 5.3%. During 2025, tenants looking to consolidate or expand their office space filled major vacancies in peripheral areas, which are increasingly drawing tenant attention owing to the value for money they provide as rents continue to rise in central areas. While new supply across all grades for the entire 2025 calendar year should amount to 186,000 tsubo, marginally above the previous annual average, net absorption is projected to hit 312,000 tsubo, not far from the record high set in 1994.

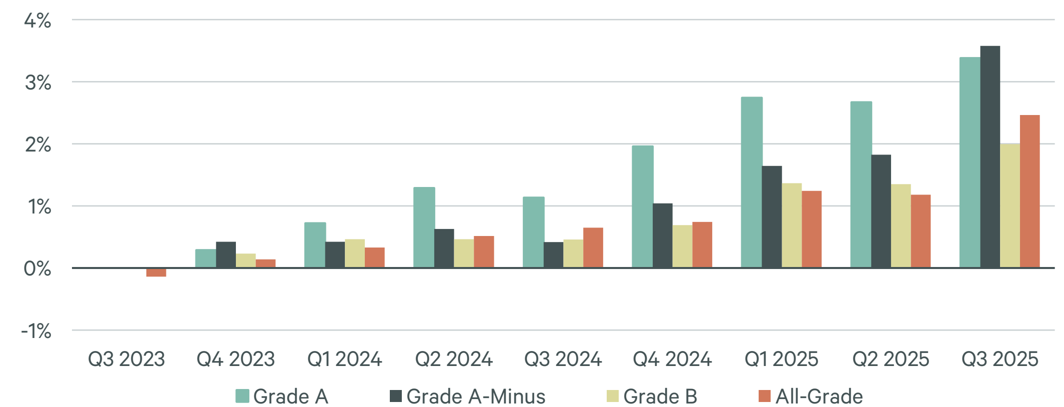
Rents rose across all grades for the eighth consecutive quarter in Q3 2025, with those for Grade A office buildings surging by 11.2% y-o-y to reach JPY 39,750. This represented the largest y-o-y increase since 2007 and pushed rents above the most recent peak of JPY 39,000 recorded just prior to the COVID-19 pandemic. Since bottoming out in Q3 2023, Grade A rent levels have surged and have carried rents for other grades along a similar trajectory, with rent rises across all grades accelerating in recent quarters (Figure 3-4). In addition to robust demand, the current surge in office leasing activity is being driven by three factors not seen in previous peaks in demand. The first of these is that more companies now view improving their offices as an investment rather than as a cost. With human resource management strategies seen as an increasingly vital area of corporate policy, particularly among listed companies, many companies are reconsidering the importance of labor environments. To this end, more tenants from a diverse range of sectors are demonstrating a preparedness to pay higher rents for improved office access and comfort.

Figure 3-3: Tokyo All-Grade Vacancy Rates in Core and Non-core Markets



Source: CBRE Research, Q3 2025.

Figure 3-4: Assumed Achievable Rent Growth in Tokyo by Grade (Q-o-Q Change)



Source: CBRE Research, Q3 2025.

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Tokyo (cont.)

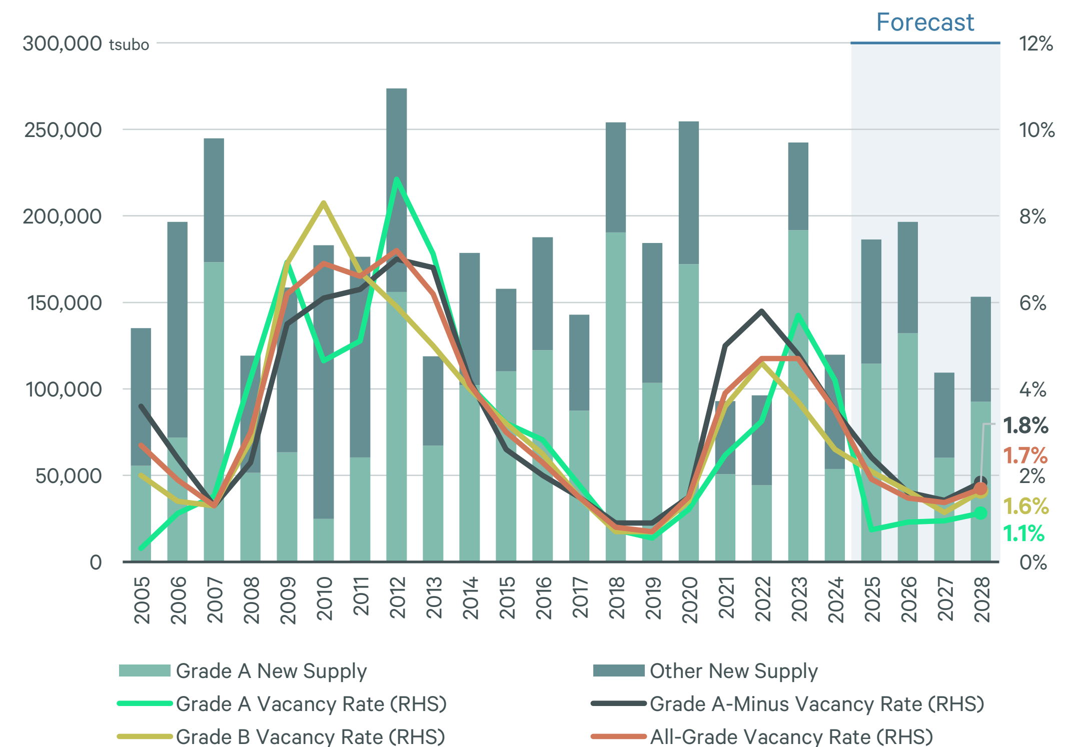
The second factor is that more landlords are now passing on increased costs in the form of higher rents, with some property owners raising asking rents to match inflation. The third factor is that tenants are looking to secure space early due to lengthening construction times caused by a chronic labor shortage in the building industry. While tenants remain selective, the number of options among existing properties is extremely limited. For this reason, potential tenants are showing interest not only in developments set to come on stream in the short-term, but also for those which are several years away from completion. This is particularly the case for larger developments in central Tokyo, for which asking rents are on the rise. This trend has spread to existing properties, exacerbating the shortage of high-quality buildings and further accelerating rent increases.

Vacancies set to remain extremely low in all grades until the end of 2028

Tenant interest in major developments in central Tokyo is set to intensify in 2026. New All-Grade Tokyo office supply for the three years between 2026 and 2028 is slated to reach an annual average of 153,000 tsubo, a figure below the past average of 174,000 tsubo. Approximately 60% of this new supply is comprised of Grade A. While some 132,000 tsubo of new Grade A office space is projected to come on stream in 2026, 40% above the past yearly average, estimates suggest that the pre-leasing rate has surged by 50 pp. over the past 12 months to exceed 70% as of the end of September 2025. Supply for both 2027 and 2028 is expected to fall below average levels, with a significant amount of what little will be available already pre-leased. While the Grade A vacancy rate will be temporarily boosted by new supply and vacancies emerging in existing properties, CBRE projects it will fall to around 1%, the lowest figure among all grades, by Q4 2028 (Figure 3-5).

As the Grade A-Minus segment features many buildings in direct competition with new Grade A supply, it is expected to suffer from an increase in vacancies. At the same time, however, vacancies should continue being filled in non-core areas as companies seek out such locations for large-scale relocations. While the Grade A-Minus segment is projected to have slightly higher vacancy rates than other grades, it should fall below 2% from H2 2026. In comparison to Grade A-Minus, Grade B buildings are less likely to be in direct competition with Grade A, and therefore less likely to be affected by new supply. The diverse range of industries leasing space in Grade B buildings also means that demand should remain solid. CBRE forecasts the Grade B vacancy rate to slip to 1.1% by

Figure 3-5: New Supply and Vacancy Rates in Tokyo



Source: CBRE Research, Q3 2025.

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Tokyo (cont.)

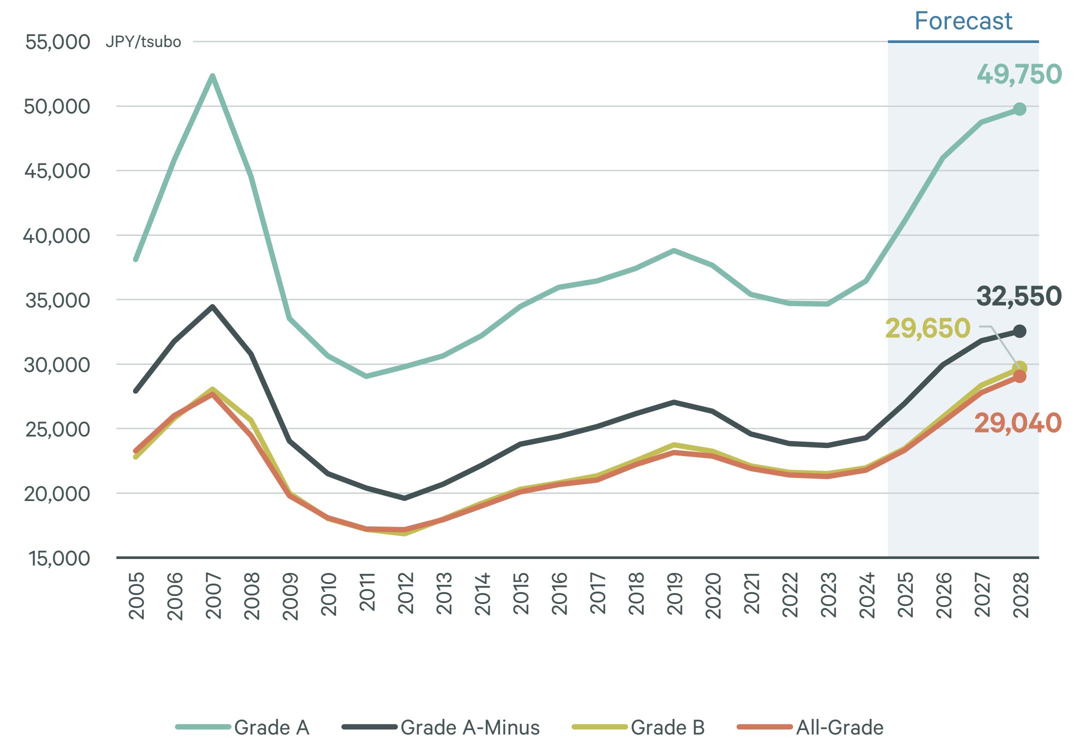
Q4 2027, and remain just above that for Grade A. However, new All-Grade supply for 2029 is slated to be some 30% above the past average at 234,000 tsubo, with the Grade A segment comprising a record-breaking 202,000 tsubo of this figure. As this new supply is likely to affect demand prior to completion, CBRE predicts the pace at which vacancies in new and existing buildings are filled to begin to slow from 2027 to 2028 across all grades.

Rents expected to continue strong rise before moderating in 2027

Underpinned by an extremely tight supply-demand balance, rents should continue to rise steadily across all grades in 2026. Among some major developments currently underway are several for which asking rents have been raised amid brisk pre-leasing. This should have a knock-on effect on existing properties, raising rents across the broader market. Slightly behind the pace set by Grade A buildings, rents for Grade A-Minus and Grade B buildings should also exceed pre-pandemic levels during 2026. However, concerns over the potential for demand to be absorbed by 2029's extensive new supply should begin to be felt several years in advance. For this reason, the rate at which rents increase is anticipated to slow across all grades from H2 2027 (Figure 3-6).

By Q4 2028, assumed achievable rents are projected to have increased by 25.2% from Q3 2025 to reach JPY 49,750 for Grade A, and by 25% across the same period to JPY 32,550 for Grade A-Minus. The Grade B segment is projected to witness the sharpest increases in average rents of any category, breaking its previous record high of JPY 28,050 set in Q4 2007 by Q4 2027, and proceeding to reach JPY 29,650 by Q4 2028, an increase of 28.9% from its Q3 2025 level. This is a result of the Grade B segment following a pattern of rent increases somewhat later than the other grades, as well as a reflection of the fact that it will not be as badly affected by vacancies in existing properties created by new Grade A supply.

Figure 3-6: Assumed Achievable Rents (Face) in Tokyo



Source: CBRE Research, Q3 2025.

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Osaka

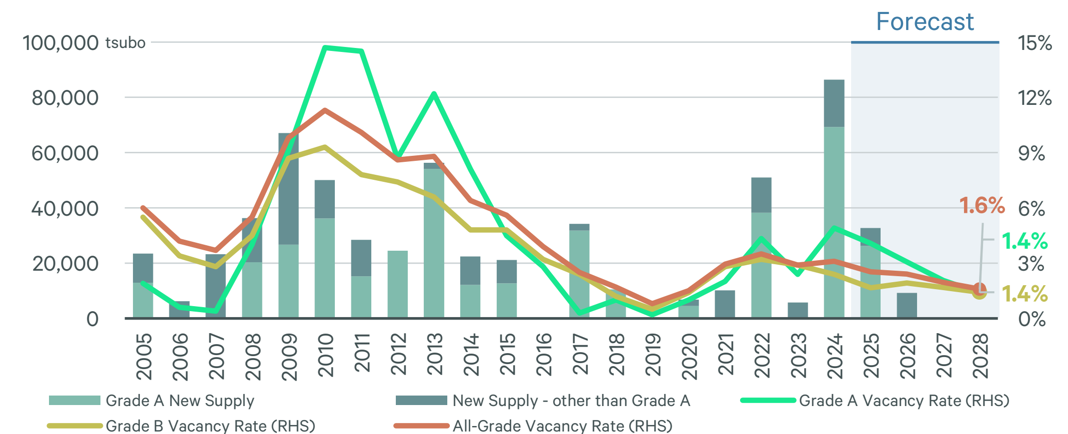
Grade A rents projected to set new record during 2025

Strong tenant demand continues to be seen in Osaka from companies seeking space to improve office environments, relocate to larger offices, and open new offices. The Grade A vacancy rate in Q3 2025 fell 2.7 pp. y-o-y to 2.9%, as vacancies were steadily filled in several large buildings completed during 2024. Assumed achievable rents continue to rise across all grades on the back of robust demand. Rent hikes have been most noticeable in smaller buildings in the Grade B segment or below, with All-Grade rents for Q3 2025 breaking the previous record set in Q3 2020.

Following 15,000 tsubo of new supply slated to come on stream in Q4 2025, the city is not due to see any new Grade A supply until the end of 2028. As demand for improved office environments remains strong, vacancies look set to be filled in Grade A office buildings that command competitive advantages in terms of location, size, or facility quality. While the vacancy rate is expected to rise slightly in Q4 2025, it should begin to decline once again, falling as low as 1.4% by Q4 2028. New Grade B supply is slated to consist of just 10,000 tsubo between Q4 2025 and the end of 2028, well below the past annual average of 13,000 tsubo. Units vacated by tenants relocating to new properties should be quickly absorbed by on-premise expansions and new tenants looking for larger premises, limiting the number of new vacancies in existing buildings. As a result, the vacancy rate should continue its gentle decline below 2%, reaching 1.4% by Q4 2028 (Figure 3-7).

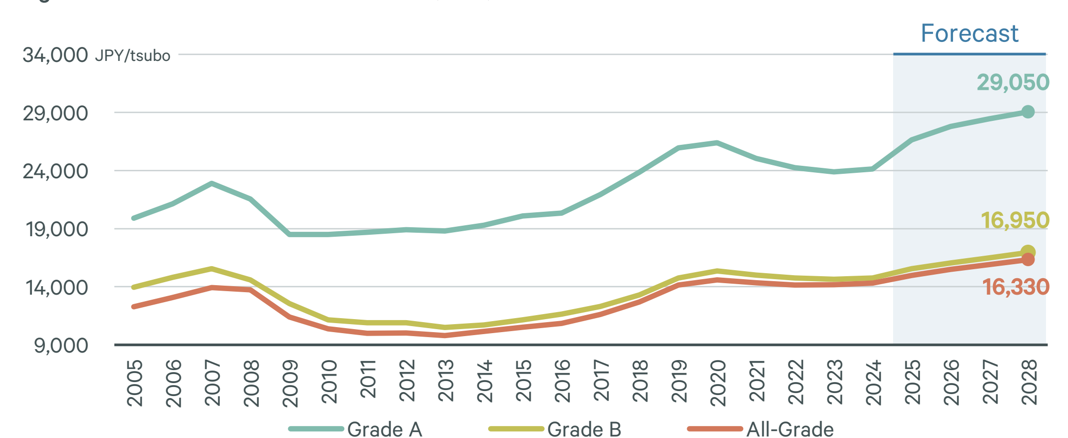
Assumed achievable rents should continue to increase across all grades. The Grade A segment is set to see the sharpest rise as a result of an increase in high-end buildings driving up rents for the entire grade, as well as an expected future tightening of the supply-demand balance. CBRE projects Grade A rents to exceed the previous record high before the end of 2025, and increase by a total of 11.7% between Q3 2025 and Q4 2028. The Grade B category is likewise expected to hit a new all-time high in Q1 2026, with rent increases between Q3 2025 and Q4 2028 projected to reach 10.8% (Figure 3-8).

Figure 3-7: New Supply and Vacancy Rates in Osaka



Source: CBRE Research, Q3 2025.

Figure 3-8: Assumed Achievable Rents (Face) in Osaka



Source: CBRE Research, Q3 2025.

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Nagoya

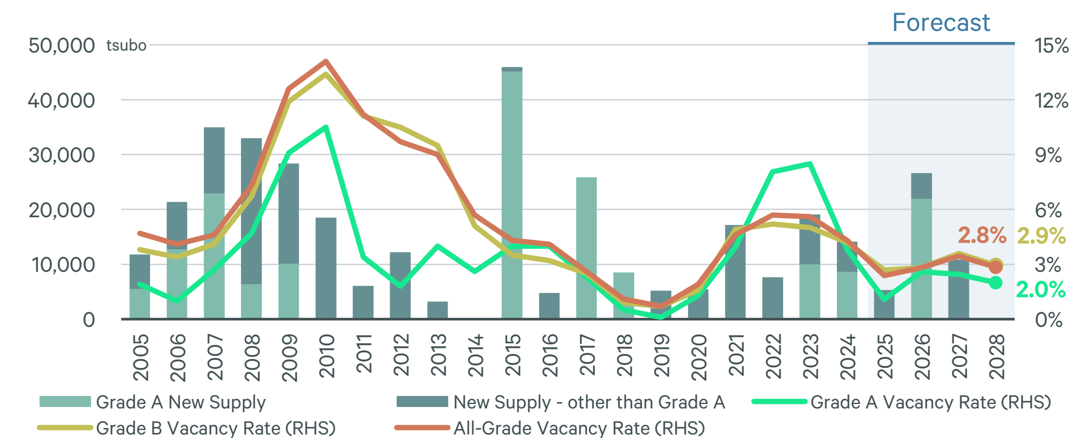
Supply-demand balance to remain largely unaffected despite significant new Grade A supply in 2026

Nagoya's All-Grade vacancy rate fell by 1.9 pp. y-o-y to 2.4% in Q3 2025, dropping below the 3% threshold for the first time since Q2 2021. Relocations were observed in a wide variety of sectors, including IT and manufacturing. In addition to the usual movements to larger, better-located, or higher-grade premises, some companies opened branch offices or carried out on-premise expansions. The Grade A vacancy rate dropped by 3.3 pp. y-o-y to just 1.1%, reflecting a tight market balance. Several vacancies in relatively new buildings were absorbed, with almost no new vacancies appearing. The Grade B vacancy rate also fell by 1.6 pp. to 2.6%, as vacancies were filled not only in relatively new buildings, but also in those struggling with major vacancies due to their less-than-ideal location or facility level. With current options severely limited, tenant interest is now focused on future supply.

22,000 tsubo of new Grade A supply is planned to be completed in and around the Sakae area in 2026, equivalent to approximately 13% of existing stock in this building grade. As much of this space has already been secured by tenants relocating from company-owned offices or those moving due to the rebuilding their current premises, the supply-demand balance is unlikely to be significantly affected. While the vacancy rate is projected to rise to 2.8% in Q1 2027, the lack of any new supply from 2027 onwards should see it slide back to 2.0% by Q4 2028. New Grade B supply between now and the end of 2028 is slated to consist of just 18,000 tsubo. Vacancies emerging in existing buildings due to tenants moving to new Grade A buildings are projected to push the vacancy rate up as high as 3.6% by Q4 2027. However, with no new supply slated for 2028, CBRE projects the Grade B vacancy rate to fall back to 2.9% by Q4 2028 (Figure 3-9).

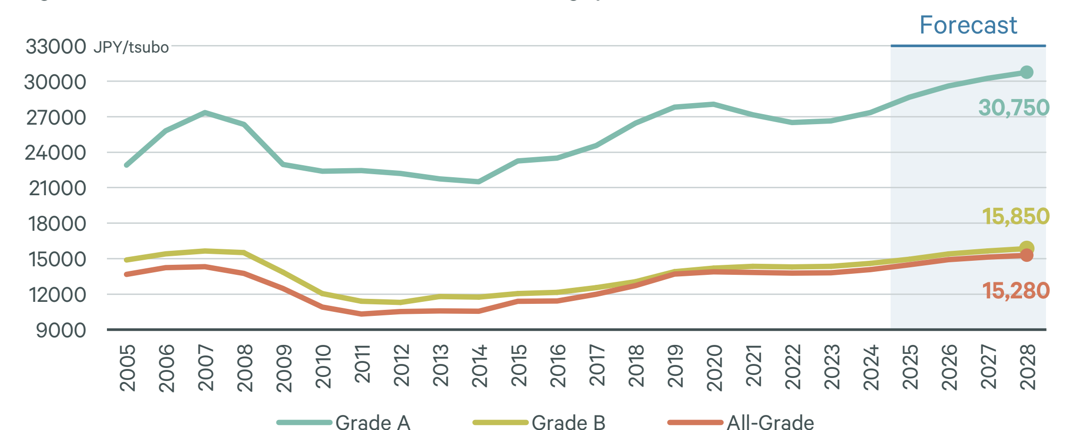
As of Q3 2025, Grade A rents stood at JPY 28,300 (up 3.7% y-o-y), while All-Grade rents were at JPY 14,390 (up 2.7% y-o-y). While these figures marked new record highs, recent rent hikes have made certain high-end properties inaccessible to all but a limited number of prospective tenants. Combined with the effect of 2026's new supply, this should lead to a gradual slowing of rental growth from 2027 onward. CBRE forecasts Grade A assumed achievable rents to increase by a further 8.7% between Q3 2025 and Q4 2028. Grade B rents are projected to set a new record high in Q1 2028 and continue rising thereafter, with the total increase between now and Q4 2028 to reach 6.7% (Figure 3-10).

Figure 3-9: New Supply and Vacancy Rates in Nagoya



Source: CBRE Research, Q3 2025.

Figure 3-10: Assumed Achievable Rents (Face) in Nagoya



Source: CBRE Research, Q3 2025.

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Regional Cities

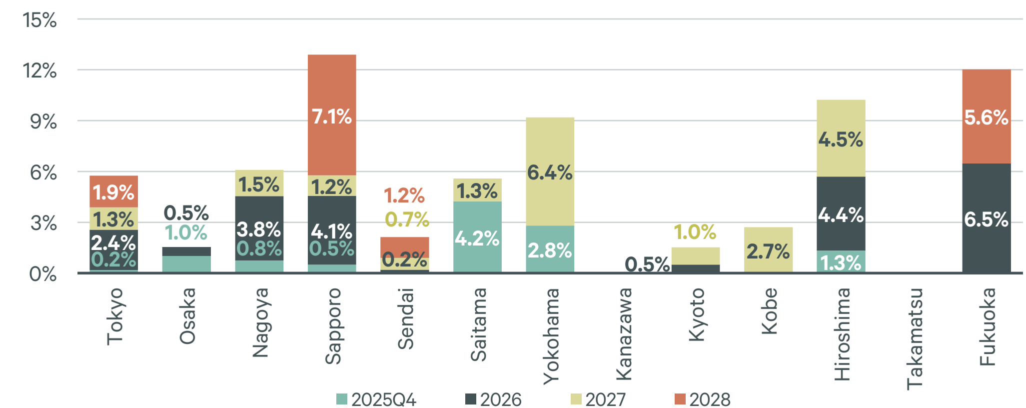
Increase in vacancy to be limited even in cities with plentiful supply

Nationwide office demand was considerably stronger in 2025 than in 2024. In regional cities, an increasing number of tenants have come to understand the vital role office environments play in recruitment and employee engagement. This has led them to view offices as an investment in the company's future than as a cost, making them more selective. In cities such as Kanazawa and Kyoto, the market has become increasingly polarized, with large properties in prime locations and possessing excellent amenities extremely popular, and older and more peripherally-located properties struggling. However, tenant relocation demand is robust across the board. During 2025, rents continued to gradually increase in most cities, with all metropolitan areas other than Kanazawa and Kyoto recording rent levels in Q3 2025 above the pre-pandemic peak of Q4 2019.

In terms of the ratio of new supply over the next three years (until the end of 2028) to existing stock in Q3 2025 (hereafter referred to as "new supply ratio"), three cities have recorded figures above 10%: Sapporo, Hiroshima, and Fukuoka (Figure 3-11). However, any vacancy rate increases in these areas are projected to be minimal.

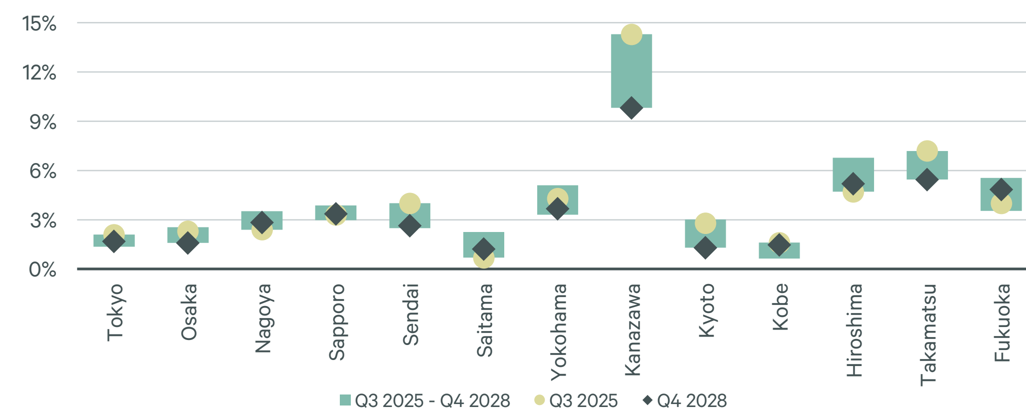
Despite the continuous new supply slated for Sapporo, demand for new properties in central locations is strong from both companies looking to relocate to higher-grade premises and those looking to open new offices. As a result, the vacancy rate is projected to increase by just 0.1 pp. between Q3 2025 and Q4 2028. Hiroshima's vacancy rate is expected to temporarily top the 6% mark. However, the desirable location of new supply, the fact that its completion dates are well dispersed, and the strong interest already shown in some of these properties, should ensure that any vacancies are gradually filled. In Fukuoka, the Tenjin Big Bang and Hakata Connected city center redevelopment projects led by the city government as Strategic Special Zone initiatives are set to generate record levels of new office supply in 2026. While no new supply is slated for 2027, a further significant amount is due to come on stream in 2028. Nevertheless, strong relocation demand is set to continue for office space in the Fukuoka City center, from companies moving due to redevelopment of their current offices and from those based in peripheral areas or neighboring cities, ensuring that any vacancies in existing properties generated should be limited. Considering these factors, CBRE projects the vacancy rate to increase by just 0.8 pp. between now and the end of 2028. In Yokohama, where the new supply ratio is high at 9.2%, some new buildings are projected

Figure 3-11: New Supply as A Percentage of Q3 2025 Stock ("New Supply Ratio") (All-Grade)



Source: CBRE Research, Q3 2025.

Figure 3-12: All-Grade Vacancy Rate Forecasts (Q3 2025 to Q4 2028)



Source: CBRE Research, Q3 2025.

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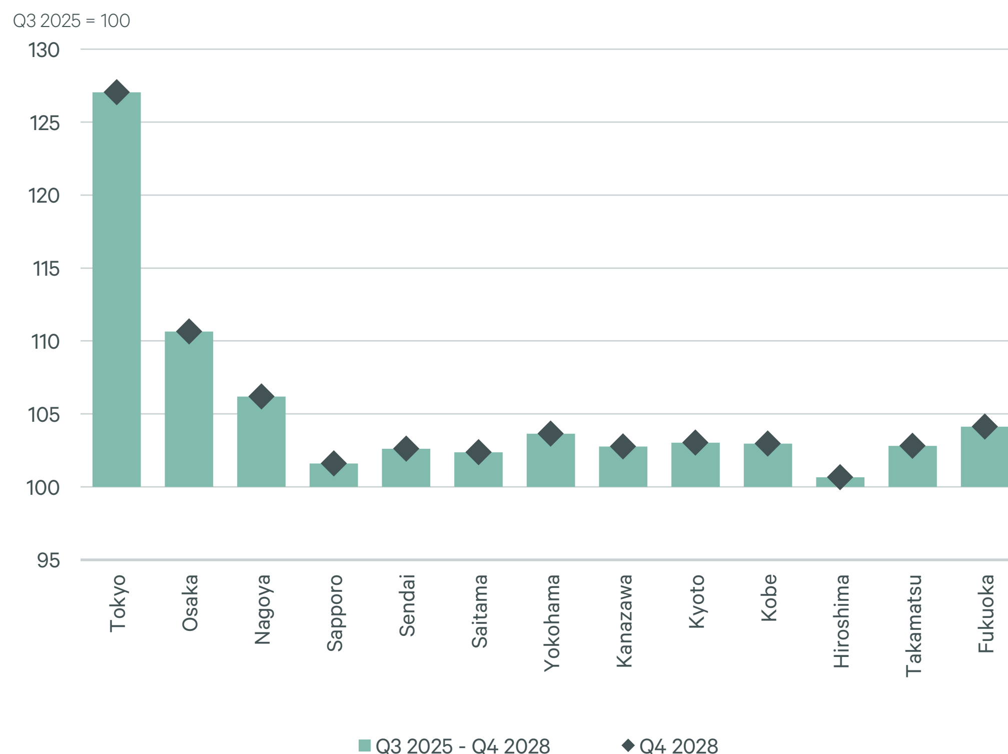
Regional Cities (cont.)

to commence operations with high occupancy rates, keeping the supply-demand balance tight. CBRE projects the vacancy rate to fall slightly by 0.6 pp. between now and Q4 2028 (Figure 3-12). In Sendai, Kanazawa, Kyoto, Kobe, and Takamatsu, where the new supply ratio is low, vacancy rates may see small temporary spikes as supply comes on stream but should generally trend downward.

Rents projected to continue increasing gradually in all regional cities

Assumed achievable rents for Q4 2028 are projected to increase from their Q3 2025 levels in all of the cities surveyed by CBRE (Figure 3-13). While rates of increase in regional cities are generally expected to lag those in the three major metropolitan areas of Tokyo, Osaka, and Nagoya, rent levels should continue to rise throughout the nation. In addition to Sapporo, Saitama, and Hiroshima, which have all set new record high rent levels by Q3 2025, Fukuoka is expected to do the same in Q4 2025. No other cities are expected to join this group before the end of 2028. In Sapporo, Hiroshima, and Fukuoka, an increasing number of new office buildings are coming on stream equipped with amenities designed to attract and retain staff, such as lounges and cafes. These properties will pull up rents in nearby buildings that were previously at or below market-average levels.

Figure 3-13: All-Grade Assumed Achievable Rent Forecasts (Q3 2025 to Q4 2028, Q3 2025=100)



Source: CBRE Research, Q3 2025.

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04

Logistics

Logistics Market Summary

Rents to rise in all four major metropolitan areas; demand to expand nationwide

Effective rents for Large Multi-Tenant (LMT) logistics facilities in Q4 2027 are projected to have risen from their Q4 2025 levels for all four major metropolitan areas.

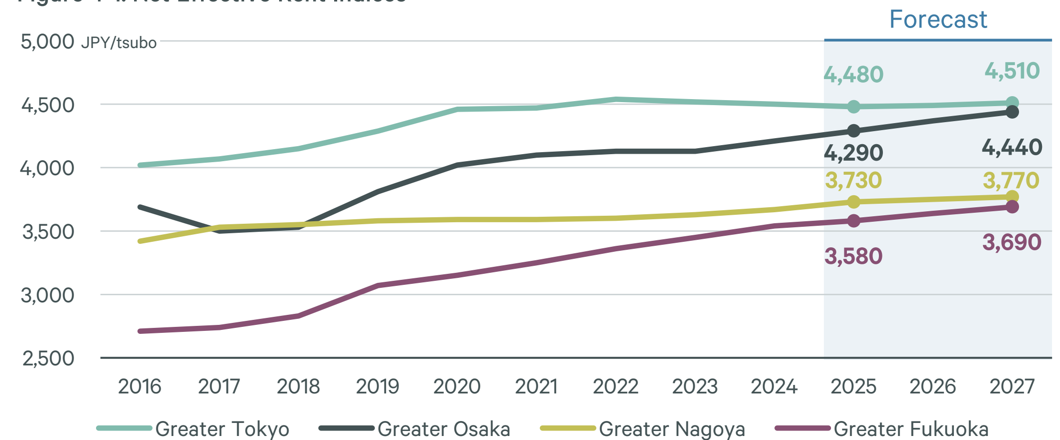
In Greater Tokyo, the vacancy rate should remain elevated at 10% in Q4 2025. However, rising construction costs mean that new supply is projected to slip significantly from the 467,000 tsubo to be recorded for the full year of 2025, to an estimated 157,000 tsubo in 2027. Tenant demand is likely to remain robust, driven by the desire for locational improvements and supply chain enhancements. This combination of factors leads CBRE to project the vacancy rate to fall below 8% by Q4 2027.

In Greater Osaka, both new supply (401,000 tsubo) and net absorption (369,000 tsubo) are projected to set new all-time annual records by the end of 2025. While logistics development is likely to spread to new areas in the suburbs, strong demand should ensure that the vacancy rate remains steady in the range of 4 to 5% through Q4 2027.

Vacancy rates are projected to rise in Greater Nagoya and Greater Fukuoka, on the back of significant new supply in 2025 and 2027 in the former area, and 2026 and 2027 in the latter. However, stored stock types are expanding from electronic and machinery products, to encompass foodstuffs and daily necessities amid a diversification of tenant demand.

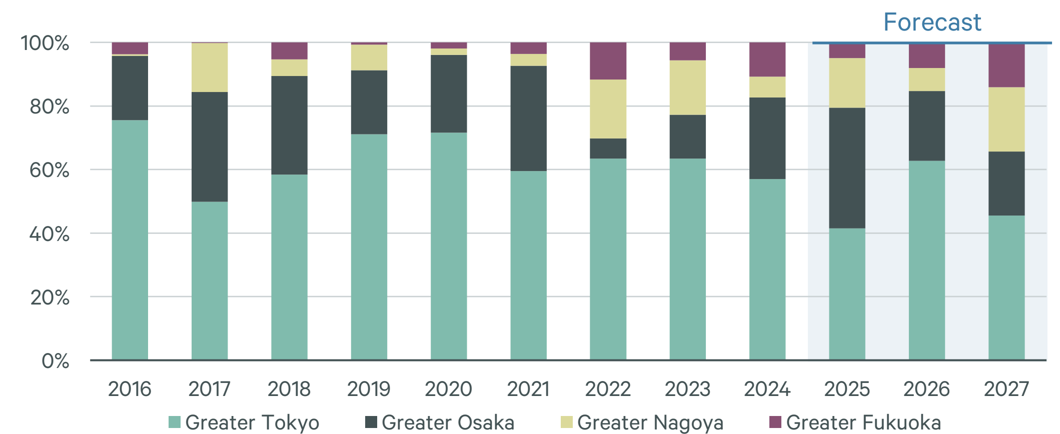
Tenant demand is growing and gradually spreading across the country. Partly because new supply outside of Greater Tokyo is driving demand in those areas, the geographical concentration of demand for LMT logistics facilities is currently in flux. After accounting for 76% of total demand in 2016, Greater Tokyo is projected to comprise just 46% of total demand in 2027, with the other three major metropolitan areas increasing their share to 54%. This is the result of the logistics industry's efforts to recalibrate the nationwide distribution of logistics bases to improve efficiency. Starting in April 2026, companies handling a certain amount of freight will be required to appoint a chief logistics officer, as part of further pushes by the government to improve logistics efficiency. This is also likely to make tenants even more selective about location and specifications when choosing new logistics bases.

Figure 4-1: Net Effective Rent Indices



Source: CBRE Research, Q3 2025.

Figure 4-2: Net Absorption Breakdown by Region



Source: CBRE Research, Q3 2025.

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04 Logistics

Greater Tokyo

Significant drop in new supply in 2027 set to drag vacancy below 8%

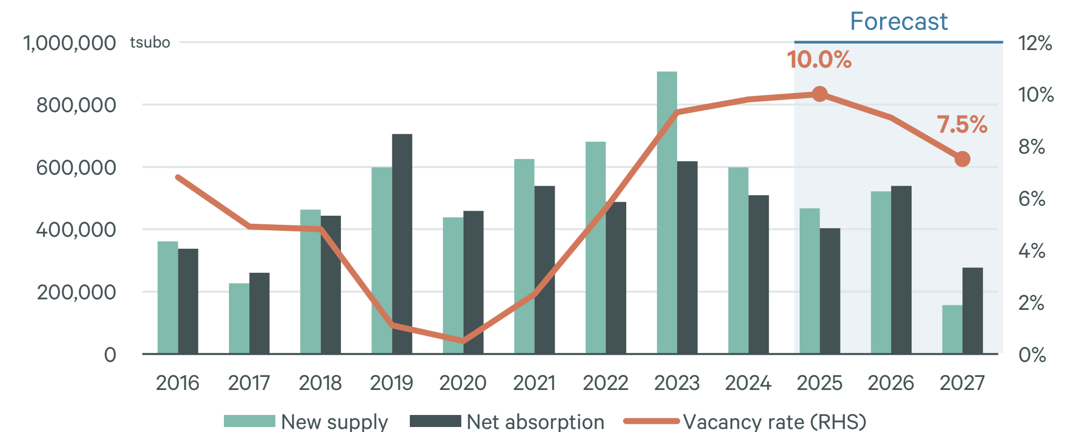
The LMT logistics facility vacancy rate for Greater Tokyo is projected to stand at 10% at the end of 2025, up 0.2 pp. from a year ago. On a quarterly basis, the vacancy rate peaked at 11.1% in Q1 2025 and has gently declined ever since, falling to 10.9% in Q2 2025 and 10.4% in Q3 2025.

Past surges in vacancy rates have been almost entirely attributable to significant new supply. However, new supply for both 2026 and 2027 is slated to fall below the average annual supply over the past 10 years (2016 to 2025) of 530,000 tsubo. In 2027, new supply is expected to reach just 157,000 tsubo, only 30% of the annual average over the last decade. The primary reason behind this is the relatively slow rise in market rent levels compared to the sharp increases observed in construction costs. While building costs have continued to rise, rents for the Greater Tokyo area have trended slightly downward since 2023. For this reason, developers have become considerably more selective, launching developments only in locations where rental growth is anticipated. Developers have also implemented new approaches to facility specifications and operational processes designed to facilitate higher rents, effectively shifting the focus from quantity to quality.

Net absorption is projected to remain solid in 2026. In order to address operational issues such as labor shortages and inflation-driven cost increases, many tenants are looking to improve distribution efficiency and set up facilities that will make securing labor easier. The issues of construction costs and capital efficiency are also likely to encourage more logistics operators to shift from owning facilities to leasing them as tenants. From the tenant side, in addition to quantitative demand for expansion, qualitative demand for properties that facilitate superior corporate operational efficiency is also likely to increase.

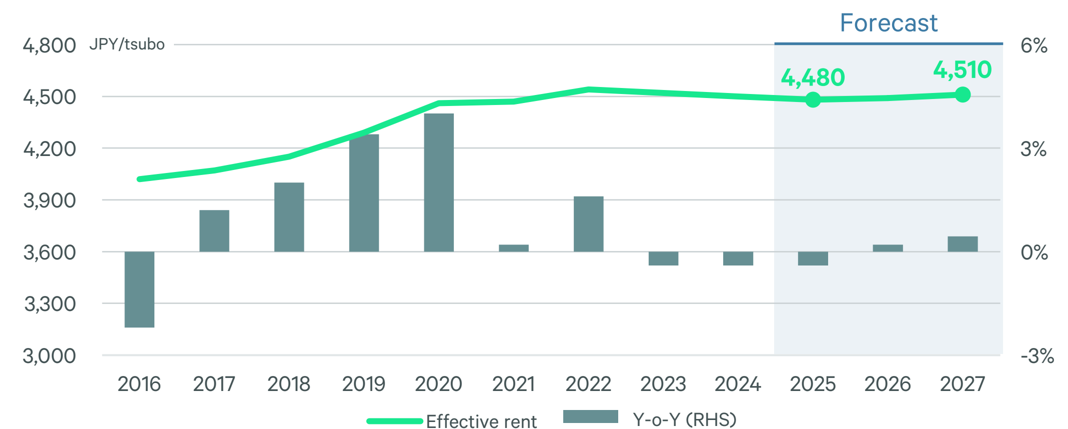
CBRE projects the Greater Tokyo LMT logistics vacancy rate to stand at 9.1% as of Q4 2026, before falling by as much as 1.6 pp. to just 7.5% at the end of 2027, following a year in which new supply is set to drop significantly. This would represent the first time for Greater Tokyo's vacancy rate to fall below the 8% mark since 2022.

Figure 4-3: Supply-Demand Balance and Vacancy Rate (Greater Tokyo)



Source: CBRE Research, Q3 2025.

Figure 4-4: Net Effective Rent Y-o-Y Growth Rate (Greater Tokyo)



Source: CBRE Research, Q3 2025.

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Greater Tokyo (cont.)

Vacancy rates to fall across all areas including Ken-o-do

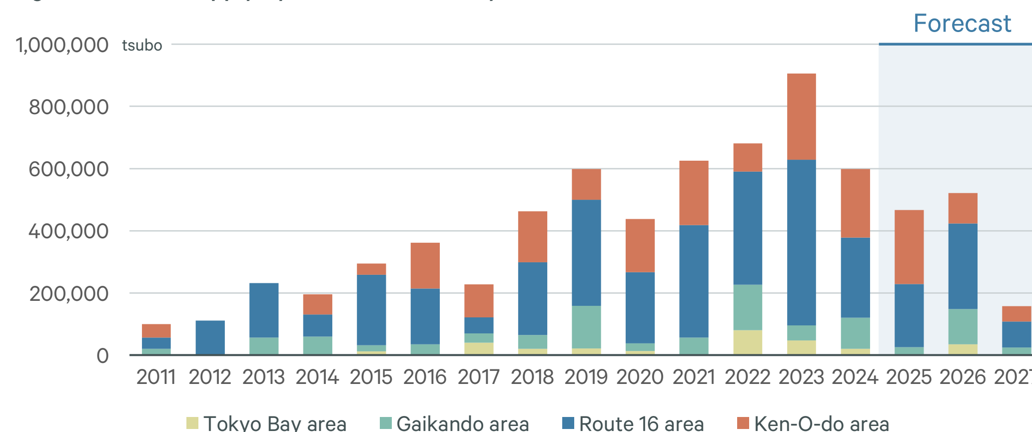
All four sub-areas of Greater Tokyo are expected to see vacancy rates fall between Q3 2025 and the end of 2027.

The Ken-o-do area has witnessed the addition of over 200,000 tsubo of new supply every year for the three years from 2023 and 2025, almost half of which is located in Ibaraki Prefecture on the very outer edge of Greater Tokyo. In 2027, just one property is slated for completion in Ibaraki, with new supply for the entire area projected to be just 49,000 tsubo. Meanwhile, net absorption for full-year 2027 is expected to reach 83,000 tsubo, outpacing the year's new supply. The area's vacancy rate is projected to record an overall fall of 4.1 pp. between its peak in Q1 2025 and Q4 2027. Specifically, by the end of 2027, the vacancy rate should have dropped as low as 12%, the lowest level since the 10.7% registered in Q1 2023.

Looking back at 2023, the Route 16 area alone saw the completion of 530,000 tsubo of new supply, equivalent to the annual average over the past decade (2016 to 2025) for the entire Greater Tokyo region. The near-simultaneous completion of several competing properties with very similar locational profiles made it challenging for landlords to secure tenants, with more than 160,000 tsubo of 2023's new supply still standing vacant as of Q3 2025. With 275,000 tsubo of new supply lined up for 2026, the vacancy rate should remain relatively unchanged. However, new supply in 2027 is set to drop below 100,000 tsubo for the first time since 2017. While net absorption will also be somewhat suppressed by fewer new supply, CBRE still projects a figure of around 150,000 tsubo, which would comfortably outstrip supply. This should lower the vacancy rate to around 6.8%.

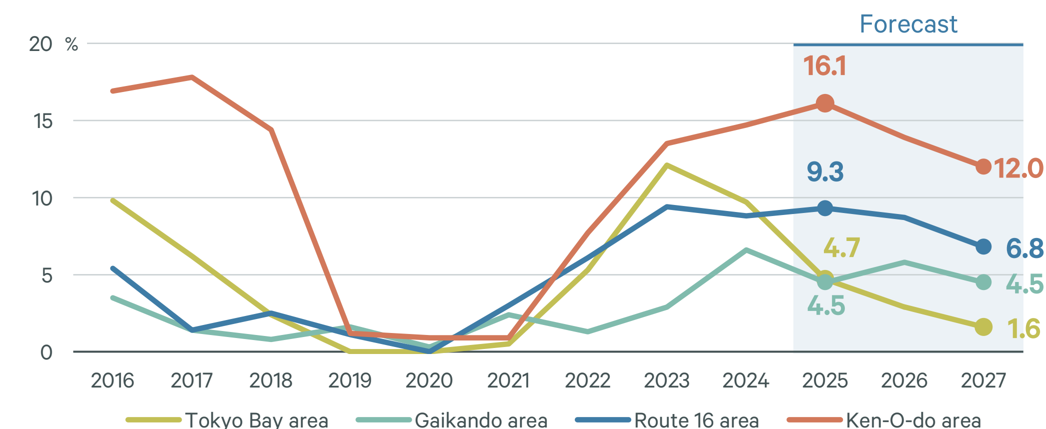
The Tokyo Bay area has only a single new facility slated for completion in 2026, and none in 2027. As tenants have already been confirmed for the sole property scheduled to come on stream in 2026, the vacancy rate should drop below 2% by Q4 2027. In the Gaikando area, new supply for 2026 will top 100,000 tsubo for the first time since 2022 on the back of a land rezoning project in Saitama Prefecture's Misato City, before pulling back to just 26,000 tsubo in 2027. While the vacancy rate is likely to spike temporarily, strong demand for space in the area means vacancy is forecasted to stand at just 4.5% as of Q4 2027.

Figure 4-5: New Supply by Area (Greater Tokyo)



Source: CBRE Research, Q3 2025.

Figure 4-6: Vacancy Rates by Area (Greater Tokyo)



Source: CBRE Research, Q3 2025.

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Greater Tokyo (cont.)

Rental decline in Ken-o-do area set to lose momentum in 2027; three central areas projected to register increases

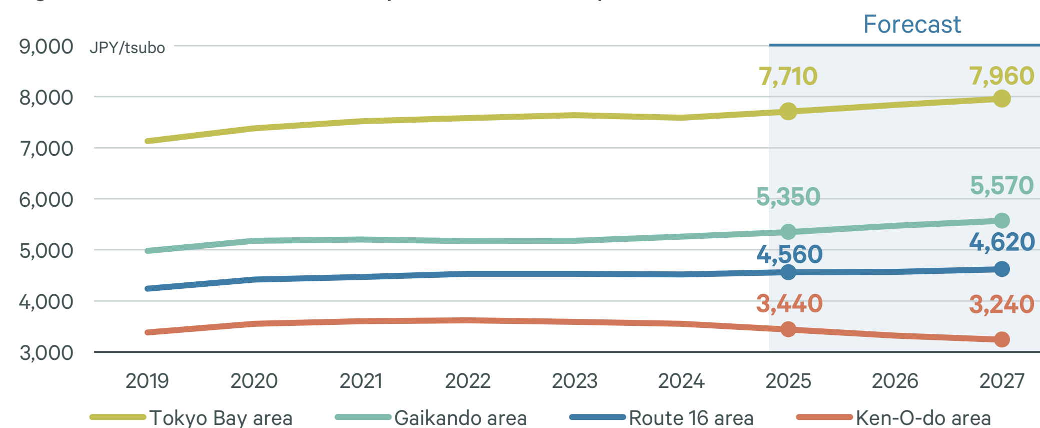
Effective rents are likely to continue to drop in the Ken-o-do area between now and 2027, but should rise in Greater Tokyo's three central areas.

More time is needed before Ken-o-do rents return to growth. While the vacancy rate for the area should decline gradually between now and 2027, it is projected to remain above 10%. Around the periphery of the Ken-o-do area, where vacancies are plentiful, there is intense competition among landlords to attract and retain tenants, with some even offering long rent-free periods in an attempt to entice tenants to their properties. However, even within the Ken-o-do area, some properties are leasing smoothly and should commence operations with high occupancy rates. Together with the fact that properties in Ibaraki have already significantly lowered asking rents in previous quarters, there are signs that overall average rents are approaching the bottom. CBRE therefore projects rent levels in the Ken-o-do area to decline more slowly in 2027.

In the Route 16 area, location and specifications are set to generate significant differences in the magnitude of rent increases. While an increase in new supply in the area in 2026 should temporarily suppress rent level hikes, moderately declining vacancies should underpin higher rent levels in 2027. Rent increases are projected in particular for properties in regions with low vacancy rates and for properties with rampways or other facilities allowing for improved distribution efficiency.

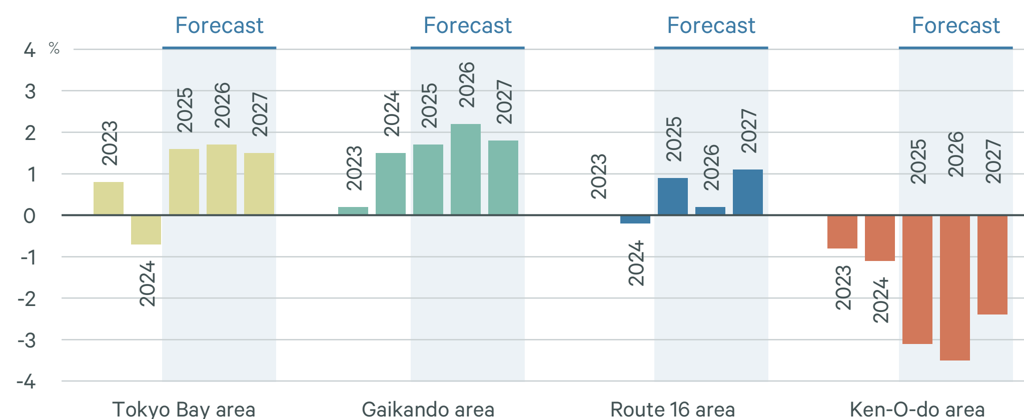
Rents for both the Tokyo Bay and Gaikando areas are projected to increase by around 2% per annum for the period between 2025 and 2027. Superior transportation access and hiring advantages due to proximity to densely populated areas should ensure that these two sub-areas drive rent increases for Greater Tokyo as a whole.

Figure 4-7: Effective Rent Indices by Area (Greater Tokyo)



Source: CBRE Research, Q3 2025.

Figure 4-8: Y-o-y Effective Rent Increases by Area (Greater Tokyo)



Source: CBRE Research, Q3 2025.

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Greater Osaka

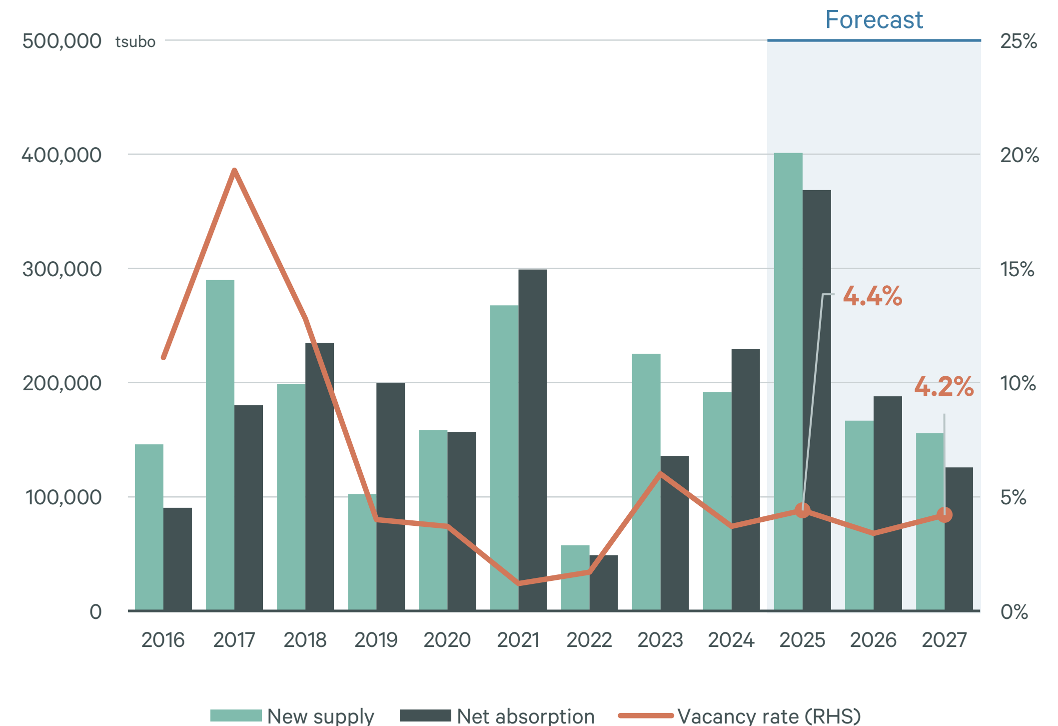
Vacancy to remain stable even after major new supply; rents set to continue rising

The LMT logistics facility vacancy rate for Greater Osaka is projected to reach 4.4% as of Q4 2025, up 0.7 pp. from a year ago. Despite new supply for the 2025 calendar year reaching 401,000 tsubo, some 40% above the previous annual record of 290,000 tsubo set in 2017, full-year net absorption is also anticipated to register a new record high of 369,000 tsubo. The construction of new logistics facilities not only in the central area along the Meishin Expressway, but also in peripheral areas in inland Hyogo, southwestern Kyoto, and Shiga Prefectures, has attracted demand from a diverse range of sectors, including e-commerce, foodstuffs, daily necessities, apparel, and manufacturing. In addition to the opening of new bases and relocations from smaller or obsolete facilities, several cases have involved companies relocating or consolidating their bases to new sites, often larger or better located, for the primary purpose of improving distribution or operational efficiency.

New supply is projected to reach 167,000 tsubo in 2026 and 156,000 in 2027, both equivalent to around 40% of new supply added in 2025. The pre-leasing rate for properties scheduled to come on stream in 2026 has already exceeded 60% as of Q3 2025. With six of the 14 properties slated for completion over the next two years located in Kyoto Prefecture, and one in a new logistics zone in Nara Prefecture, the supply-demand balance may slightly loosen. However, with both areas featuring few existing properties and high-quality building specifications and access, pre-leasing should continue to proceed smoothly. Vacancy for the area is projected to remain low at just 4.2% for Q4 2027.

CBRE forecasts rent levels to rise 1.9% y-o-y in Q4 2025, followed by y-o-y increases of a further 1.9% in Q4 2026, and 1.6% in Q4 2027. These would be the most significant rent increases of any of Japan's four major metropolitan areas. Properties fitted with rampways in areas where vacancies are scarce are likely to be keenly sought after and will drive up market rates.

Figure 4-9: Supply-Demand Balance and Vacancy Rate (Greater Osaka)



Source: CBRE Research, Q3 2025.

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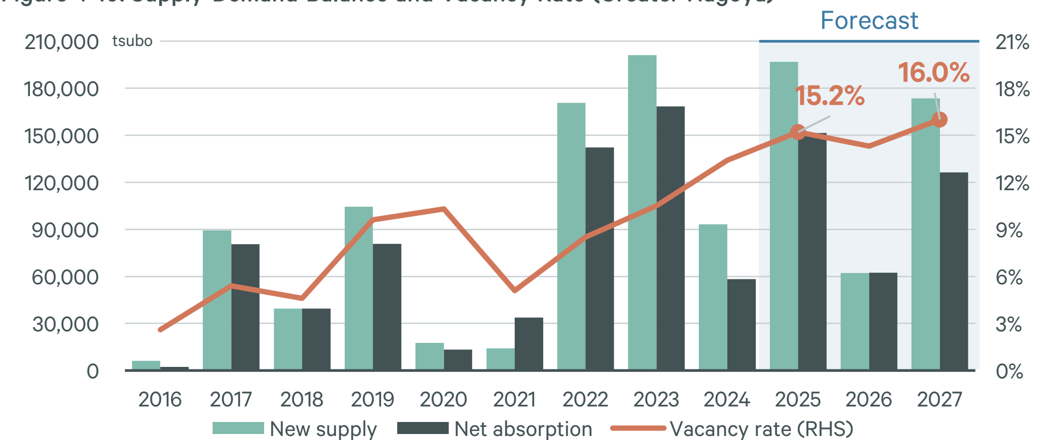
04 Logistics

Greater Nagoya

Geographical diversification of demand to accelerate; rents to keep rising

The LMT logistics facility vacancy rate for Greater Nagoya is projected to reach 15.2% as of Q4 2025, up 1.8 pp. from 2024. During 2025, a substantial 197,000 tsubo of new supply was completed, with the estimated occupancy rate at above 70%. In addition to the traditionally strong demand from the manufacturing sector, demand for storage space strengthened from companies handling foodstuffs and daily necessities. Although demand is growing and more diversified, several existing properties have seen vacancies emerge in 2025. While new supply is slated to dip temporarily in 2026, it will return with another 173,000 tsubo in 2027, pushing up the vacancy rate to a projected 16% by Q4 2027. Pre-leasing is proceeding well in some locations, but geographical differences are evident, with leasing progress slow in the more expensive waterfront and central locations. Effective rents are being pushed upward by hikes in certain sub-areas with scant vacancies. CBRE estimates rents to have increased by 1.6% y-o-y in Q4 2025. While rental growth should slow down in the following two years, rents are still predicted to increase by 0.5% y-o-y in both 2026 and 2027.

Figure 4-10: Supply-Demand Balance and Vacancy Rate (Greater Nagoya)



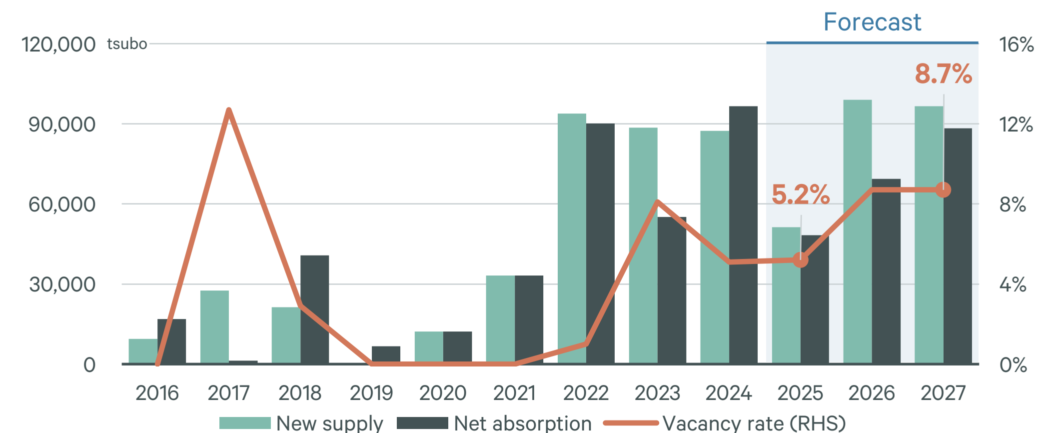
Source: CBRE Research, Q3 2025.

Greater Fukuoka

Rents to remain stable despite higher vacancy rate in the Tosu/Ogori area

The LMT logistics facility vacancy rate for Greater Fukuoka is projected to increase by 0.1 pp. y-o-y to 5.2%. With seven of the 11 properties for completion in 2025 and 2026 located in the Tosu/Ogori area, the total stock in this sub-area will have increased by 50% in a two-year period. This should lead to a slight slowing in leasing velocity, pushing up the vacancy rate to a projected 8.7% as of Q4 2026. In 2027, six of the seven new developments due to be completed are in and around Fukuoka City, which should serve to stimulate demand and push up rent levels. While some demand should come from semiconductor-related industries, the majority will continue to come from consumer goods, including foodstuffs, daily necessities, and e-commerce items. Effective rents are unlikely to match the significant rises seen over the past three years (an average annual rate of 2.9%) but should still achieve around 1.4% per annum between 2025 and 2027.

Figure 4-11: Supply/Demand Balance and Vacancy Rate (Greater Fukuoka)



Source: CBRE Research, Q3 2025.

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05

Retail

Retail Market Summary

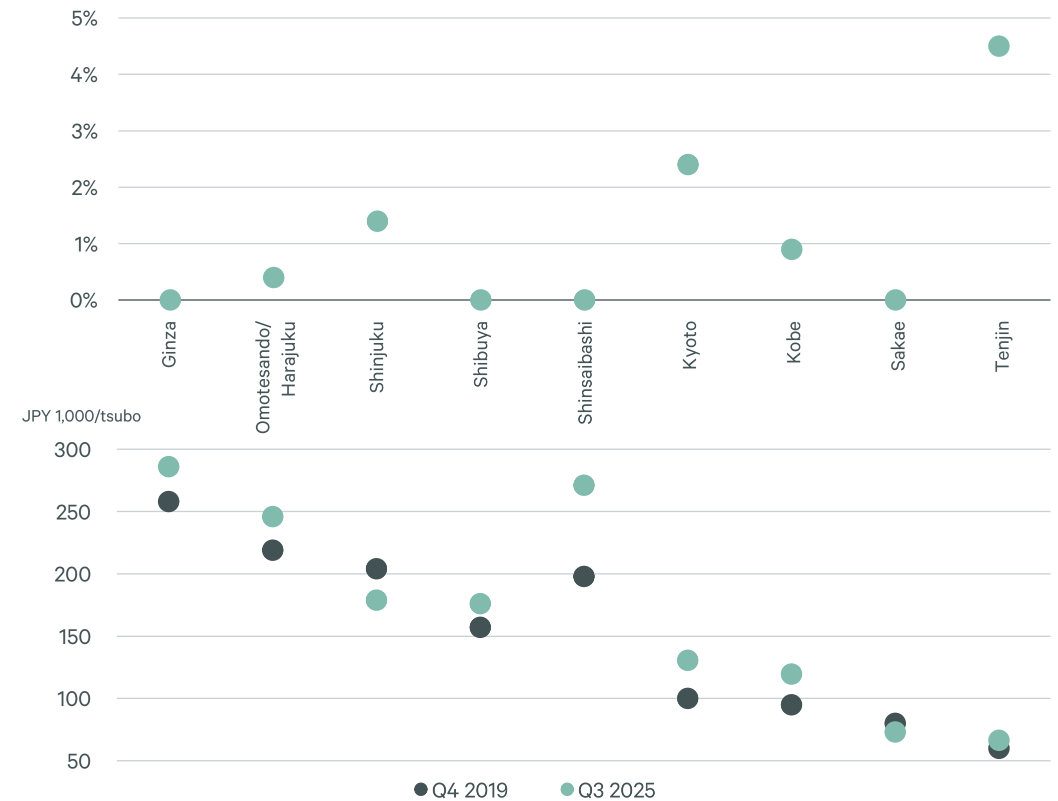
Rents continue to rise in tight markets nationwide

The supply-demand balance in Japan's retail market is extremely tight nationwide, with four of the nine surveyed high street areas (Ginza, Shibuya, Shinsaibashi, and Sakae) recording vacancy rates of 0% in Q3 2025. Average rents now exceed the pre-pandemic peak in seven of the nine areas surveyed. These rent increases are due to a burgeoning appetite for storefront space, driven by strong sales figures across a diverse range of retail sectors, as well as fierce competition between retailers for limited available units (Figure 5-1).

Due to the appreciation of the Japanese yen in H2 2025, inbound tourist spending transitioned from big-ticket items to a focus on products for everyday use. This phenomenon has led some luxury brand retailers to adopt a more cautious approach to major new storefront investment. Despite this trend, positive sales figures across a broad range of retail sectors have kept storefront appetite robust, resulting in no major impact on either vacancy rates or average rent levels.

With retailer demand projected to remain strong in 2026 and available units limited, rent levels should continue to rise nationwide. CBRE projects Ginza high street rents to reach JPY 299,500 by the end of 2027, up 4.7% from Q3 2025 levels. In Shinjuku, increased retailer interest in available units is likely to intensify competition and push up average rents. In Kobe, should inbound consumption levels continue to rise due the introduction of international charter flights, retailers may be able to afford to pay higher rents.

Figure 5-1: Vacancy Rate (prime area, upper graph) and Average Rents (lower graph)



Note: Vacancy rates are calculated by tabulating the number of prime area street-level units available for immediate occupancy. Average rents are calculated by taking the average of estimated achievable rents from five different points set in each high street area.
Source: CBRE Research, October 2025.

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05 Retail

Retail Market in 2025

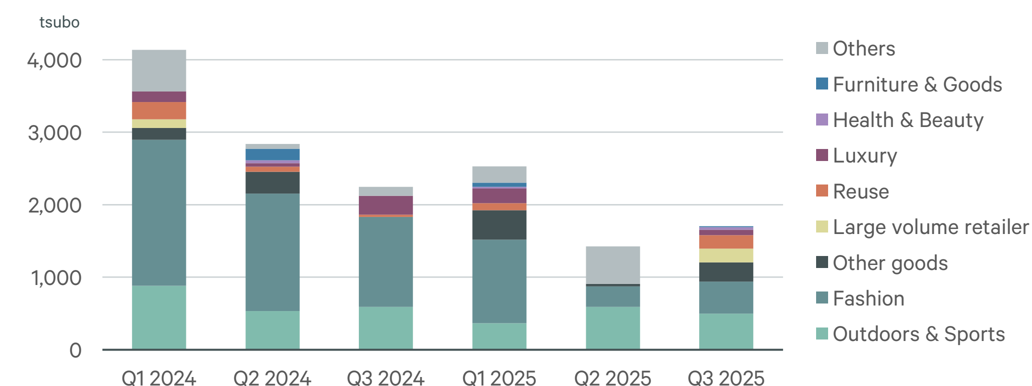
No vacancies seen even in secondary areas

Since Q1 2025, a total of four prime areas (Ginza, Shibuya, Shinsaibashi, and Sakae) have reported vacancy rates (based on units available for immediate occupancy) of 0%. With vacancy in Omotesando/Harajuku and Kobe also falling to 0.4% and 0.9%, respectively, in Q3 2025, a total of six areas now have prime area vacancy rates below 1%, with Shinjuku's rate also recording a significant decline to below 2% (Figure 5-1).

The number of areas in which average rents exceeded those of the pre-pandemic peak in Q4 2019 reached seven by Q3 2025, with Omotesando/Harajuku and Shibuya joining the five areas that had already exceeded the peak by Q4 2024 (Ginza, Shinsaibashi, Kyoto, Kobe, and Tenjin) (Figure 5-1). These rent increases are due to more tenants being able to afford higher rents, driven by strong sales across a diverse range of retail sectors and fierce competition between retailers for limited available units. Amid this environment of sparse vacancies and increasing rents, the sectors securing the most new floor space between Q1 and Q3 2025 have been fashion, outdoors/sporting goods, and other goods (capsule toys, etc.) (Figure 5-2).

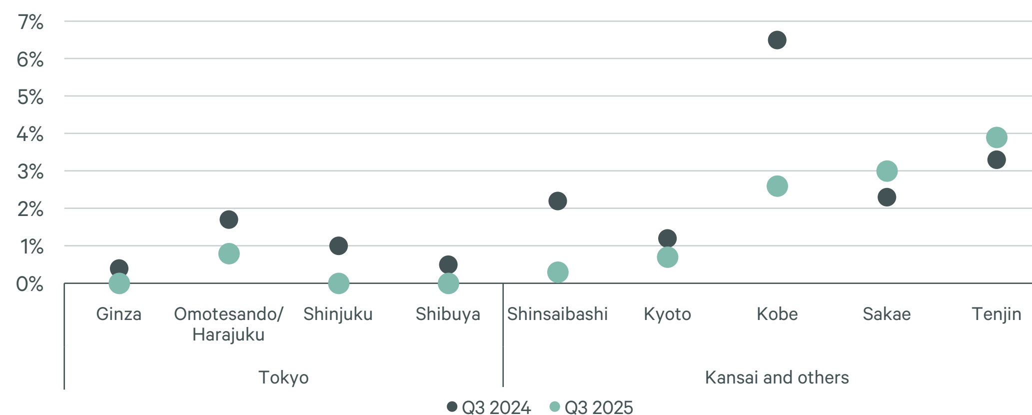
With prime area vacancies having dried up, available units in secondary areas have been steadily filled, with secondary area vacancy rates in Ginza, Shinjuku, and Shibuya hitting 0.0% in Q3 2025 for the first time since surveys began (Figure 5-3). Rent levels in secondary areas are also on the rise. Several retailers in cost-conscious sectors, such as the apparel sector, opened new stores in 2025 in secondary areas or more peripheral areas, with some at rent levels above market rates.

Figure 5-2: New Openings and Lease Contracts in Prime Areas



Note: Total floor space for all new openings or new contracts. Includes all available space in prime areas on high streets nationwide (nine areas in total) for immediate occupancy or for occupancy within 18 months of survey date (including incomplete developments).
Source: CBRE Research, October 2025.

Figure 5-3: Vacancy Rate in Secondary Areas



Note: Vacancy rates are calculated by tabulating the number of secondary area street-level units available for immediate occupancy.
Source: CBRE Research, October 2025.

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Retail Market in 2025 (cont.)

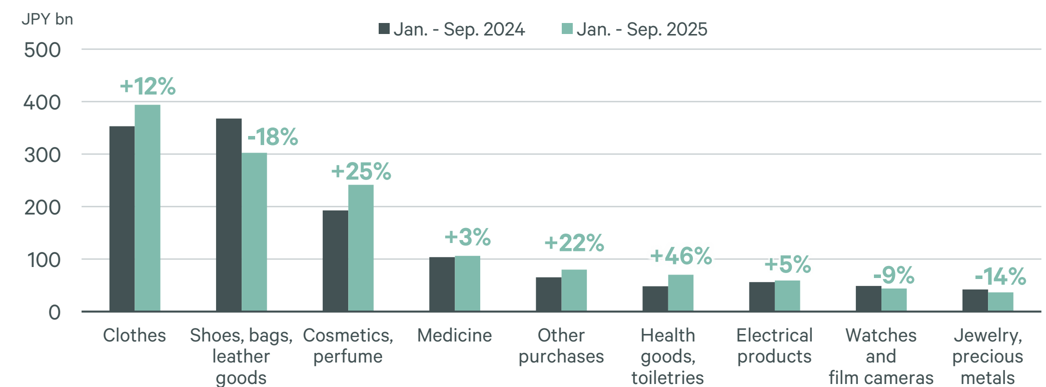
Vacancy and rents unaffected by changes in inbound tourist consumption

Inbound tourist consumption, the major driver of the robust demand for storefront space, witnessed changes during 2025. Due to falling demand for high-value goods resulting from the appreciation of the Japanese yen in H1 2025, sales of duty-free goods released by the Japan Department Stores Association recorded three consecutive q-o-q decreases from the January-March quarter of 2025. For the year to September 2025, purchase value by foreign visitors fell by 18% y-o-y in the shoes, bags and leather goods category, which includes many of these high-end items (Figure 5-4). This declining demand for high-value items among visiting tourists has affected Japanese retailers' storefront strategies. Specifically, in Q2 2025, several luxury brands recalibrated their store launch timings, adopting a more cautious approach to major capital investment.

However, with high street vacancy falling and average rents continuing to rise, changing consumption has yet to have a major tangible effect on the leasing market. This is partly due to an increase in overseas tourists' consumption volume for products for everyday use, including clothing (up 12% y-o-y) and cosmetics/ perfume (up 25% y-o-y) (Figure 5-4). This switch in focus by inbound tourists to products for everyday use has ensured robust sales figures have been maintained for retailers from a broad range of sectors and has kept appetite for storefront space strong.

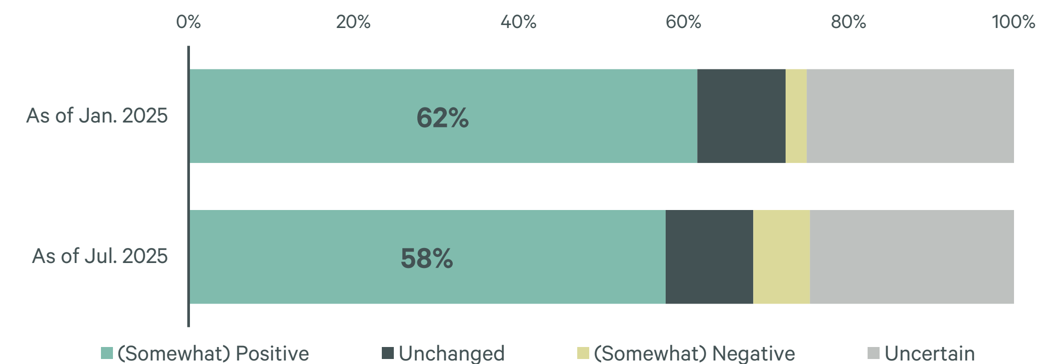
These factors have also ensured that owners remain positive with respect to the outlook on street-level store sales. According to the results of a survey carried out by CBRE in July, most building owners still anticipate sales figures for the 2025 calendar year to outstrip those of 2024 (Figure 5-5).

Figure 5-4: Change in Foreign Visitors' Purchase Amount by Product



Source: Japan National Tourism Organization "International Visitor Survey", CBRE Research, October 2025.

Figure 5-5: Owner's Outlook on Sales of High Street Stores for Full-Year 2025 (Year-on-Year Comparison)



Note: Respondents are owners of properties in high streets nationwide. n=263
Source: CBRE Research, July 2025.

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Outlook for 2026

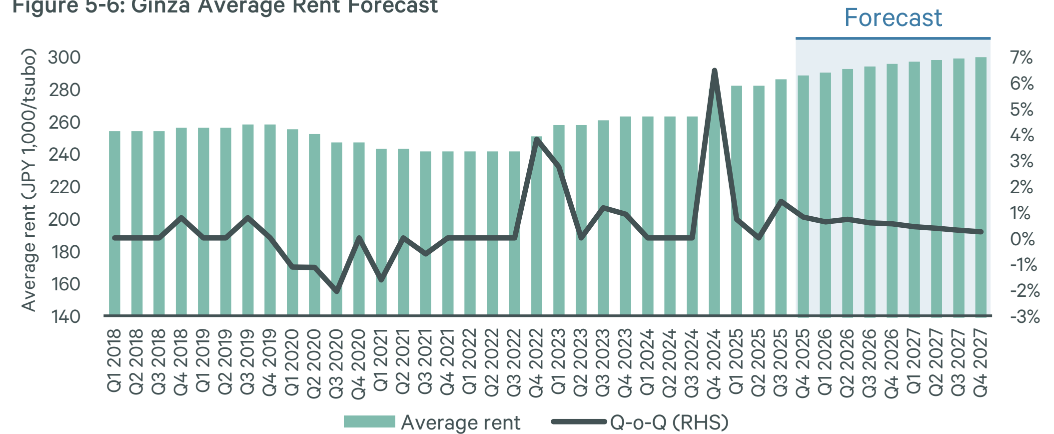
High street rents likely to continue rising

With retailer demand from a wide range of sectors projected to remain strong and available high street units in short supply, rent levels are expected to continue rising nationwide in 2026. CBRE projects Ginza high street rents to reach JPY 299,500 by the end of 2027, up 4.7% from Q3 2025 levels (Figure 5-6). In Shinjuku, increased interest in available units is likely to intensify competition and push up average rents. Should inbound consumption levels continue to rise in Kobe following the introduction of international charter flights to the city's airport, retailers based in the city should be able to afford to pay higher rents.

Apparel, F&B, and outdoors/ sporting goods set to drive demand

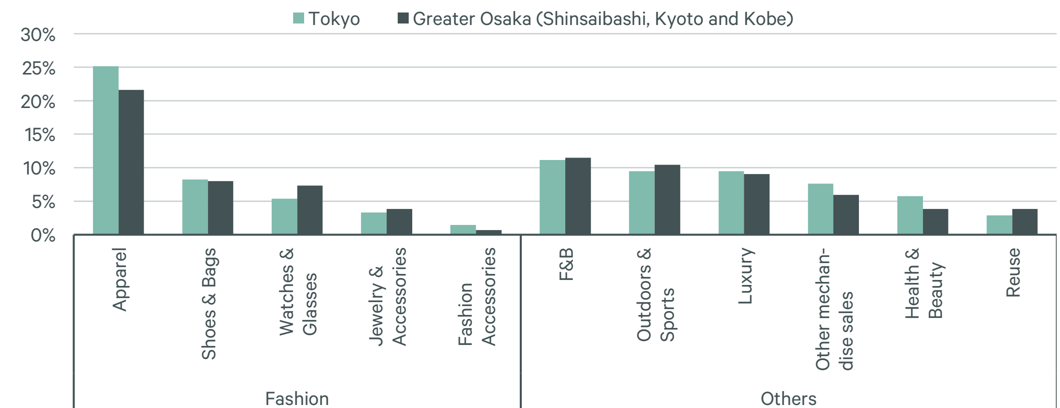
Apparel, F&B, and outdoors/sporting goods are set to continue to drive demand in 2026 (Figure 5-7). On the back of positive sales figures in these sectors, appetite for new store space remains particularly strong. Apparel brands are the most prominent, with many companies, both foreign and domestic, looking to open flagship stores to improve brand awareness. In the F&B sector, demand has been observed from overseas-based retailers seeking flagship stores to launch their Japanese operations, as well as from those whose dining establishments specialize in experiential offerings. Some retailers are also looking to leverage dining experiences to facilitate communication with consumers, with several cases observed in which apparel stores have incorporated on-site cafes. The rising trend of health-consciousness may also lead to an increasing number of store openings in the outdoors/sporting goods sector by both local and overseas brands.

Figure 5-6: Ginza Average Rent Forecast



Note: Average rents are calculated by taking the average of estimated achievable rents from five different points in the high street area.
Source: CBRE Research, November 2025.

Figure 5-7: Potential Demand for Street-Level Stores (Industry Breakdown by Number)



Note: Number of inquiries collated by CBRE between January and November 2025; cross-sector totals sum to 100% for each of Tokyo and Greater Osaka.
Source: CBRE Research, December 2025.

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Outlook for 2026 (cont.)

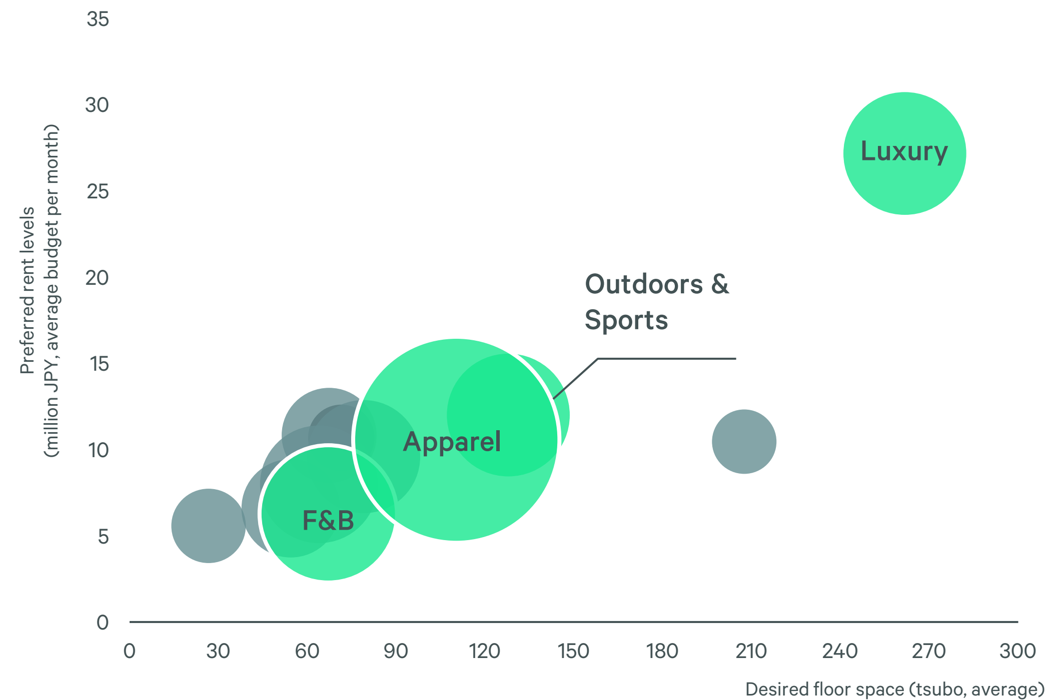
Rent increases to expand to new areas

CBRE believes rent increases could be seen in a wider range of areas in 2026. One factor supporting this contention is the relocation needs from retailers already operating in prime areas. With the supply-demand balance extremely tight across Tokyo and in Shinsaibashi, an increasing number of retailers are looking to move to new locations within the same area at the conclusion of their leases. As the time to relocate approaches and securing new premises becomes more urgent, an increasing number of retailers will either have to expand their budgets and accept units with higher rents or expand their target locations and select units within their price range in a different area. In the case of Tokyo, the sector most likely to drive the trend for area expansion is the apparel sector, whose retailers are typically extremely cost-conscious, and whose need for storefront space is strong and diverse (Figure 5-8). This could push up rents in secondary areas or even peripheral locations beyond these secondary areas, where retailers' options are more plentiful.

Retailers likely to adapt storefront strategies

Securing storefront space will remain a major challenge for retailers in 2026. To overcome the obstacles generated by a lack of traditional options, those retailers not willing to consider expanding their target areas may instead opt to extend the timelines of their store-opening plans. An increasing number of retailers are therefore likely to start looking for potential store sites more than three years ahead of their planned store openings. Retailers prioritizing long-term stability in their commercial operations may also consider the option of purchasing retail space rather than leasing it. Owners of high street retail properties may consider selling them to retailers as a way of avoiding redevelopment in the current environment of rising construction costs.

Figure 5-8: Potential Demand for Street-Level Store Space from Major Retail Sectors (Tokyo)



Note: Number of inquiries confirmed by CBRE between January and November 2025; circle area represents the number of inquiries recorded.
Source: CBRE Research, December 2025.

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