

# All-Grade rents rise for third straight quarter in all three major cities with take-up seen in newer buildings

▲ **+2.3%** Forecast\* Q-o-Q, Annualized    ▶ **12pts** ±0pts Q-o-Q    ▲ **+1.3%** Q-o-Q    ▼ **-0.2pts** Q-o-Q

GDP Growth Q2                      BOJ Tankan DI (All Enterprises) Q2                      Tokyo Grade A Rent Q2                      Tokyo Grade A Vacancy Rate Q2

\*JCER Forecast (ESP forecast)

## Tokyo: Market polarization continues

– The All-Grade vacancy rate fell for the third straight quarter in Q2 2024, slipping by 0.2 pp. q-o-q to 4.1%. Net absorption remained robust at 50,000 tsubo, roughly 20% above the previous quarterly average, with the period witnessing significant vacancies filled in buildings completed within the last year. Rents rose across all grades for the third consecutive quarter as long-term vacancies were filled and an increasing number of landlords sought to return rents to their pre-pandemic levels.

## Osaka: Rents rise despite new supply pushing up Grade A vacancy

– The Grade A vacancy rate rose by 0.7 pp. q-o-q to 6.5% due to vacant space remaining in new supply completed during the quarter. However, several large vacancies in this grade were filled in recently completed buildings. Combined with the absorption of vacancies in smaller buildings, the All-Grade vacancy rate remained unchanged on a q-o-q basis at 3.5%. All-Grade rents rose by 0.1% from the previous quarter, with owners of properties in prime locations and those whose rents had lagged market rates hiking asking rents.

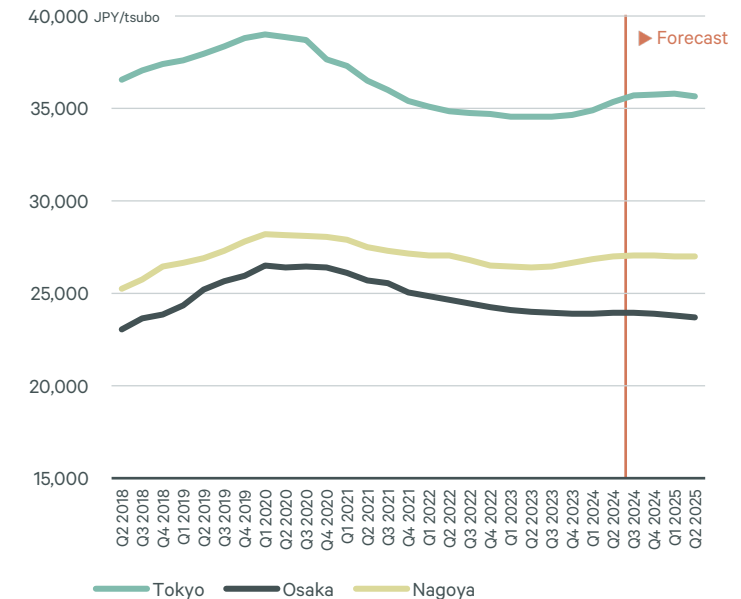
## Nagoya: Grade A rents rise for fourth straight quarter

– The All-Grade vacancy rate for Q2 2024 slid by 0.6 pp. q-o-q to 5.2%, largely due to a significant decline of 1.7 pp. to 7.1% in the Grade A segment. During the quarter, significant vacancies were filled in recently completed buildings. Net absorption for the period reached approximately 6,000 tsubo across all grades, just under double the previous quarterly average. Average rents rose across all grades for the second consecutive quarter, with asking rents raised in several buildings, particularly those attracting significant tenant interest.

## Regional cities: Rents continue to rise moderately as owners of underpriced properties raise asking rents

– All-Grade vacancy for the quarter fell q-o-q in six of the 10 surveyed cities; remained unchanged in one; and rose in the remaining three. In Yokohama and Fukuoka, large vacancies were absorbed by tenants expanding, relocating, or upgrading in multiple large properties completed within the last year. All-Grade rents grew on a q-o-q basis in eight of the 10 surveyed cities, remaining unchanged in the other two. Rental hikes were observed across the country in cities with buildings whose asking rents had fallen below current market rates.

Figure 1: Grade A Average Assumed Achievable Rent



Source: CBRE, Q2 2024

## Tokyo

### Market polarization continues

Vacancy rates fell across all grades in Q2 2024, with the All-Grade vacancy rate slipping for the third straight quarter, declining by 0.2 pp. q-o-q to 4.1%. Significant vacancies were filled during the quarter, particularly in buildings completed within the last year. All-Grade net absorption remained robust at 50,000 tsubo, roughly 20% above the previous quarterly average. Of the new supply of 28,000 tsubo, which comprised seven buildings, only around 50% had been filled upon completion. However, a large-scale building completed near Shibuya Station, where demand is robust, came on stream at full capacity. As was the case in the previous quarter, demand was driven by companies looking to upgrade their premises, as well as by those looking to expand their office space. At the same time, new vacancies arose in existing buildings following relocations to new developments, downsizings, or consolidations. These vacancies were concentrated either in older buildings far from railway stations, or in buildings lacking competitive facilities or amenities.

Rents rose across all grades for the third consecutive quarter. With long-term vacancies becoming less common since last year, more owners are looking to raise rents back to their pre-pandemic levels. Meanwhile, less competitive buildings left with long-term vacancies are still having to lower rents to attract tenants. All-Grade new supply in 2025 is projected to reach 210,000 tsubo, more than 20% above the past annual average. 130,000 tsubo of this will be in Grade A, for which the pre-lease rate has been gradually increasing, reaching around 60% as of the end of June 2024. With “flight to quality” trend set to continue, Grade A rents are expected to record a moderate rise, with CBRE projecting an increase of 0.8% over the coming 12 months. However, the subsequent increase in the number of available units in existing buildings is likely to result in landlords lowering asking rents to attract new tenants, which could lead to a slight fall in rents towards the middle of 2025.

## Osaka

### Rents rise despite new supply pushing up Grade A vacancy

The Grade A vacancy rate rose by 0.7 pp. q-o-q to 6.5% in Q2 2024 due to vacancies in the two new buildings comprising 14,000 tsubo which came on stream this quarter. Considering that the new Grade A supply was equivalent to 4% of the city’s total Grade A stock, this rise in vacancy was surprisingly small. Main reason for limited rise in vacancy was the absorption of several large vacancies of over 300 tsubo in buildings completed in recent years by companies looking to upgrade, expand floor space, or set up new premises. In the Grade B segment, the quarter saw absorption of vacancies in newly completed buildings, leading to a 0.3 pp. drop in the vacancy rate to 2.5%.

Demand remained generally robust, leading to the continued absorption of vacancies in smaller buildings by companies across a wide range of industries. As a result, the All-Grade vacancy rate remained unchanged from the previous quarter, standing at 3.5%. As of the end of Q2 2024, 55% of the record-breaking supply of 86,000 tsubo slated for 2024 had come on stream. With demand projected to remain robust, any future increase in the vacancy rate should be relatively minor.

Average rents for the quarter rose by 0.2% q-o-q to JPY 23,950 for Grade A office and remained unchanged at JPY 14,650 for Grade B. All-Grade rents edged up by 0.1% from the previous quarter to JPY 14,240 per tsubo. This quarter marked the first time since Q3 2020 that Grade A rents recorded a q-o-q increase. All-Grade rents have now risen for three consecutive quarters, driven by properties in prime locations as well as those whose rents have been under-rented to date. However, with the strong supply pipeline slated to continue, properties in less competitive locations or with relatively less attractive amenities are likely to see their rents lowered. CBRE forecasts Grade A rents to drop by 1.0% over the next 12 months.

## Nagoya

### Grade A rents rise for fourth straight quarter

The All-Grade vacancy rate slid by 0.6 pp. q-o-q to 5.2% in Q2 2024, with the Grade A vacancy rate recording a sharper decline of 1.7 pp. q-o-q to 7.1%. In addition to the low level of new supply for the quarter, which consisted of just over 1,000 tsubo, vacancies were filled in recently completed buildings. These vacancies were absorbed by companies looking to expand or upgrade, as well as by those relocating from the suburbs to the city center. Total net absorption for the quarter reached approximately 6,000 tsubo across all grades, just under double the previous quarterly average. With many relocations involving moves from offices with relatively unattractive locations and amenities, vacancies in such buildings are likely to arise going forward. However, the absence of new supply between now and Q4 2025 should ensure the overall vacancy rate remains low.

Average rents for the quarter rose by 0.6% q-o-q to JPY 27,000 for Grade A, and by 0.3% to JPY 14,500 for Grade B. All-Grade rents recorded an increase of 0.3% from the previous quarter, rising to JPY 13,970 per tsubo. During the quarter, asking rents were raised in several buildings, particularly those attracting significant tenant enquiries, leading to achievable rents increasing across all grades for the second consecutive quarter. The Grade A category registered the sharpest spike in rents, rising for the fourth quarter in a row. However, CBRE forecasts Grade A rents to remain unchanged over the next 12 months. While the vacancy rate for this grade did drop this quarter, it still remains at historically high levels, while the gap between Grade A and Grade B rents has continued to expand over the past year. Should this trend continue, some of the tenants who have been targeting Grade A buildings may turn their attention to the relative bargains offered by Grade B offices. This is likely to lead to vacancies arising in less competitive Grade A buildings, thereby suppressing rents across the entire grade.

## Regional cities

(Sapporo/Sendai/Saitama/Yokohama/Kanazawa/Kyoto/Kobe/Takamatsu/Hiroshima/Fukuoka)

### Tenant enquiries remain robust nationwide

The All-Grade vacancy rate for Q2 2024 fell q-o-q in six of the 10 surveyed cities; remained unchanged in one; and rose in the remaining three. Tenant enquiries remained strong nationwide during the quarter, leading to the steady absorption of vacancies. The steepest decline in vacancy was recorded in Yokohama, which logged a decline of 0.8 pp. q-o-q as relocations and expansions filled several large vacancies in buildings completed either last year or in the previous quarter. The next most significant drop (down 0.5 pp. q-o-q) was observed in Kanazawa, where the key driver was a large owner-occupier’s relocation from its aged building to new rental premises. The Noto Earthquake, which occurred on 1<sup>st</sup> January this year, has motivated many tenants in the area to consider relocating to offices with superior Business Continuity Planning (BCP) measures in place. In Fukuoka, the vacancy rate fell by 0.1 pp. despite the completion of one new building during the quarter. With vacancies greater than 100 tsubo filled in multiple large buildings completed last year by companies upgrading, expanding, or moving to superior locations, net absorption outstripped new supply in Q2 2024.

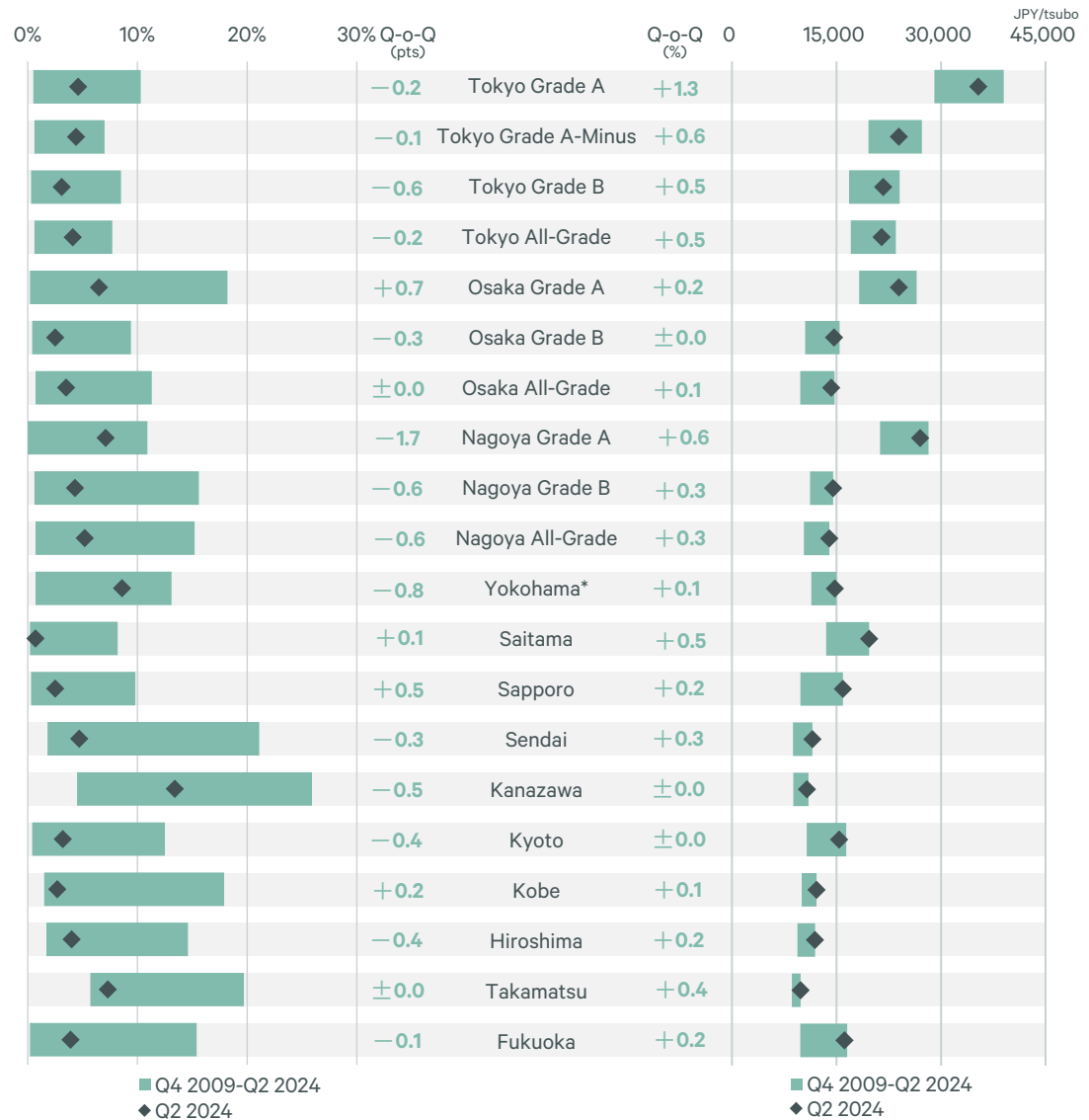
The vacancy rate rose in Sapporo, Saitama, and Kobe in Q2 2024. Higher vacancy in Sapporo was a result of the addition of new supply, while increases in Saitama and Kobe were due to the cancellation of several contracts for offices in older buildings or those relatively far from major railway stations. While expansionary demand has also been observed in these cities, the relative lack of buildings suited to tenants’ requirements led to an increase in vacancy rates this quarter.

### Rents continue to rise moderately as underpriced properties hike asking rents

All-Grade rents for Q2 2024 rose from the previous quarter in eight of the 10 surveyed cities, remaining unchanged in the other two. As was the case in the previous quarter, no cities recorded a drop in average achievable rents. Rents were seen trending upward across the country, with the most significant surge of 0.5% q-o-q recorded in Saitama, where rents increased for a sixth consecutive quarter. Saitama’s ultra-low vacancy rate of below 1% ensured that asking rents in the city continue to rise steadily. While rents in Sapporo logged only a slight q-o-q increase of 0.2%, this nevertheless marked another all-time high. In response to robust tenant demand, rental hikes were observed throughout the country particularly in buildings whose asking rents had been below market levels.

Figure 2: Vacancy Rate in 13 Cities

Figure 3: Average Assumed Achievable Rent in 13 Cities



\* Effective Q2 2024, we have included "Kannai" area within the "Yokohama" submarket. To reflect this change, we have also recalculated the historical data for "Yokohama".  
Source: CBRE, Q2 2024

Source: CBRE, Q2 2024

Figure 4: Market Summary

			Vacancy Rate (%)					Assumed Achievable Rent (JPY/tsubo)					Vacancy Rate (%)					Assumed Achievable Rent (JPY/tsubo)							
			Q2 2023	Q1 2024	Q2 2024	Q-o-Q (pts)	Y-o-Y (pts)	Q2 2023	Q1 2024	Q2 2024	Q-o-Q (%)	Y-o-Y (%)	Q2 2023	Q1 2024	Q2 2024	Q-o-Q (pts)	Y-o-Y (pts)	Q2 2023	Q1 2024	Q2 2024	Q-o-Q (%)	Y-o-Y (%)			
Tokyo	Grade A	All	5.7	4.8	4.6	-0.2	-1.1	34,550	34,900	35,350	+1.3	+2.3	Nagoya	Grade A	All	7.7	8.8	7.1	-1.7	-0.6	26,400	26,850	27,000	+0.6	+2.3
		Marunouchi/Otemachi	1.1	1.2	1.2	±0.0	+0.1	44,000	44,200	44,950	+1.7	+2.2		Grade B	All	4.3	4.9	4.3	-0.6	±0.0	14,350	14,450	14,500	+0.3	+1.0
	Grade A-Minus	All	5.0	4.5	4.4	-0.1	-0.6	23,600	23,800	23,950	+0.6	+1.5	All-Grade	All	5.2	5.8	5.2	-0.6	±0.0	13,790	13,930	13,970	+0.3	+1.3	
	Grade B	All	4.4	3.7	3.1	-0.6	-1.3	21,450	21,600	21,700	+0.5	+1.2	Meieki		5.1	5.9	5.5	-0.4	+0.4	18,290	18,410	18,440	+0.2	+0.8	
	All-Grade	All	4.9	4.3	4.1	-0.2	-0.8	21,300	21,370	21,480	+0.5	+0.8	Fushimi/Marunouchi		7.6	7.7	6.6	-1.1	-1.0	12,700	12,870	12,910	+0.3	+1.7	
		Central 5 Wards	4.4	3.6	3.3	-0.3	-1.1	22,500	22,590	22,700	+0.5	+0.9	Sakae		3.0	4.0	3.5	-0.5	+0.5	13,160	13,290	13,310	+0.2	+1.1	
		Marunouchi/Otemachi	1.6	1.2	1.4	+0.2	-0.2	38,170	38,410	38,900	+1.3	+1.9	Nagoya-Higashi		0.7	0.7	0.8	+0.1	+0.1	10,120	10,200	10,250	+0.5	+1.3	
		Kanda/Iidabashi	3.0	2.4	2.4	±0.0	-0.6	20,310	20,430	20,490	+0.3	+0.9	Yokohama	All-Grade	All*	5.7	9.4	8.6	-0.8	+2.9	14,720	14,740	14,760	+0.1	+0.3
		Yaesu/Nihonbashi	4.5	2.9	2.2	-0.7	-2.3	22,380	22,540	22,620	+0.4	+1.1		Around Yokohama Station		2.4	2.7	2.8	+0.1	+0.4	15,370	15,520	15,540	+0.1	+1.1
		Roppongi/Akasaka	11.4	8.6	9.2	+0.6	-2.2	25,110	25,110	25,220	+0.4	+0.4		Minato-mirai		8.4	14.5	12.9	-1.6	+4.5	19,010	18,550	18,610	+0.3	-2.1
		Toranomon/Shiodome	3.7	3.4	3.4	±0.0	-0.3	24,920	24,720	24,780	+0.2	-0.6		Kannai		1.9	1.5	2.6	+1.1	+0.7	11,850	11,880	11,890	+0.1	+0.3
		Shinjuku	3.5	3.3	2.0	-1.3	-1.5	22,230	22,330	22,570	+1.1	+1.5	Saitama	All-Grade		1.3	0.6	0.7	+0.1	-0.6	19,390	19,600	19,690	+0.5	+1.5
		Shibuya/Ebisu	3.0	2.1	1.5	-0.6	-1.5	24,660	24,690	24,920	+0.9	+1.1	Sapporo	All-Grade		0.8	2.0	2.5	+0.5	+1.7	15,650	15,880	15,910	+0.2	+1.7
		Shinagawa/Tamachi	5.6	5.2	4.6	-0.6	-1.0	20,610	20,690	20,760	+0.3	+0.7	Sendai	All-Grade		3.0	5.0	4.7	-0.3	+1.7	11,500	11,520	11,550	+0.3	+0.4
Osaki	3.5	3.7	3.2	-0.5	-0.3	18,520	18,720	18,790	+0.4	+1.5	Kanazawa	All-Grade		13.9	13.9	13.4	-0.5	-0.5	10,770	10,750	10,750	±0.0	-0.2		
Osaka	Grade A	All	3.5	5.8	6.5	+0.7	+3.0	24,000	23,900	23,950	+0.2	-0.2	Kyoto	All-Grade		4.3	3.6	3.2	-0.4	-1.1	15,410	15,380	15,380	±0.0	-0.2
	Grade B	All	3.9	2.8	2.5	-0.3	-1.4	14,700	14,650	14,650	±0.0	-0.3	Kobe	All-Grade		2.2	2.5	2.7	+0.2	+0.5	12,030	12,110	12,120	+0.1	+0.7
	All-Grade	All	3.7	3.5	3.5	±0.0	-0.2	14,120	14,220	14,240	+0.1	+0.8	Hiroshima	All-Grade		5.6	4.4	4.0	-0.4	-1.6	11,810	11,890	11,910	+0.2	+0.8
		Umeda	5.1	6.8	7.4	+0.6	+2.3	21,890	21,720	21,780	+0.3	-0.5	Takamatsu	All-Grade		6.5	7.3	7.3	±0.0	+0.8	9,730	9,810	9,850	+0.4	+1.2
		Dojima	5.7	0.5	2.3	+1.8	-3.4	17,670	17,590	17,600	+0.1	-0.4	Fukuoka	All-Grade		4.8	4.0	3.9	-0.1	-0.9	16,050	16,120	16,150	+0.2	+0.6
		Nakanoshima	2.6	2.1	1.8	-0.3	-0.8	19,890	19,710	19,570	-0.7	-1.6	* Effective Q2 2024, we have included "Kannai" area within the "Yokohama" submarket. To reflect this change, we have also recalculated the historical data for "All" of "Yokohama".												
		Yodoyabashi	2.3	1.4	1.4	±0.0	-0.9	17,070	17,120	17,120	±0.0	+0.3	Source: CBRE, Q2 2024												
		Honmachi	4.9	5.4	5.1	-0.3	+0.2	14,220	14,290	14,310	+0.1	+0.6													
		Shin-Osaka	7.4	6.3	4.4	-1.9	-3.0	14,520	14,560	14,610	+0.3	+0.6													

### Building Grade Definition

	All-Grade				
	Grade A	Grade A-Minus	Grade B		
Location	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
Size	NLA:	6,500 tsubo or more	4,500 tsubo or more	—	—
	GFA:	10,000 tsubo or more	7,000 tsubo or more	2,000 tsubo or more	2,000 tsubo or more
	Typical floor plate:	500** tsubo	Greater than 250 tsubo (except Grade A)	Greater than 200 tsubo (except Grade A & GradeA-Minus)	— (except Grade A)
Age	Generally less than 15 years	Buildings satisfying the 1981 anti-seismic standards			
Other	Landmark status, specifications, etc.	*Central 5 Wards: Chiyoda Ward, Chuo Ward, Minato Ward, Shinjuku Ward, Shibuya Ward **350 tsubo for Osaka and Nagoya			

### Terms and Definitions

Space Measurement	1 tsubo=3.3058 square meters=35.58 square feet
Surveyed Buildings	Office buildings for lease located in office markets in 13 major cities nationwide, with gross floor area of 1,000 tsubo or more, and compliant with the new earthquake resistance standards.
Surveyed Period	Quarterly Vacancy rate: (1) End of March (2) End of June (3) End of September (4) End of December Quarterly Assumed achievable rents: (1) End of March (2) End of June (3) End of September (4) End of December
Vacancy Rate	Vacancies are those that are ready to receive tenants at time of survey
Assumed Achievable Rent	Assumed achievable rent of floorplate (including common area maintenance fee)
New Supply	Net lettable area of buildings completed during each period
Net Absorption	Difference between occupied floor space (floor space used by tenants) in a given period and that of the previous period
Number of Grade A Buildings	Tokyo: 102 Osaka: 31 Nagoya: 13 (as of Q2 2024)

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