

For first time in four years, no cities saw drop in average rents, as office demand strengthens

▲ **+0.2%** ^{Forecast*} Y-o-Y GDP Growth Q1

▼ **12pts** -1pts Q-o-Q BOJ Tankan DI (All Enterprises) Q1

▲ **+0.7%** Q-o-Q Tokyo Grade A Rent Q1

▼ **-0.9pts** Q-o-Q Tokyo Grade A Vacancy Rate Q1

*JCER Forecast (ESP forecast)

Tokyo: Rents rise across all grades for second consecutive quarter

— The All-Grade vacancy rate fell for the second straight quarter, slipping by 0.4 pp. q-o-q to 4.3%. Net absorption for the quarter reached 63,000 tsubo, roughly 1.5x the previous quarterly average. Numerous vacancies were filled over the quarter, particularly in large, newer buildings, as tenants looked to upgrade their offices, improve office location, or move to temporary premises for the purposes of rebuilding. Rents rose across all grades for the second consecutive quarter, with owners of buildings whose vacancies have been filled now looking to put rents back up to their former levels.

Osaka: Demand remains robust even as new supply pushes up vacancy

— The All-Grade vacancy rate climbed by 0.6 pp. q-o-q to 3.5% in Q1 2024, primarily due to significant new supply equivalent to 1.3x the past average annual level coming on stream during the quarter, much of which still contains unoccupied units. Demand remained robust, however, with vacancies absorbed across all building grades, ensuring that the increase in the vacancy rate was kept to a minimum. Grade A rents remained unchanged from the previous quarter, with robust demand halting the decline in rent which had continued for almost three years.

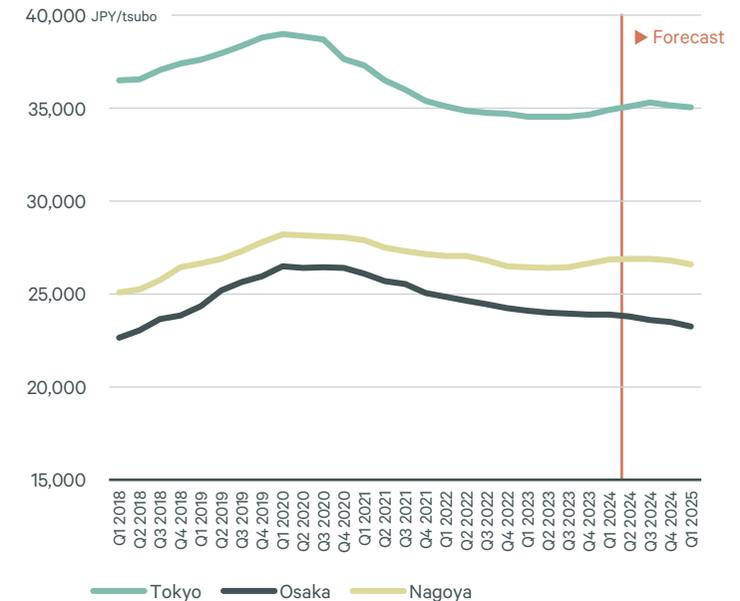
Nagoya: Rents increase across all grades for first time in four years

— The All-Grade vacancy rate recorded a marginal q-o-q increase of 0.2 pp. to reach 5.8% this quarter, with new supply entering the market featuring some units still vacant. Net absorption nevertheless reached 11,000 tsubo, 3x the past quarterly average, as several vacancies were filled in recently completed buildings. Rents grew q-o-q in all grades for the first time in four years. Grade B saw the most marked increase, which served to push up rents across the board.

Regional cities: No rent decline recorded for the first time since pandemic

— All-Grade vacancy rates fell q-o-q in seven of the 10 cities surveyed, rising in the other three. While some cities saw vacancy rates rise on the back of new supply, robust demand was observed nationwide by companies looking to expand, move to larger premises, or relocate temporarily for the purposes of rebuilding. All-Grade rents for the quarter rose from the previous quarter in nine of the 10 surveyed cities, remaining unchanged in the remaining one. This represented the first time since Q1 2020 that no regional cities recorded a drop in average rents.

Figure 1: Grade A Average Assumed Achievable Rent



Source: CBRE, Q1 2024

Tokyo

Rents rise across all grades for second consecutive quarter

The All-Grade vacancy rate fell for the second straight quarter, slipping by 0.4 pp. q-o-q to 4.3% in Q1 2024. Net absorption for the quarter reached 63,000 tsubo across all grades, roughly 1.5x the previous quarterly average. While downsizing and secondary vacancies were observed in older buildings and those located in the outer 18 wards, the scale of these new vacancies was outstripped by net absorption. As in the previous quarter, demand was driven primarily by companies looking to improve their offices to attract and retain talent. New supply for the quarter stood at 33,000 tsubo across 14 properties, 30% below the past quarterly average. Around half of these buildings entered operation at full or high occupancy, with the remainder still dealing with significant vacancies. Leasing progress and ability to attract tenants is largely determined by each building's market competitiveness in terms of factors such as station proximity and single-floor area. In terms of existing offices, several vacancies were filled, particularly in large, newer buildings, as tenants looked to expand, upgrade, improve office location, or move to temporary premises for the purposes of rebuilding. With no new supply added this quarter, the Grade A segment, in particular, saw several large vacancies filled in buildings completed last year, causing the vacancy rate to drop by 0.9 pp. q-o-q, the most significant decline across all grades.

Rents rose across all grades for the second consecutive quarter, with long-term vacancies becoming less common. Owners of buildings whose vacancies have been filled are now looking to raise rents back to their previous levels. However, with relocations to higher grade or more conveniently located buildings becoming more commonplace, buildings lacking these competitive advantages are likely to see secondary vacancies increase. Furthermore, as some 210,000 tsubo of new supply across all grades, 20% above the previous annual average, is projected to come on stream in 2025, rents are likely to come under further downward pressure. CBRE projects Grade A rents to continue to rise moderately in the short term, before beginning a gentle decline from the end of 2024, resulting in a net projection of a 0.4% increase over the next 12 months.

Osaka

Demand remains robust even as new supply pushes vacancy rate upward

The Grade A vacancy rate rose by 3.4 pp. to reach 5.8% in Q1 2024. During the quarter, 34,000 tsubo of new floor space, representing 40% of 2024's total new supply, came on stream, with 27,000 tsubo of this volume belonging to the Grade A category. The fact that much of this space remains empty is the major factor behind the surging vacancy rate. Demand remains robust, however, with several cases observed this quarter in which companies relocated to new buildings, drawn by their superior grade, location, or Business Continuity Planning (BCP) capabilities. The remaining 7,000 tsubo of new floor space was spread across three buildings in the Grade B segment, one of which entered operation at full capacity. The property's

success in securing tenants was largely due to the lack of competition it faced in terms of location and rents. The continuing absorption of existing vacancies by companies expanding office space or moving to superior locations meant that the overall vacancy rate for the Grade B segment fell by 0.1 pp. q-o-q to 2.8%. As was the case last quarter, tenant demand was strong for all building grades, with smaller properties also seeing vacancies filled. As new vacancies were also limited in scale, the All-Grade vacancy rate only rose by 0.6 pp. to 3.5%, even though new supply equivalent to 1.2x the previous annual average was recorded this quarter. New supply should continue to be plentiful in the coming quarters, however, ensuring that the vacancy rate continues to rise.

Average rents for the quarter rose by 0.2% q-o-q to JPY 14,220 for All-Grade office buildings, remaining unchanged for Grade A and Grade B at JPY 23,900 and JPY 14,650 per tsubo, respectively. This is a particularly significant milestone for Grade A rents, which had been steadily falling since Q4 2020 before strong net absorption in existing buildings this quarter managed to halt the slide. With the vacancy rate projected to increase once more from next quarter, rents will likely continue to fall moderately across all grades. CBRE forecasts Grade A rents to drop by 2.7% over the next 12 months.

Nagoya

Rents increase across all grades for first time in four years

The All-Grade vacancy rate for Q1 2024 rose marginally by 0.2 pp. q-o-q to reach 5.8%, with new supply for the quarter reaching 13,000 tsubo, roughly equivalent to the past yearly average. The vacancy rate rise was largely attributable to all three new buildings, including one Grade A property, entering operation with vacancies still remaining. Demand remains robust, however, with net absorption for the quarter reaching 11,000 tsubo, roughly 3x the historical quarterly average. The Grade A and Grade B buildings completed this quarter attracted demand from local or suburban-based companies looking to improve their office environments, with all commencing operations at around 50% of capacity. Vacancies also continued to be filled in existing buildings, particularly newer properties with significant remaining space, by tenants looking to expand floor space, upgrade, or improve office location. Despite significant new supply of 9,000 tsubo, equivalent to 5% of all existing stock, the Grade A vacancy rate rose slightly by 0.3 pp. q-o-q to 8.8%. The Grade B vacancy rate fell for a second straight quarter, slipping by 0.1 pp. to 4.9%.

This quarter marked the first time since Q1 2020 that rents rose across all grades. Grade B, where demand from the manufacturing industry remains robust, saw the strongest leasing activity, pushing up rent levels across the board. With new supply between now and the end of 2025 consisting of less than 10,000 tsubo, the vacancy rate should remain low. At present, however, several buildings are still attempting to fill significant vacancies. With strong relocation activity anticipated to continue, rents may well be lowered once again, particularly in less competitive properties. CBRE forecasts Grade A rents to drop by 0.9% over the next 12 months.

Regional cities

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

Vacancies steadily absorbed as demand remains robust nationwide

All-Grade vacancy rates fell q-o-q in seven of the 10 cities surveyed in Q1 2024, rising in the remaining three. Vacancies were steadily absorbed nationwide, with demand solid throughout the country. In Saitama, several large vacancies were absorbed in a building completed last quarter by companies looking to set up new or larger premises. With few new vacancies in the city, Saitama recorded the most significant decline in vacancy among all the regional centers, dropping by 1.1 pp. q-o-q to fall below the 1% threshold, down to 0.6%. In Fukuoka, the quarter saw the completion of three new buildings, one of which commenced operations at almost full occupancy. The continuing absorption of existing vacancies in a building completed last year by companies forced to relocate or those consolidating their premises ensured the overall vacancy rate fell by 0.5 pp. q-o-q.

Among the cities where vacancy rates rose, new supply was the primary cause in Sendai and Yokohama. The two new buildings completed this quarter in Sendai both commenced operations with vacancies remaining, leading to a bump of 0.6 pp. in the vacancy rate. With no further supply slated for the rest of the year and demand observed from tenants looking to expand their floor space, many of these vacancies should be gradually filled. Yokohama, meanwhile, saw new supply in the quarter roughly equivalent to 2.7x previous annual levels, which pushed up the vacancy rate by 3.6 pp. Compared to the previous quarter, however, tenant activity strengthened over the quarter, with some tenants relocating to large, relatively new, high-spec buildings in the Minato Mirai area, in an attempt to improve brand image and recruiting activity.

No rent declines recorded for first time since pandemic

All-Grade rents for Q1 2024 rose from the previous quarter in nine of the 10 surveyed cities, remaining unchanged in the others. This marked the first time rent declines were not recorded in a regional city since Q1 2020. Rents had been on the decline in Yokohama and Kanazawa, where vacancies are still plentiful, but both recorded slight increases this quarter for the first time in two years. Robust demand led to new lease contracts being signed without landlords needing to lower asking rents. In Sapporo, where the supply-demand balance continues to be extremely tight, rents rose again, albeit by just 0.1%, to reach a new record high. In Saitama and Hiroshima, where no new supply is slated to arrive before 2025, rents were driven up by the absorption of vacancies in existing properties.

Figure 2: Vacancy Rate in 13 Cities

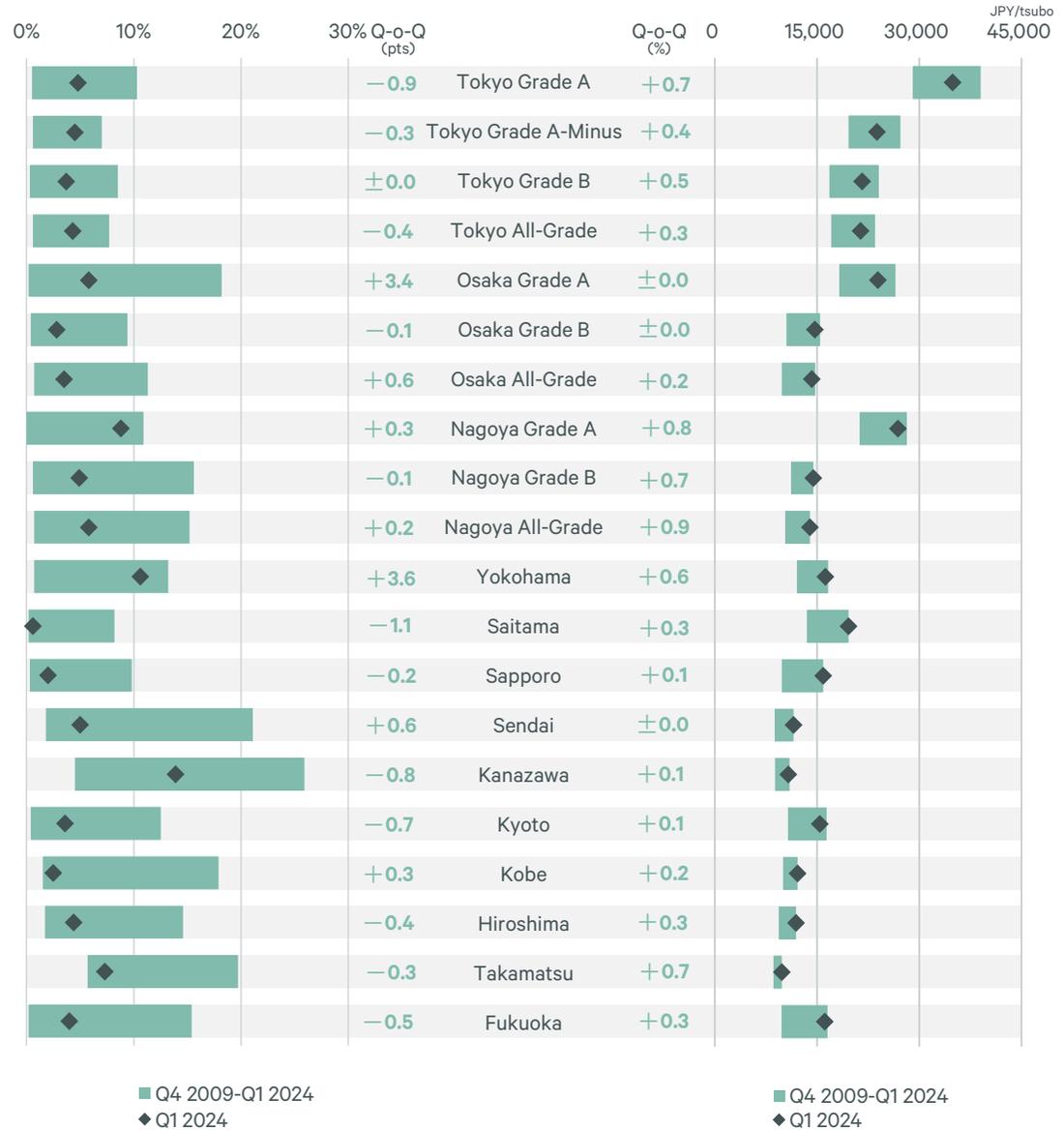


Figure 3: Average Assumed Achievable Rent in 13 Cities



Source: CBRE, Q1 2024

Source: CBRE, Q1 2024

Figure 4: Market Summary

			Vacancy Rate (%)					Assumed Achievable Rent (JPY/tsubo)				
			Q1 2023	Q4 2023	Q1 2024	Q-o-Q (pts)	Y-o-Y (pts)	Q1 2023	Q4 2023	Q1 2024	Q-o-Q (%)	Y-o-Y (%)
Tokyo	Grade A	All	3.9	5.7	4.8	-0.9	+0.9	34,550	34,650	34,900	+0.7	+1.0
		Marunouchi/Otemachi	1.8	2.1	1.2	-0.9	-0.6	43,950	44,000	44,200	+0.5	+0.6
	Grade A-Minus	All	5.2	4.8	4.5	-0.3	-0.7	23,700	23,700	23,800	+0.4	+0.4
	Grade B	All	4.6	3.7	3.7	±0.0	-0.9	21,550	21,500	21,600	+0.5	+0.2
	All-Grade	All	4.6	4.7	4.3	-0.4	-0.3	21,350	21,300	21,370	+0.3	+0.1
		Central 5 Wards	4.1	4.1	3.6	-0.5	-0.5	22,550	22,500	22,590	+0.4	+0.2
		Marunouchi/Otemachi	2.6	1.8	1.2	-0.6	-1.4	38,190	38,260	38,410	+0.4	+0.6
		Kanda/lidabashi	3.0	2.6	2.4	-0.2	-0.6	20,340	20,380	20,430	+0.2	+0.4
		Yaesu/Nihonbashi	4.9	3.4	2.9	-0.5	-2.0	22,350	22,410	22,540	+0.6	+0.9
		Roppongi/Akasaka	4.9	8.5	8.6	+0.1	+3.7	25,290	24,990	25,110	+0.5	-0.7
		Toranomon/Shiodome	4.0	5.1	3.4	-1.7	-0.6	25,360	24,590	24,720	+0.5	-2.5
		Shinjuku	3.8	3.4	3.3	-0.1	-0.5	22,200	22,290	22,330	+0.2	+0.6
		Shibuya/Ebisu	3.3	2.0	2.1	+0.1	-1.2	24,650	24,610	24,690	+0.3	+0.2
		Shinagawa/Tamachi	5.8	6.0	5.2	-0.8	-0.6	20,700	20,600	20,690	+0.4	±0.0
	Osaki	4.3	3.4	3.7	+0.3	-0.6	18,360	18,680	18,720	+0.2	+2.0	
Osaka	Grade A	All	4.2	2.4	5.8	+3.4	+1.6	24,100	23,900	23,900	±0.0	-0.8
	Grade B	All	3.5	2.9	2.8	-0.1	-0.7	14,700	14,650	14,650	±0.0	-0.3
	All-Grade	All	3.6	2.9	3.5	+0.6	-0.1	14,120	14,190	14,220	+0.2	+0.7
		Umeda	5.5	3.7	6.8	+3.1	+1.3	21,930	21,750	21,720	-0.1	-1.0
		Dojima	5.9	0.9	0.5	-0.4	-5.4	17,670	17,560	17,590	+0.2	-0.5
		Nakanoshima	2.6	2.2	2.1	-0.1	-0.5	20,030	19,700	19,710	+0.1	-1.6
		Yodoyabashi	2.8	2.1	1.4	-0.7	-1.4	17,060	17,110	17,120	+0.1	+0.4
		Honmachi	4.3	4.1	5.4	+1.3	+1.1	14,220	14,240	14,290	+0.4	+0.5
		Shin-Osaka	7.4	5.2	6.3	+1.1	-1.1	14,520	14,500	14,560	+0.4	+0.3
		Nagoya	Grade A	All	7.9	8.5	8.8	+0.3	+0.9	26,450	26,650	26,850
Grade B	All	4.8	5.0	4.9	-0.1	+0.1	14,300	14,350	14,450	+0.7	+1.0	
All-Grade	All	5.5	5.6	5.8	+0.2	+0.3	13,740	13,800	13,930	+0.9	+1.4	
	Meieki	5.2	6.6	5.9	-0.7	+0.7	18,200	18,290	18,410	+0.7	+1.2	
	Fushimi/Marunouchi	8.2	6.9	7.7	+0.8	-0.5	12,680	12,710	12,870	+1.3	+1.5	
	Sakae	3.3	3.8	4.0	+0.2	+0.7	13,110	13,160	13,290	+1.0	+1.4	
	Nagoya-Higashi	0.6	0.0	0.7	+0.7	+0.1	10,000	10,110	10,200	+0.9	+2.0	
Yokohama	All-Grade	All	6.0	7.0	10.6	+3.6	+4.6	16,240	16,130	16,230	+0.6	-0.1
		Around Yokohama Station	2.4	3.0	2.7	-0.3	+0.3	15,340	15,370	15,520	+1.0	+1.2
		Minato-mirai	8.0	9.2	14.5	+5.3	+6.5	19,120	18,600	18,550	-0.3	-3.0
Saitama	All-Grade	1.4	1.7	0.6	-1.1	-0.8	19,380	19,550	19,600	+0.3	+1.1	
Sapporo	All-Grade	0.7	2.2	2.0	-0.2	+1.3	15,600	15,860	15,880	+0.1	+1.8	
Sendai	All-Grade	3.0	4.4	5.0	+0.6	+2.0	11,490	11,520	11,520	±0.0	+0.3	
Kanazawa	All-Grade	14.0	14.7	13.9	-0.8	-0.1	10,790	10,740	10,750	+0.1	-0.4	
Kyoto	All-Grade	5.5	4.3	3.6	-0.7	-1.9	15,440	15,370	15,380	+0.1	-0.4	
Kobe	All-Grade	3.1	2.2	2.5	+0.3	-0.6	12,020	12,090	12,110	+0.2	+0.7	
Hiroshima	All-Grade	5.9	4.8	4.4	-0.4	-1.5	11,790	11,850	11,890	+0.3	+0.8	
Takamatsu	All-Grade	6.8	7.6	7.3	-0.3	+0.5	9,580	9,740	9,810	+0.7	+2.4	
Fukuoka	All-Grade	4.6	4.5	4.0	-0.5	-0.6	16,030	16,070	16,120	+0.3	+0.6	

Source: CBRE, Q1 2024

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: 101 Osaka: 29 Nagoya: 13 (as of Q1 2024)

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