

savills

Spotlight
**Regional Japanese
office markets**

October 2015



Spotlight Regional Japanese office markets



“Cap rates in regional cities are likely to compress, especially considering the current yield gap which exists between their markets and Tokyo. Limited supply in Tokyo and strong capital inflow into real estate will support this trend.”

Investor appetite for regional cities

The cap rate in prime areas of Tokyo has compressed to 2007/2008 levels, although rents still stand at 60% of peak levels. On the other hand, the cap rates available in regional cities have not compressed to anything like the same extent and the yield gap between 2007/2008 levels and now stands at 50 to 70 basis points (bps). Considering limited availability in Tokyo and the current robust capital inflow to the real estate market, cap rates in regional cities are expected to compress further.

Investors have understandably also started to take a closer look at regional cities. For example, this year there have been several transactions of over JPY10 billion in Osaka. Historically, Tokyo has accounted

for between 70% and 80% of total investment volumes across Japan, with the remainder directed to regional cities. We are likely to see more transactions in regional cities in the coming years, given the compressed cap rates and limited opportunities available in the capital.

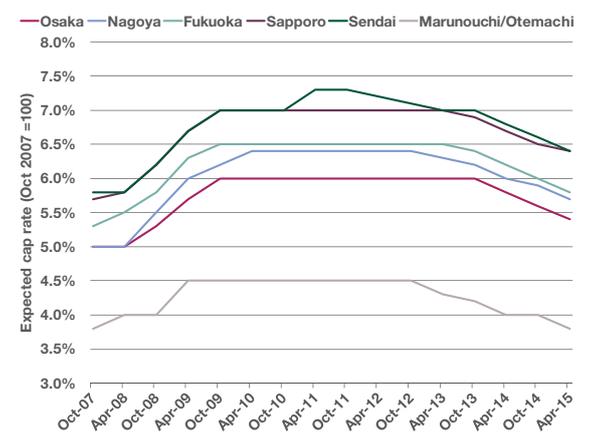
Looking at the benchmark land price published by the Ministry of Land, Infrastructure, Transport and Tourism (MLIT), we can see a 'ripple effect' of land price increases from Tokyo. Nagoya ranks top in terms of the increase in land price. Meieki 3 chome, a land plot in front of Nagoya station, is 45.7% up year-on-year (YoY). The recent redevelopment in front of the station in relation to the magnetic levitation project which will extend from Tokyo to Nagoya (expected to begin operation

TABLE 1 Annual change in benchmark land price by MLIT in selected areas, 1 July, 2015

	Residential	Commercial	All
Tokyo	0.5%	2.3%	1.0%
Osaka	0.0%	2.5%	0.6%
Nagoya	0.7%	2.2%	1.1%
Fukuoka	2.1%	4.8%	3.0%
Sapporo	1.4%	2.6%	1.7%
Sendai	3.6%	4.9%	4.1%

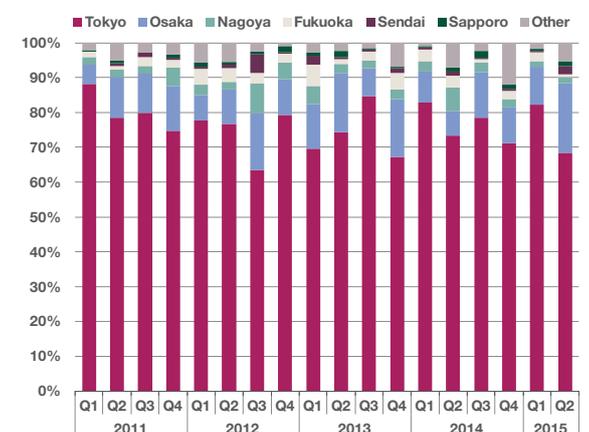
Source: MLIT, Nikkei Newspaper, Savills Research & Consultancy

GRAPH 1 Cap rates for office buildings, Oct 2007–Apr 2015



Source: Investor Survey by Japan Real Estate Institute, Savills Research & Consultancy

GRAPH 2 Investment volumes by area for all asset class, Q1/2011–Q2/2015



Source: Real Capital Analytics (RCA), Savills Research & Consultancy

→ in 2027), and a robust regional economy have contributed to the land price increase. Osaka's Minami Senba, near Shinsaibashi, and Namba have seen approximately 20% growth. This is most likely due to the burgeoning number of inbound tourists driving up the land price. Fukuoka's Hakata Ekimae has also seen an almost 20% increase, which seems to have been the result of local redevelopment plans and the strong growth of foreign inbound tourists. Regional cities have also enjoyed land price hikes thanks to the 'ripple effect' from Tokyo's strong growth and the overall increase in tourism, both domestic and overseas.

Regional economies

The regional economies are currently benefitting from better economic prospects. The better business environment is being reflected in corporate profits which hit an historical high this year.

Corporate profits in Japan increased to JPY19.2 trillion in Q2/2015 from JPY16.8 trillion in the previous quarter.

This historical high is being supported by the softer yen, particularly for exporters. As an example, Toyota's profit for FY2014 increased by 20% to JPY2.75 trillion, and net profit jumped 19.2% to JPY2.2 trillion.

The better corporate environment has improved the employment situation too. The job-to-application ratio of selected prefectures was above 1.0x in July 2015. Tokyo leads the pack with 1.8x, and other prefectures are fast catching up. This contributes to the office market by increasing the number of office workers.

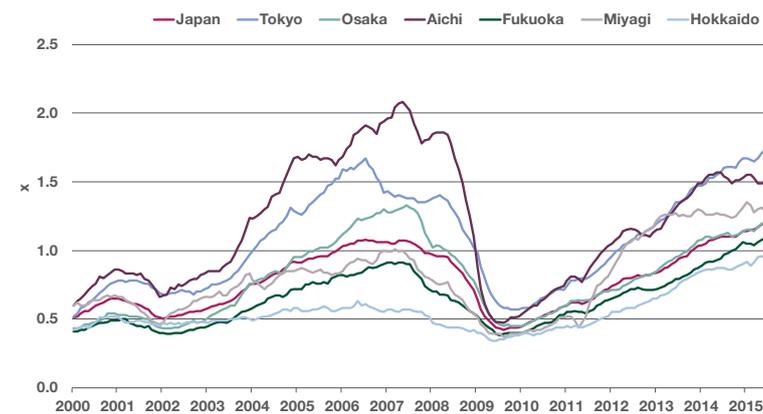
Furthermore, the value and number of bankruptcies, which spiked in 2008, are steadily declining. In 2014, the total number of bankrupt firms was 9,731, an approximately 40% reduction compared to over 15,600 firms in 2008. Likewise, the total value of liabilities in 2014 stood at JPY1.9 trillion, an 85% reduction when compared to JPY12.3 trillion in 2008.

GRAPH 3
Current profitability of Japanese firms, Q1/2000–Q2/2015



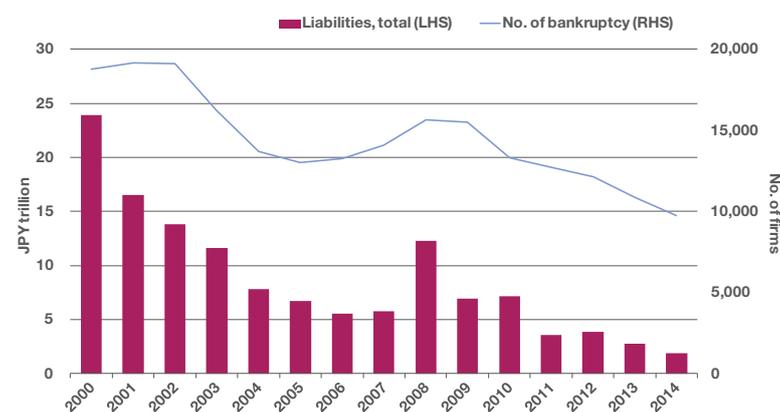
Source: Ministry of Finance, Savills Research & Consultancy
* Seasonally adjusted series

GRAPH 4
Job-to-application ratio, selected prefectures, Jan 2000–Jul 2015



Source: Ministry of Internal Affairs and Communication, Savills Research & Consultancy

GRAPH 5
Liabilities and number of bankruptcies, 2000–2014



Source: Tokyo Shoko Research, Savills Research & Consultancy

Osaka City

Osaka office market NRA

In August 2015, the total net rentable area (NRA) in the Osaka Business Area stood at 2.2 million tsubo, or 7.3 million sq m, a nearly 10% increase compared to the end of 2007.

Umeda and Yodobashi-Honmachi account for over 65% of the 2.2 million tsubo. Umeda is the largest with over 742,000 tsubo (2,455,000 sq m), or 34%. Yodobashi-Honmachi follows with 32% of total NRA in the Osaka Business Area, with approximately 700,000 tsubo, or 2,307,000 sq m.

The relative size of each business area has been stable since spring 2013 when the completion of the Umekita Project Phase I in Umeda made Yodoyabashi-Honmachi the second largest in terms of NRA after Umeda.

As the main component of the Umekita Project, Grand Front Osaka Towers A, B and C were completed in February/March 2013 on the north side of JR Osaka Station. The total GFA of these three office towers was over 146,000 tsubo.

Shinsaibashi-Namba's NRA was 105,500 tsubo (342,000 sq m) in August 2015. In the same month, the NRA of Minamimori-machi was just under 112,000 tsubo (370,000 sq m).

Vacancy rate

After a rise in office vacancy rates since the Lehman collapse in September 2008, the rates are now falling gradually, though with some disparities.

On average, the office vacancy rate of Osaka's business area was 8.3% in August 2015, the same as July 2015. However, compared to the peak at around 12% throughout 2010, average office rents in Osaka have steadily declined.

Areas which have shown particularly significant improvements are Umeda, Minamimori-machi, and Semba.

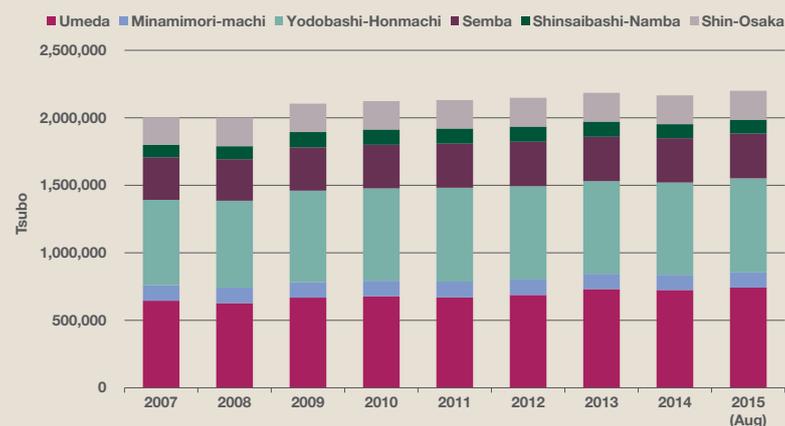
Although the office vacancy rates of Umeda rose to over 11% for 14 months when the Umeda Gate Tower was completed in December 2009, the latest vacancy rate of the area was 6.9% in August.

In Minamimori-machi the vacancy rate in August 2015 was 5.5%, an historical low even compared to the

pre-global financial crisis (GFC) period. In particular, the area's vacancy rate started to drop sharply after the start of Abenomics in early 2013.

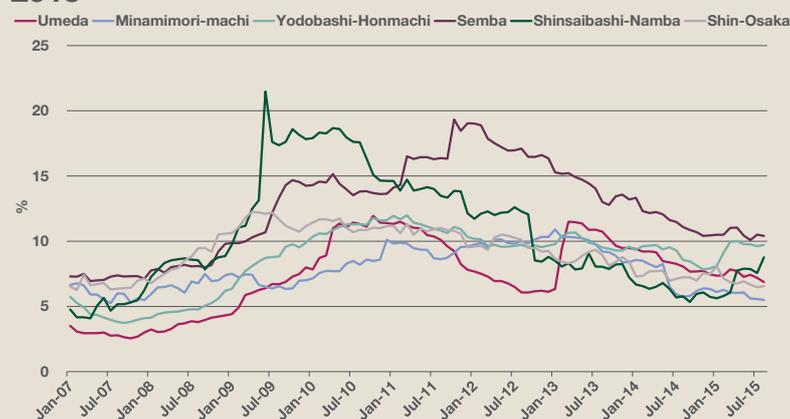
Moreover, Shin-Osaka's vacancy rate showed a quicker recovery after the onset of the GFC compared to other areas. In other words, even when vacancy rates in other business areas in Osaka were climbing after September 2008, Shin-Osaka's vacancy rate started to improve as early as the beginning of 2009. In

GRAPH 6 NRA in Osaka by area, 2007–Aug 2015



Source: Miki Shoji, Savills Research & Consultancy

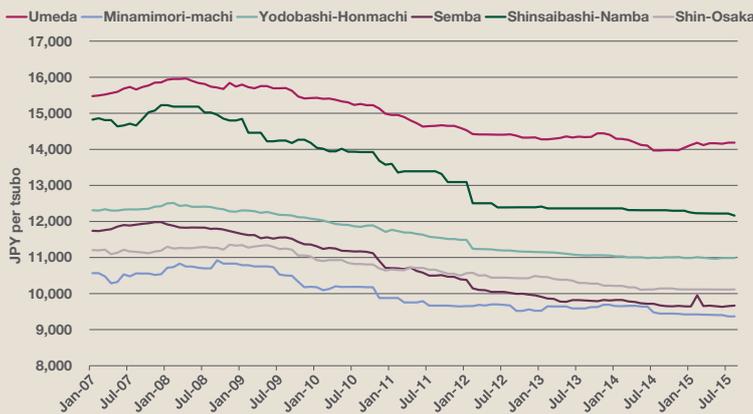
GRAPH 7 Vacancy rate in Osaka City by area, Jan 2007–Aug 2015



Source: Miki Shoji, Savills Research & Consultancy

Osaka City

GRAPH 8 **Average rent in Osaka by area, Jan 2007–Aug 2015**



Source: Miki Shoji, Savills Research & Consultancy

August 2015, the area’s vacancy rate was 6.6%, comfortably below the pre-GFC average of 7.2%.

Shinsaibashi-Namba’s vacancy rate rose to 8.8% in August. The area’s office vacancy rate reached as high as 21.5% in June 2009. This was also because of the completion of the Maruito Namba Building in June 2009 (office NRA 11,694 tsubo).

Average rent

In August 2015, the average office rent in the Osaka business area was JPY11,141/tsubo, and has

shown gradual improvement after bottoming out in mid-2014.

In particular, Umeda showed sizable positive growth. Umeda’s office rent in August 2015 stood at approximately JPY14,200/tsubo, up 1.6% YoY. In fact, the area’s rent has continued to improve since May when the YoY growth turned positive.

Whilst other business areas seem to struggle to show material growth rates, many areas seem to have hit the bottom.

For example, although the average office rent in Minamimori-machi fell to JPY9,367/tsubo, down 0.8% YoY, the decline was an improvement from -1.2% YoY in July 2015.

The August rent in Yodobashi-Honmachi remained the same as the previous month, but it has shown some improvements since spring of this year.

The same can be argued for Semba, where the average office rent in August was JPY9,666/tsubo, almost no change from the previous month but with some improvements from this spring.

Upcoming supply

The expected completion of Nakanoshima Festival Tower West is the first significant new supply in Osaka since the completion of Grand Front Osaka in early 2013 and Abeno Harukas in March 2014.

The construction of Nakanoshima Festival Tower West is planned to be completed in April 2017, to the west of the Nakanoshima Festival Tower, which was completed in October 2012.

The B4/41F building on an 8,400 sq m land plot will have over 132,000 sq m of NRA. The building will also boast a hotel from 33F to 40F, to be managed by Royal Hotel, which also runs Rihga Royal Hotels.

TABLE 2 **Osaka**

	Japan	Tokyo	Osaka
Real GDP (FY2012, JPY trillion)	517.5	97.0	19.2
YoY%	0.7	-0.1	-0.8
% of Japan		18.8	3.7
No. of population ('000 people)	126,896	13,481	2,698
Job to applicant (prefecture, x)	1.2	1.8	1.2

Source: Cabinet Office, Osaka City, Savills Research & Consultancy

Nagoya City

Nagoya office market NRA

After an expansion in NRA in the late 2000s, the total NRA in Nagoya City has been relatively stable. For example, Nagoya's office NRA stood at approximately 935,000 tsubo (3,090,000 sq m) in August 2015, almost no change from 2010.

By area, Marunouchi and Fushimi have recorded an expansion in NRA of 12.9% and 4.4% between 2009 and August 2015 to 98,000 tsubo (323,000 sq m) and 256,700 tsubo (848,600 sq m) respectively. In contrast, Meieki saw its NRA fall by 9.2% during the same period to 280,000 tsubo (938,000 sq m) because of redevelopment. There are three new large development plans to be completed in Meieki in late 2015 and 2016 and these will provide approximately 60,000 tsubo (200,000 sq m) after completion.

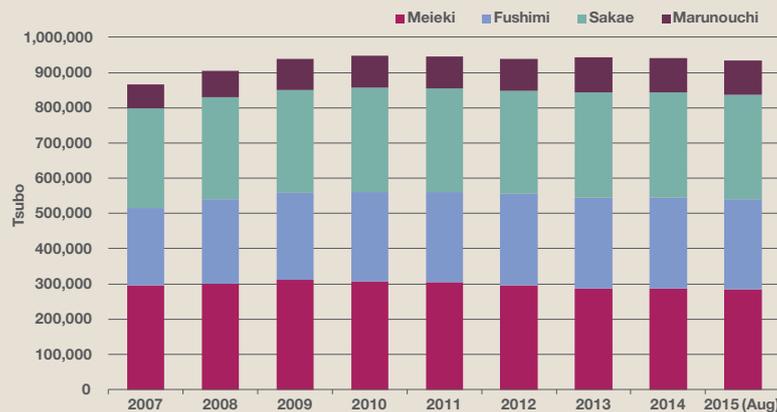
Although Sakae's NRA has not changed at around 295,000 tsubo (980,000 sq m) since 2009, Sakae overtook Meieki in 2012 and is currently the largest of Nagoya's business districts in terms of NRA, accounting for 32% of the total.

Vacancy rate

The August 2015 vacancy rate of Nagoya's office market stood at 6.6%, a 1 percentage point (ppt) improvement from the previous month. In fact, the vacancy rate of the city has been continuously in decline since its peak in April 2010 at 13.5%. Though with some disparities, the business areas of the city have shown a downward trend over the past five years.

Given the reduced stock and the area's popularity, Meieki's vacancy rate has declined sharply over the past five years. In August, the vacancy rate of Meieki stood at 4.4%, which is significantly lower than the pre-GFC period average of 6%.

GRAPH 9 NRA in Nagoya City by area, 2007–Aug 2015



Source: Miki Shoji, Savills Research & Consultancy

GRAPH 10 Vacancy rate in Nagoya City by area, Jan 2007–Aug 2015



Source: Miki Shoji, Savills Research & Consultancy

Marunouchi's vacancy rate, though slightly higher than other areas, has shown significant improvements during the past year. In April 2014, the area's vacancy rate stood at 11.7%, but it gradually fell to 8.3% in August 2015, below the pre-GFC average.

Vacancy rates in August 2015 for both Fushimi and Sakae were 7.5%, a little higher than the pre-GFC average, but both areas show clear downward trends.

Average rent

Despite improvements in vacancy rates, office rents are left with greater potential for further improvement.

On average, Nagoya's office rent averaged just under JPY10,800/tsubo, with a marginal growth of 0.2% YoY. The highest rent since 2007 was just over JPY11,500/tsubo in February 2009, which is 6% higher than the current level.

Nagoya City

In Meieki, where the vacancy rate is lowest, August's average office rent was just over JPY12,300/tsubo. The highest rent was 5% higher than the current level, at JPY13,000/tsubo in June 2008. However, Meieki's office rent has been growing strongly since late 2014, and the August 2015 growth rate stood at 1.4% compared to a year earlier.

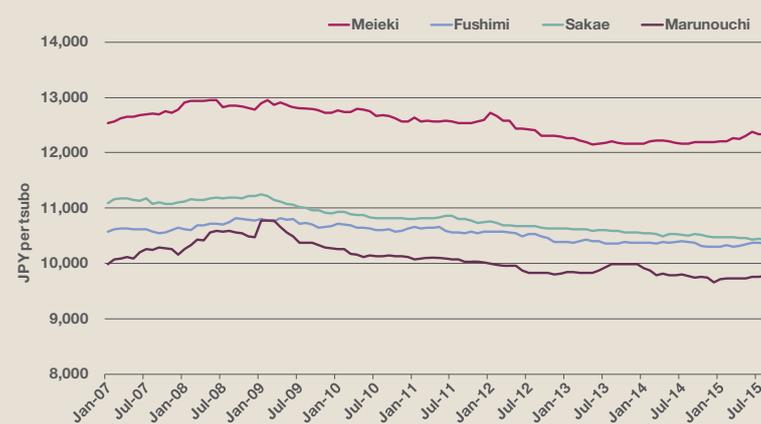
In Marunouchi, the August rent (JPY9,780/tsubo) was more than 9% lower than the peak in February 2009. Though to a lesser degree, the recent rent levels of Fushimi and Sakae are also lower than the peak.

Upcoming supply

The Nagoya economy could be expected to improve for the following reasons:

Firstly, Nagoya's population has been increasing consistently. Secondly, the Linear Shinkansen, opening in 2027 (to Tokyo) and 2045 (to Osaka), will further contribute to the city's expansion. The positive expectations are reflected in the increase in land price in the city as briefly mentioned in the preface to this report.

GRAPH 11 Average rent in Nagoya City by area, Jan 2007–Aug 2015



Source: Miki Shoji, Savills Research & Consultancy

Equally important, because of yen depreciation, exporting firms in Aichi/Nagoya are flourishing. Aichi is also the heart of Toyota, the largest exporter in Japan. Indeed, Bank of Japan considers that the corporate profits of Aichi/Nagoya will be greatly supported by the softer yen, leading to an expansion of corporate investment¹.

In early 2016, JP Tower Nagoya is planned to be completed in Meieki.

¹ Bank of Japan (September 2015) Financial Survey of Tokai

The 40F/B3 office building has a GFA of over 180,000 sq m, with a typical floor plate of 2,300 sq m. It will be followed by the completion of KITTE Nagoya in June 2016.

In the same Meieki Area, the Dainagoya Building is planned to be completed in November 2015. The 34F/B4 building has a GFA of nearly 147,000 sq m.

TABLE 3 Nagoya

	Japan	Tokyo	Nagoya
Real GDP (FY2012, JPY trillion)	517.5	97.0	12.4
YoY%	0.7	-0.1	-0.8
% of Japan		18.8	2.4
No. of population ('000 people)	126,896	13,481	2,283
Job to applicant (prefecture, x)	1.2	1.8	1.5

Source: Cabinet Office, Nagoya City, Savills Research & Consultancy

Fukuoka City

Fukuoka office market NRA

Fukuoka's office stock has been stable since 2009. As of August 2015, the total NRA stood at just under 692,151 tsubo (2,290,000 sq m), only marginally up from the previous year.

Tenjin and Gion have the largest shares of total NRA. With 167,000 tsubo (550,000 sq m), Tenjin accounts for 24%; with 150,000 tsubo (494,000 sq m), Gion accounts for 22% of total office NRA in the city.

Vacancy rate

Fukuoka's office vacancy rates have improved remarkably. Whilst Fukuoka's vacancy rate was high after the Lehman collapse of September 2008, the city's office vacancy rates show strong improvement since then and are likely to continue to get better, due to limited upcoming supply amidst improvements in local economy.

On average, the city's vacancy rate stood at 6.7% in August 2015, nearly 9 ppts up compared to the peak of 15.5% in January 2010.

During the past five years, the best performer of all has been typically the Yakuin area, on the southern side of Tenjin. Yakuin's vacancy rate in August 2015 was 3.3%, the lowest since the beginning of 2007. This is more than 15 ppts up compared to the peak of March 2009.

Other parts of Fukuoka also show favourable vacancy rates, and seem set to continue to improve. The Tenjin Area's latest vacancy rate was 5.9%, comfortably below the pre-GFC average of 7% (January 2007-August 2008, thereafter).

Although vacancy rates of Gion, Station Front, Station East & South, and Akasaka are slightly higher than

Yakuin and Tenjin, all four areas remain below the Lehman collapse average.

In particular, Gion's recovery from the Lehman collapse was slower than other areas. However, August's vacancy rate, 7.2%, showed a more than 11 ppt improvement compared to 18.4% in February 2011.

Average rent

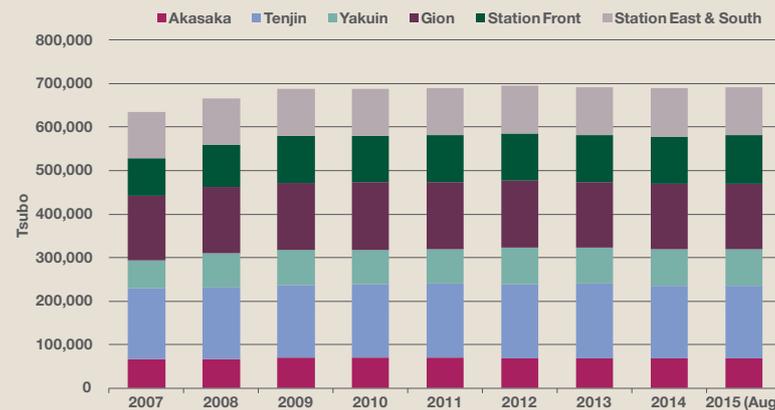
Judging from the remarkable improvements in vacancy rates, the average office rent in Fukuoka has

been at a rock-bottom level but has the potential to rise.

In August 2015, Fukuoka's business area's office rent was just over JPY9,200/tsubo, a contraction of 0.7% month-on-month (MoM) but unchanged from a year earlier. Compared to the pre-GFC average of over JPY10,000/tsubo, it is still 7% lower.

Other areas are in a similar situation. For example, with just under

GRAPH 12 NRA in Fukuoka City by area, 2007–Aug 2015



Source: Miki Shoji, Savills Research & Consultancy

GRAPH 13 Vacancy rate in Fukuoka City by area, Jan 2007–Aug 2015



Source: Miki Shoji, Savills Research & Consultancy

Fukuoka City

JPY10,500/tsubo in August 2015, Tenjin's office rent is over 10% lower than the pre-GFC average. Furthermore, Yakuin's office rent in August was nearly 5% lower.

Upcoming supply

Going forward, the attractiveness of Fukuoka City can be found in the potential growth of the city.

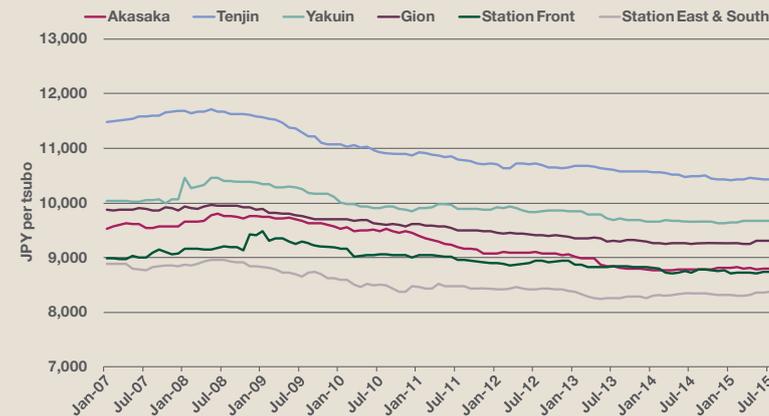
For example, the number of overseas visitors has increased dramatically. Due to its geographical proximity, Fukuoka accommodates many Asian tourists whose expenditure is significantly higher than other regions.

Domestic tourists are also on the rise since the full opening of the Shinkansen in March 2011.

Furthermore, Fukuoka City is planning the redevelopment of the waterfront area for the so-called MICE (Meetings, Incentive travel, Conferences, and Exhibitions), in order to increase the appeal of the city.

Furthermore, contrary to a national trend in population decline, Fukuoka City's population is on rise.

GRAPH 14 Average rent in Fukuoka City by area, Jan 2007–Aug 2015



Source: Miki Shoji, Savills Research & Consultancy

In particular, being the largest city with many universities, large numbers of young people are migrating to the area.

Whilst the local economy is set to grow further, there is limited supply planned for the office market. The imbalance between potential supply and demand is expected to increase office rental levels of the city.

In spring 2016, the JR JP Hakata Building is projected to be

completed. The 12F/B3 building is expected to be one of the largest office buildings in Kyushu, and is directly connected to Hakata Station.

The GFA is about 13,000 tsubo (44,000 sq m) with a typical floor plate of 707 tsubo (2,353 sq m). LINE Fukuoka, a subsidiary of LINE, will relocate into the building.

TABLE 4 Fukuoka

	Japan	Tokyo	Fukuoka
Real GDP (FY2012, JPY trillion)	517.5	97.0	7.2
YoY%	0.7	-0.1	2.3
% of Japan		18.8	1.4
No. of population ('000 people)	126,896	13,481	1,532
Job to applicant (prefecture, x)	1.2	1.8	1.1

Source: Cabinet Office, Nagoya City, Savills Research & Consultancy

Sendai City

Sendai office market NRA

The total NRA of Sendai City's business area was 466,000 tsubo, or 1,541,000 sq m, in August 2015. The city's NRA has remained more or less unchanged since 2010, when the completion of the Sendai Trust Tower increased NRA by 14,000 tsubo (46,281 sq m) in April that year in the Ichiban-cho area.

By area, the combined NRA of the Station Front and Ichiban-cho area comprised over 65% of the total Sendai business area (35% and 32%, respectively), in August 2015. The NRA of the Prefecture Office area and Station East area are smaller in size, at 13% and 14%, respectively.

Vacancy rate

The vacancy rate of Sendai has significantly improved after the Great Eastern Earthquake of March 2011.

For example, prior to the Earthquake, the Station East area's vacancy rate was very high. However, the area's vacancy rate recovered quickly: by the end of 2011, the vacancy rate of the area improved to 15% from 27% in February 2011. The area's vacancy rate stood at 14.3% in August 2015, the lowest since the GFC.

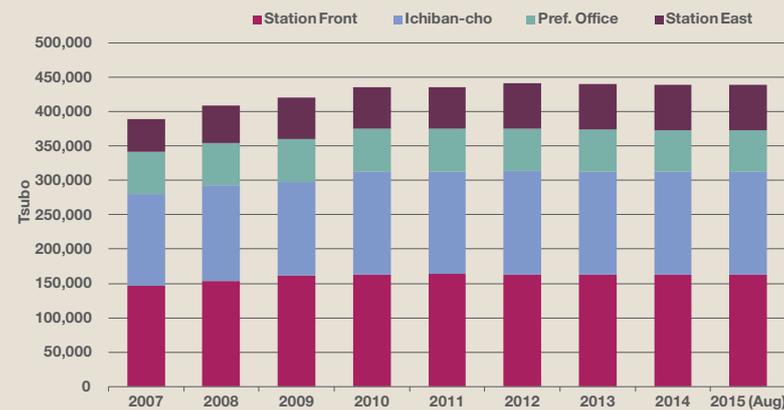
Furthermore, the Station Front area's vacancy rate showed continuous improvement after peaking at 21% in March 2010. In August 2015, it was 8%, the lowest of Sendai City's business areas.

Similarly, the vacancy rates of Ichiban-cho in August (10%) improved by approximately 10 percentage points (ppt) from February 2011 (19.9%).

Average rent

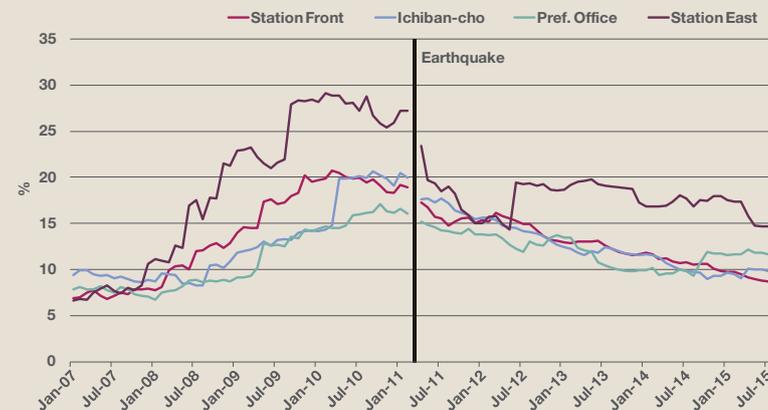
Whilst office rents in many areas in Sendai are still lower compared

GRAPH 15 NRA in Sendai City by area, 2007–Aug 2015



Source: Miki Shoji, Savills Research & Consultancy

GRAPH 16 Vacancy rate in Sendai City by area, Jan 2007–Aug 2015



Source: Miki Shoji, Savills Research & Consultancy

to the pre-GFC period, the rent of busy areas, such as Station Front, have proved resilient even just after the earthquake. Furthermore, the rental levels of Sendai's business area have shown signs of continuous improvement.

The highest office rent was achieved by the Station Front area, or the west exit of Sendai Station. In August 2015, the area's office rent stood at over JPY10,200/tsubo.

On average, the office rent of Sendai City's office buildings in August 2015 was just over JPY9,000/tsubo, an increase of 0.1% MoM. The office rent of Ichiban-cho achieved a 0.4% MoM increase to over JPY8,800 in August.

The office rent in the Station East area, where a new redevelopment project is under construction, nominally contracted by 0.5% YoY to just under JPY9,800/tsubo.

However, in comparison with a year after the earthquake, the area's rent

Sendai City

levels have shown a clear upward trend. For example, compared to February 2012, about a year after the earthquake, the area's office rent in August improved nearly 3%.

Because of limited new supply office rents in the city are expected to further improve.

Upcoming supply

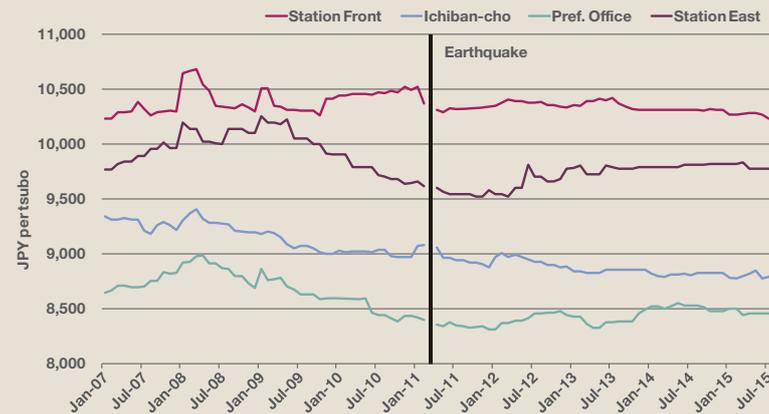
Currently, large-scale redevelopment projects can only be found at the east and west exits of Sendai Station. Furthermore, Miyagi Prefecture states that the economic outlook is brighter due to the recovery of production, the improvement in employment, and a reduced number of bankruptcies². Hence, the corporate performance of the city is expected to improve.

Given this outlook, office rents will benefit from the lack of new supply as well as the increase in the flow of people.

In the east exit area of Sendai Station, two buildings by Yodobashi Camera are expected

² Miyagi Prefectural Government (August 2015) Economic Performance of Miyagi

GRAPH 17 Average rent in Sendai City by area, Jan 2007–Aug 2015



Source: Miki Shoji, Savills Research & Consultancy

to be completed in March 2016. The combined GFA totals approximately 116,700 sq m on a land plot of 15,500 sq m. A part of one building will also be used as office space. In the west exit area of Sendai Station, Parco's new retail building (GFA 24,000 sq m, sales area 9,900 sq m) with a nine-screen cinema, is expected to open in early summer 2016. This will revitalise the city.

However, Tokyu Land Corporation announced in August 2015 that

its planned redevelopment project in the west exit area of JR Sendai station has been cancelled due to the increase in construction costs. This signifies limited supply in the area.

TABLE 5 Sendai

	Japan	Tokyo	Sendai
Real GDP (FY2012, JPY trillion)	517.5	97.0	5.0
YoY%	0.7	-0.1	10.6
% of Japan		18.8	1.0
No. of population ('000 people)	126,896	13,481	1,076
Job to applicant (prefecture, x)	1.2	1.8	1.4

Source: Cabinet Office, Nagoya City, Savills Research & Consultancy

Sapporo City

Sapporo office market NRA

Sapporo City's office NRA has been very stable at around 500,000 tsubo, or 170,000 sq m. Moreover, the shares of each business area remain more or less unchanged since 2007.

Odori-koen and East-West of the Station Front areas are proportionally largest, with 28% and 29% of Sapporo's total NRA, respectively.

Vacancy rate

Overall, Sapporo has shown clear improvements in vacancy rates, especially since early 2011; all areas show clear downward trends.

On average, Sapporo City's office vacancy in August was 6.0%, a 3 ppt improvement compared to a month earlier. In fact, the average vacancy rate of the city has been steadily in decline since the peak of 12.0% in June 2010.

Best of all in terms of vacancy rate is the Kitaguchi Area, whose vacancy rates have been the lowest in the city since around the time of the Lehman collapse. In August 2015, the area's vacancy rate was 3.4%, with a 4 ppt improvement from the previous month, and less than half the pre-GFC average of 7.3%.

The vacancy rates of Minami 1-jo area and Sosei River East area have shown significant improvements since late 2010 and early 2011 when both area's vacancy rates were around 15%. The recent vacancy rates are nearly half of this: 8.2% for Minami 1-jo, and 7.8% in Sosei River East. The latest vacancy rates in both areas are also over 10 ppt lower than the pre-GFC average.

The Station Front Odori-Koen's vacancy rate was high at around 14% in late 2009 and early 2010. The area's vacancy rate in August 2015 fell to below 5%, materially

improved from the pre-GFC average of 6.3%.

Moreover, the vacancy rate of Station Front East-West in August 2015 was 6.1%, significantly lower than the pre-GFC average of 8%.

Average rent

Despite the lower vacancy rates over the years, office rents in Sapporo City have shown relative stability. We believe that there is potential to increase rental levels going forward.

The average rent of Sapporo's office space in August 2015 was just over JPY8,100/tsubo, almost no change from the previous months.

The Station Front East-West area bottomed out in early 2014 at around JPY8,400/tsubo in November 2014. Since then office rents have been climbing, and reached an average of JPY 8,500/tsubo in August 2015.

In Minami 1-jo, the office rent in August 2015 was JPY7,160/tsubo, 14% lower than the peak in June 2007 (JPY8,370/tsubo). As the vacancy rate of the area has significantly improved recently, the area's rental levels could also rise.

In Kitaguchi, where the vacancy rate has been the lowest for over five years, office rents bottomed out in late 2013, at around JPY9,550/tsubo. Since then, though with fluctuations, office rents have gradually risen, and in August 2015, the average office rent achieved was over JPY9,600/tsubo.

Upcoming supply

The economic outlook of Sapporo City recovered in the first half of 2015. According to the Sapporo City Government, the city economy is on the way to recovery³.

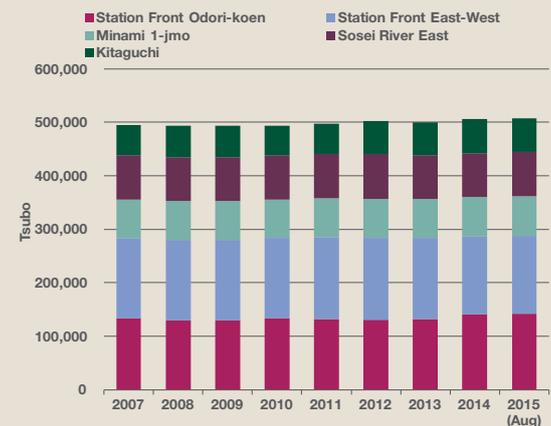
For example, household expenditure recovered from a sharp drop caused by the consumption tax hike, and the employment situation has also recovered significantly.

³ Sapporo City Government (September 2015) The Sapporo Economy

Moreover, the population in Sapporo City has increased and its share of the Hokkaido region as a whole is currently over 35%. Finally, the number of inbound tourists has risen, and in July visitor numbers increased by 3.5% YoY, the ninth straight month of positive growth.

The completion of the Sapporo Mitsui JP Building in August 2014 provided over 25,400 sq m of office NRA to the city. Since then, there has been no significant new office supply. ■

GRAPH 18 NRA in Sapporo City by area, 2007–Aug 2015



Source: Miki Shoji, Savills Research & Consultancy

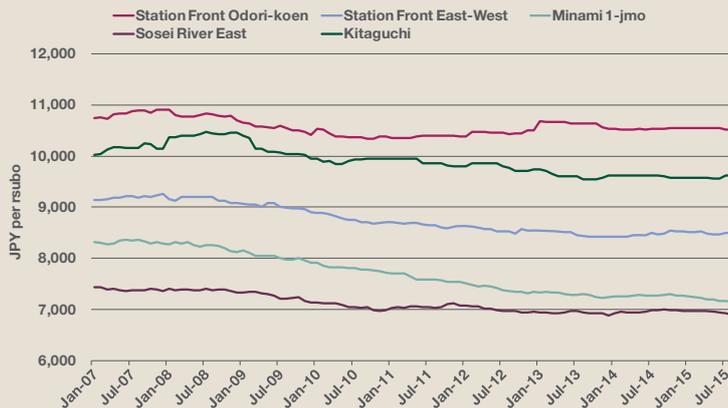
GRAPH 19 Vacancy rate in Sapporo City by area, Jan 2007–Aug 2015



Source: Miki Shoji, Savills Research & Consultancy

Sapporo City

GRAPH 20
Average rent in Sapporo City by area, Jan 2007–Aug 2015



Source: Miki Shoji, Savills Research & Consultancy

TABLE 6
Sapporo

	Japan	Tokyo	Sapporo
Real GDP (FY2012, JPY trillion)	517.5	97.0	6.6
YoY%	0.7	-0.1	0.8
% of Japan		18.8	1.3
No. of population ('000 people)	126,896	13,481	1,948
Job to applicant (prefecture, x)	1.2	1.8	1.0

Source: Cabinet Office, Nagoya City, Savills Research & Consultancy

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