

JLL Research | December 2018

Osaka to Host World Expo 2025

-Impact on the Osaka Real Estate Market and Establishment of the Global City Brand



Osaka has been chosen as the host of the World Expo 2025. The theme for the event will be “Designing Future Society for Our Lives,” which aims to establish the “People’s Living Lab,” a social experiment site focused on total social optimization through innovative technologies such as IoT, AI and big data. The event will take place over 185 days, from May 3rd to November 3rd, 2025. Approximately 28 million visitors are expected, of which foreigners will comprise about 10%, or 3.5 million. According to the Resona Research Institute, the economic impact of the expo is likely to reach JPY2,200 billion.

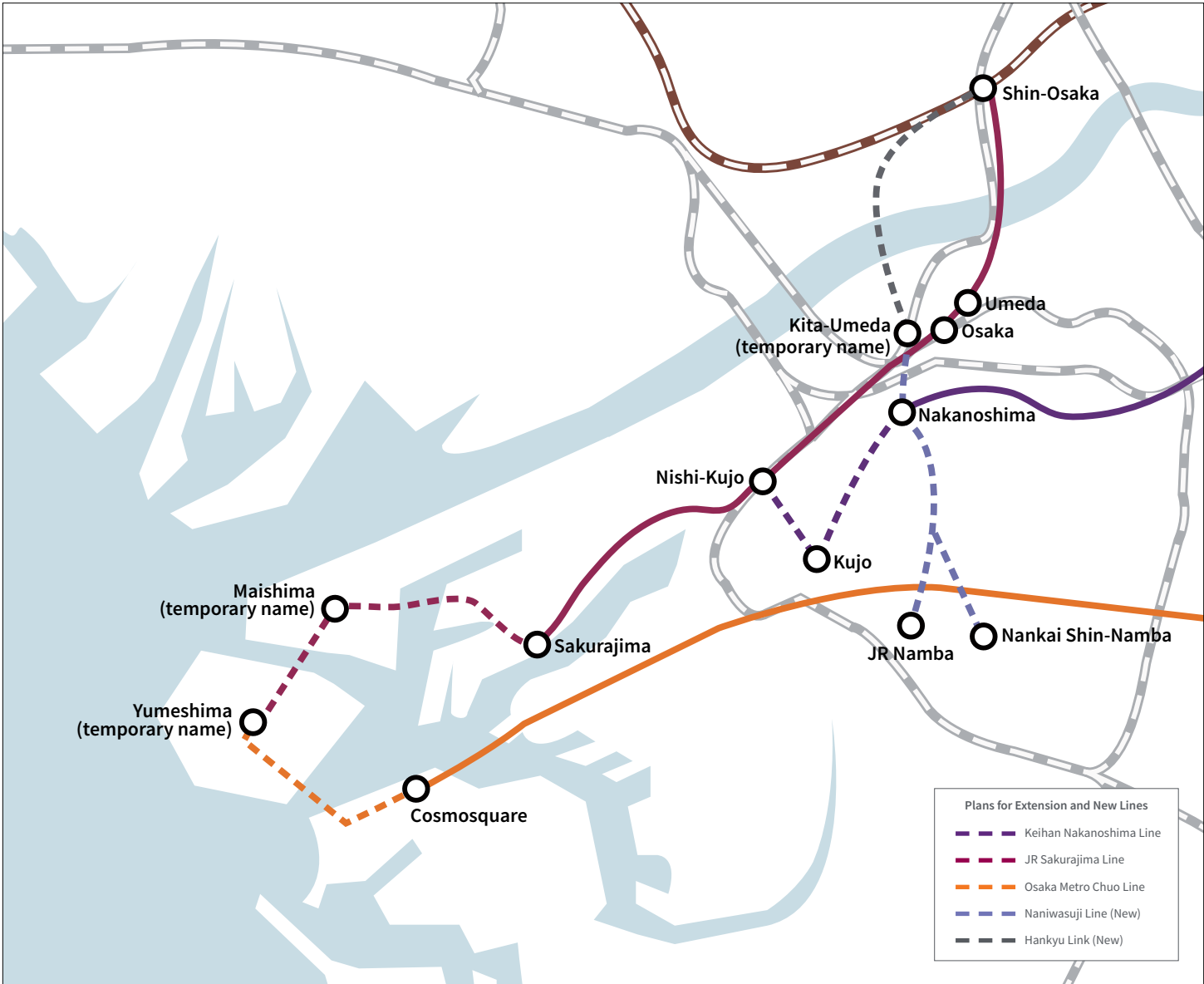
Let us review what impact the World Expo will have on Osaka City and its surrounding area, as well as on the Osaka real estate market.

Expo to Promote Development of Urban Functions

Significant international events such as the Olympic Games and the World Expo consistently prompt discussion on the construction and upgrading of urban functions; this refers to infrastructure, including facilities such as railways, roads, and ports. Real estate is also part of this process, as it is an important foundation upon which effective operation of infrastructure depends. In fact, major real estate developers have begun large-scale redevelopment projects in response to Tokyo’s winning bid for the Olympic Games, fueled by the deregulation by the government through the designations as the National Strategic Special Zone. Global attention

on the Olympic Games has presented an excellent opportunity to showcase the appeal of this international city, attracting capital, businesses and talent from around the world.

The same success story should be in the cards for the Osaka World Expo. The Yumeshima island, the venue of Expo, is located at the western end of Osaka City. Osaka Metro is planning to extend the Chuo Line from Cosmosquare Station to Yumeshima Station (temporary name), and West Japan Railway is reported to be considering the extension of the Osaka Sakurajima Line from its current terminus at Sakurajima Station (adjacent to the Universal Studio Japan) to Yumeshima via Maishima. In addition to railways, plans to widen the Yumeshima Bridge, and development of LRT, BRT and monorails, are potentially also on the table. With these developments, access from traditional commercial areas like Umeda, Midotsuji and Namba to the Osaka Bay Area, including Yumeshima, will improve tremendously. This would elevate the redevelopment of the overall transport system for Osaka City to a whole new level. A prime example is the extension scheme for the Keihan Nakanoshima Line, which aims to improve access to Yumeshima. Such transport infrastructure development is highly likely to attract real estate development in various areas of Osaka City, with the expectation that such developments would reap the economic benefits of the Osaka Expo.



In Tokyo, the Olympic Games have spurred developers such as Mitsui Fudosan, Mitsubishi Estate, Tokyu Group and Mori Building on the race to redevelop the Nihonbashi, Marunouchi, Shibuya and Toranomon neighborhoods, respectively. This shows the principles of competition at work between the developers. In the Kansai region, key developers are comprised of Osaka companies such as railway groups including West Japan Railways, Hankyu Hanshin Holdings, Nankai Electric Railway, Kinki Nippon Railway and Keihan Electric Railway; utilities groups including Kansai Electric Power and Osaka Gas; house manufacturers such as Sekisui House and Daiwa House Industry; local developers such as Daibiru and Keihanshin Buildign; as well as Super General Contractors and General Trading Companies founded in the region. Major developers headquartered in Tokyo are also unlikely to just stand back and watch as Kansai developers engage with potential projects. With the inclusion of the government negotiation stage, redevelopment projects need more than five years to be finalized, but the World Expo is still seven years away, which provides ample time. The value of the Osaka real estate market is


expected to further surge with urban redevelopment funded by the private sector.

Robust Leasing and Investment Activities in Osaka Real Estate Market

Although the duration of the Osaka Expo is longer than the Olympic Games, some investors may wonder whether real estate demand will follow redevelopment projects for an event that runs for only about six months. However, we believe such concern is unfounded considering the current condition of the Osaka real estate market.

Let us summarize the state of the Osaka real estate market. Firstly, in the leasing market, average monthly rent for Osaka Grade A buildings as of September 30, 2018 was JPY20,267 per tsubo with a vacancy rate of 1.1%, and double-digit rent growth of 11% y-o-y. For the same period, Tokyo’s rent growth was only 2.9%, which highlights the strength of the Osaka market.

Grade A Office Market

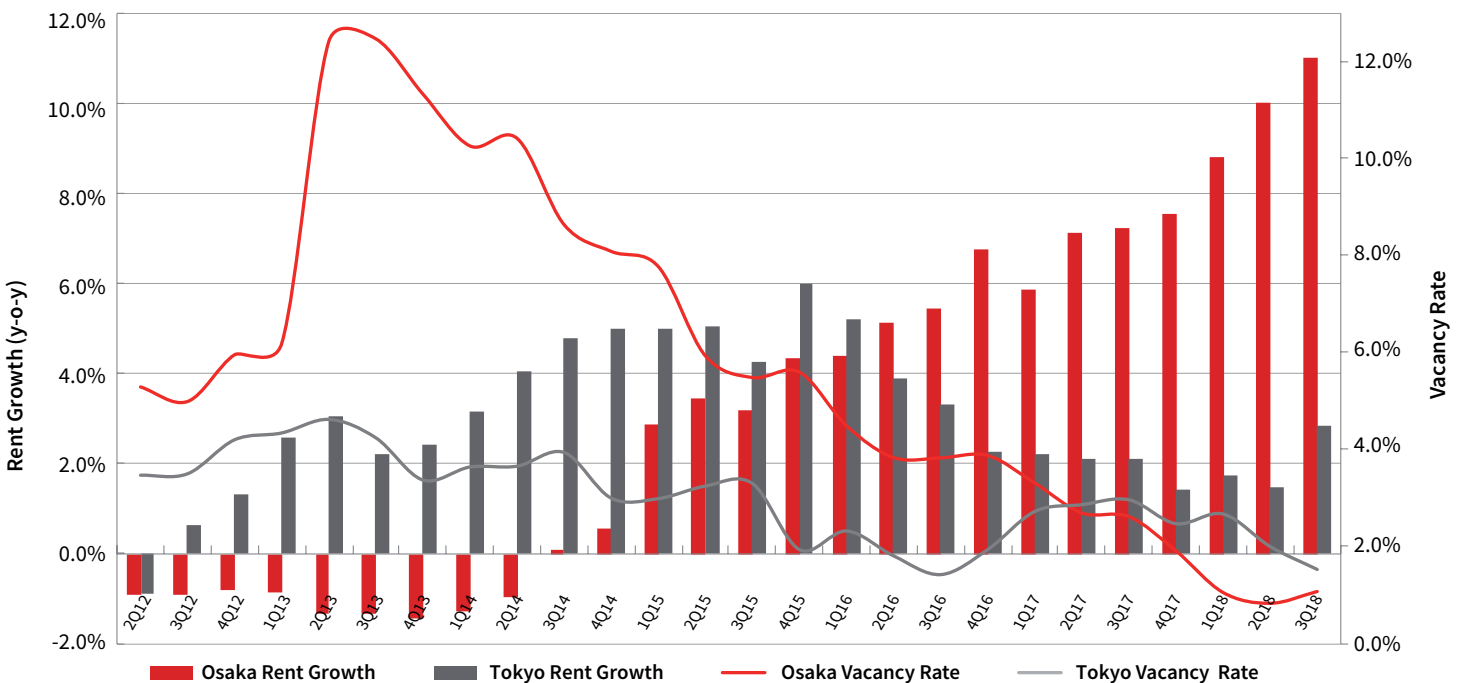
Area	Rent (including common service charges)			Vacancy Rate	
	JPY/tsubo	q-o-q	y-o-y	9/30/2018	q-o-q
Osaka	JPY 20,267	2.0%	11.0% 	1.1%	0.2%
Tokyo	JPY 37,660	1.5%	2.9%	1.5%	-0.5%

Source: JLL December 2018

Rent growth turned positive numbers in Tokyo at the end of 2012, supported by economic recovery via Abenomics, and reached its peak around 2016. Since then, vacancy rate has remained low, but concerns over large supplies in the three-year period starting from 2018 have hampered the rent growth to about 2% p.a. at present. The effect of Abenomics took longer to reach Osaka and the sluggish take-up of large supplies provided by Grand Front Osaka in 2013

meant that the rent only finally started to rise from the end of 2014, two years after Tokyo. Osaka entered its economic growth period alongside the surge in inbound tourists, and, with relatively limited new supplies, rent has kept on rising. Annual growth has surpassed Tokyo in 2016 and this gap has widened since then. Osaka rent has recorded double digit growth for two consecutive quarters from 2Q18.

Grade A Office Rent Growth and Vacancy Rate



Source: JLL December 2018

Future new supplies of Grade A offices in Osaka are limited to OBIC Midotsuji Building to be completed in 2020 and Osaka Umeda Twin Towers South (temporary name) to be completed in 2022. Osaka Grade A office supply for the next five years (2019-2023) is limited to 222,000 sqm, or 44,400 sqm p.a., equivalent to only about 60% of average annual supply for the past decade.

Consequently, the market will remain tight and the rent is expected to continue rising. Winning the bid to host the World Expo should further support and extend this trend into the future. The strong Osaka office market indicates serious lack of vacancies, suggesting that real

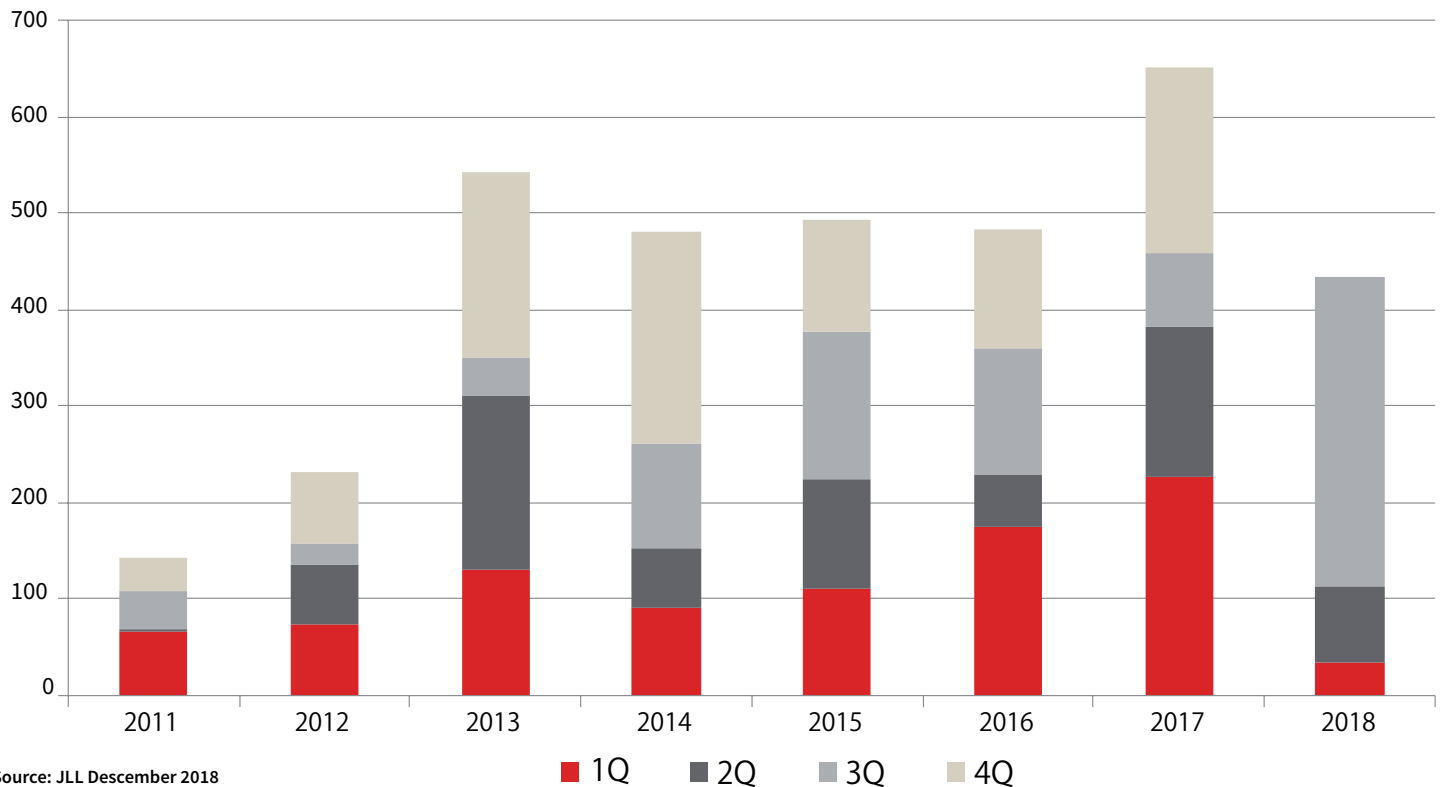
estate developments will target the period when the economic effect of the 2025 Expo is expected. Supply of office space that supports the robust economic activities and labor force is necessary for the overall Osaka economy to thrive.

The strong leasing market in Osaka is attracting significant attention from investors. Commercial real estate investment in Osaka has been growing, with 15 large transactions in excess of JPY10 billion taking place in the Greater Osaka Area in 2018. Record transaction amount was reached in 3Q18, and overseas investors are prominent amongst the buyers. Domestic and overseas investors are expecting the Tokyo market to enter stagnation as significant supplies of Grade

A office buildings enter the market between 2018 and 2020, and are turning to Osaka as a promising market with limited new supplies. The increase in new supplies from redevelopment projects is likely to be absorbed by strong tenancy demands, and robust investment appetite should be supported by willing lenders and abundant resale opportunities. We expect the Osaka real estate market to continue its strong performance.

Greater Osaka: Total Direct Investment in Commercial Real Estate

(JPY billions)



Source: JLL December 2018

Excellent Opportunity to Build Osaka Brand Appeal

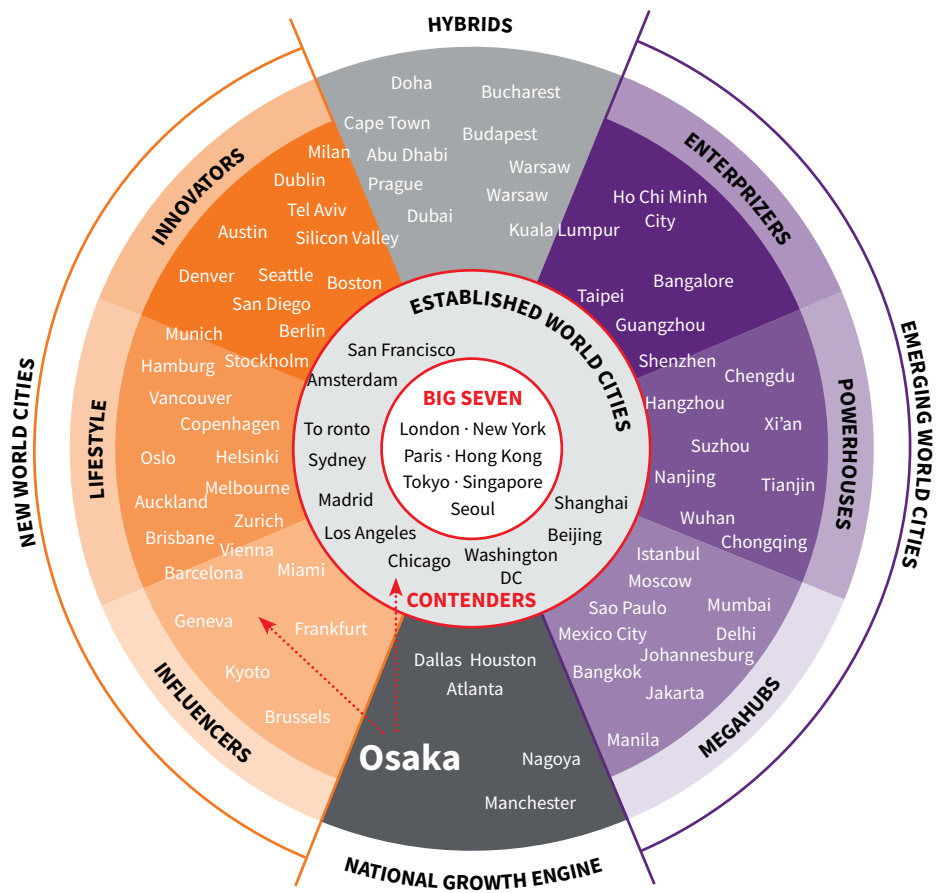
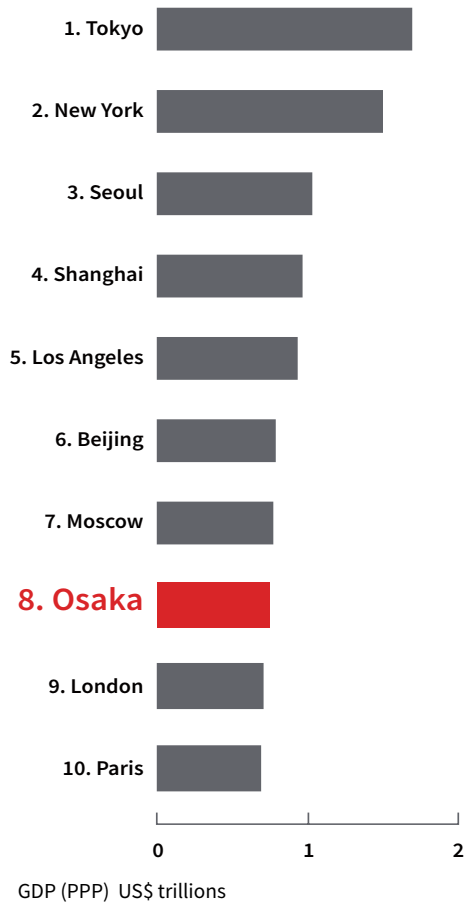
Yumeshima, the chosen venue for the 2025 Expo, is a symbolic suburb developed during the rapid economic growth period. Alongside the adjacent Sakishima (Nanko) area, its history is one of a “negative legacy,” that is, an area of idle land lots and unprofitable properties abandoned after the burst of the bubble economy. Tokyo also experienced stagnation in its own Bay Area redevelopment after the burst of the bubble, but the idle lots there will now be utilized as the main venue of the 2020 Tokyo Olympic Games. Similarly, the Osaka Bay Area, including Yumeshima, now has the chance to become a “true heritage” site with the hosting of Osaka Expo. Past Olympic host cities such as London and Sydney achieved successful regeneration of their former warehouse and factory sites and land contaminated from waste disposal in parallel with those events, and expectations are high for the Osaka Expo to revitalize the Osaka area.

Furthermore, the World Expo presents a rare opportunity to develop the global appeal of the Osaka brand. As competition between global

cities intensifies, city brand appeal has become significant enough that its influence is able to potentially affect national economy. However, as seen in the “Universe of City Indices 2018, World Cities: Mapping the Pathways to Success” report by JLL, Osaka is categorized in the National Growth Engines group, indicating that, despite the large population and economy, its appeal as a city or economic area is not sufficiently recognized at a global level. While it is an economic area globally ranked No.8 in terms of size of economy comparable to the Big 7 global cities including Tokyo, it doesn’t fare well in Soft Power which indicates global recognition, or Gateway Functions, which assess the access and links to overseas markets. In sum, the challenge for Osaka to improve its position as a global city lies in enhancement of international features and branding. Hosting the World Expo would present an exciting opportunity to address these issues.

Osaka in the New World of Cities

The World's Largest Metropolitan Economies



Source: The Business of Cities, JLL, 2018.

Creation of Economic Hub by Liaising with Surrounding Cities

Furthermore, Osaka should utilize the World Expo as a stepping stone to establish an economic hub by strengthening cooperation with the core cities in its region, rather than treating the event as an exclusive opportunity for Osaka. By liaising with surrounding cities such as Kyoto and Kobe, it could create a new economic hub to rival Tokyo. Making polycentric region through cooperation between multiple cities is a concept that has already enjoyed success in the planning of other global cities. These include the San Francisco Bay Area comprising of San Francisco, Silicon Valley and Oakland; Holland Metropole consisting of Amsterdam, Rotterdam, The Hague and Utrecht; and the Great Bay Area to be created by Hong Kong, Shenzhen, Macau, Foshan and Guangzhou. Following these examples, Osaka as a commercial center, Kyoto as a tourist city that also hosts many international MICE events, and Kobe as a port city with numerous academic, research and development facilities including advanced medical research area, could quite possibly leveraging their strength and mutual support to become an international multi-nodal region well-differentiated from Tokyo. The extension of the Keihan Nakanoshima Line mentioned above will improve transport convenience between Kyoto and Osaka, and Osaka's Governor Ichiro Matsui was reported to have accepted opening the Kobe Airport to international flights soon after winning the bid to host the World Expo. Similar moves to

cooperate in transport infrastructure between cities are emerging. In addition, Osaka will be hosting a series of global events before the 2025 Expo. Osaka is among the strongest contenders to become an integrated resort (IR) area, and will host the G20 Summit in 2019. After the 2020 Tokyo Olympic Games, the Kansai region will hold the 2021 World Masters Games. If Osaka is certified as an IR Area, an integrated resort can be opened as early as 2024, after the establishment of the IR Implementation Act. Should this occur, the World Expo 2025 would be held a year after the opening of the IR. Real estate has an important city function along with transport and communication infrastructures, and plays a significant role in determining a city's competitiveness. Real estate is not just the physical structures of a city, but an engine that drives a city to success. Impressive and symbolic monument buildings that create a unique atmosphere; offices that enable flexible work-style, improving the quality of life; sustainable buildings in a low CO2 society; and PropTech that integrates technology with real estate all exemplify the significant role that real estate will play in the future of urban society. The theme of the Osaka Expo "Designing Future Society for Our Lives" is aligned with such city planning, and we sincerely hope that the city of Osaka becomes a global showcase for technology and sustainability.

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