

We, Mori Trust Co., Ltd. (Head Office: Minato-ku, Tokyo), have since 1986 undertaken continuous field surveys and interviews concerning the implementation of plans for large-scale office building projects (total floor area: ten thousand square meters) within the 23 wards of Tokyo. Results of the most recent surveys and analysis are presented below. Where the survey considers multi-purpose buildings—buildings coupled with stores, residences, hotels, etc.—only the area purely for office use is assessed. [Survey Date: December 2006]

## Extremely Low Supply of Large-scale Office Buildings Until 2010

### 👉 Main Results of This Survey

#### 1. Trends in Supply Volume:

Average annual supply for 2007–2010 of 760,000 square meters, half the 2003–2006 level of 1.46 million square meters

Since the supply boom of 2003, as a result of numerous very large-scale developments (on former JNR land, for example), the average annual supply for 2003–2006 reached 1.46 million square meters. As the majority of these developments were completed in 2006, average annual supply for 2007–2010 is predicted to drop to approximately half of that for 2003–2006, i.e., to 760,000 square meters.

#### 2. Trends in Supply Location:

Supply in Chiyoda Ward for 2007–2010 stands out at 40% or more, with a distinct focus on the area around Tokyo Station. Moreover, active development of medium- and small-sized buildings is seen in the significantly integrated office-space area surrounding the business center.

Looking at the supply area for 2007–2010, Chiyoda Ward stands out, accounting for 42% of total supply. By business area, there is a distinct focus on Otemachi-Marunouchi-Yurakucho area, where the supply over the next four years will reach one million square meters. In Akasaka, Osaki/Gotanda, and Nishi-Shinjuku, the supply in each area exceeds 200 thousand square meters. Apart from these districts, no other area stands out. Additionally, in the area surrounding the business center, in which office buildings sprang up densely and rapidly after 2003—including the Otemachi-Marunouchi-Yurakucho area, Shiodome, and Roppongi—we are seeing active development of medium- and small-sized buildings.

#### 3. Trends in Supply from Rebuilding:

Future supply of large-scale office buildings will center on rebuilding. Business methods will continue to diversify, with the use of special purpose companies (SPCs) and other innovations.

Between 2003 and 2006, construction on underutilized or unused land (including former JNR land) accounted for approximately 70% of redevelopment, while construction due to rebuilding accounted for only approximately 30% of redevelopment. Between 2007 and 2010, construction due to rebuilding will account for the majority of redevelopment, at 54%—exceeding construction on underutilized and unused land. In addition, between 2003 and 2006, real estate companies were the major operators involved in rebuilding, carrying out 63% of rebuilding projects. Between 2007 and 2010, rebuilding projects undertaken by real estate companies decreased to 38% of the total, and instead SPCs, etc. involved in rebuilding have increased their share of projects dramatically, from 14% to 32% of the total number undertaken. For the reasons mentioned above, business methods have diversified involving securitization of real estate in order to fund rebuilding initiatives.

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### ⇒ Future Market Outlook

A general survey of the market conditions for office space in Tokyo over the last few years shows strong demand in a buoyant market due to the economic expansion. From the latter half of 2003 vacancies began to decrease; as a result, since last year there has been a clear trend toward higher rents. Additionally, demand shows no signs of slackening as we move into 2007, indicated by the speed with which new large-scale buildings have been reaching full capacity and other factors.

This startling ongoing market recovery can be seen as the result of a match between demand and supply: demand due to corporate office-space strategies that promote rebuilding and consolidation to accommodate expanding corporate business, and high supply in favorable locations in central Tokyo. Even greater demand can be expected based on future office-space supply, in light of redevelopments underway in optimum central metropolitan areas.

Moreover, with increasing concern over earthquakes and other disasters, many companies are looking for characteristics such as a high capacity to withstand earthquakes in their search for building space, as well as the ability to provide backup for infrastructure and equipment. These concerns may lead to an increase in demand for moves to large-scale buildings featuring high safety standards and high reliability.

Taking the impending large reduction in supply into consideration, we predict that for the foreseeable future the tight relationship between supply and demand and the tendency toward higher rents can be expected to continue, centering around large-scale office buildings in central Tokyo. On the other hand, it will become even more critical to promote the further supply of quality office space in order for the present positive economic conditions continue, considering the likely future shortage of vacancies and corresponding sluggishness in demand. In this sense, we look forward to the early implementation of policies with an impact on the supply of office space in favorable metropolitan areas, including the disposal of and maximal use of government assets, of which discussion has already begun.

Figure 1: Trends in supply volume of large-scale office buildings in the 23 wards of Tokyo

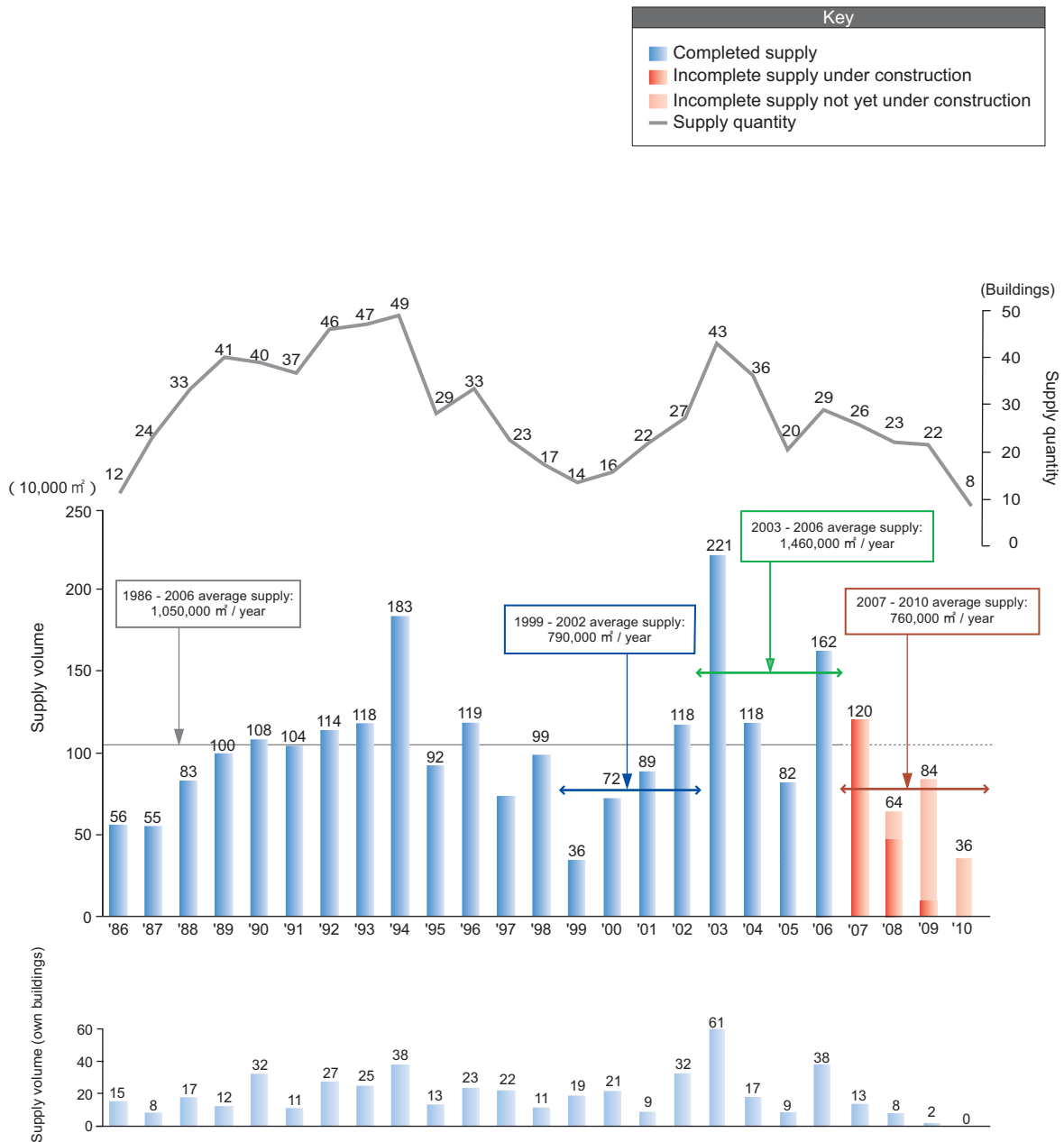


Figure 2: Trends in average total office floor area per building (four-year intervals)

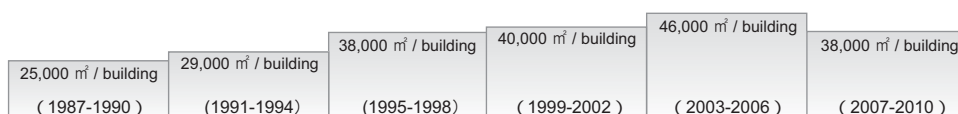
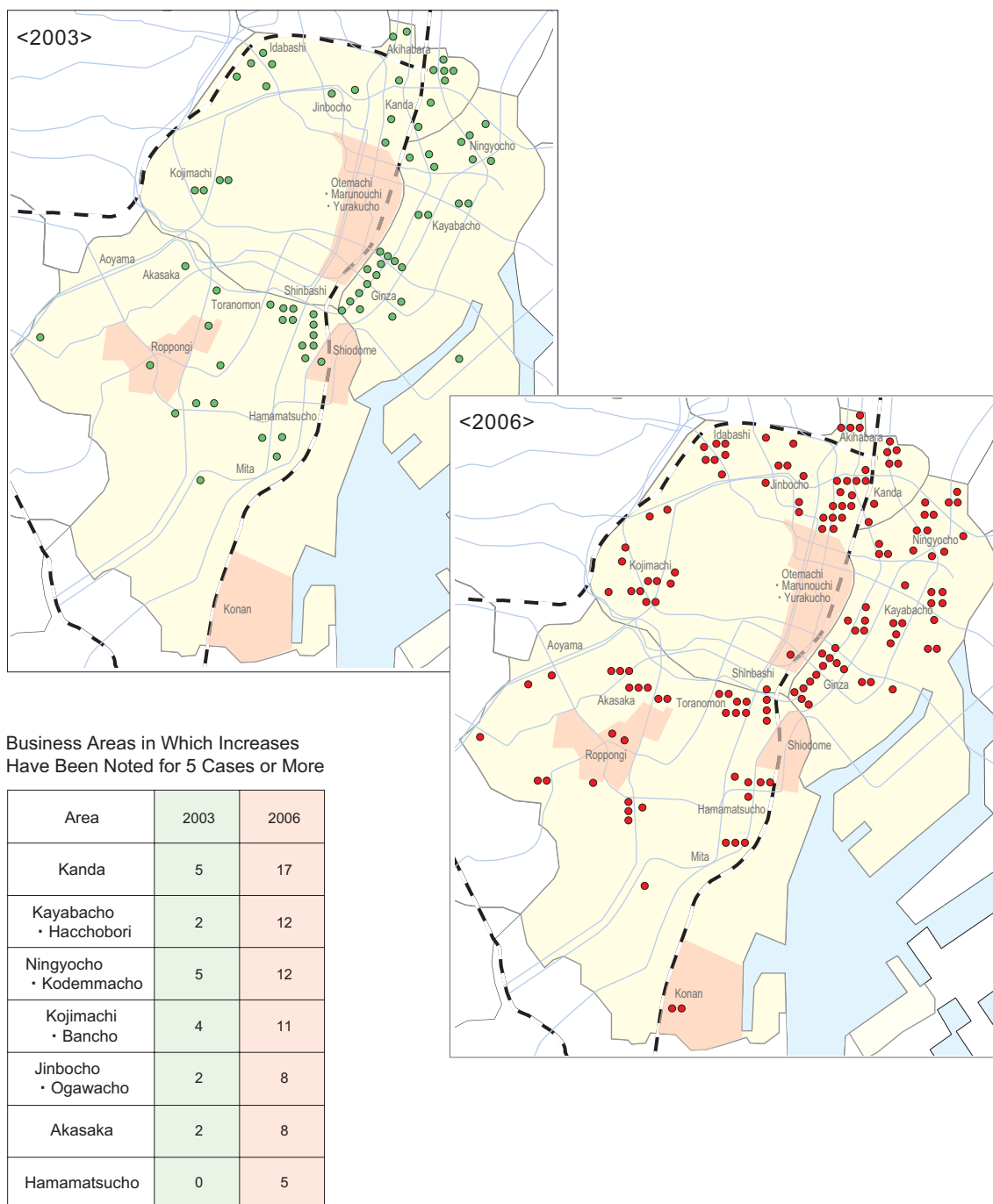






Figure 7: Supply Construction Areas for Medium- and Small-Sized Buildings <sup>Note)</sup>  
 <three central Metropolitan Wards>



Note) Based on the applications for posting of construction signs related to building construction authorized from January to December each year, records per case have been kept by town and local precincts of plans in which the total floor area (including office space) is less than ten thousand square meters. Plans whose major purpose is residential are not included.

Figure 8: Percentages of large-scale office supply volume by site type

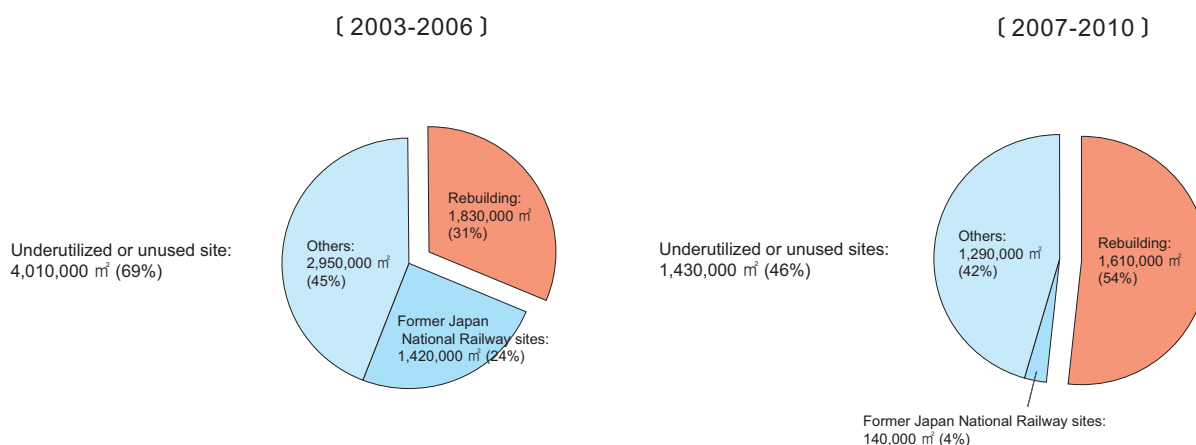


Figure 9: Supply Ratio by Major Operator in Rebuilding



[Definition of terms]

Rebuilding:

(Developments taking place on) land resulting from the demolition of buildings previously used as offices, hotels, residences, etc.

Underutilized and unused site:

(Developments taking place on) land not previously used effectively, including land with intermixed parking lots, dilapidated buildings, and a number of empty lots, concentrated residential-use land, former factories, former railway land, etc.

SPCs, etc.:

A scheme in which Special Purpose Companies (SPCs) are central to development, or in which SPCs are included among the major operators.