

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 office floor area: 10,000 square meters or more) within the 23 wards of Tokyo. Results of the most recent surveys and analysis are presented below. In the calculation of total office floor area, where the survey deals with multi-purpose buildings—buildings coupled with stores, living quarters or residences, hotels, etc.—only the floor area purely for office use is taken into consideration. [Survey Date: December 2008]

## Focus of supply area shifting from central Tokyo to neighboring areas

### 👉 Main Results of This Survey

#### 1. Changes in Supply Volume:

Supply is expected to remain low until 2010, at less than 1 million square meters in each of the three consecutive years starting from 2008, but to rebound to 1.5 million square meters or so in the years 2011-2012.

For the years 2009-2010, total annual supply is projected to reach only 800,000 square meters, with low supply (defined as figures below recent averages: 1.04 million square meters/year) persisting until 2010. In contrast, supply is expected to rebound to roughly 1.5 million square meters in 2011-2012; however, current market conditions are likely to lead to the postponement or cancellation of several projects, leading to probable declines in supply, depending on future trends.

#### 2. Trends in Supply Location:

Supply is trending downward in central Tokyo but appears likely to increase in neighboring areas.

A look at supply locations in the years 2009-2012 shows that the share of total supply accounted for by the three central wards of Tokyo may decline to less than one-half of total supply, while the volume of supply itself falls to roughly 70% of actual levels in the years 2005-2008. A look at shares for individual wards shows that while Chiyoda Ward will continue to account for over 30% of total supply, Minato Ward's share will fall to roughly 10% – less than the share accounted for by Koto Ward. A look at supply by business area shows that while the Otemachi-Marunouchi-Yurakucho area features abundant supply, areas with the next highest levels of supply lie outside the three central wards, including the Rinkai, Toyosu, and Osaki/Gotanda areas, indicating a clear trend toward supply dispersed over locations neighboring the center.

#### 3. Trends by Development Site:

Supply in the three central wards has focused on rebuilding, while other areas tend to feature thriving new, large-scale developments on unused land.

A look at supply trends by development site in the years 2009-2012 shows that the supply structure will likely focus even more on rebuilding in the three central wards of Tokyo. While the renewal of office stock emerging from rebuilding has remained fairly consistent, development of unused or underutilized sites such as former Japan National Railway land has declined significantly. Outside the three central wards of Tokyo, development of unused or underutilized sites continues to account for over 80% of new supply, with large-scale developments of unused land thriving in the Rinkai area and elsewhere.

### ⇒ Future Market Outlook

A look back at supply trends of large-scale office buildings since 2000 shows a clear focus on central Tokyo, with supply in the three central wards uniformly exceeding that in other areas since 2000. However, these areas are expected to trade places once again from 2010.

A look at the relation between supply trends and land price changes shows that supply in the three central wards of Tokyo, which had thrived since 2000, had been boosted by the tailwind of falling land prices persisting for some time following the collapse of Japan's real-estate bubble. However, since 2006, when land prices began to rebound, supply in these areas has slowed. In contrast, in areas outside the three central wards, where land prices are moderate compared to central Tokyo, while the rebound in land prices temporarily dampened supply, supply is expected to surpass that in the three central wards from 2010.

While this supply outside central Tokyo will capture demand from firms seeking to cut office costs during times like the current downturn, demand remains steady for office buildings with prime locations in central Tokyo. As such, there are no signs of major changes in the movement of corporations back to central Tokyo. The real-estate market currently is in a readjustment phase; prices in central Tokyo, which had been rising, have now peaked and begun to fall. This price adjustment is expected to create a supply of properties meeting corporate demand in terms of both location and lease rates, stimulating latent office demand and revitalizing the market.

The current slowdown in the office and real-estate markets may even represent an opportunity to promote redevelopment of urban functions suited to the characteristics of locations, and from a long-term perspective it is hoped that such slowdown will lead to appropriate urban environment development.

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

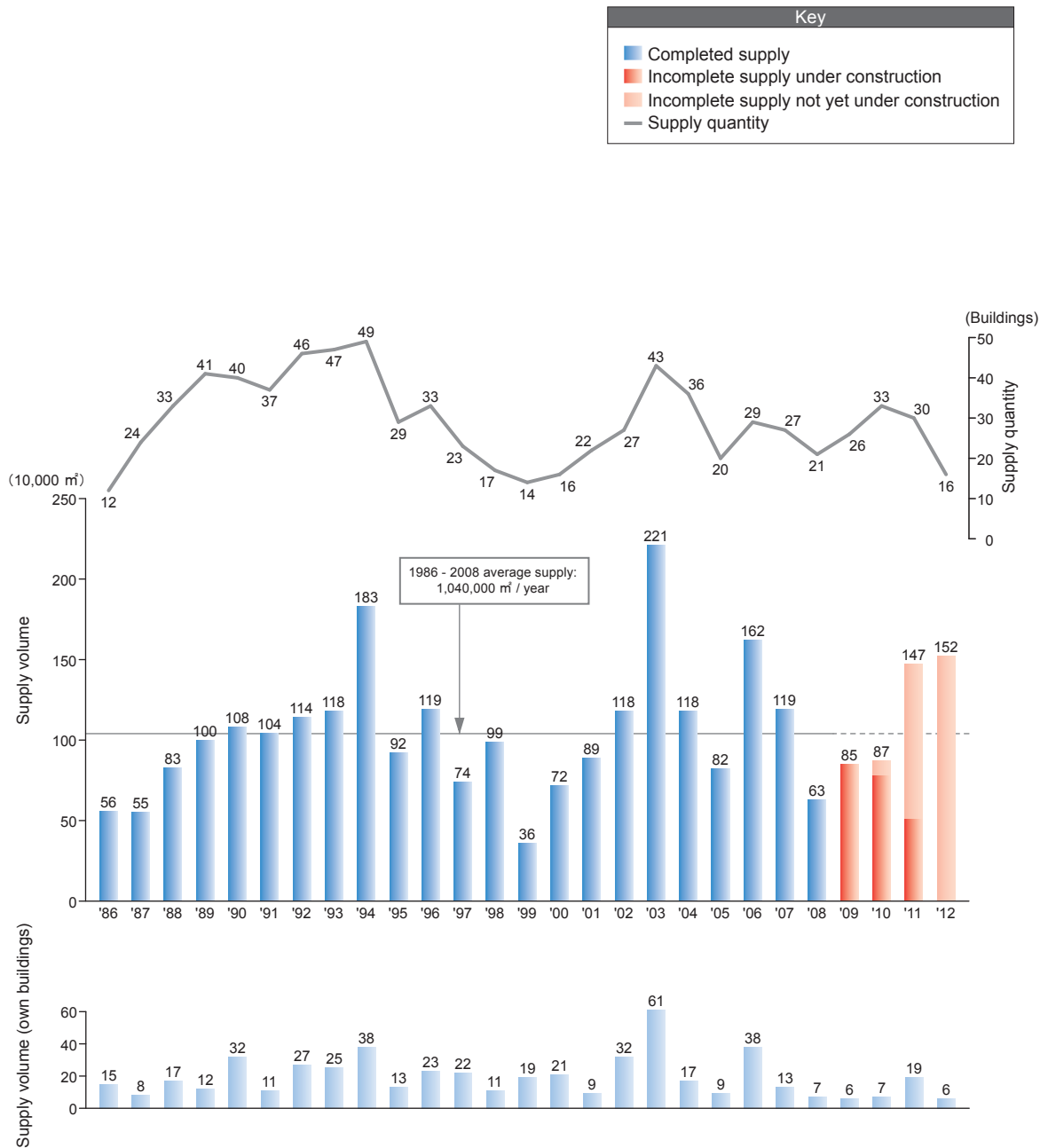


Figure 2: Trends in average total office floor area per building (five-year intervals)

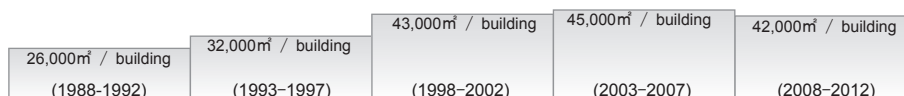


Figure 3: Large-Scale Office Supply by Ward

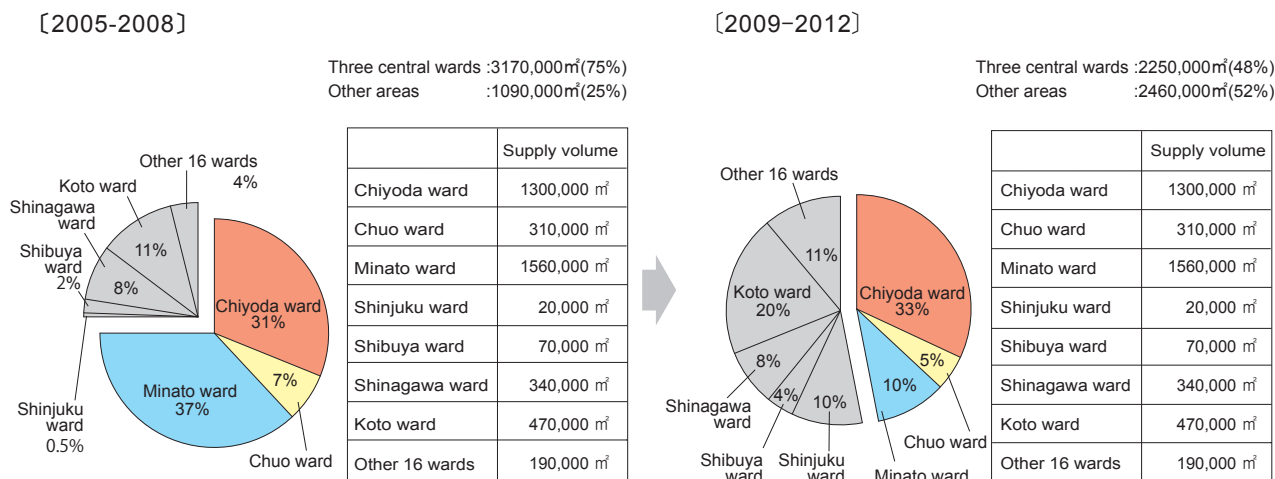


Figure 4: Trends in the top 10 districts in terms of large-scale office supply volume

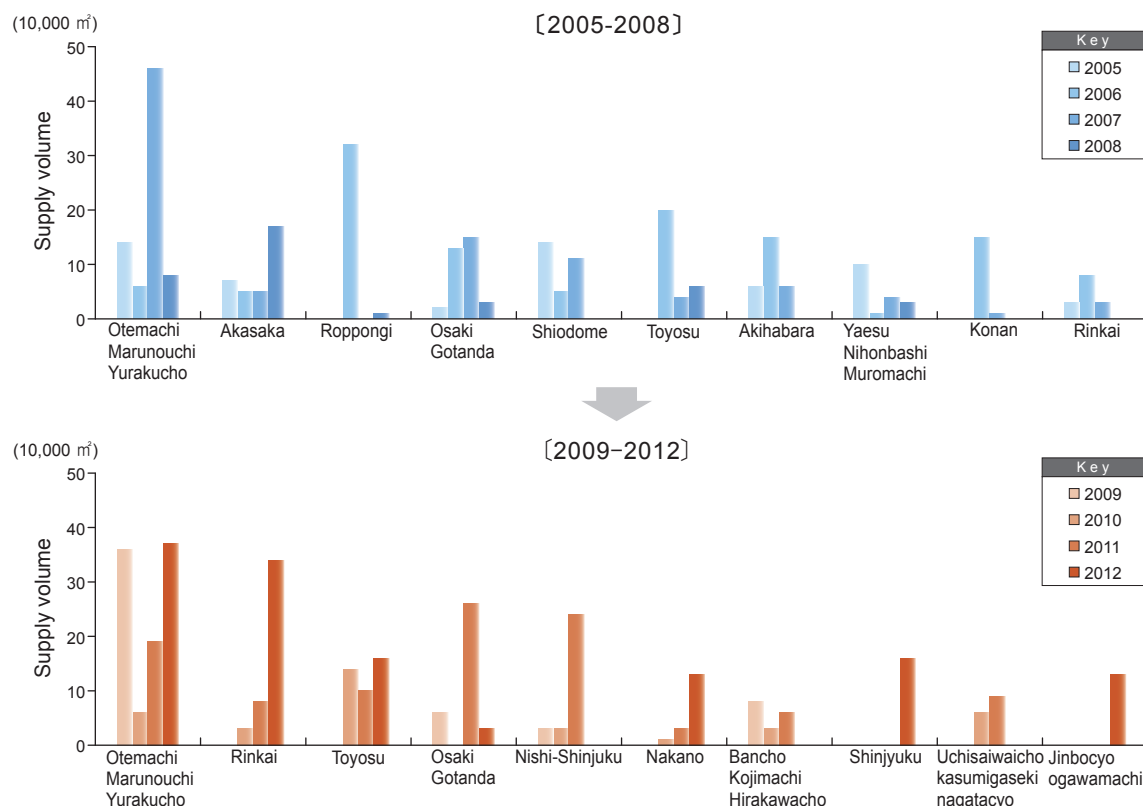


Figure 5: Large-scale office supply volume in the individual key business districts

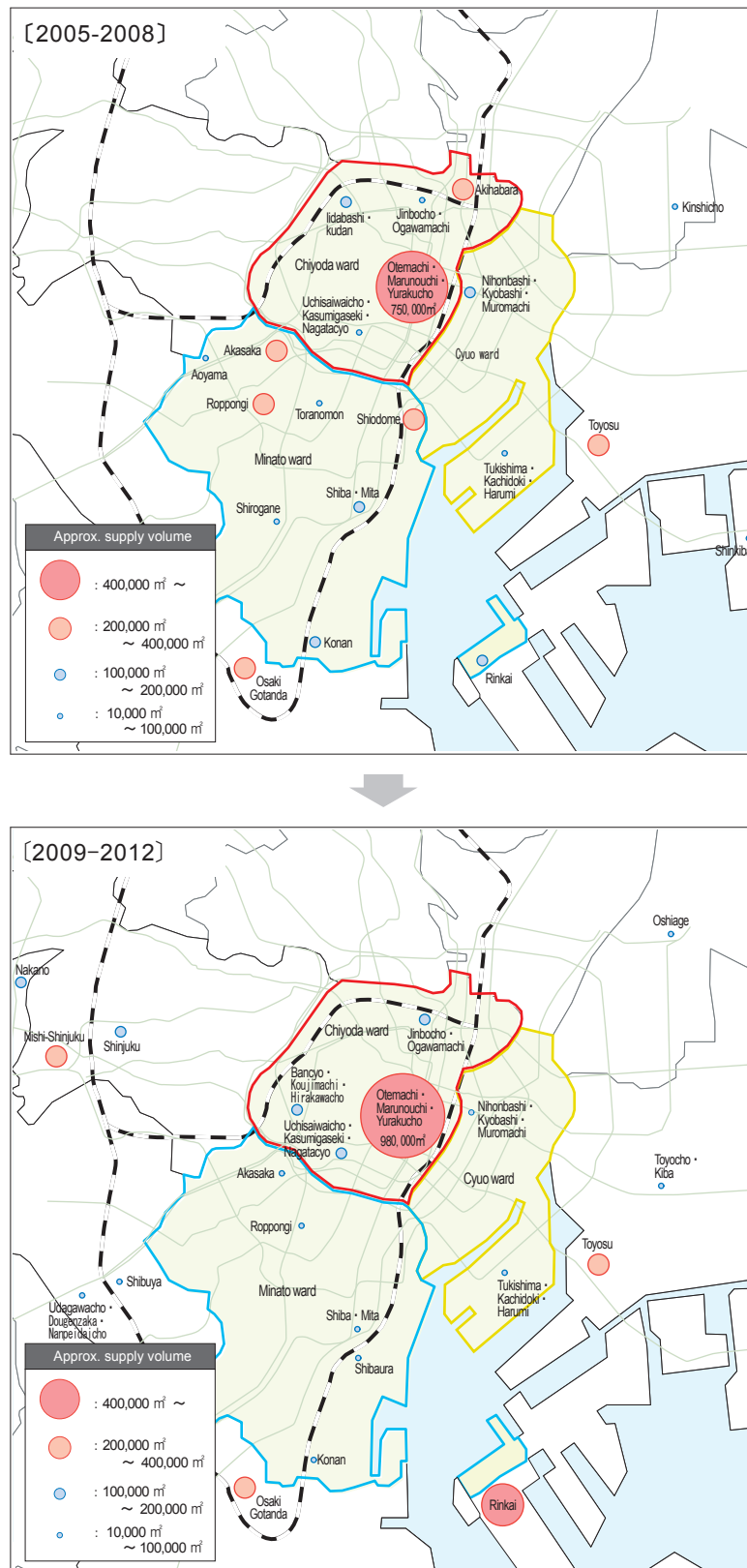
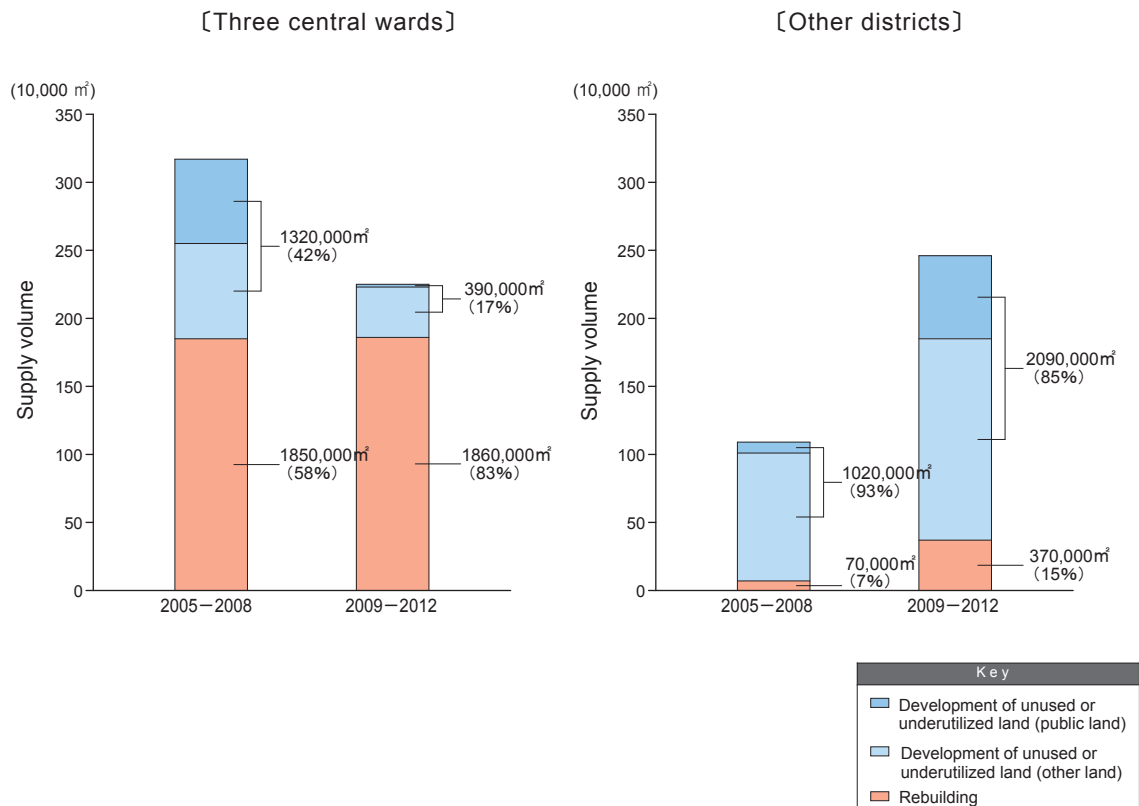


Figure 6: Percentages of large-scale office supply volume by site type



[Terminology]

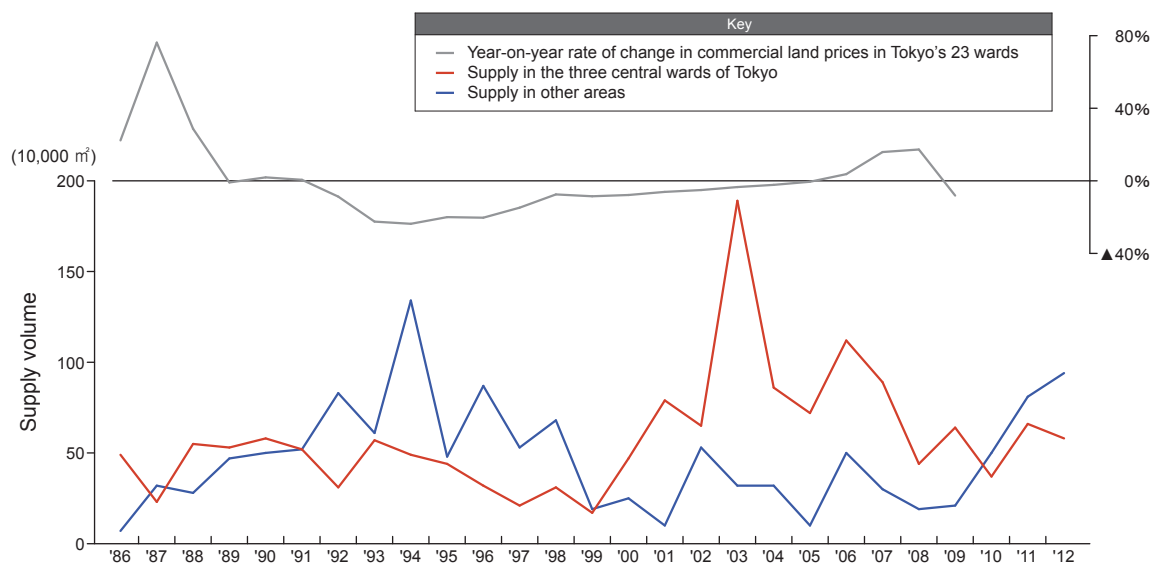
Rebuilding:

Land after demolition, previously occupied by a building used as an office, hotel, residence, etc. (or development thereof).

Unused or underutilized land:

Land not previously put to effective use, including land dotted with undeveloped plots like parking lots and decrepit buildings, densely developed residential areas, former factory sites, railroad land, or unused land (or development thereof).

Figure 7: Trends in large-scale office supply and land prices in the three central wards of Tokyo and other areas



Source: The above data was prepared by Mori Trust Co., Ltd. based on official land prices released by the Ministry of Land, Infrastructure and Transport of Japan.