

Since 1986, Mori Trust Co., Ltd. (Head Office: Minato-ku, Tokyo) has surveyed trends in the supply of large-scale office buildings containing total office space of 10,000 square meters or more within Tokyo's 23 wards, based on various published materials, field surveys, and interviews. The results of the most recent surveys (including the survey of mid-scale office buildings) 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 2013]

The supply is expected to remain near past averages

☞ Main Results of This Survey

1. Supply of large-scale office buildings

In 2013, Tokyo's 23 wards saw the supply fall to 660,000 square meters, a significant decline from the average for the past 20 years. The supply in 2014 is expected to be 930,000 square meters, approximately 15% lower than the past average. Annual projections for 2015-17 are at least one million square meters, similar to the past average.

2. Supply trends by area

Supply in central Tokyo is expected to further increase during the 2014-17 timeframe: Some 70% of this space will be located in Tokyo's three central wards. Some 30% of the overall supply is expected to be located in Chiyoda Ward, a consistent leader, followed by Minato Ward, whose share is projected to rise dramatically to more than 20%. Three districts in Minato Ward (Toranomon and Shinbashi; Konan; and Shibakoen and Hamamatsucho) are expected to rise into the list of top ten and take their place.

3. Supply trends by land for development

In 2014-17, in Tokyo's three central wards, some 70% of office space will be supplied through rebuilding, a high percentage continuously maintained. More and more office space is being rebuilt on such land not just in Otemachi and Marunouchi, but in Yaesu, Nihonbashi, and Kyobashi. This trend is likely to continue into the future. In contrast, during the same period, in other wards, some 80% of the office space will be supplied by using undeveloped or underdeveloped land; supply through rebuilding will account for just 20% of the overall figure.

4. Supply of mid-scale office buildings

The year 2013 saw the supply reach 155,000 square meters, significantly above the past ten-year average. The supply in 2014, however, is expected to fall to 115,000 square meters, and to fall still further to levels below past averages by 2015. In 2014-15, some 80% of this supply will be introduced in Tokyo's three central wards. Minato Ward, the largest supplier, is expected to account for slightly more than 30%, followed by Chuo Ward and Chiyoda Ward, each accounting for some 20%. Major developers have accounted for a growing share of mid-scale office buildings over the past several years.

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1 . Supply of large-scale office buildings

In 2013, Tokyo's 23 wards saw the supply of large-scale office space fall to 660,000 square meters, a significant decline from the average for the past 20 years (1.1 million square meters per year) partly explained by the completion of many large-scale development projects in 2012, particularly rebuilding projects in Otemachi and Marunouchi. In any case, the supply amount was the third lowest during the past 20 years. **(Chart 1-1)**

The supply in 2014 is expected to be 930,000 square meters, approximately 15% lower than the past average. Annual projections for 2015-17 are at least one million square meters, similar to the past average. **(Chart 1-1)**

From 2014 in Tokyo's three central wards, the supply is expected to be approximately 20% above the past average. For Tokyo's other wards, this figure is expected to fall short of the past average. **(Chart 1-2)**

As for the supply trends by scale in 2014-17, the supply of large-scale buildings of over 50,000 square meters is expected to increase drastically, accounting for some 80% of the total supply. This would approach record percentages for such space. **(Chart 1-3)**

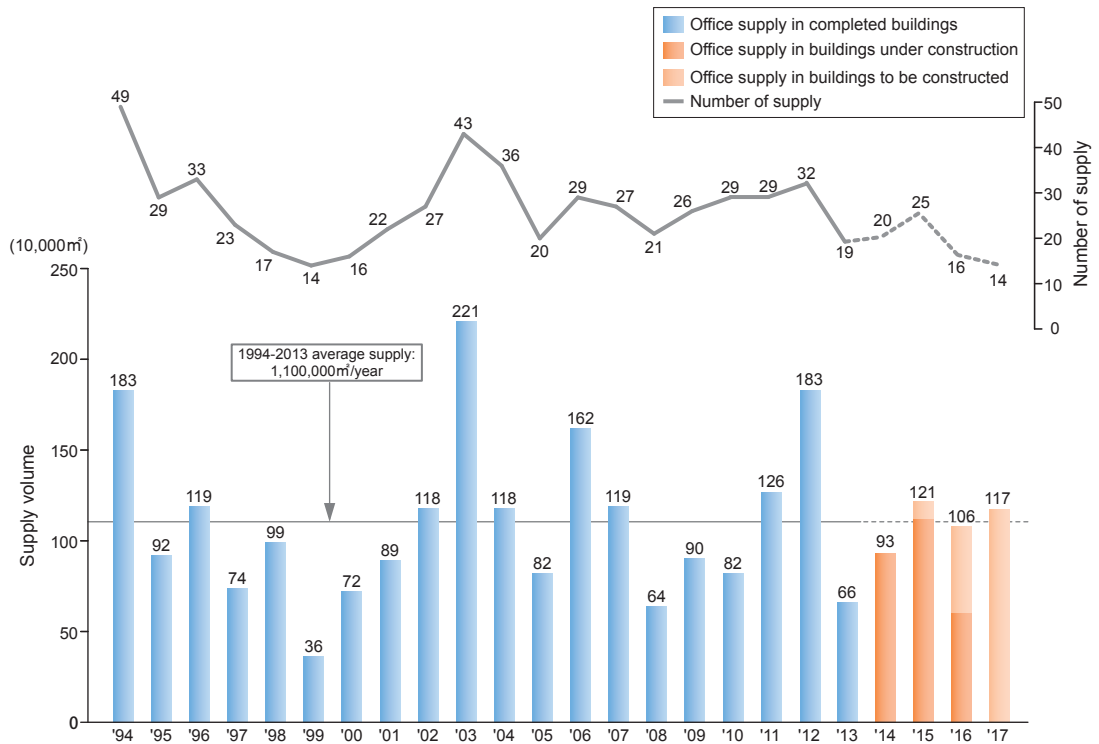
The future supply will remain at the past average level and will mostly come from highly demanded, very large buildings in the three central Tokyo wards. Thus we may see the supply-demand balance improve slowly but steadily over the next several years.

2 . Supply trends by area

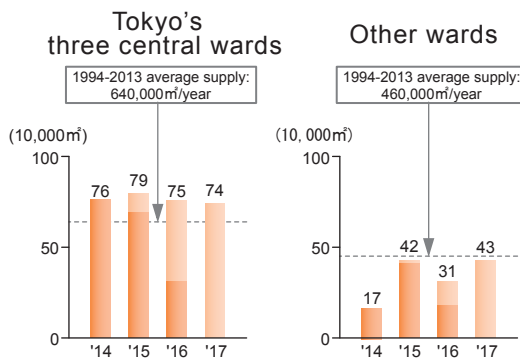
Supply in central Tokyo is expected to further increase during the 2014-17 timeframe: Some 70% of this space will be located in Tokyo's three central wards. Some 30% of the overall supply is expected to be located in Chiyoda Ward, a consistent leader, followed by Minato Ward, whose share is projected to rise dramatically to more than 20%. Additionally, the share held by Shinagawa Ward is expected to rise to 10%, while those of Shinjuku Ward, Shibuya Ward, and Koto Ward will be below 10%. **(Chart 2-1)**

Business districts in Tokyo's three central wards will be among the leading areas in which new space is introduced. These include Otemachi and Marunouchi; Yaesu, Nihonbashi, and Kyobashi; Akasaka and Roppongi; and Toranomom and Shinbashi. Districts other than the three central wards currently ranking among the top ten business districts in 2010-13 (Nishi-Shinjuku, Nakano, and Rinkai) are expected to drop out of the top ten in 2014-17. Three districts in Minato Ward (Toranomom and Shinbashi; Konan; and Shibakoen and Hamamatsucho) are expected to rise into the list of top ten and take their place. **(Chart 2-2)**

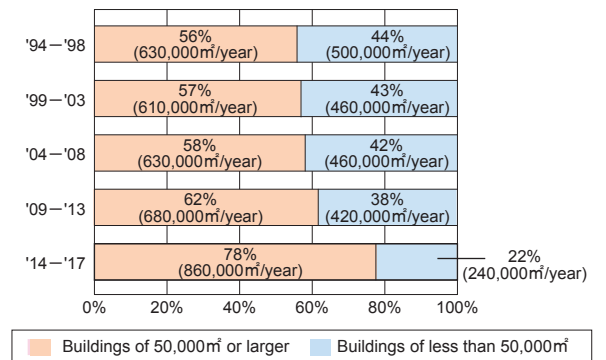
【Chart 1-1】 Supply trends for large-scale office buildings in Tokyo's 23 wards



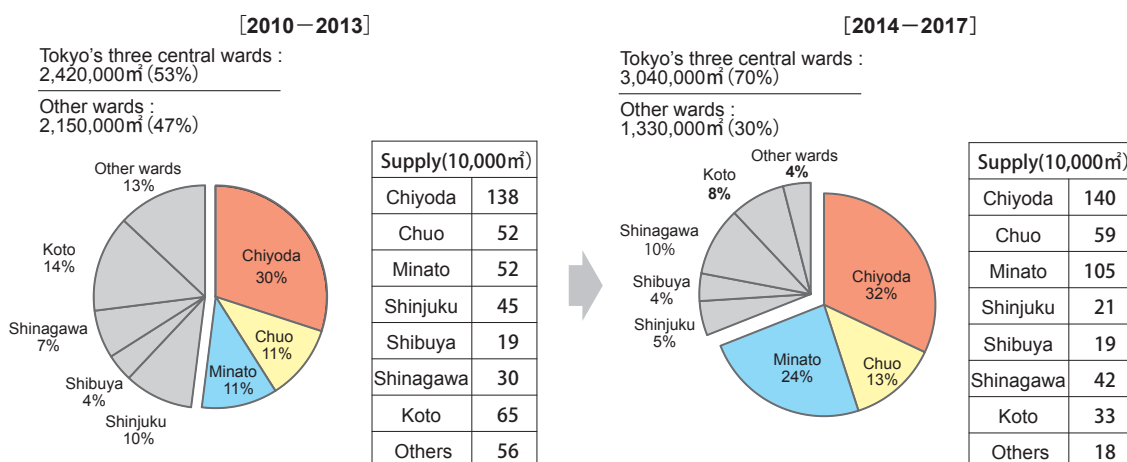
【Chart 1-2】 Tokyo's three central wards and other wards



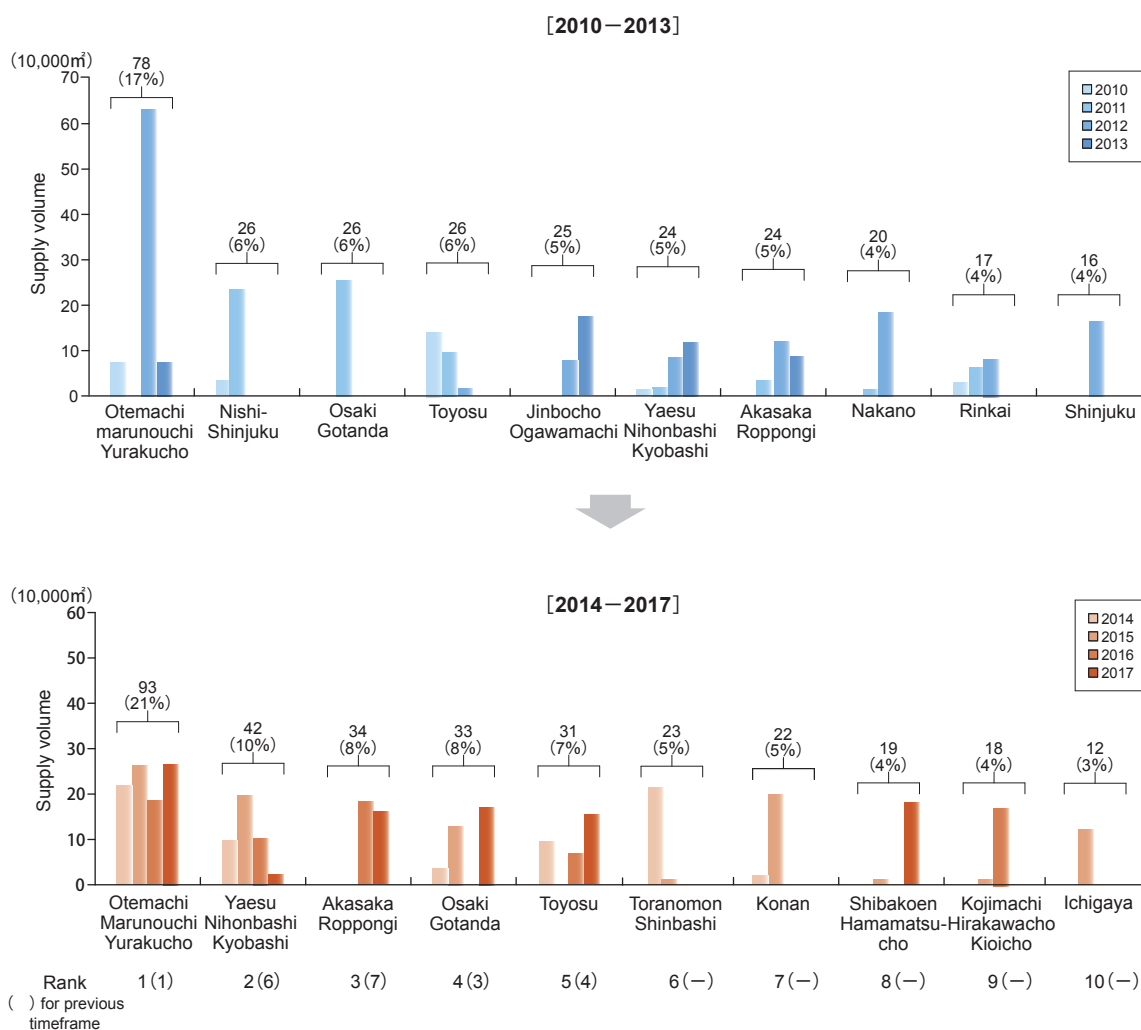
【Chart 1-3】 Supply and ratio by building scale



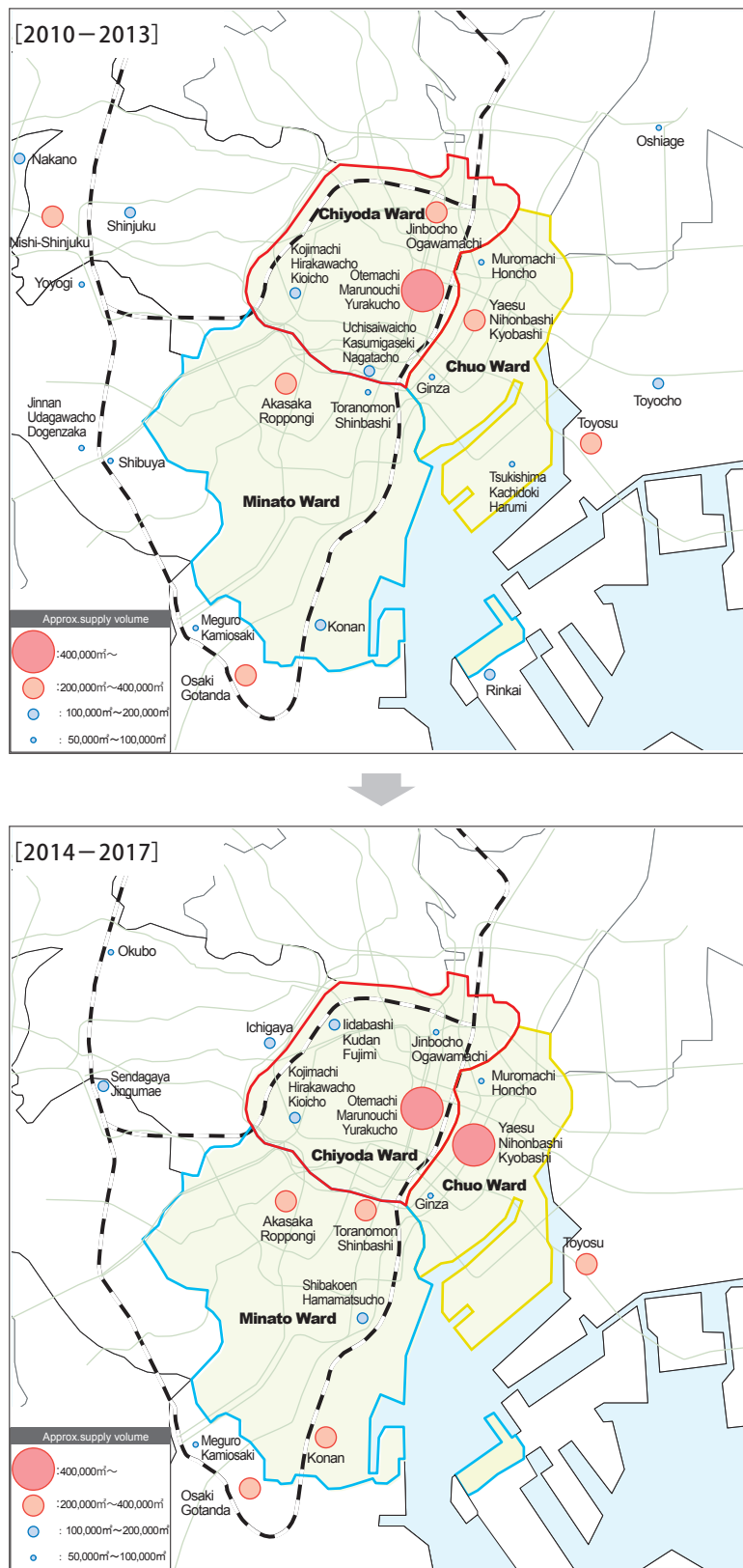
【Chart 2-1】 Supply of large-scale office space by ward



【Chart 2-2】 Top ten districts



【Chart 2-3】 Supply volume in the key business districts

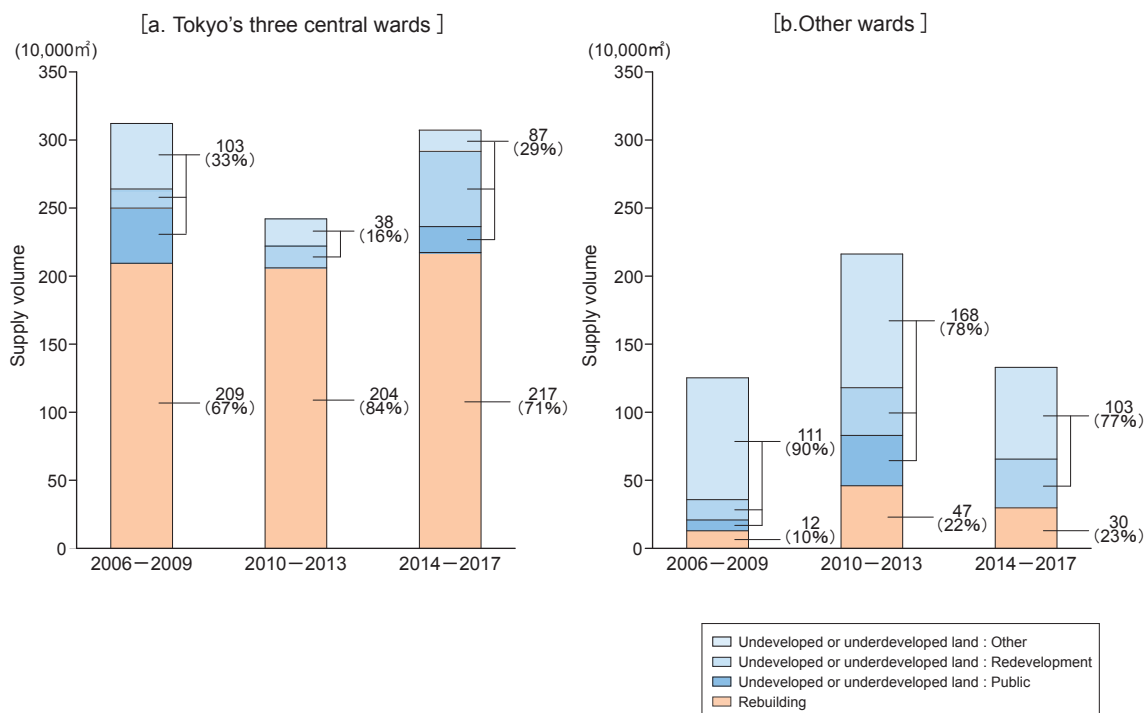


3. Supply trends by land for development

In 2014-17, in Tokyo's three central wards, some 70% of office space will be supplied through rebuilding, a high percentage continuously maintained. More and more office space is being rebuilt on such land not just in Otemachi and Marunouchi, but in Yaesu, Nihonbashi, and Kyobashi. This trend is likely to continue into the future. Additionally, supply space will be drastically increased by redevelopment, while undeveloped or underdeveloped land including idle land is expected to supply less space for offices. **(Chart 3-1.a.)**

In contrast, during the same period, in other wards, some 80% of the office space will be supplied by using undeveloped or underdeveloped land; supply through rebuilding will account for just 20% of the overall figure. Of the undeveloped and underdeveloped land, the category "Other," including idle land, is the largest supplier of office space. As for other categories included in undeveloped or underdeveloped land, "Redevelopment" supply tends to increase. In contrast, the development of publicly owned undeveloped/underdeveloped land ("Public"), which increased in 2010-13, is projected to disappear entirely in the 2014-17 timeframe. **(Chart 3-1.b.)**

【Chart3-1】 Supply volume and ratio by land for development



【Definition】

Rebuilding :

Land (or the development of such land) previously used as one site, occupied by a building for office, hotel, or residence which has been demolished.

Undeveloped or underdeveloped land :

Land (or the development of such land) not used effectively; for instance, mixed zones of parking lots and older buildings, densely populated residential areas, former plant sites, railway sites, or idle land.

4. Supply trends for mid-scale office buildings in Tokyo's 23 wards

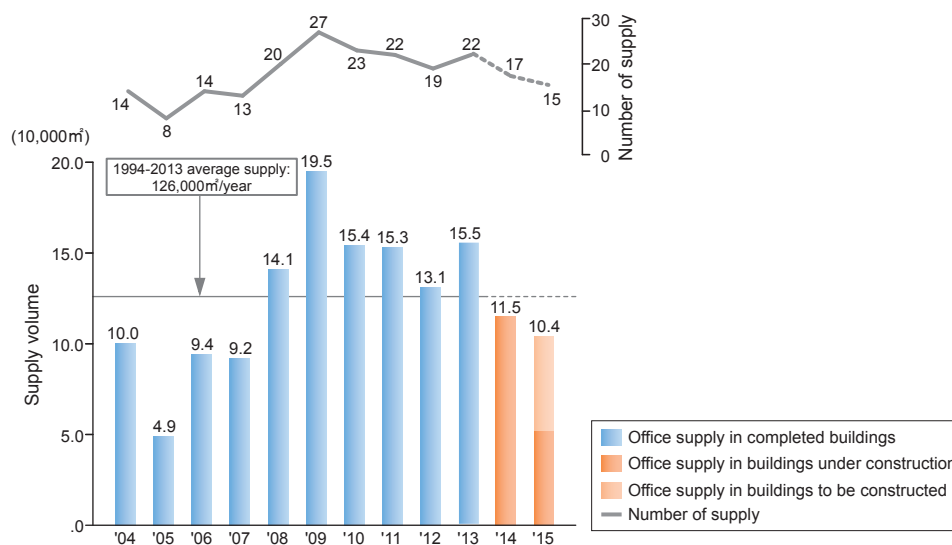
Discussed here are supply trends for mid-scale office buildings (from 5,000 to 10,000 square meters of office space).

The year 2013 saw the supply of mid-scale office space reach 155,000 square meters, significantly above the past ten-year average. The supply in 2014, however, is expected to fall to 115,000 square meters, and to fall still further to levels below past averages by 2015. **(Chart 4-1)**

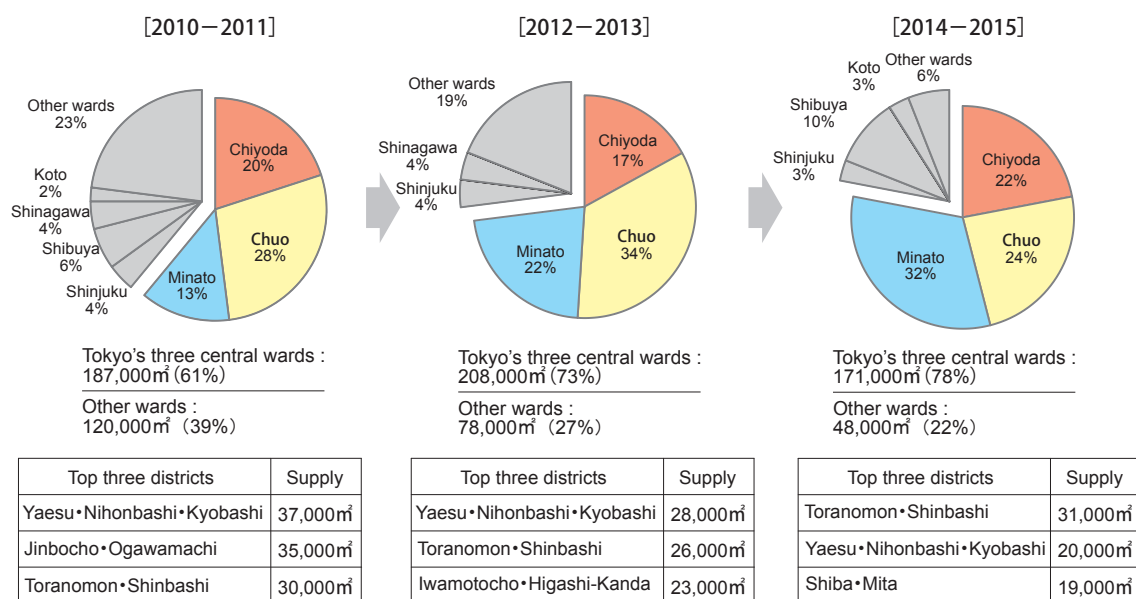
As for large-scale buildings, most mid-scale office buildings are emerging in central Tokyo. In 2014-15, some 80% of this supply will be introduced in Tokyo's three central wards. Of the 23 wards, Minato Ward, the largest supplier, is expected to account for slightly more than 30%, followed by Chuo Ward and Chiyoda Ward, each accounting for some 20%. Minato Ward's share has significantly increased for the past several years, driven by steady growth in office building construction in Toranomon and Shinbashi, a core district. **(Chart 4-2)**

In 2014-15, in Tokyo's three central wards, some 80% of office sites will be prepared through rebuilding. In the other wards, more than 60% will be prepared through the development of undeveloped/underdeveloped land. **(Chart 4-3)** In 2012, the Tokyo Metropolitan Government made seismic diagnosis mandatory for certain specified roadside buildings and established subsidization schemes for such a reason. In the future, this scheme may facilitate the renovation of older small and mid-scale buildings. Major developers have accounted for a growing share of mid-scale office buildings over the past several years. **(Chart 4-4)**

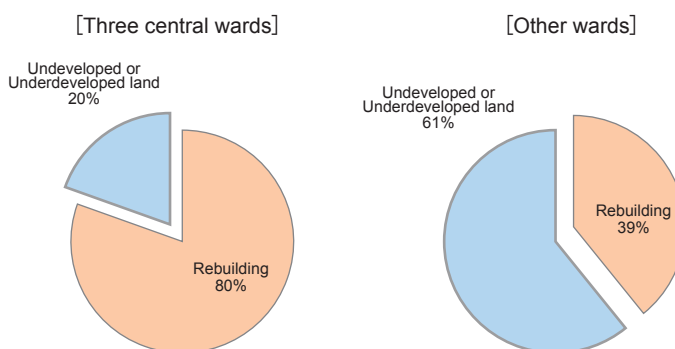
【Chart4-1】Supply trends for mid-scale office buildings in Tokyo's 23 wards



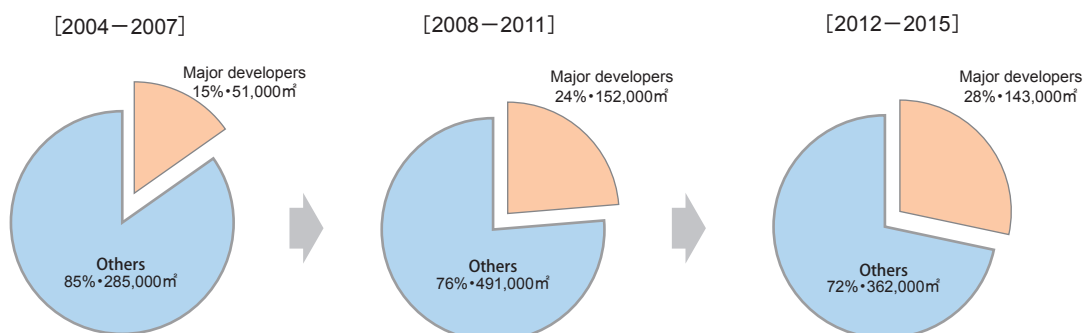
【Chart4-2】 Supply of mid-scale buildings: Ratio by ward and top three districts



【Chart4-3】 Supply of mid-scale buildings: Ratio by type of development site (2014-15)



【Chart4-4】 Supply of mid-scale buildings: Ratio developed by major developers*



* Major developer: the developer capitalized at ten billion yen or more

5. Conclusion

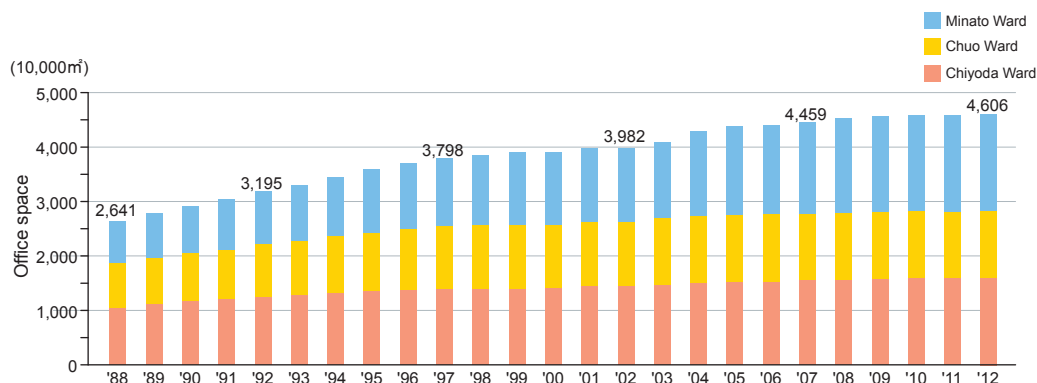
The rental office market in Tokyo showed clear signs of recovery. In 2013, as the supply contracted dramatically, demand for office space was on track for recovery. Abenomics, a weak yen, and the decision to award Tokyo the 2020 Olympics helped strengthen business confidence and improve the supply-demand balance, resulting in rents beginning to increase, which had trended downwards for years.

The supplies in 2014 and onward are expected to remain near past averages, mainly through rebuilding in Tokyo's three central wards. This development will result in slight growth in the office stock. **(Charts 5-1 & 5-2)** Further, the ratio of job openings to job seekers(Tokyo) has risen to a level comparable to that of 2006, the highest in recent years, a sign of growing demand. We project the supply-demand balance will continue to tighten. **(Chart 5-3)** A look at office space leasing for buildings completed in 2014 shows many have achieved high initial occupancies—more than 80% of such office space was occupied at the time of completion. Demand remains strong for well located, well-equipped, up-to-date office buildings.

Given the clear economic recovery in many industries, demand for office space is expected to continue rising, and measures have to be taken to meet such demand. However, soaring construction costs over the past two years has raised serious concerns. **(Chart 5-4)** This trend may curb supply, thereby interfering with the smooth pace of rebuilding and improvements to urban functions. If such improvements stagnate, this may impair efforts to create a global business city and hamper plans for the National Strategic Special Zones currently being developed by public and private sectors to make Japan more competitive worldwide.

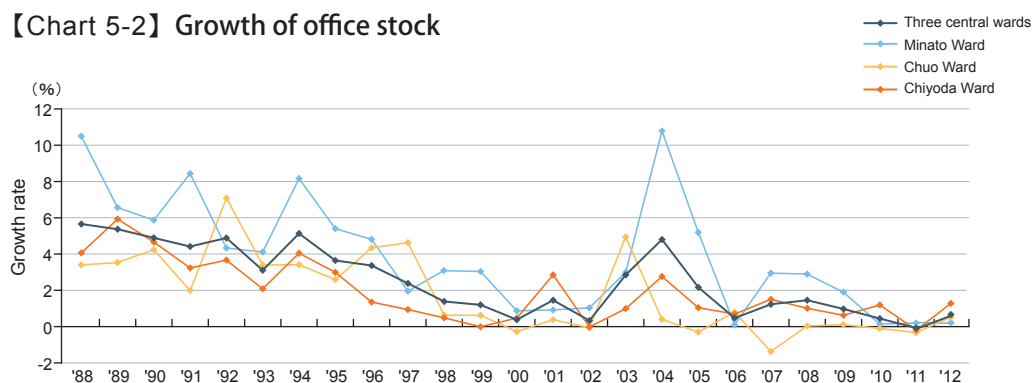
The rise of construction costs is partly due to a weak yen, which has made building materials more expensive. But the biggest problem remains the shortage of skilled workers. That problem is most probably exacerbated by construction demand generated by rehabilitation associated with post Earthquake efforts and from efforts to build infrastructure for the 2020 Olympic Games. The goal is to make Tokyo a more attractive global city by 2020. This will require continued development. Addressing the shortage of skilled labor through dramatic and timely measures on the part of the Government is greatly anticipated.

【Chart 5-1】 Office stock in Tokyo's three central wards



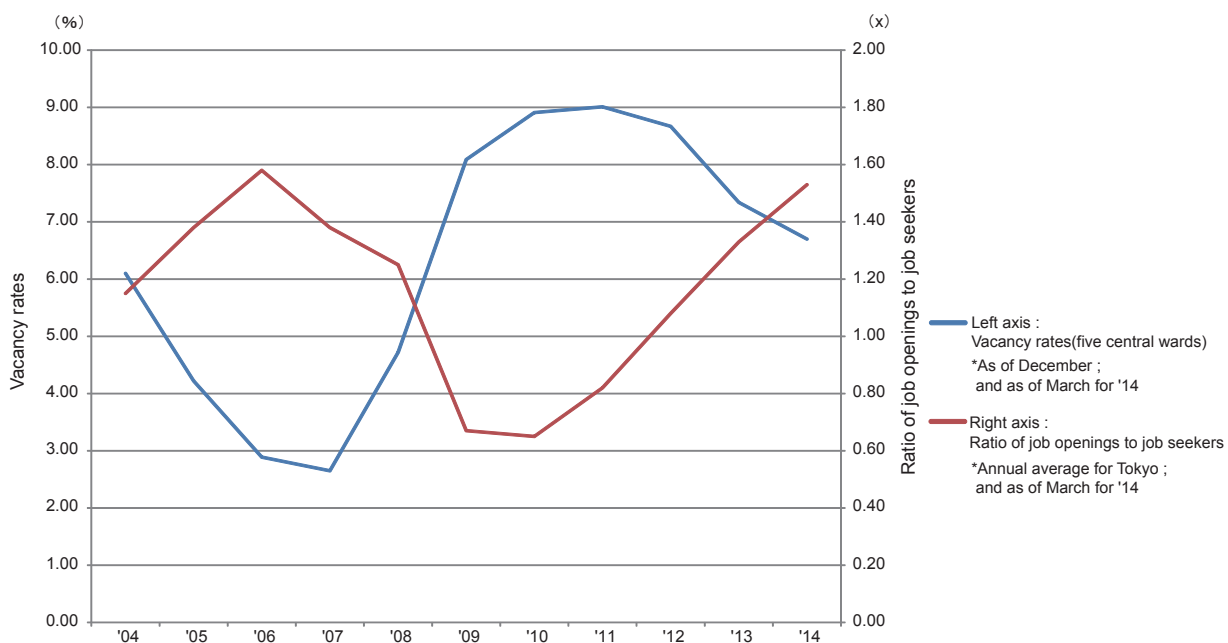
Source: Compiled by Mori Trust based on "An Overview of Tokyo's Land" (Tokyo Metropolitan Government)

【Chart 5-2】 Growth of office stock



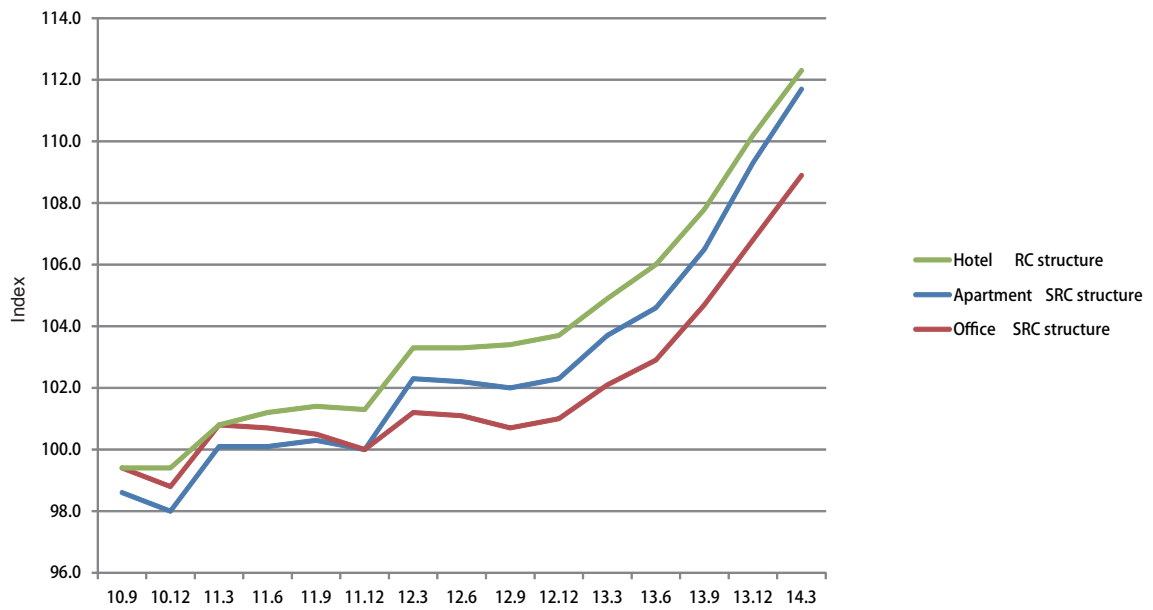
Source: Compiled by Mori Trust based on "An Overview of Tokyo's Land" (Tokyo Metropolitan Government)

【Chart 5-3】 Vacancy rates and the ratio of job openings to job seekers(Tokyo)



Source: Compiled by Mori Trust based on "Office Data" (Miki Shoji Co., Ltd.) and data of Ministry of Health, Labor and Welfare

【Chart 5-4】 Price of Construction Materials and Wages Index*(for Tokyo ; 2005 is set to 100)



Source: Compiled by Mori Trust based on "Price of Construction Materials and Wages Index Monthly" (Construction Research Institute)

*Changes in price (index) are calculated per item (per item of materials, etc.). Thus, a construction company's margin is not included.