

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-size 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 2014]

Supply of large-scale office buildings to tighten slightly over the medium term —2017 supply at second-lowest level in 20 years—

☞ Main Results of This Survey

1. Supply of large-scale office buildings

Office supply in 2014 was 920,000 square meters, falling short of the average for the past 20 years (1,050,000 square meters per year). While some years during the 2015-18 span may exceed this past average, in 2017, supply is expected to decline sharply, due in part to revised construction timetables for large-scale projects, to the second lowest level over the past 20 years. The 2015-18 average is also expected to be slightly below the past average.

2. Supply trends by area

In 2015-18, supply in Tokyo's three central wards is projected to exceed 70% of total supply, as the trend toward greater concentration in central Tokyo accelerates. Supply in Chiyoda Ward will constitute over 30% of the total, maintaining the top share, while Minato Ward's share will increase significantly to over 20%. By district, supply in the Otemachi/Marunouchi/Yurakucho district will further increase, and supply in the top three districts, including the Yaesu/Nihonbashi/Kyobashi and Akasaka/Roppongi districts, will account for nearly 50% of the total supply.

3. Supply trends by type of development site

In Tokyo's three central wards in 2015-18, supply provided through rebuilding will remain at high levels, accounting for around 80% of the total supply. Supply through redevelopment of undeveloped/underdeveloped land is also expected to continue. At the same time, outside of the three central wards, supply on undeveloped/underdeveloped land will constitute approximately 70% of the total supply, while supply through rebuilding will be limited to around 30%.

4. Supply of mid-size office buildings

Supply in 2014 was 112,000 square meters, lower than the 10-year average (128,000 square meters per year). In 2015-16, supply is also expected to be significantly lower than the past average. As with large-scale buildings, supply continues to be concentrated in central Tokyo. Supply in Tokyo's three central wards is expected to account for over 70% of the total supply. Minato Ward will account for the largest share of supply (around 40%), with a significant increase in supply at the Toranomon/Shinbashi district, where ultra-large-scale development and infrastructure improvement projects are underway. Development by major developers has increased in recent years.

1 . Supply of large-scale office buildings

In 2014, supply of large-scale office space in Tokyo's 23 wards was 920,000 square meters, below the average for the past 20 years (1,050,000 square meters). After 2013, when supply was also low, at 660,000 square meters, 2014 marked the second consecutive year of supply failing to meet the average. **(See Chart 1-1 on the next page.)**

Supply in 2015 is expected to increase to 1,200,000 square meters, around 10% above the past average. Supply is also expected to exceed the past average in 2016 and 2018. By contrast, in 2017, supply is projected to come in at 570,000 square meters, the second lowest level seen over the past 20 years. While the previous survey pointed to above average figures, due to revised construction timetables for large-scale projects and other factors, this figure is now expected to be around half of the previous figure. **(See Chart 1-1 on the next page.)**

With respect to supply from 2015 on, the supply in Tokyo's three central wards, except in 2017, is expected to be 20-30% above the past average. In Tokyo's other wards, supply is projected to fall short of the past average, as the trend toward concentration of supply in central Tokyo has continued to strengthen. **(See Chart 1-2 on the next page.)**

With regard to supply trends by scale in 2015-18, supply of large-scale buildings containing 50,000 square meters or more of office space is expected to increase dramatically, accounting for a record-high percentage of roughly 80% of the total supply. **(See Chart 1-3 on the next page.)**

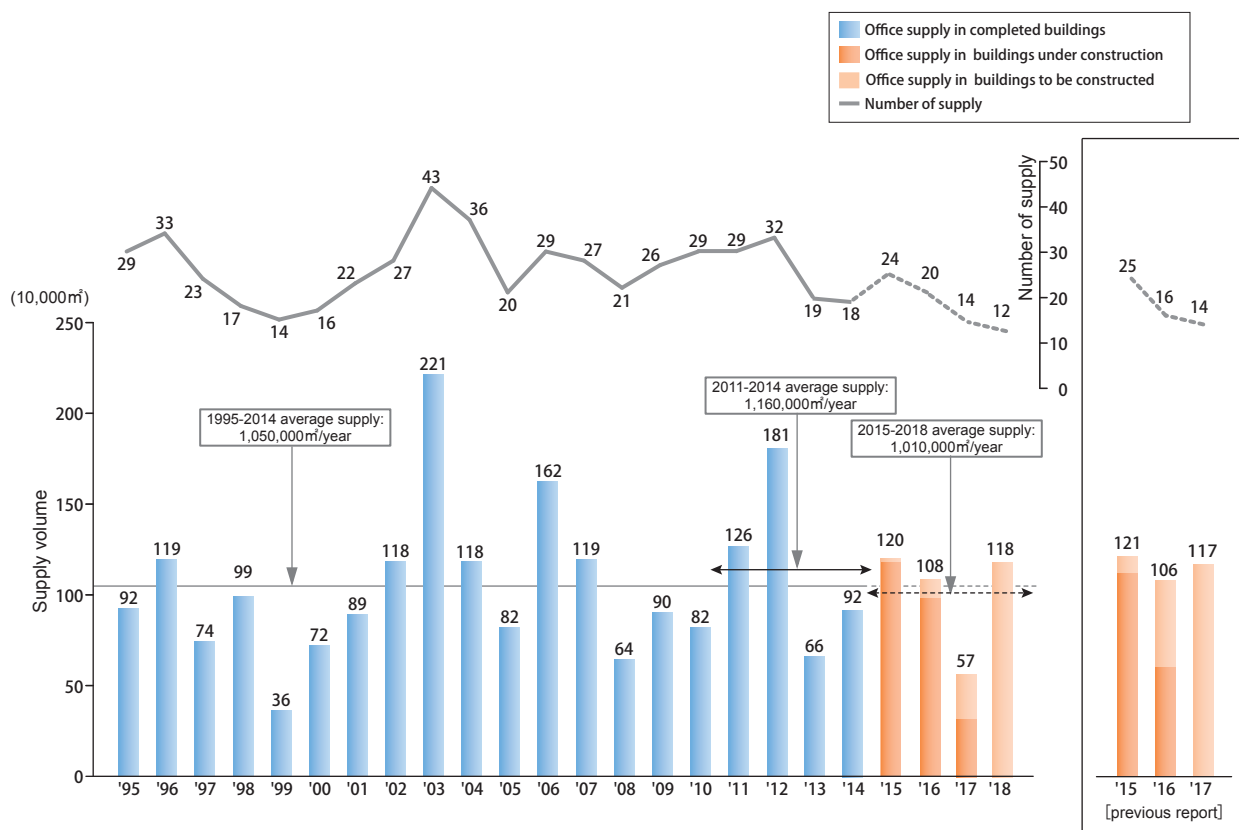
As this suggests, supply going forward will center on ultra-large-scale buildings in Tokyo's three central wards, where demand is high, and the average supply during the 2015-18 period is expected to fall short of the past average, at approximately 1,000,000 square meters per year. Therefore, the current favorable supply-demand balance is expected to remain in place for the foreseeable future.

2 . Supply trends by area

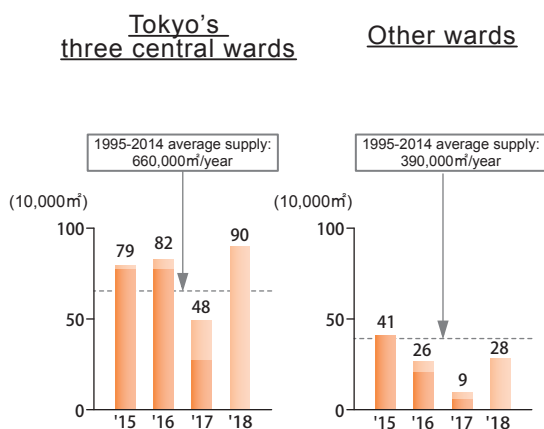
In 2015-18 the ongoing shift of supply area toward central Tokyo is expected to accelerate, with supply in Tokyo's three central wards projected to account for more than 70% of the total supply. Chiyoda Ward's share will continue to remain at the top, over 30% of the overall supply, and Minato Ward's share will increase significantly, exceeding 20%; as a result, the shares of Shinjuku Ward, Shibuya Ward, Shinagawa Ward, and Koto Ward will each represent less than 10% of total supply. **(See Chart 2-1 on the 4th page.)**

In terms of supply by business district, supply in the Otemachi/Marunouchi/Yurakucho district is expected to increase further. The shares of Yaesu/Nihonbashi/Kyobashi and Akasaka/Roppongi will also increase. Overall, the top three districts in Tokyo's three central wards will account for nearly 50% of total supply. With respect to the changing ranking of the top ten business districts in terms of supply, seven of the top ten will be districts in the three central wards in 2015-18. Of districts ranked in the top ten in 2011-14 and located in non-central wards, only the Osaki/Gotanda district will remain ranked. **(See Chart 2-2 on the 4th page.)**

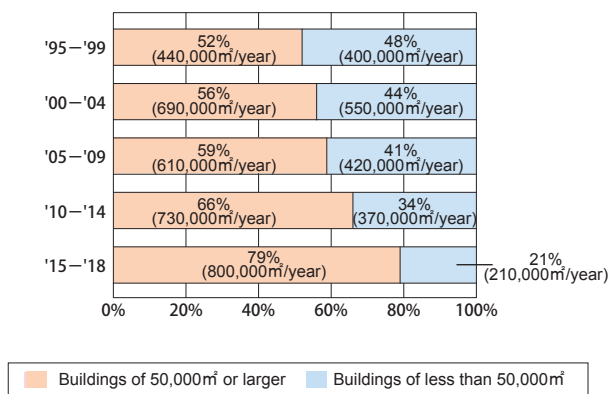
【Chart 1-1】 Supply trends for large-scale office buildings in Tokyo's 23 wards



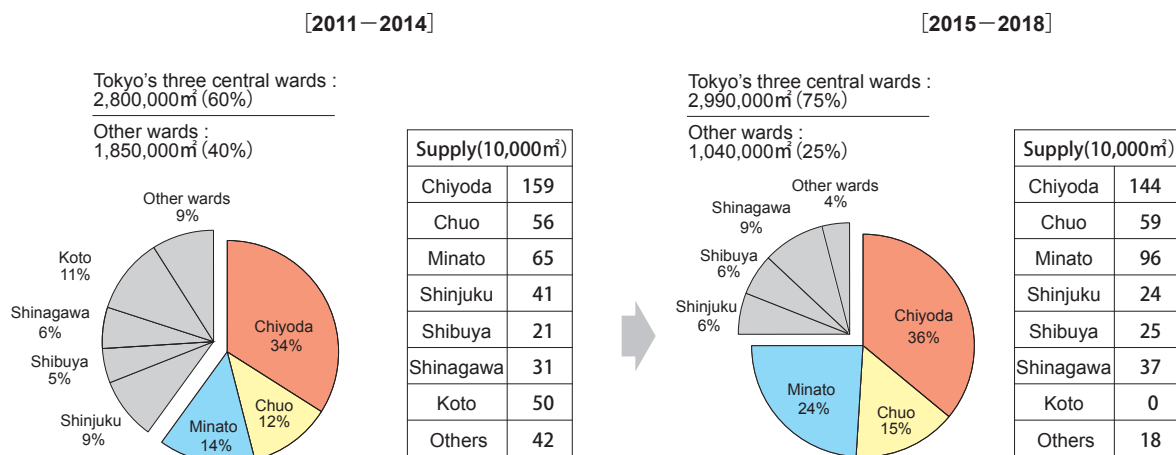
【Chart 1-2】 Tokyo's three central wards and other wards



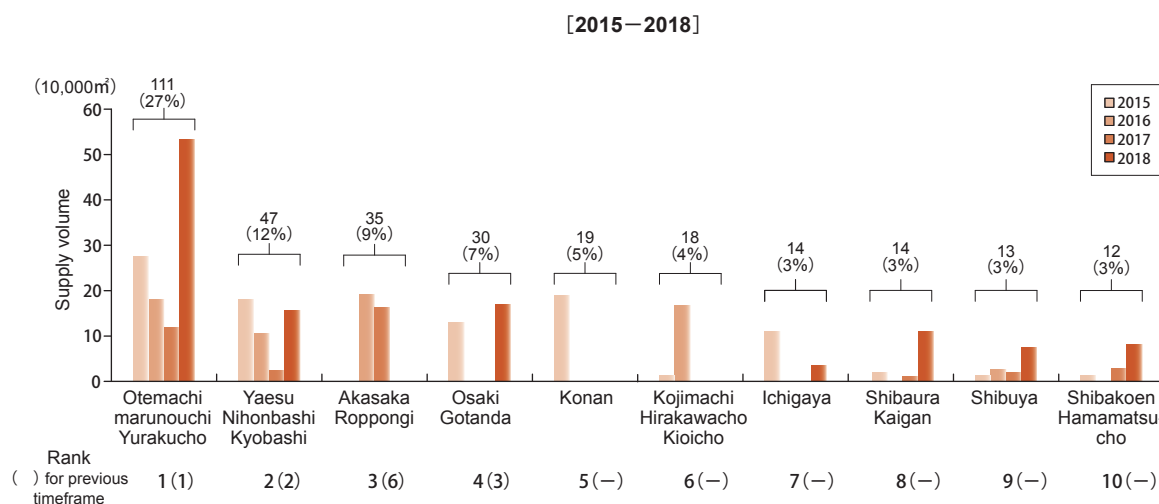
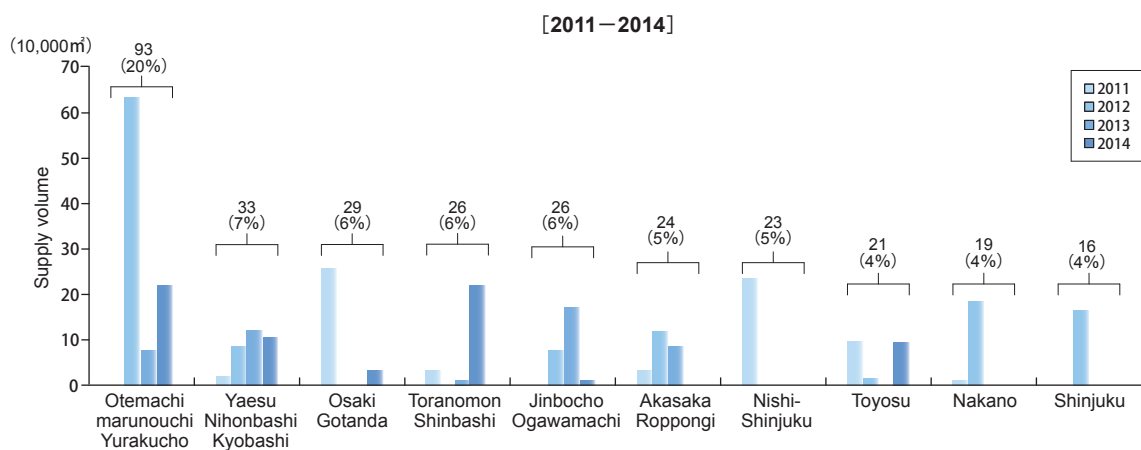
【Chart 1-3】 Supply and ratio by building scale



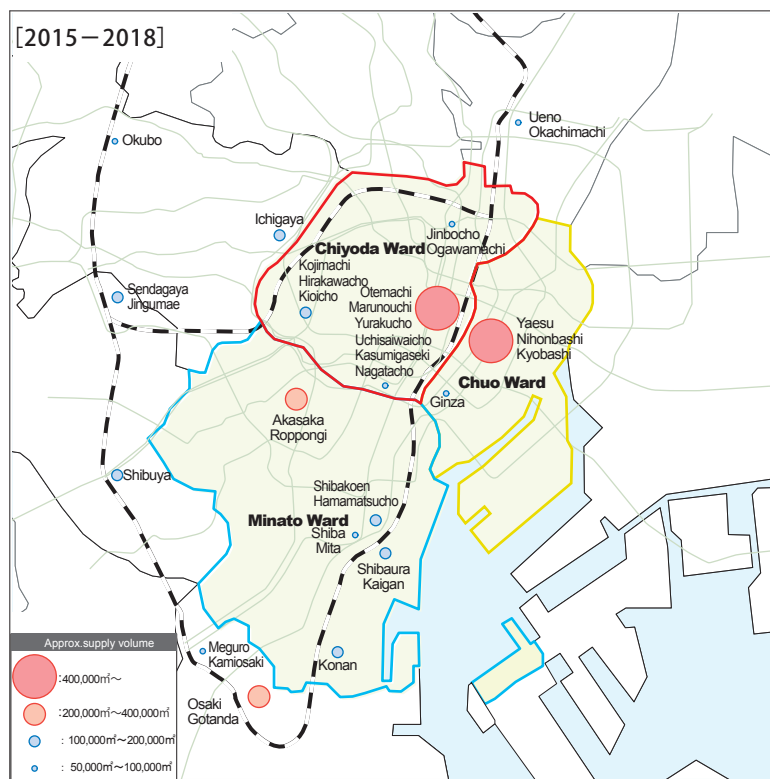
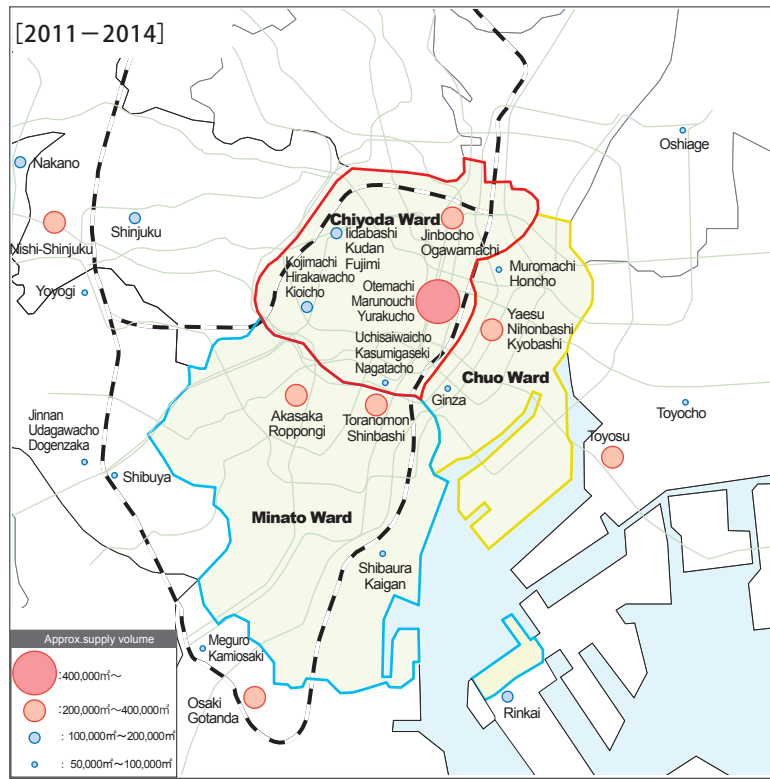
【Chart 2-1】 Supply of large-scale office space by ward



【Chart 2-2】 Top ten districts



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

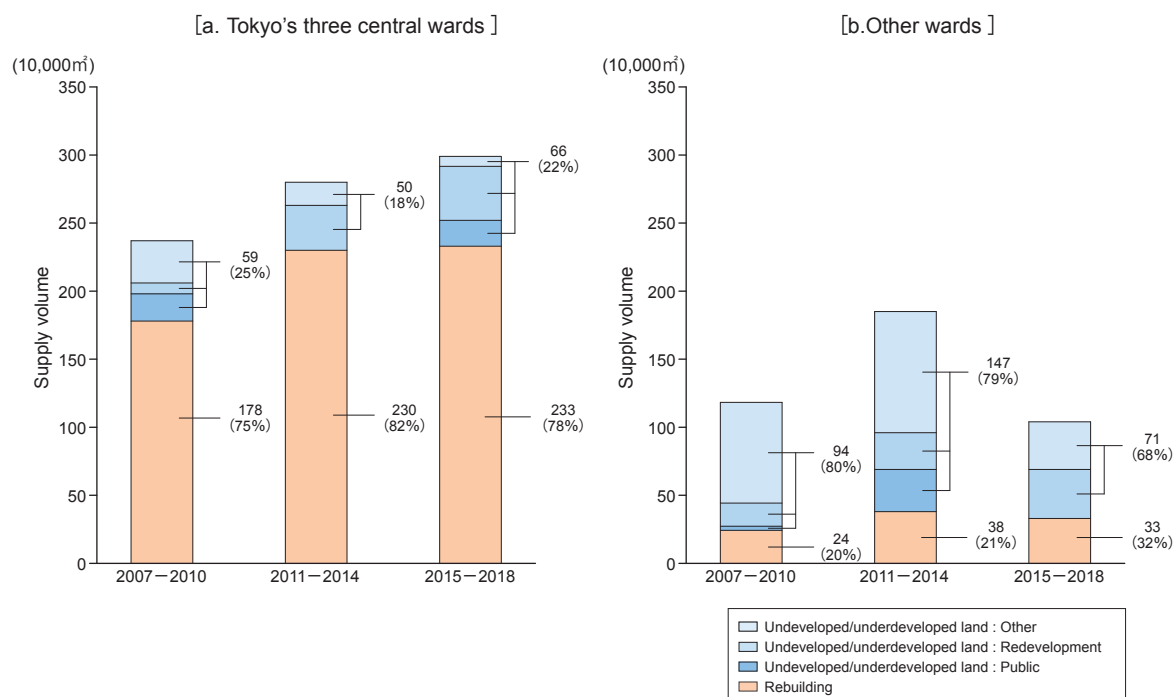


3. Supply trends by type of development site

In Tokyo's three central wards, supply through rebuilding will remain at a high level in 2015-18, accounting for approximately 80% of the total supply. The inventory of office space is being significantly renewed not only in the Otemachi/Marunouchi district, but also in the Yaesu/Nihonbashi/Kyobashi district. The supply primarily through rebuilding is expected to remain a central factor. Aside from rebuilding, supply on publicly owned land is expected to recover, while supply through redevelopment will also increase. At the same time, supply using other undeveloped/underdeveloped land ("Other"), including idle land, is expected to decrease. **(See Chart 3-1.a.)**

Outside of Tokyo's three central wards, supply on undeveloped/underdeveloped land will account for approximately 70% of the total supply in 2015-18 as well, while supply through rebuilding will remain low, at approximately 30%. To date, supply on "Other" has accounted for the largest share of total supply; moving forward, supply through redevelopment will exceed supply on "Other" and supply through rebuilding. Supply through the development of publicly owned land, a significant factor in 2011-14, is expected to be nil in 2015-18. **(See 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/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-size office buildings in Tokyo's 23 wards

This section discusses supply trends for mid-size buildings with office space of 5,000 square meters to less than 10,000 square meters.

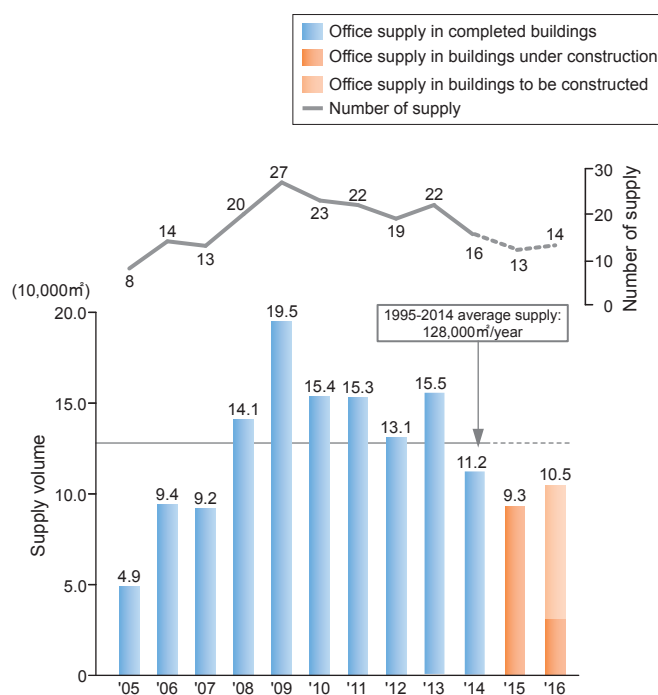
The supply of office space in mid-size office buildings in 2014 amounted to 112,000 square meters, which is less than the average of the past 10 years. Supply in 2015-16 is also expected to be substantially less than the past average. **(See Chart 4-1.)**

In terms of supply areas, as with large-scale buildings, there is an ongoing trend toward concentration in central Tokyo. In 2015-16, supply in Tokyo's three central wards is expected to account for over 70% of the total supply. By ward, Minato Ward will hold the highest share of supply, accounting for approximately 40%, while Chuo Ward, which had accounted for over 30%, will see its share decline to 10%. The substantial increase in supply in Minato Ward is especially noticeable at the Toranomon/Shinbashi district, where functional upgrades intended to make the district an international business center are accelerating, including further development of Loop Line No. 2, multiple ultra large-scale development projects, and plans for a new subway station. These factors also underpin the development of mid-size office buildings in that district. **(See Chart 4-2 on the next page.)**

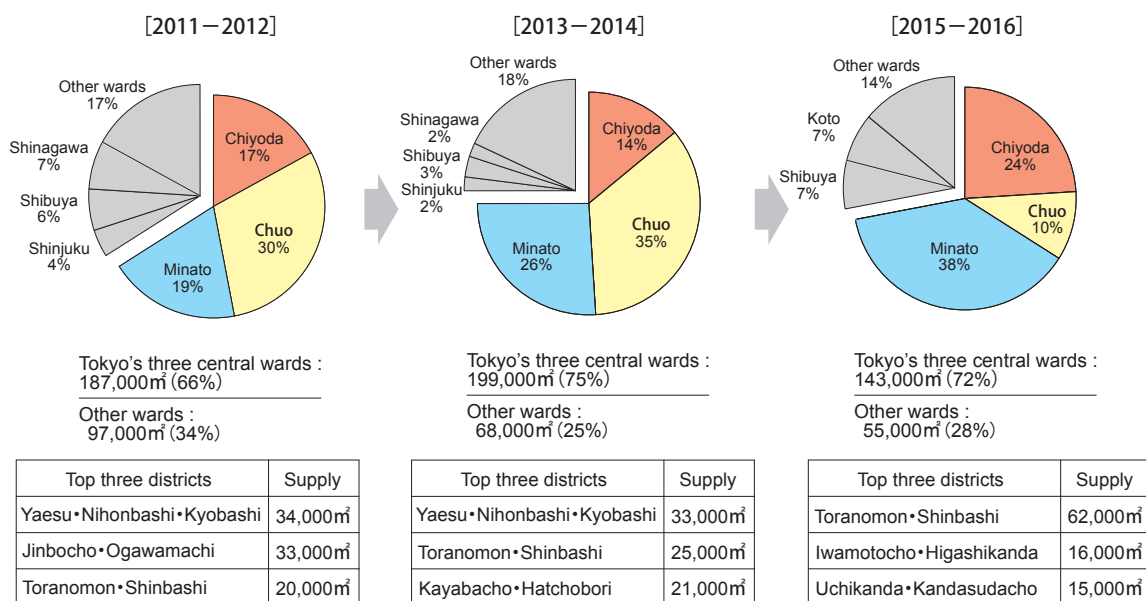
In terms of supply by type of development site, in 2015-16, supply through rebuilding will account for approximately 70% of the total supply in Tokyo's three central wards. Outside the three central wards, supply on undeveloped/underdeveloped land is projected to account for over 70%. **(See Chart 4-3 on the next page.)**

In recent years, mid-size office buildings supplied by major developers have accounted for an increasing percentage of the total supply. Beyond buildings intended for use as corporate head offices, which had predominated in the past, more buildings are being developed for lease as office space and for real estate funds. **(See Chart 4-4 on the next page.)**

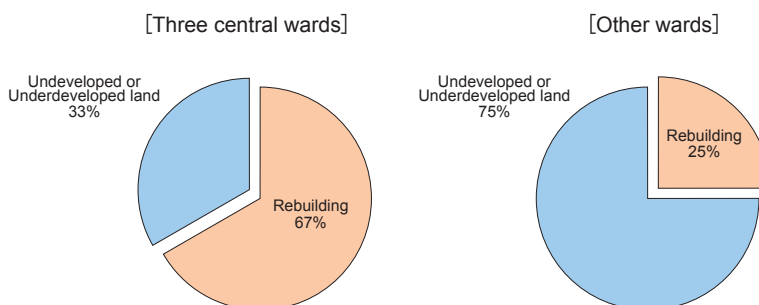
【Chart4-1】Supply trends for mid-size office buildings in Tokyo's 23 wards



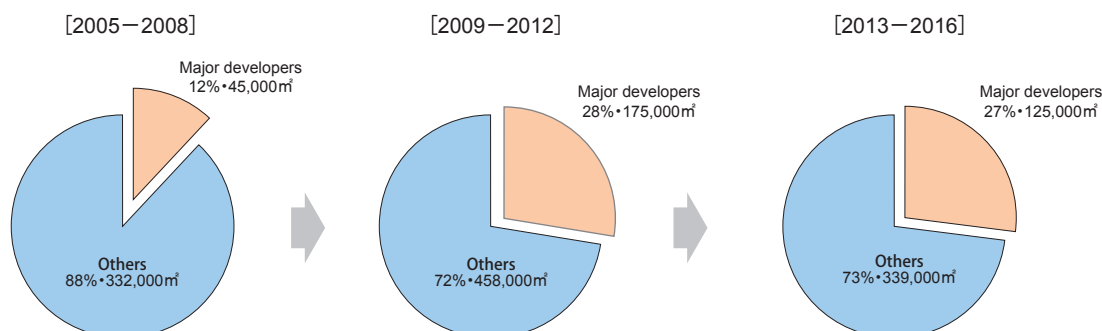
【Chart4-2】 Supply of mid-size buildings: Ratio by ward and top three districts



【Chart4-3】 Supply of mid-size buildings: Ratio by type of development site (2015-16)



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



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

5. Conclusion

Conditions in Tokyo's office space market continue to improve due to demand recovery by recovering growth in corporate earnings and falling office building supply. The upward trend in rent levels, which had already begun to reflect these changes, has further solidified.

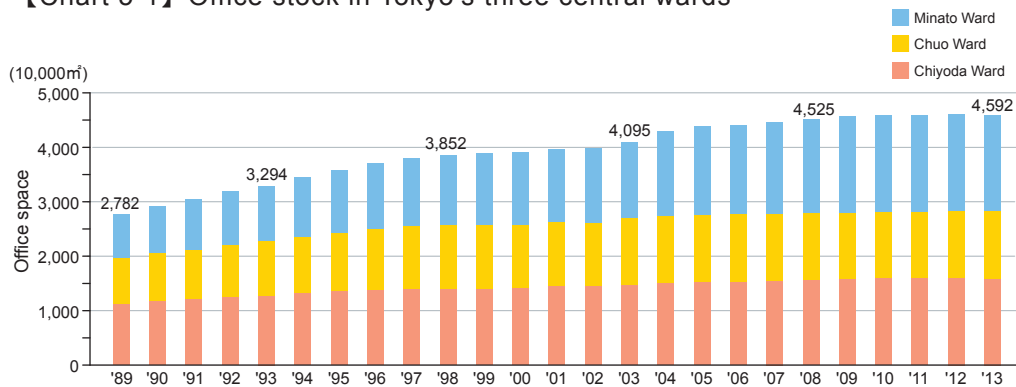
Supply from 2015 on will include certain years in which supply exceeds the past average, but will center on supply through rebuilding in Tokyo's three central wards. This means the increase in stock will remain gradual. Most recently, office building supply was at an extremely high level in 2012, but, in spite of that, stock in 2013 declined at a rate close to 2% in Chiyoda Ward and declined in the three central wards as a whole. **(See Charts 5-1 & 5-2 on the next page.)** With the current structure of supply concentrated in rebuilding projects, supply at a rate of around 1,000,000 square meters per year will have negligible impact on the supply-demand relationship. Going forward, in 2017, when supply will decline sharply, the supply-demand balance will become extremely tight, a trend that is likely to further improve market conditions.

At the time of the previous survey, supply in 2017 was projected to be 1,170,000 square meters, which would have exceeded the past average. Nevertheless, the results of this survey put the figure at 570,000 square meters, around half the previous estimate. Construction costs rising over the past few years and supply being concentrated in large-scale developments which require time for government deliberations and procedures seem to affect construction start dates and timetables. While the rise in construction costs is said to have abated somewhat lately, costs remain high and will continue to be a factor that suppresses supply for the time being. **(See Chart 5-3 on the next page.)**

At the same time, on the demand side, the ratio of job openings to job seekers has been at peak levels since the previous year, and vacancy rates are clearly declining, reflecting rampant demand for office expansion in the private sector. **(See Chart 5-4 on the 11th page.)**

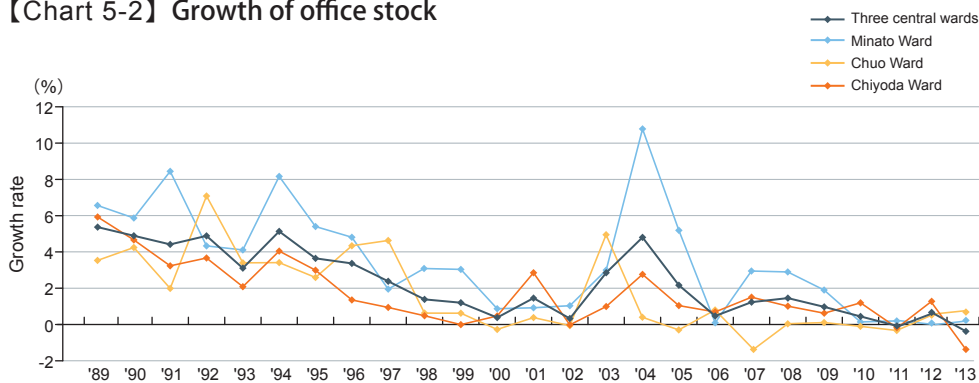
Given these market conditions, downward pressures on supply generated by rising construction costs and other factors will temporarily help maintain favorable conditions in the office space market. At the same time, these factors will inevitably affect the market's medium and long-term development and efforts to strengthen Tokyo's international appeal. Given the positive impact of Abenomics and firm market conditions, now is the time to address continuing high construction costs and shorten the time required for government deliberations and procedures for large-scale development projects. Public and private sectors should work together to take timely measures to address these issues and further upgrade the city's urban functions.

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



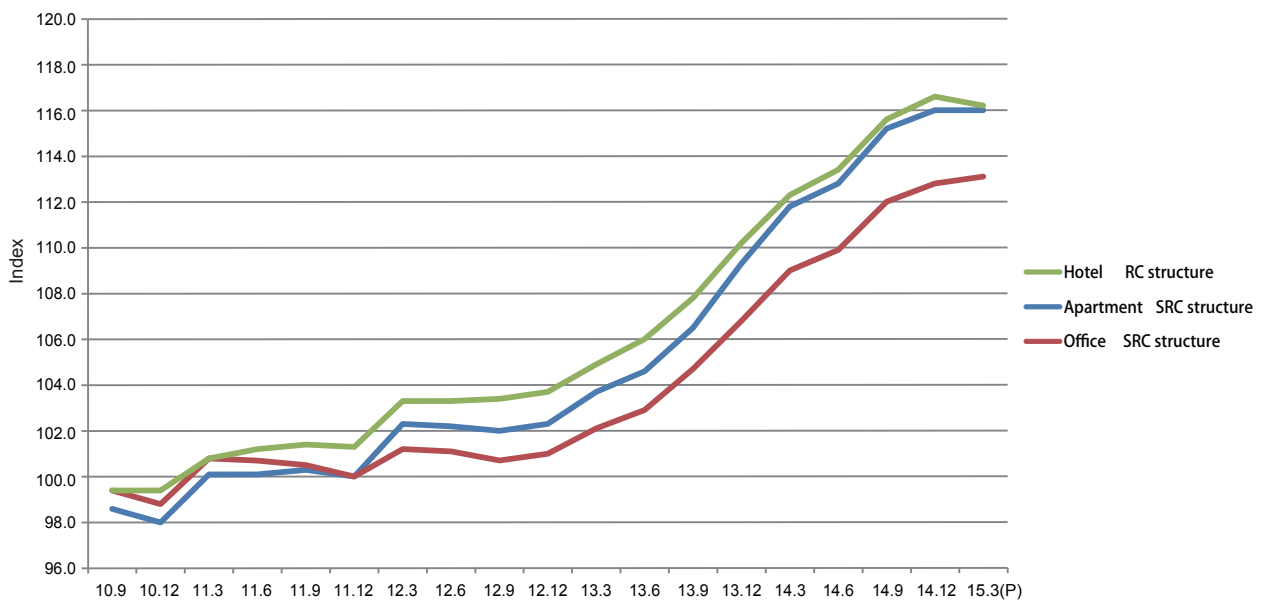
Source: Compiled by Mori Trust based on "An Overview of Tokyo's Land" (Tokyo Metropolitan Government)

【Chart 5-2】 Growth of office stock



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

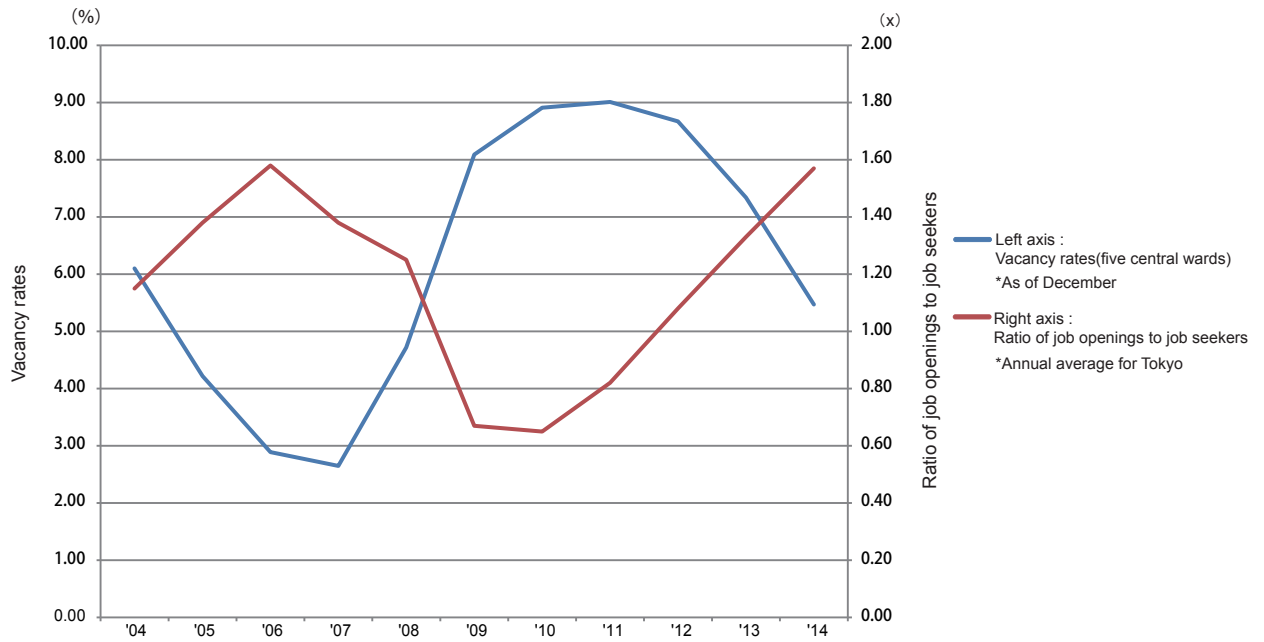
【Chart 5-3】 Price of Construction Materials and Wages Index*(for Tokyo ; 2005 is set to 100)



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.

【Chart 5-4】 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