Survey of Large-Scale Office Building Supply in Tokyo's 23 Wards 2018

MORI TRUST GROUP

April 25, 2018

Mori Trust Co., Ltd., (Head Office: Minato-ku, Tokyo) has surveyed supply trends for large-scale office buildings with total office space of 10,000 square meters or more in Tokyo's 23 wards since 1986 and for mid-size office buildings with total office space of 5,000 square meters to less than 10,000 square meters since 2013, based on various published materials, field surveys, and interviews. The results of the most recent survey are presented below. In calculating total office floor area, where the survey deals with multipurpose buildings—buildings that also contain retail space, residential space, or hotels—the calculation includes only the floor area set aside solely for office use.

[Survey Date: December 2017]

Supply to increase in 2018–2020 and decline subsequently —Supply in 2021–2022 to be half the past average or lower—

☞ Main Results of This Survey

1. Supply of large-scale office buildings

Supply of large-scale office space in 2017 in Tokyo's 23 wards was 0.76 million square meters, falling short of the past 20-year average of 1.05 million square meters. Supply is projected to be 1.47 million square meters in 2018, 1 million square meters in 2019, and 1.73 million square meters in 2020. The last would mark the third-highest level in the past 20 years. A subsequent downturn is anticipated for the two years from 2021, as supply dips significantly below the past average.

2. Supply trends by area

Supply trends in central Tokyo are expected to remain on the same trajectory during the 2018–2022 timeframe. Supply in Tokyo's three central wards will remain at 70% of total supply. By district, Otemachi/Marunouchi/Yurakucho will continue to account for the majority of this supply. In Minato Ward, supply is expected to expand in the three districts of Toranomon/Shinbashi, Shibaura/Kaigan, and Shibakoen/Hamamatsucho. In Tokyo's other wards, supply is projected to expand in Shibuya, Osaki/Gotanda, Toyosu, and Ikebukuro.

3. Supply trends by type of development site

In Tokyo's three central wards in 2018–2022, majority of supply will come from rebuilding. However, supply on undeveloped/underdeveloped land (including redevelopment, etc.) is growing and is expected to reach a pace roughly triple that of the past five years. Outside Tokyo's three central wards, supply on undeveloped/underdeveloped land (including redevelopment, etc.) will account for approximately 80% of total supply.

4. Supply of mid-size office buildings

Supply in 2017 was 91,000 square meters, the fourth consecutive year below the 10-year average of 133,000 square meters. In 2018, supply will be 138,000 square meters, above the average, but it will fall again in 2019. In terms of supply share by ward in 2018–2019, Chuo Ward will have the highest share. In Minato Ward, supply will continue to grow at a steady rate as it has the past four years.

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1. Supply of large-scale office buildings

In 2017, the supply of large-scale office space in Tokyo's 23 wards was 0.76 million square meters, below the past 20-year average of 1.05 million square meters.

Supply in 2018, however, is expected to be 1.47 million square meters, above the past average. Projections see a modest decline in 2019 to 1 million square meters but an increase in 2020 to 1.73 million square meters, the third-highest level seen over the past 20 years.

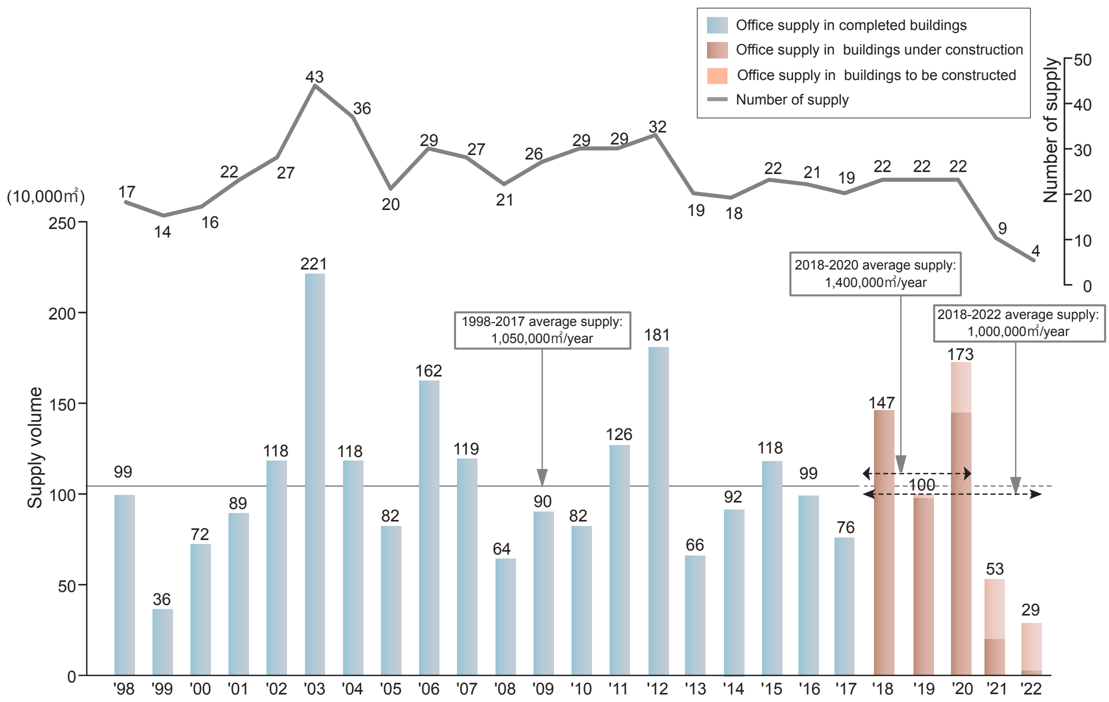
For the three years from 2018, average annual supply is projected to be 1.4 million square meters, second only to the 2002–2004 timeframe, when supply averaged 1.53 million square meters.

A major downturn is expected thereafter. In 2021–2022, and in 2022 in particular, supply will be just 0.29 million square meters, the lowest figure in 20 years, in part in reaction to the glut of office space introduced to market through 2020. ***(Chart 1-1)*** The average supply of office space for each of the five years from 2018 is projected to settle to 1 million square meters, below the past 20-year average of 1.05 million square meters.

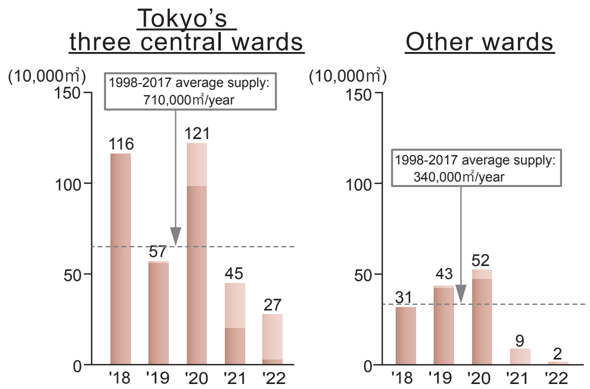
From 2018, for Tokyo's wards, the majority of supply will be located in the three central wards. But even in the other wards, from 2018–2020, supply is expected to increase. In 2020, supply is projected to be high and cover a broad area. ***(Chart 1-2)***

With respect to supply trends by building size, supply of buildings over 50,000 square meters will account for the vast majority of supply, approximately 80% of the total, and supply of buildings over 100,000 square meters will account for around 60% of the total, indicating the trend toward the development of ever-larger office properties. ***(Chart 1-3)***

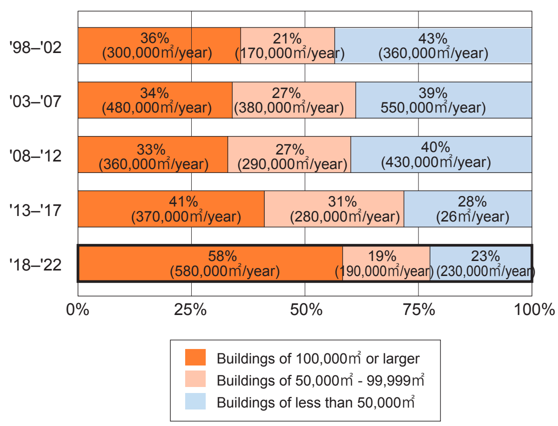
【Chart 1-1】Supply trends for large-scale office buildings in Tokyo's 23 wards



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



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



2. Supply trends by area

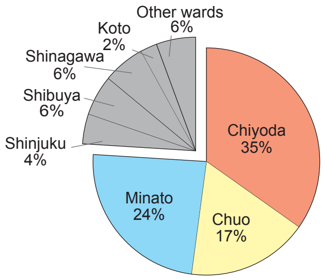
Supply is expected to remain concentrated in central Tokyo for the 2018–2022 timeframe. The supply in Tokyo's three central wards will continue to account for 70% of total supply. Of the three wards, Chiyoda Ward is projected to stay at around 30% of total supply, retaining the top share, but Minato Ward's share is projected to grow. In Tokyo's other wards, Shibuya Ward has accounted for a growing presence. ***(Chart 2-1)***

By district, supply in the Otemachi/Marunouchi/Yurakucho district continues to be highest; this trend remained unchanged. However, in Minato Ward, whose districts account for a growing proportion of new office space in the Tokyo area, three districts—Toranomon/Shinbashi, Shibaura/Kaigan, and Shibakoen/Hamamatsucho—entered the top 10. Shibuya, Osaki/Gotanda, Toyosu, and Ikebukuro, districts outside the central three wards, also ranked in the top 10, indicating that new office space is now being built across a wider range of neighborhoods.

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

[2013–2017]

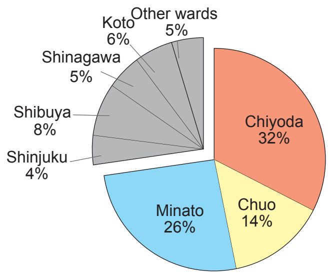
Tokyo's three central wards : 3,420,000㎡ (76%)
Other wards : 1,080,000㎡ (24%)



Supply (10,000㎡)	
Chiyoda	157
Chuo	78
Minato	108
Shinjuku	19
Shibuya	26
Shinagawa	27
Koto	11
Others	25

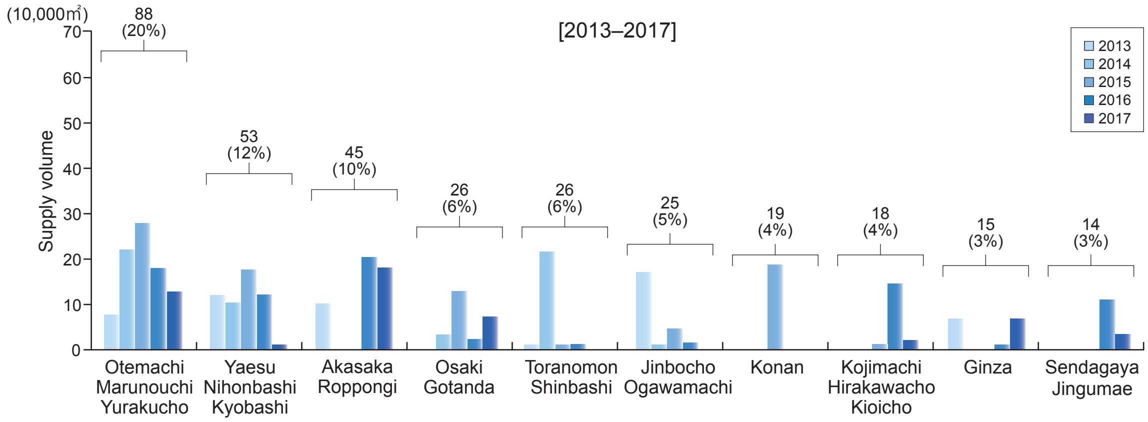
[2018–2022]

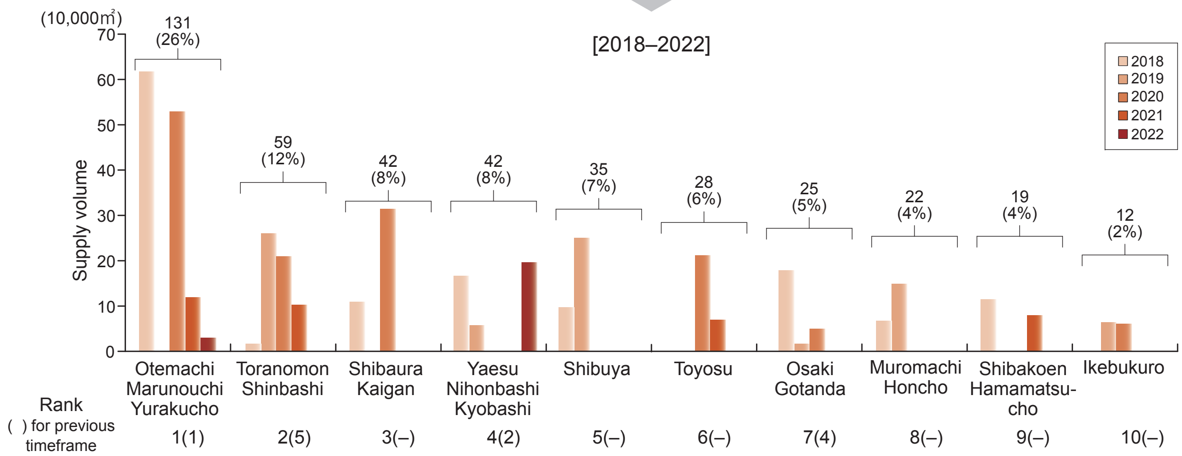
Tokyo's three central wards : 3,650,000㎡ (72%)
Other wards : 1,390,000㎡ (28%)



Supply (10,000㎡)	
Chiyoda	164
Chuo	72
Minato	130
Shinjuku	22
Shibuya	39
Shinagawa	26
Koto	28
Others	23

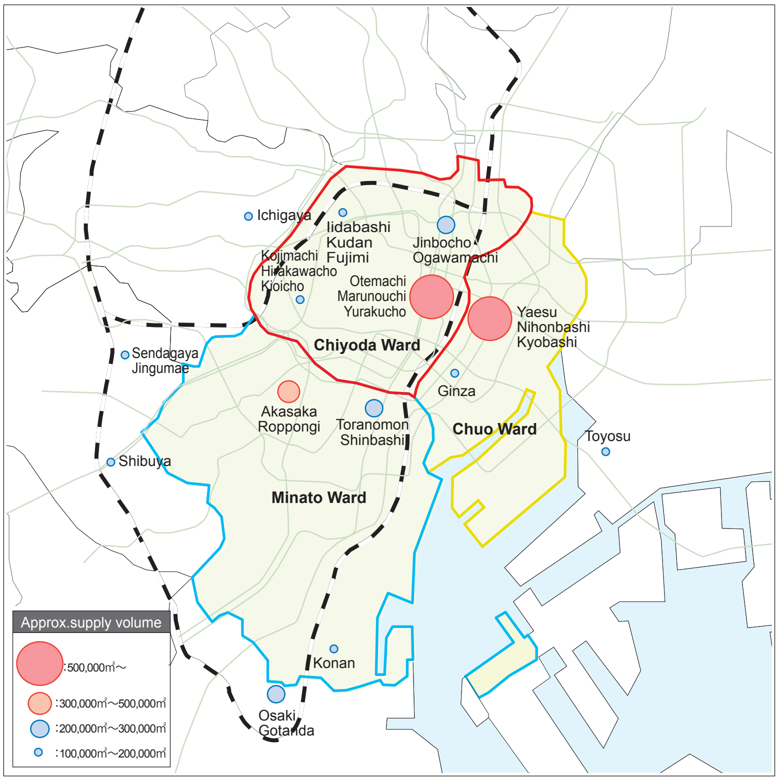
【Chart 2-2】Top ten districts



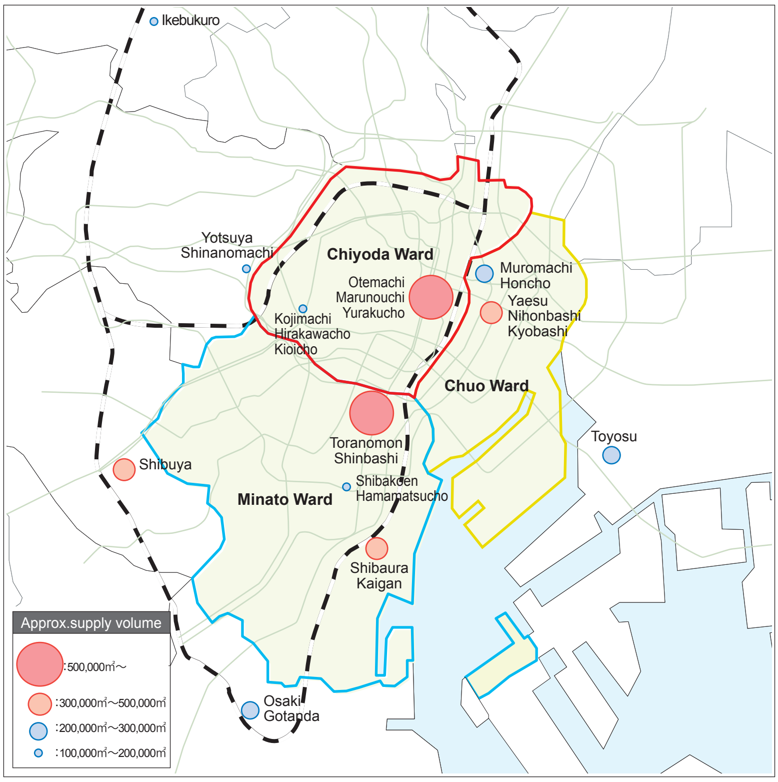


【Chart 2-3】Supply volume in the key business districts

[2013–2017]



[2018–2022]



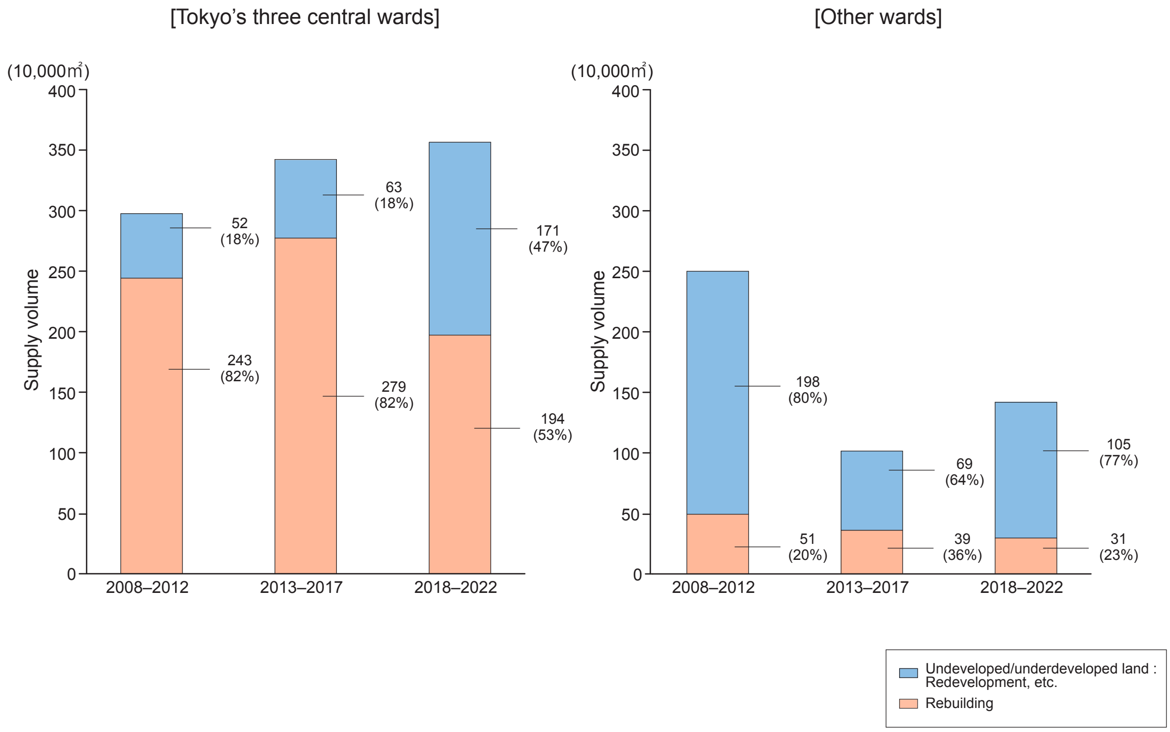
3. Supply trends by type of development site

In Tokyo's central three wards, supply through rebuilding predominated. However, the amount of new office space introduced on undeveloped/underdeveloped land (including redevelopment, etc.) is expected to grow substantially to approximately threefold levels of the past five years.

In Tokyo's other wards, supply on undeveloped/underdeveloped land (including redevelopment, etc.) will be approximately 80% of the total. ***(Chart 3-1)***

Overall, supply on undeveloped/underdeveloped land (including redevelopment, etc.) exceeds the amount created by rebuilding. While rebuilding-based new office supply has been the dominant format for new office supply, this is now marking time.

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



[Definitions]

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 for highly effective use (or development of such land), including development of clusters of small buildings; 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 summarizes supply trends for mid-size office buildings (building containing 5,000 to less than 10,000 square meters of office space).

Supply of mid-size office buildings in 2017 was 91,000 square meters, the fourth consecutive year in which the amount introduced was below the past 10-year average of 133,000 square meters.

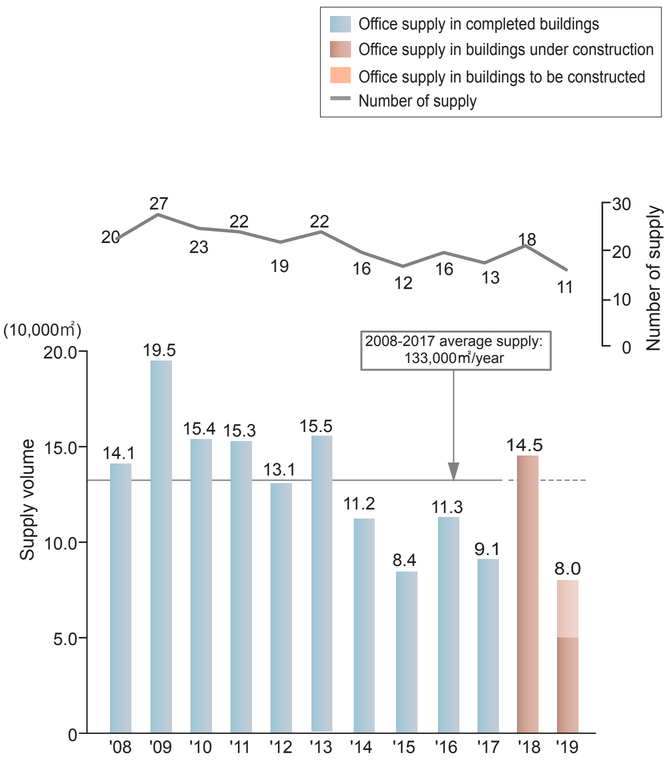
While the supply in 2018 is expected to be above the past 10-year average, this amount is expected to fall short in 2019. Supply of mid-size office buildings will be moderate. ***(Chart 4-1)***

By supply area, Tokyo's central three wards in 2018 and 2019 will continue to account for approximately 70% of total supply. Development will continue to concentrate in these wards. Supply in Chuo Ward in particular will increase significantly; Chuo Ward is expected to include the top three districts in terms of new space supply. Minato Ward continues to maintain a stable share of the supply, while Chiyoda Ward's share is declining significantly. ***(Chart 4-3 on the next page)***

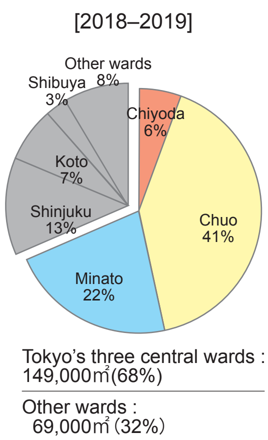
Looking at supply trends by land for development, projections for 2018 and 2019 indicate the majority of supply will come from rebuilding in both Tokyo's central three wards and the other wards. ***(Chart 4-4 on the next page)***

Major developers continue to increase their presence in the mid-size office building market. ***(Chart 4-5)***

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

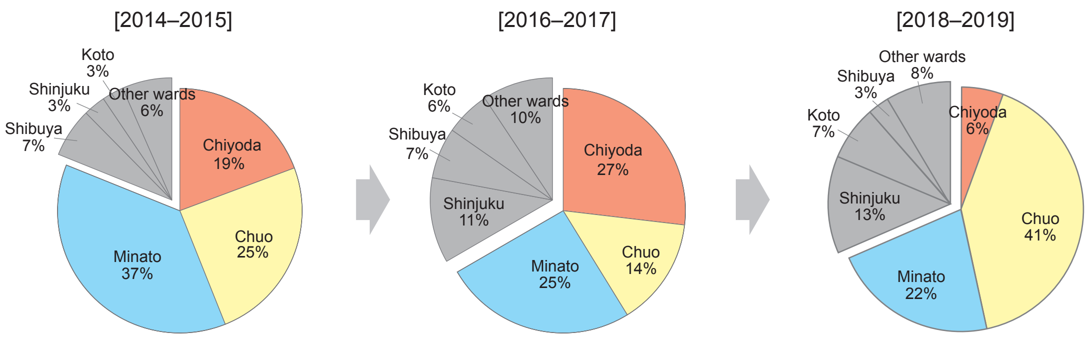


【Chart4-2】Supply of mid-size buildings: Ratio by ward and top three districts



Top three districts	Supply
Yaesu•Nihonbashi•Kyobashi	32,000㎡
Muromachi•Honcho	28,000㎡
Kayabacho•Hacchobori•Shinkawa	24,000㎡

【Chart4-3】Supply of mid-size buildings: Ratio by ward and top three districts



[2014–2015]
Tokyo's three central wards : 159,000㎡ (81%)
Other wards : 37,000㎡ (19%)

Top three districts	Supply
Toranomon•Shinbashi	31,000㎡
Yaesu•Nihonbashi•Kyobashi	21,000㎡
Uchikanda•Kandasudacho	15,000㎡

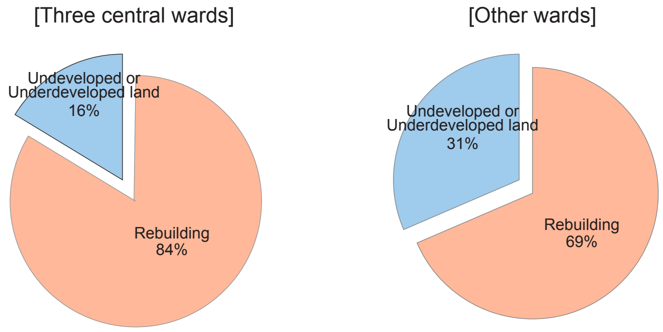
[2016–2017]
Tokyo's three central wards : 136,000㎡ (67%)
Other wards : 68,000㎡ (33%)

Top three districts	Supply
Toranomon•Shinbashi	46,000㎡
Jinbocho•Ogawamachi	16,000㎡
Kayabacho•Hacchobori•Shinkawa	16,000㎡

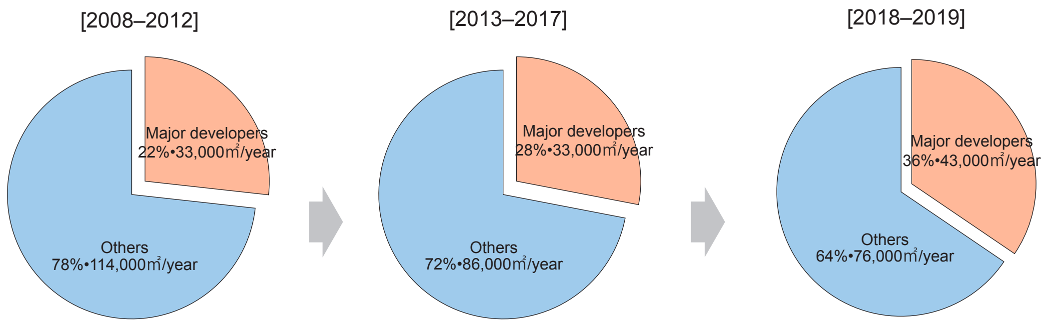
[2018–2019]
Tokyo's three central wards : 149,000㎡ (68%)
Other wards : 69,000㎡ (32%)

Top three districts	Supply
Yaesu•Nihonbashi•Kyobashi	32,000㎡
Muromachi•Honcho	28,000㎡
Kayabacho•Hacchobori•Shinkawa	24,000㎡

【Chart4-4】Supply of mid-size buildings: Ratio by type of development site (2018-19)



【Chart4-5】Supply of mid-size buildings: Ratio developed by major developers*



5. Conclusion

In 2017, vacancies were steadily filled in new office buildings due in part to supply being below the past average. Vacancy rates in existing buildings also continue to decline; office market conditions are currently firm.

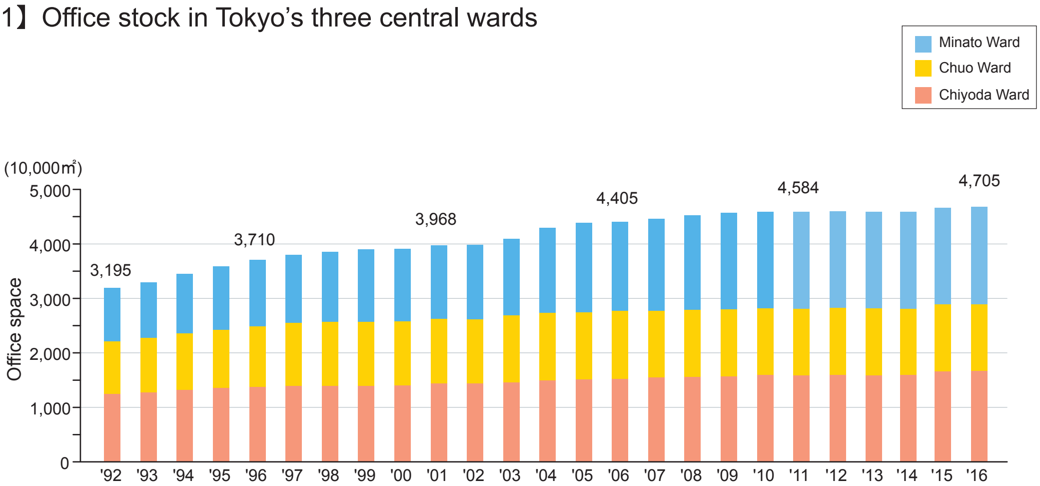
Projections for the office market over the next five years suggest a major influx of new supply over the three years from 2018. However, preoccupancy rates are high at many of these buildings. For the two years from 2021, supply is expected to decline sharply, to roughly half the past average. Underpinned by vigorous demand, robust market conditions are expected to continue.

One factor driving this demand is companies seeking office environments that support diverse working styles and promote creativity—primarily companies seeking to apply workstyle reforms to strengthen productivity. This trend is expected to continue gaining momentum. ***(See the Appendix on page 11.)***

To accommodate such needs, future offices will be asked to provide “creative platform functions in urban areas” that improve the well-being of staff, provide a sophisticated workplace, and promote socializing among people with diverse perspectives through cutting-edge technologies and open communities that help generate new encounters and ideas in various scenarios.

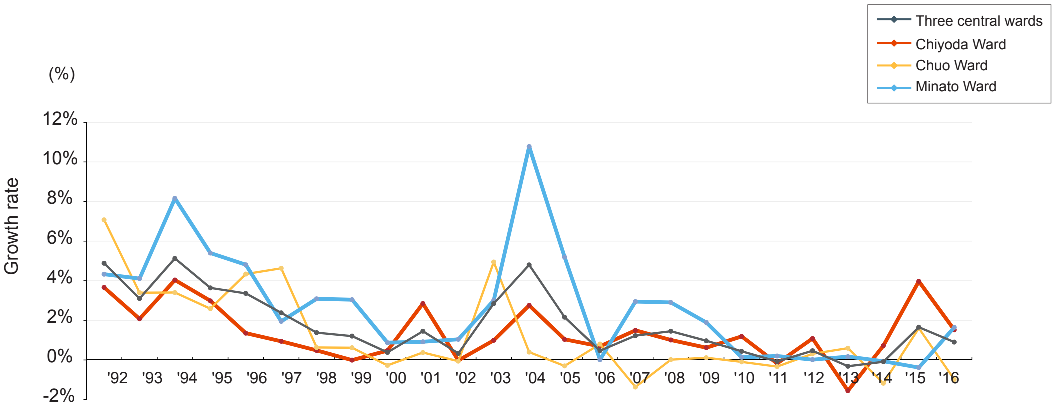
This is a key function for urban office spaces in attracting companies and talent from around the world. It’s also an issue that needs to be addressed more energetically, through public-private partnerships, to further strengthen international competitiveness.

【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)

Appendix Excerpt from 2017 Tenant Questionnaire

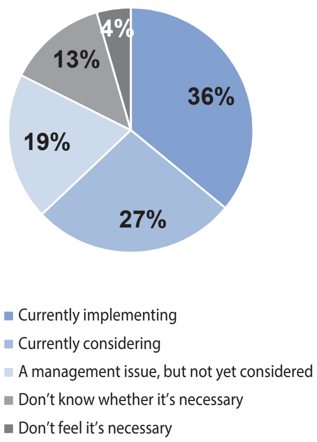
The following is an excerpt from the results of a questionnaire of tenant companies conducted from August to October 2017.

Regarding "Promoting working environments and other aspects that encourage diverse and flexible working styles," 36% of the companies responding answered "Currently implementing"; 27% answered "Currently considering"; and just 4% answered "Don't feel it's necessary." Consistent with recent societal attitudes, the results suggest strong interest in the theme of diverse working styles. ***(Chart A)***

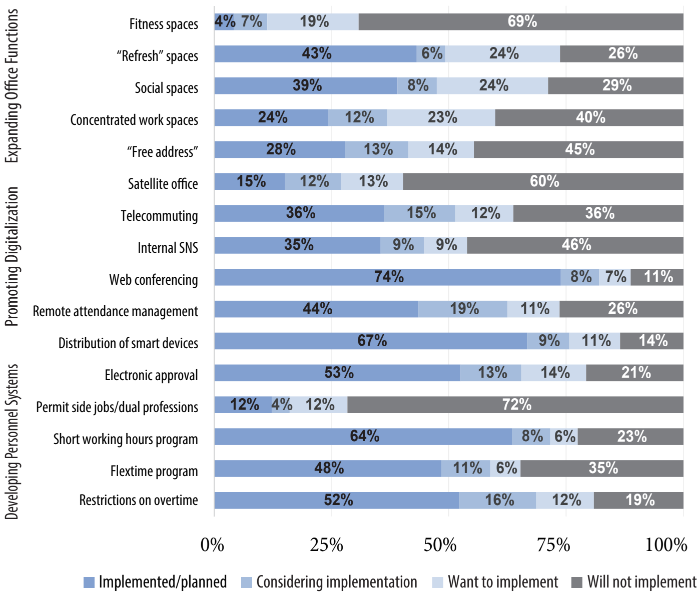
Chart B addresses the implementation of functions that promote diverse working styles. Functions have been reorganized into "Expanding office functions," "Promoting digitalization," and "Developing personnel systems." Compiling the results shows implementation status clearly differs among the three functions. ***(Chart C)***

However, the implementation of certain functions related to "Expanding office functions" has progressed compared to 2013 ***(Chart D)***.

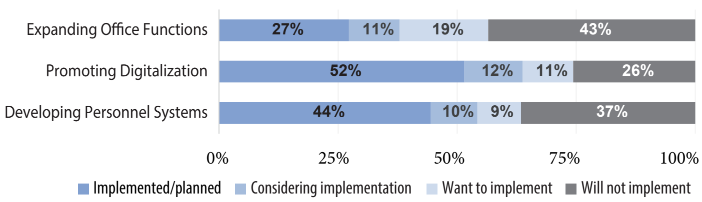
[Chart A] Initiative Level for "Promoting Diverse Working Styles" (n=267)



[Chart B] Initiative Level by Item (n=255)



[Chart C]



[Chart D]