

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 2018]

## With Toranomon leading the way, Minato Ward expected to account for the most new office space by ward over the five-year period starting in 2019

### 👉 Main Results of This Survey

#### 1. Supply of large-scale office buildings

In 2018, large-scale office buildings introduced to market in Tokyo's 23 wards added 1,470,000 m<sup>2</sup> to the region's total inventory of office space, the fourth-highest annual figure over the past 20 years. The amount of new space added is expected to shrink 1,020,000 m<sup>2</sup> in 2019, but is projected to increase once again to 1,790,000 m<sup>2</sup> in 2020. The figure is projected to decline significantly in 2021 (to 530,000 m<sup>2</sup>) and in 2022 (to 550,000 m<sup>2</sup>) in response to the volumes added in preceding years, but should increase once again in 2023 to 990,000 m<sup>2</sup>, close to the past 20-year average figure of 1,080,000 m<sup>2</sup> for recent years.

#### 2. Supply trends by area

Looking at the five years from 2019, the percentage of new space found in Tokyo's three central wards will remain high; among wards, Minato Ward's share is expected to rise sharply. By district, the amount of new office space introduced is expected to be highest in Toranomon and Shinbashi, taking over the top spot from Otemachi, Marunouchi, and Yurakucho. Outside the three central wards, a certain level of the amount of new office space introduced is expected to remain relatively constant in Shibuya Ward, as the recent rise in Shibuya's presence will be seen in supply levels as well.

#### 3. Supply trends by type of development site

In the three central wards, "Rebuilding" previously accounted for the majority of total available office space. However, "Undeveloped/underdeveloped land : Redevelopment, etc." that has grown in recent years. Cumulatively, over the next five years, space on "Undeveloped/underdeveloped land : Redevelopment, etc." is projected to account for over 50% of supply. Outside the three central wards, supply using "Undeveloped/underdeveloped land : Redevelopment, etc." is projected to maintain a share of around 70%.

#### 4. Supply of mid-size office buildings

The figure for new office space introduced in mid-scale office buildings in 2018 was 129,000 m<sup>2</sup>. This is higher than the figure for the year before, but lower than the average for the preceding ten years (132,000 m<sup>2</sup>). The figure for new office introduced in 2019 and 2020 is also expected to fall short of the average for the recent past. The three central wards accounted for 70% of this new space, with Minato Ward alone accounting for 40%, the leading share.

### 🔗 Conclusion

In 2018, nearly all space in new large-scale office buildings were preleased before the buildings opened. The buildings scheduled to be completed in 2019 are also more or less no longer seeking tenants. Even buildings scheduled to be completed in 2020 are attracting tenants. The supply of new office space in 2021 and 2022 is projected to tighten to around half the average for the recent past; some buildings scheduled for completion in 2021 already have tenants lined up. These trends suggest the new office building market will remain firm. In addition, vacancies in existing buildings from tenants relocating to new buildings (secondary vacancies) are steadily being filled due to robust expansion in demand. The market for space in older buildings is projected to maintain its strength. The figure for new space introduced in 2023 is projected to return to average levels for the recent past, as the decline in response to the glut of new space subsides.

Figures for total office floor space (stock) in 2017 began to rise in all three central wards for the first time since 2012, a span of five years. The main category of land for large-scale office building supply is shifting from "Rebuilding" to "Undeveloped/underdeveloped land" resulting in increased stock. The increase in stock, which has been gradual to this point, warrants monitoring going forward.

Fears concerning a deteriorating supply-demand balance due to the influx of new space proved unfounded. Nevertheless, from 2023, the amount of new space introduced annually is expected to recover; the amount of stock may even expand. A key task for rental office companies will be accurately identifying the trends behind the current relocation/expansion demand and taking appropriate measures in response, both at new and existing buildings.

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## 1. Supply of large-scale office buildings

The amount of new space introduced in major office buildings in 2018 was 1,470,000 m<sup>2</sup>, the fourth-highest figure recorded the past 20 years.

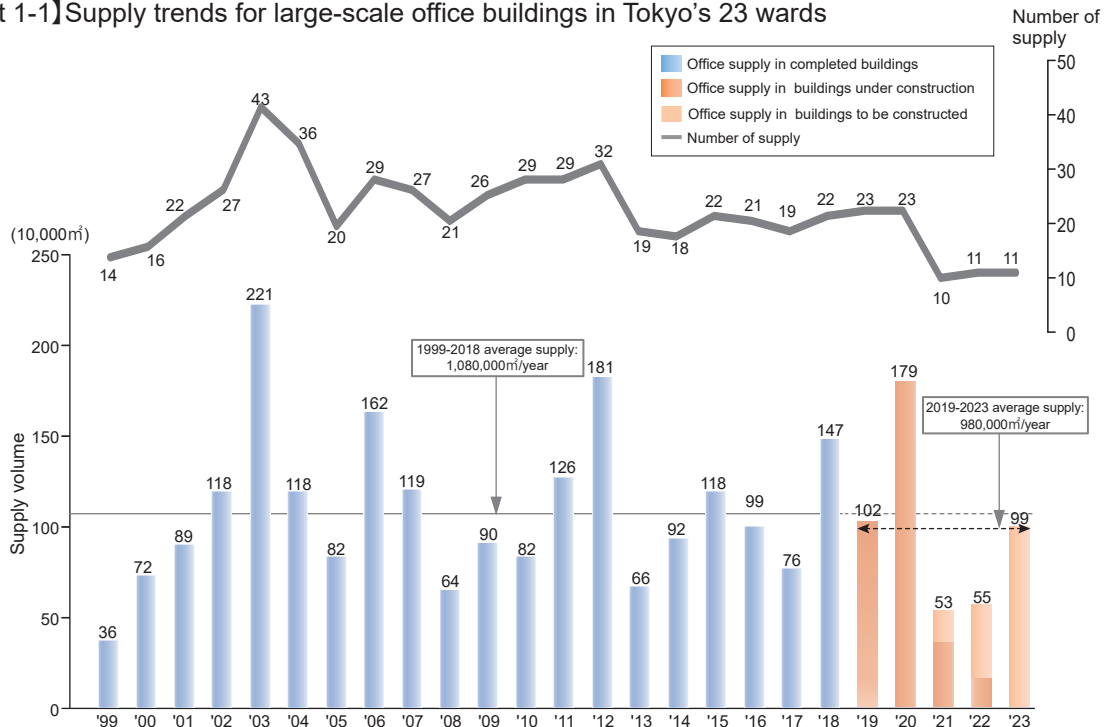
In 2019, the figure for new space in major buildings is expected to slow to 1,020,000 m<sup>2</sup>, on par with the past 20-year average of 1,080,000 m<sup>2</sup>. However, in 2020, this figure is expected to begin rising once again, with a figure of 1,790,000 m<sup>2</sup>, almost the same for 2012, the second-highest mark over the past 20 years.

The supply of new office space is projected to decline in 2021 (530,000 m<sup>2</sup>) and 2022 (550,000 m<sup>2</sup>) in reaction to the preceding glut of new space, but should increase again in 2023, with a figure around 990,000 m<sup>2</sup>, close to the average for the recent past. **(Chart 1-1)**

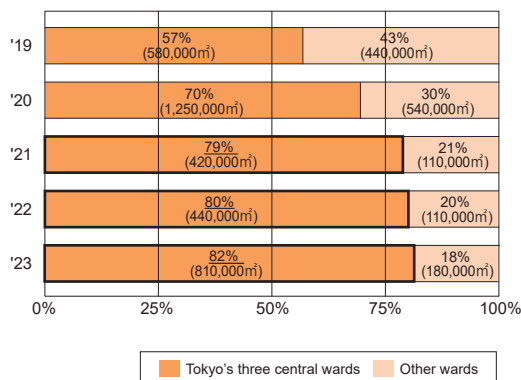
Calculating shares of new office space in the 23 wards while looking separately at the three central wards and other wards suggests the share corresponding to the three central wards will continue to increase from 2019 to 2023, reaching around 80% from 2021. **(Chart 1-2)**

In terms of supply trends by building scale, the share of supply of buildings with total floor space of 100,000 m<sup>2</sup> or more has increased significantly in recent years, exceeding 60% for 2019-2023. Average office floor space per building was 43,000 m<sup>2</sup> from 1999 to 2018, but should grow from 2019 to 2023 to 63,000 m<sup>2</sup> per building. The trend is toward ultra-large-scale buildings. **(Chart 1-3)**

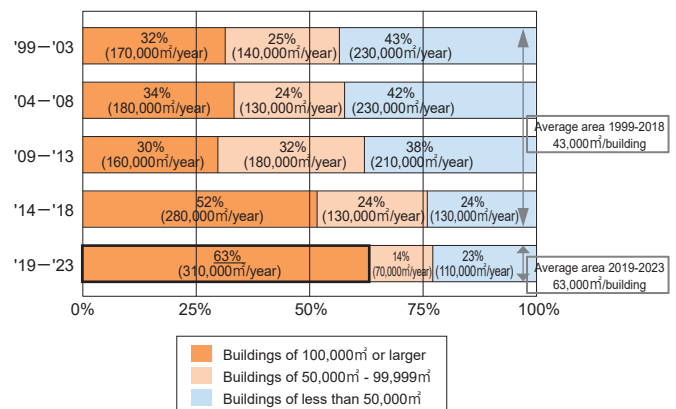
**[Chart 1-1]** Supply trends for large-scale office buildings in Tokyo's 23 wards



**[Chart 1-2]** Tokyo's three central wards and other wards



**[Chart 1-3]** Supply and ratio by building scale



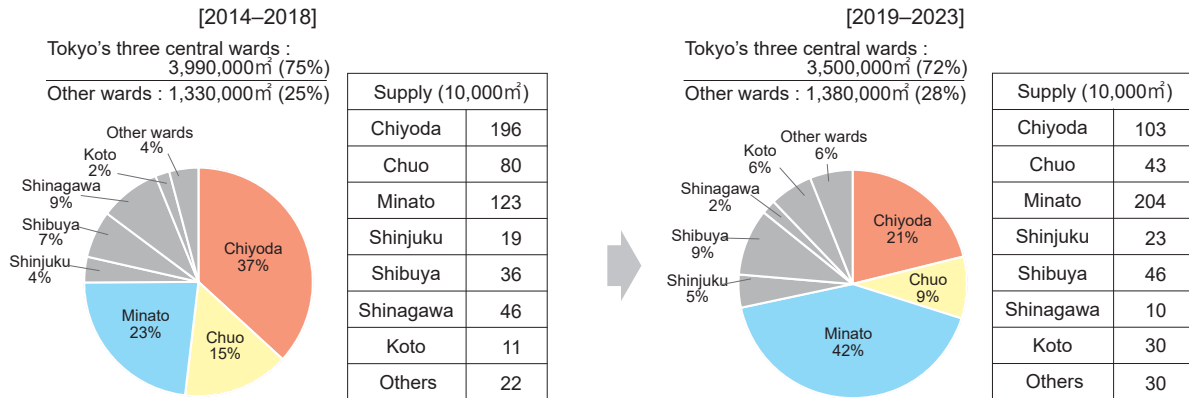
## 2. Supply trends by area

Looking at trends by supply area, we see that the proportion of space accounted for by the three central wards should remain around 70%. The share held by Minato Ward among the three central wards is projected to rise sharply from 2019 to 2023. **(Chart 2-1)**

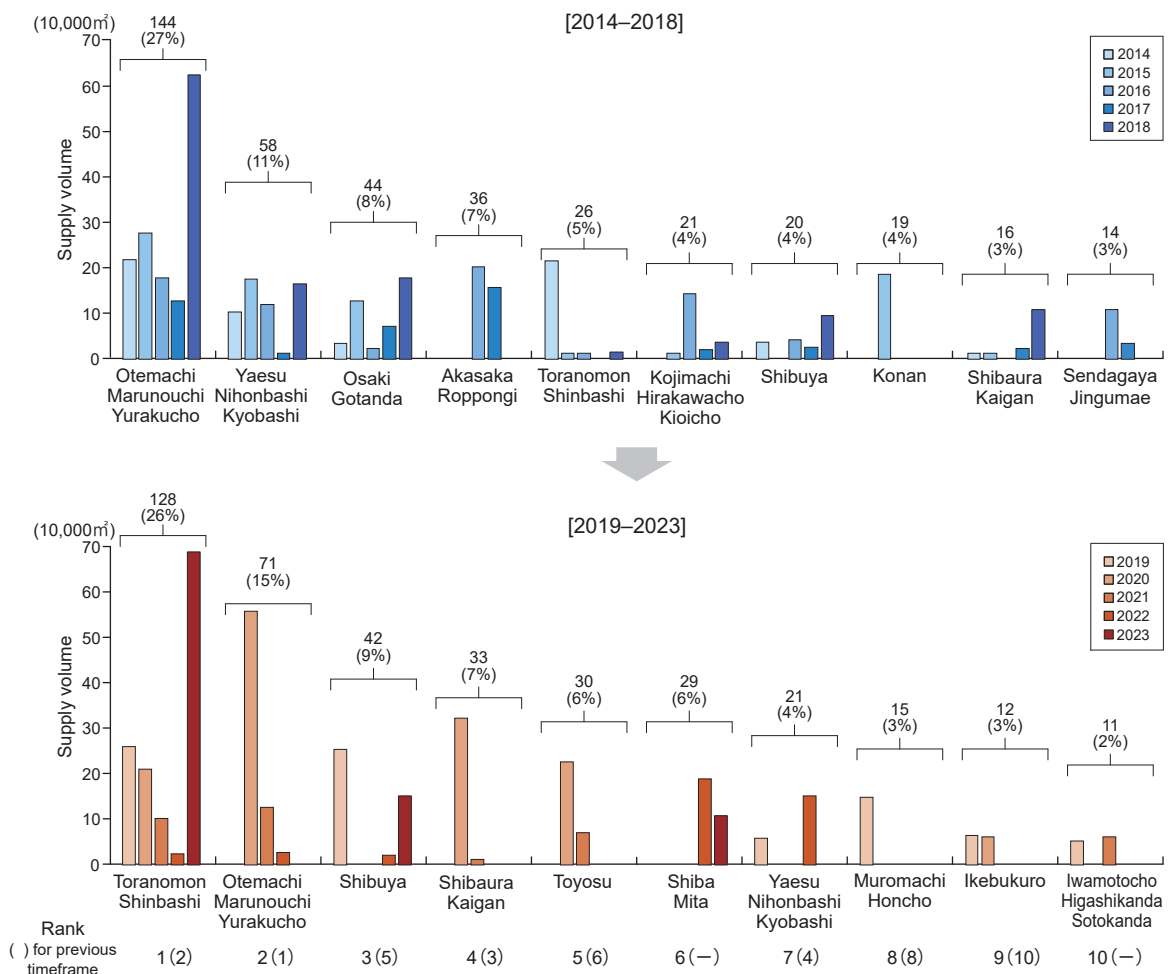
In terms of supply trends by district, the supply of new office space should be highest in Toranomon and Shinbashi, which assume the top spot from Otemachi, Marunouchi, and Yurakucho. This is among the factors accounting for the sharp increase in Minato Ward's share. **(Chart 2-2)**

Outside the three central wards, the amount of new office space introduced is expected to remain relatively constant in Shibuya Ward. Recent figures also attest to Shibuya's recent emergence.

**[Chart 2-1] Supply of large-scale office space by ward**

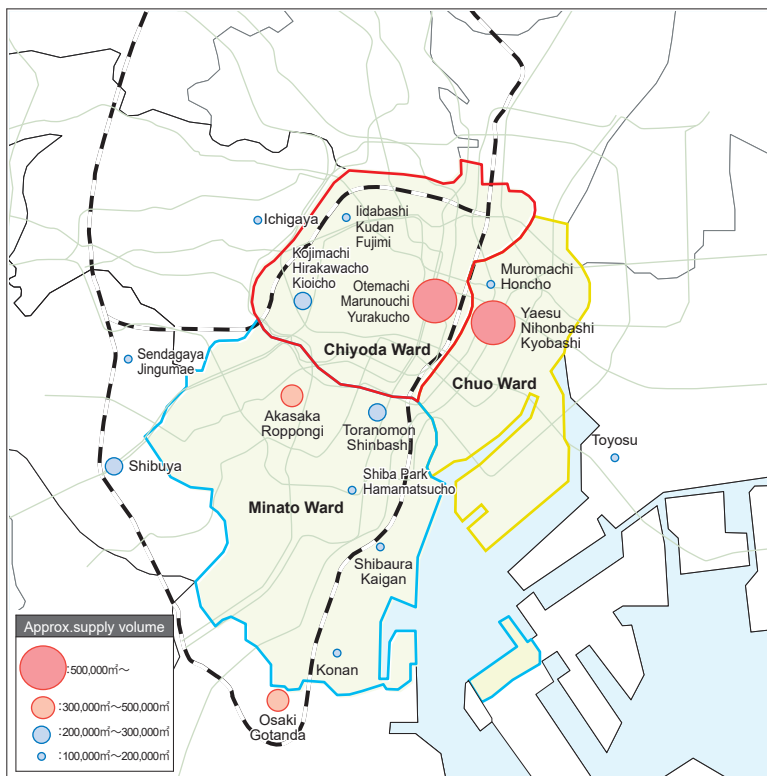


**[Chart 2-2] Top ten districts**

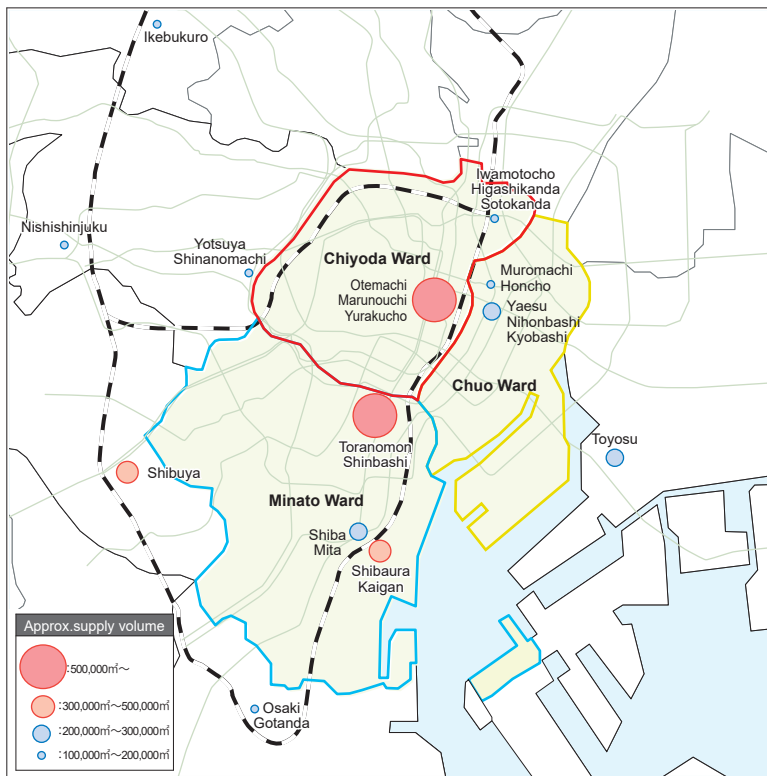


【Chart 2-3】 Supply volume in the key business districts

[2014–2018]



[2019–2023]

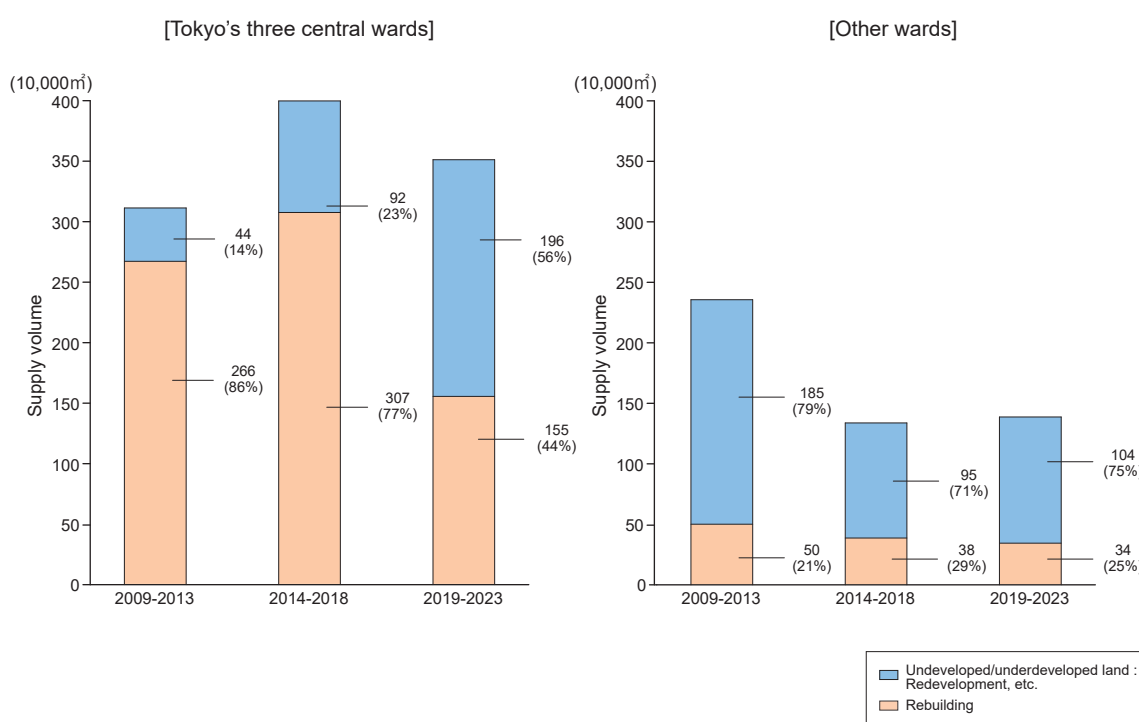


### 3. Supply trends by type of development site

In the three central wards, “Rebuilding” had previously accounted for the majority of total new space. In recent years, however, office space in “Undeveloped/underdeveloped land : Redevelopment, etc.” has grown. Over the five years from 2019 to 2023, office space created on “Undeveloped/underdeveloped land : Redevelopment, etc.” is expected to account for more than 50% of all new office space. Outside the three central wards, new office space on “Undeveloped/underdeveloped land : Redevelopment, etc.” is projected to maintain a share exceeding 70%. **(Chart 3-1)**

Buildings on “Undeveloped/underdeveloped land : Redevelopment, etc.” is becoming the major source for new office space in the 23 wards.

**[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 discusses supply trends in mid-size office buildings containing from 5,000 m<sup>2</sup> to less than 10,000 m<sup>2</sup>.

The figure for new office space in mid-scale office buildings in 2018 was 129,000 m<sup>2</sup>. This exceeds the figure for the year before but falls short of the average for the past ten years (132,000 m<sup>2</sup>). Figures for 2019 and 2020 are also projected to fall short of the average for the recent past, as the mid-scale office space sector trends downward.

**(Chart 4-1)**

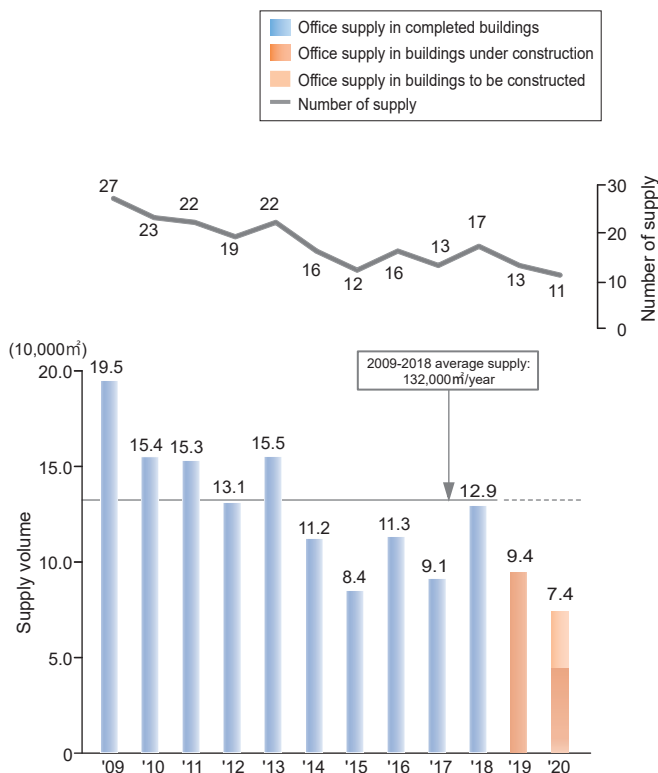
By ward in 2019 and 2020, Minato Ward is projected to hold the highest share, 40%. The districts with the highest shares are projected to be Toranomon and Shinbashi. As with office space in major new office buildings, Minato Ward accounts for the most new office space by ward, while Toranomon and Shinbashi account for the highest figures by district. **(Chart 4-2)**

Trends in shares of new office space by ward show the share corresponding to the three central wards exceeds 70%, which has been the case every year since 2015. Trends for mid-scale office buildings in the central three wards are also projected to remain unchanged. **(Chart 4-3 on following page)**

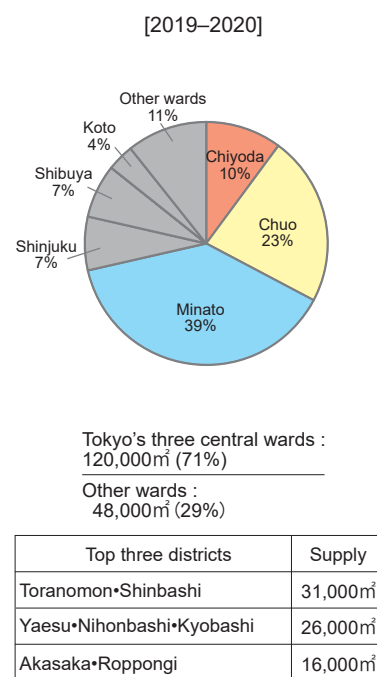
Office space in rebuilt buildings ("Rebuilding") is the main source of new space in mid-scale office buildings in the 23 wards overall, a trend distinct from the trend for large-scale office buildings, for which construction on "Undeveloped/underdeveloped land" is the main category. **(Chart 4-4 on following page)**

The trend in which major developers are expanding their presence in mid-scale office building projects remains unchanged. **(Chart 4-5 on following page)**

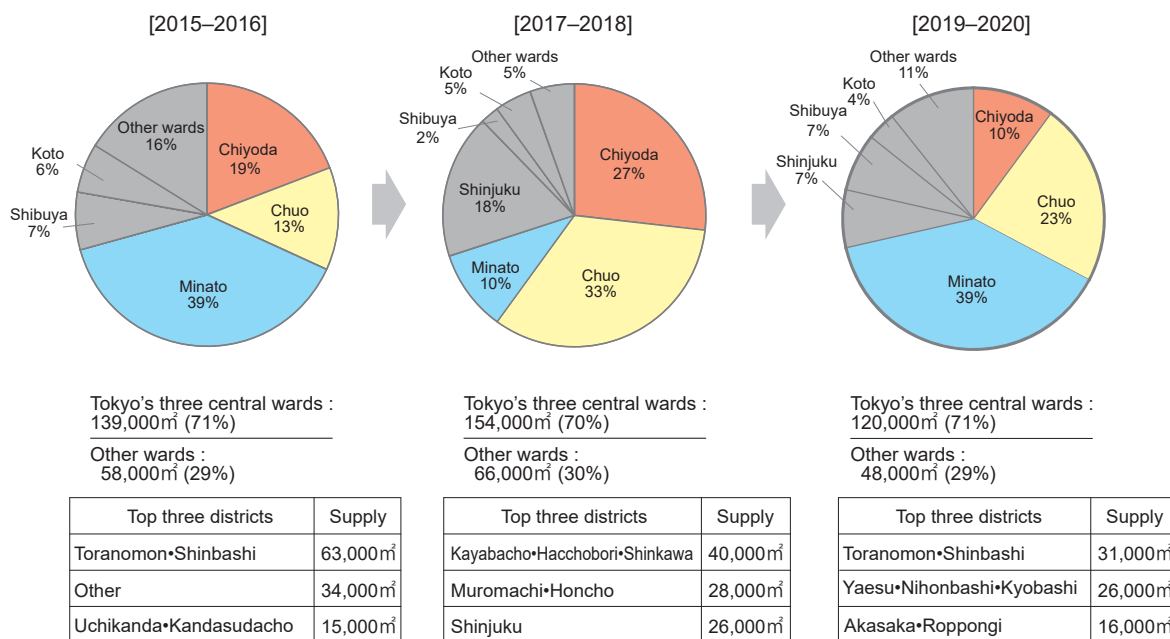
**【Chart4-1】 Supply trends for mid-size office buildings in Tokyo's 23 wards**



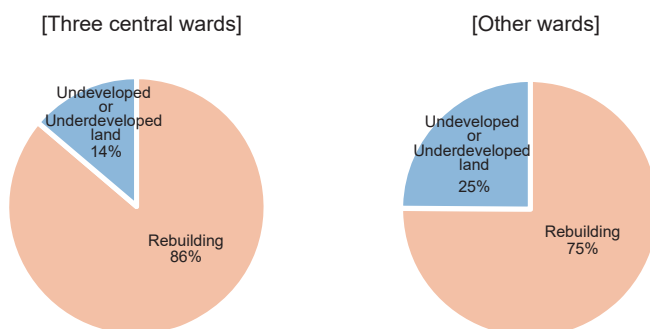
**【Chart4-2】 Supply of mid-size buildings: Ratio by ward and top three districts**



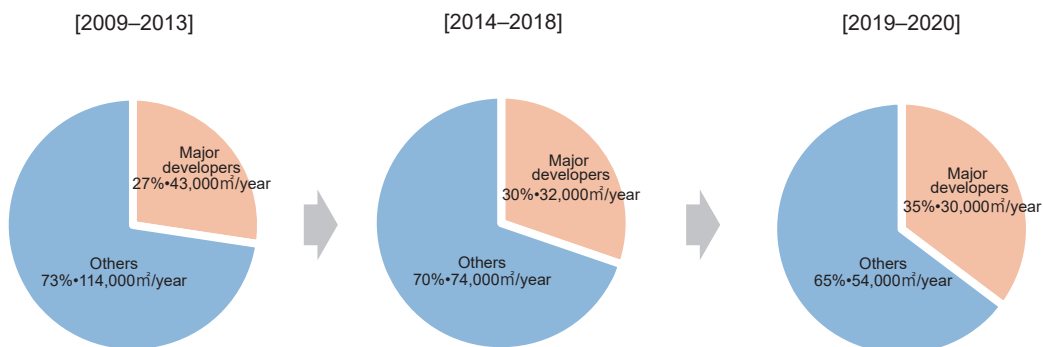
【Chart4-3】 Supply of mid-size buildings: Ratio by ward and top three districts



【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\*



\* Major developers: General developers with paid-in capital of 10.0 billion yen or more

## 5. Conclusion

New office space in 2018 exceeded the average for the recent past by around 40%, but almost all new large-scale office buildings had zero vacancies. With this rampant demand for office space, buildings scheduled for completion in 2019 have already largely completed tenant recruiting, buildings to be finished in 2020, when the amount of new office space introduced is expected to be at the third-highest level ever, are also already attracting tenants.

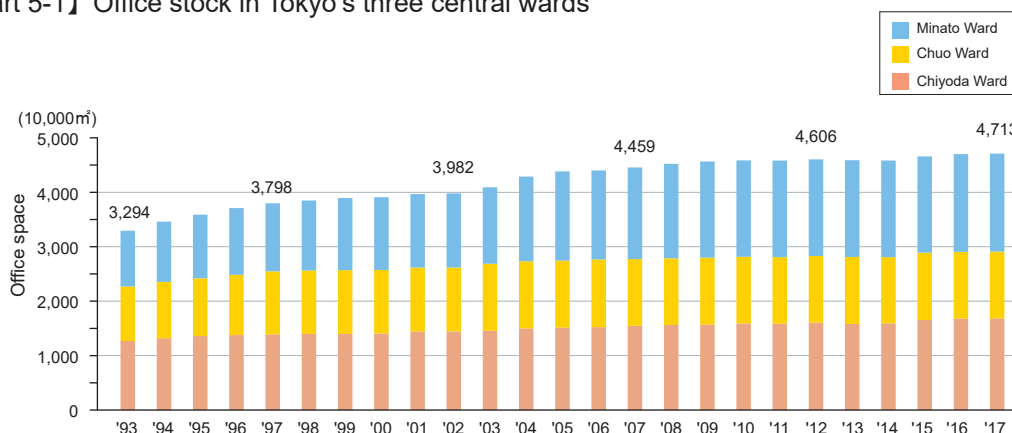
New office building supply in 2021 and 2022 will tighten to around half the average for the recent past. Some of the buildings scheduled for completion in 2021 already have tenants lined up, so the new office building market will likely continue to be firm. In addition, vacancies in existing buildings from tenants relocating to new buildings (secondary vacancies) are also steadily being filled due to currently robust expansion demand. The existing office building market is also projected to continue to maintain its strength.

At the same time, in 2023, the amount of new office space introduced is expected to recover to a level equivalent to the average for the recent past and the reactionary decline following major supply is also expected to subside.

In considering the office market going forward in connection with office floor space (stock), in 2017, stock began to rise in all three central wards for the first time since 2012, a span of five years. As indicated in supply trends by land for development seen above, the main category of land for large-scale office building supply is changing from "Rebuilding" to "Undeveloped/underdeveloped land" resulting in increased stock, and the increase in stock, which has been gradual to this point, calls for further monitoring going forward.

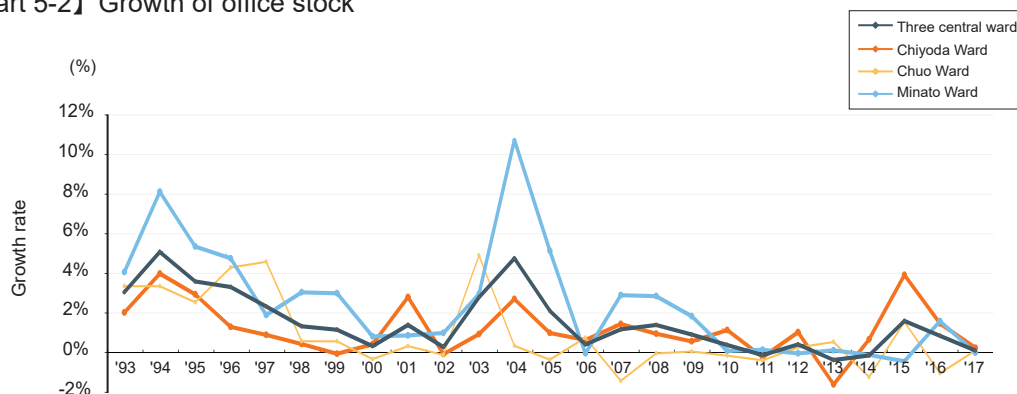
Fears concerning a deteriorating supply-demand balance due to the influx of new space for three years beginning in 2018 proved unfounded. Nevertheless, from 2023, the amount of new space introduced annually is expected to recover; the amount of stock may even expand. A key task for rental office companies will be accurately identifying the trends in office improvements to secure talented personnel, trends in diversifying work locations underpinned by work style reforms, and trends in seeking offices to increase productivity and creativity, the backdrop to current trends in relocation/expansion demand, and to take measures to accommodate these trends at both new and existing buildings to stimulate further demand and maintain the strength of the market.

【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)