March 21, 2013

Market Trend Survey of Large-Scale Office Buildings in Tokyo's 23 Wards

Special Bulletin Report of Survey Results as of December 31, 2012

■Supply Trends

Tokyo's 23 Wards

- ○ Average annual supply over the next five years (850,000m^2/year) will fall below the historic average (1,050,000m^2/year).
- ○ Supply volume in 2013 of 580,000m^2 (33% of the previous year's volume) will be 55% of the historic average (1,050,000m^2/year).

Central 3 Wards

- ○ Average annual supply volume over the next five years (620,000m^2/year) will account for 73% of the supply volume of Tokyo's 23 Wards.
- ○ Supply volume in 2013 of 540,000m^2 (56% of the previous year's volume) will account for 93% of the supply volume of Tokyo's 23 Wards.

■Demand Trends

Tokyo's 23 Wards

- ○ New demand (absorption capacity) in 2012 was 1,390,000m^2 (1.5 times the previous year) for 3 consecutive years of increased new demand.
- ○ Supply volume in 2012 was 1,750,000m^2 (1.7 times the historic average). Vacancy rate at the end of 2012 was 7.8% (0.9 point increase from the previous year.)

Central 3 Wards

- ○ New demand (absorption capacity) in 2012 was 780,000m^2 (3.7 times the previous year).
- ○ Supply volume in 2012 was 970,000m^2 (1.7 times the average of the past 5 years). Vacancy rate at the end of 2012 was 6.5% (0.8 point increase from the previous year.)

Since 1986, Mori Building Co., Ltd. (Minato-ku, Tokyo; President & CEO Shingo Tsuji) has regularly conducted market surveys of demand and supply trends for 10,000m^2-class or higher office buildings that were constructed in Tokyo's 23 wards since 1986 (hereinafter referred to as "large-scale office buildings"). Having just completed the tabulation of the results of our most recent survey (executed at the end of December 2012), we are pleased to present you with this bulletin report.

■"Survey of Large-Scale Office Building Market in Tokyo's 23 Wards" Framework

- ○ Research execution: End of December 2012
- ○ Research area: Tokyo's 23 wards
- ○ Research subject buildings: Office buildings with gross floor area exceeding 10,000m^2 with a construction completion date of 1986 or later.

※Based on publicly available information, on-site and "interview" research was undertaken for each survey project.

※"Supply Volume" is a tabulation of gross total office floor space of all large-scale office buildings completed since 1986 including Mori Building properties and excluding floor space reserved for non-office uses such as retail, residential, hotel, etc.

※"New Demand" (Absorption Capacity) is the newly occupied office floor space for a given year of all large-scale office buildings constructed since 1986: (vacant office floor space at the end of the previous year) + (newly supplied floor space) - (vacant floor space at the end of the current year). In order to compare "supply volume" and "demand volume", leasable floor space (net) values are converted to a gross floor space value by applying an average "effective rentable space ratio" for large-scale buildings.

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1 Supply Trends

Tokyo's 23 Wards

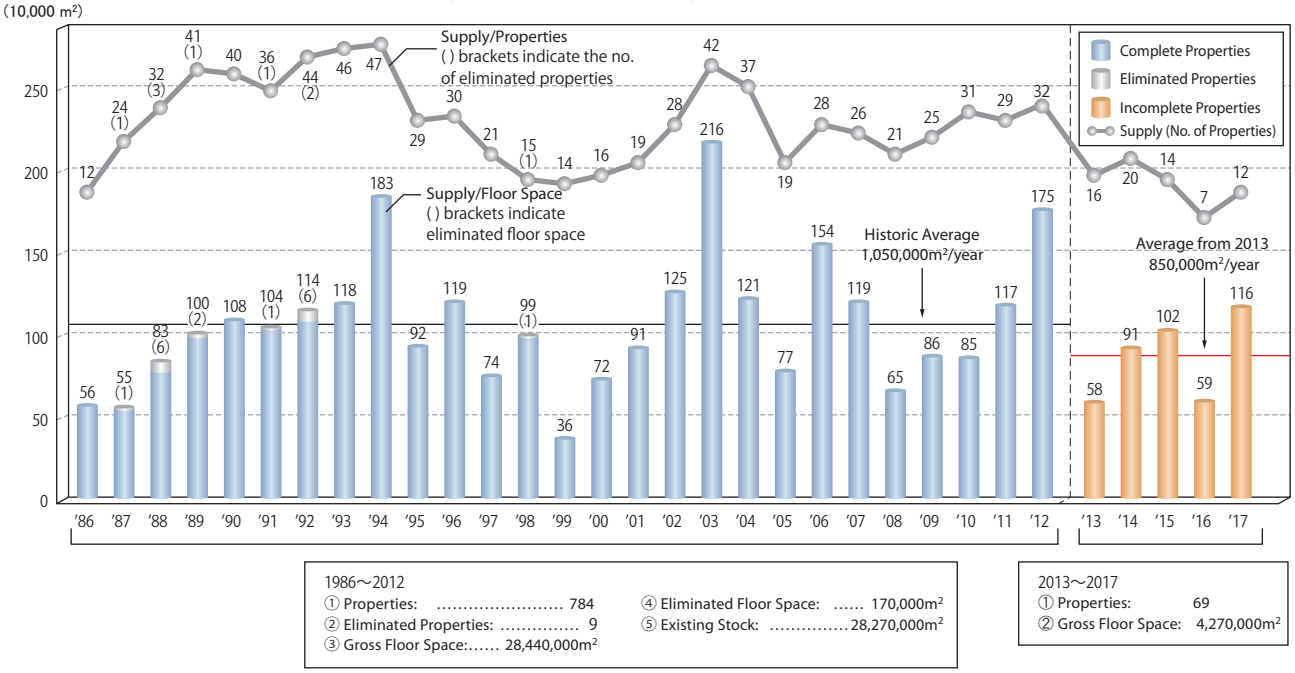
- Average annual supply over the next five years (850,000m²/year) will fall below the historic average (1,050,000m²/year).
- Supply volume in 2013 of 580,000m² (33% of the previous year's volume) will be 55% of the historic average (1,050,000m²/year).

Central 3 Wards

- Average annual supply volume over the next five years (620,000m²/year) will account for 73% of the supply volume of Tokyo's 23 Wards.
- Supply volume in 2013 of 540,000m² (56% of the previous year's volume) will account for 93% of the supply volume of Tokyo's 23 Wards.

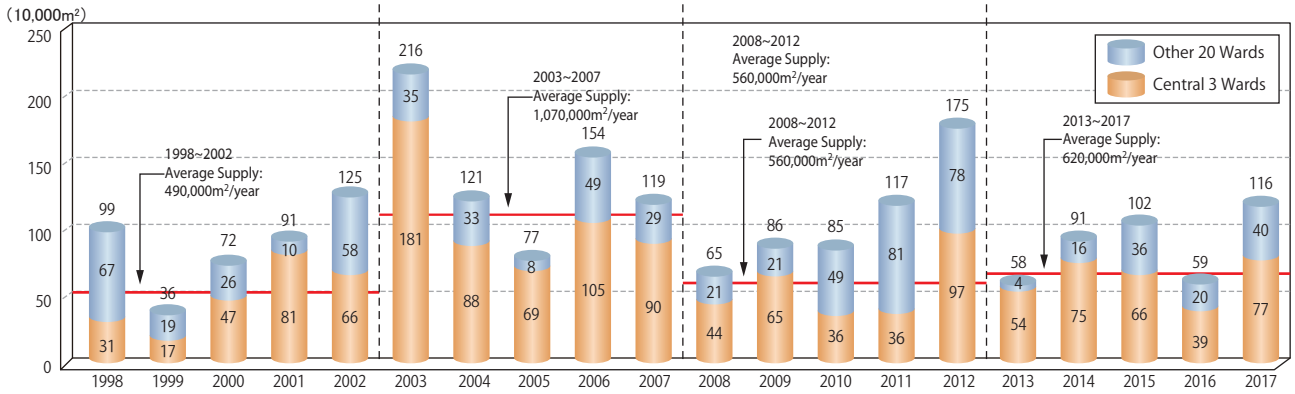
The annual average supply volume of large-scale office buildings in Tokyo's 23 Wards over the next 5 years (2013~2017) is forecast to be 850,000m²/year, which is below the historic average (1,050,000m²/year). Supply volume in 2013 is forecast to be 580,000m² (33% of the level of the previous year) - a low level that is about 55% of the historic average (Figure 1.)

Figure 1. Large-Scale Office Building Supply Volume Trends in Tokyo's 23 Wards



Over the next 5 years (2013~2017), average annual large-scale office building supply volume in the Central 3 Wards will be 620,000/year, higher than the average of 560,000m²/year for the past 5 years but below the average of 1,070,000m²/year for the 5-year period 2003~2007 (Figure 2.)

Figure 2. Large-Scale Office Building Supply Volume By Area



When annual average supply is examined by area, the Central 3 Wards will account for 73% of supply during the next 5-year period (see Figure 3.) In 2013, the Central 3 Wards will account for an especially high 93% share of supply (Figure 4.)

Figure 3. Large-Scale Office Building Supply Volume by Area (5-year Periods)

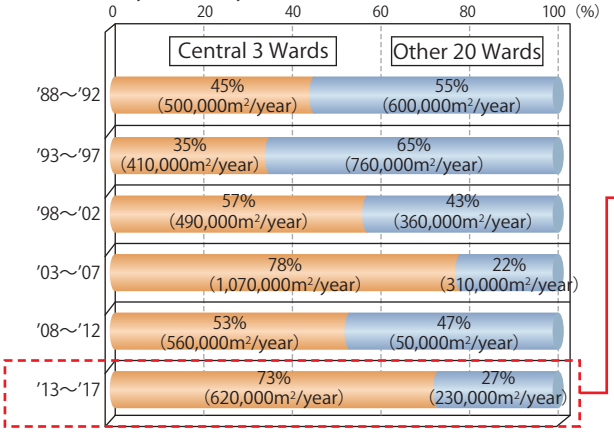
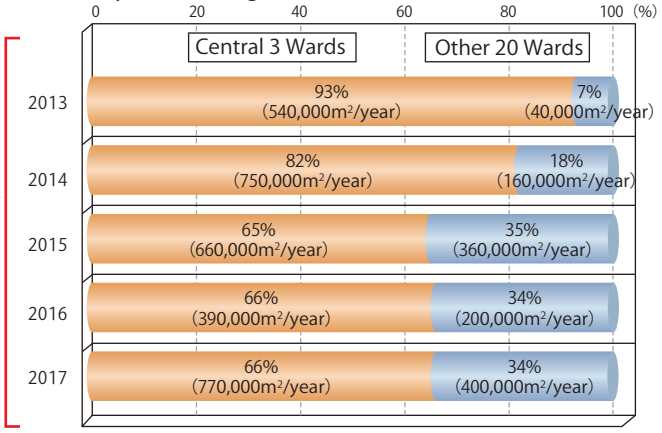


Figure 4. Annual Large-Scale Office Building Supply Volume by Area During the Next 5 Years



2 Demand Trends

Tokyo's 23 Wards

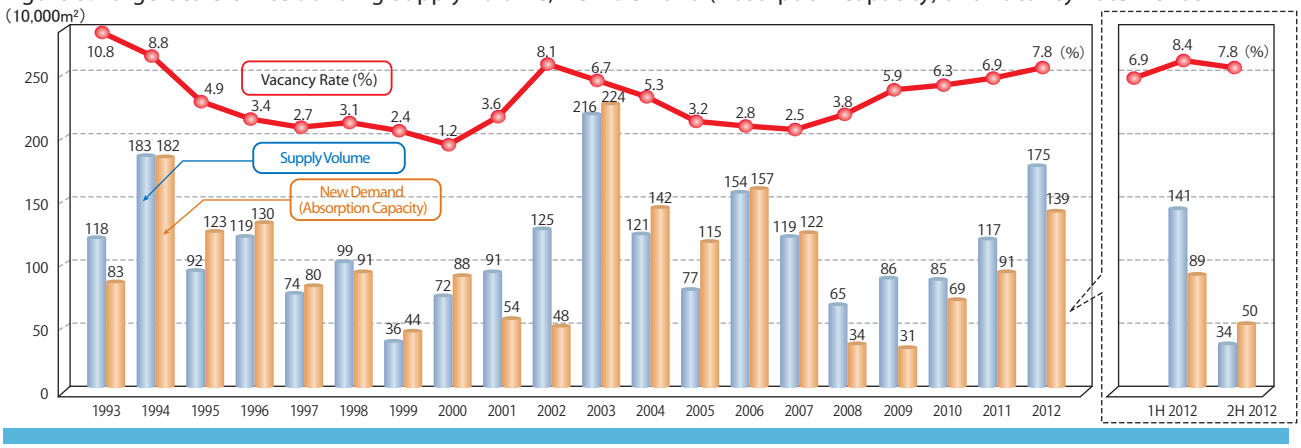
- New demand (Absorption Capacity) in 2012 was 1,390,000m² (1.5 times the previous year) for 3 consecutive years of increased new demand.
- Supply volume in 2012 was 1,750,000m² (1.7 times the historic average). Vacancy rate at the end of 2012 was 7.8% (0.9 point increase from the previous year.)
- In the first half of 2012, new demand (Absorption Capacity) of 890,000m² was below supply (1,410,000m²; however, in the second half, new demand (Absorption Capacity) of 500,000m² exceeded supply (340,000m²).

Central 3 Wards

- New demand (Absorption Capacity) in 2012 was 780,000m² (3.7 times the previous year).
- Supply volume in 2012 was 970,000m² (1.7 times the average of the past 5 years). Vacancy rate at the end of 2012 was 6.5% (0.8 point increase from the previous year.)
- In the first half of 2012, new demand (Absorption Capacity) of 450,000m² was below supply (680,000m²; however, in the second half, new demand (Absorption Capacity) of 330,000m² exceeded supply (290,000m²).

In 2012 in Tokyo's 23 Wards, new demand (Absorption Capacity) for large-scale office buildings was 1,390,000m² (1.5 times the previous year), making 2012 the 3rd consecutive year of increases. For the same period and area, supply volume was 1,750,000m² (1.7 times the average of the past 5 years), and because it exceeded new demand (Absorption Capacity), the vacancy rate at the end of 2012 rose 0.9 points to 7.8%. A look at supply and demand in the first half and second half of 2012 reveals that in the first half, new demand (Absorption Capacity) of 890,000m² was below supply (1,410,000m²; however, in the second half, new demand (Absorption Capacity) of 500,000m² exceeded supply (340,000m²). A distinctive characteristic of 2012 is that 81% (1,410,000m²) of the annual supply volume amounting is concentrated in the first half. Because of this high supply volume, despite the fact that new demand (Absorption Capacity) of 890,000m² in the first half was extremely high and nearing the level of new demand for the entire previous year (910,000m²), new demand was below supply and the vacancy rate rose. In the second half, supply hit a lull, and new demand overtook supply, resulting in a decrease in the vacancy rate (Figure 5.)

Figure 5. Large-Scale Office Building Supply Volume, New Demand (Absorption Capacity) and Vacancy Rate Trends



New demand (Absorption Capacity) for large-scale office buildings in the Central 3 Wards in 2012 reached 780,000m² (3.7 times the previous year). Because new demand (Absorption Capacity) exceeded supply volume of 970,000m², the vacancy rate at the end of 2012 rose 0.8 points compared with the previous year to 6.5%.
On the other hand, new demand (Absorption Capacity) in the Other 20 Wards was 610,000m² (87% of the previous year). However, as in the case of the Central 3 Wards, new demand (Absorption Capacity) in the Other 20 Wards exceeded its supply volume of 780,000m², resulting in a 0.9-point increase in the vacancy rate from the previous year to 9.3%.
When the first half and second half data for 2012 are compared, the first half new demand (Absorption Capacity) for both Central 3 Wards and Other 20 Wards fell below supply, and in the second half, new demand (Absorption Capacity) exceeded supply volume - the same trend observed for Tokyo's 23 Wards. Accordingly, the vacancy rate also mirrored the same trend observed for Tokyo's 23 wards - a rise in the vacancy rate in the first half of 2012 and a decline in the second half (Figure 6).

Figure 6 Supply, New Demand (Absorption Capacity) and Vacancy Rate Trends by Area