

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

Special Bulletin Report of Survey Results as of December 31, 2014

### Greater demand than predicted for Office Space led to a lower vacancy rate in 2014. Supply volume for 2015 will exceed the historical average.

#### ■ Supply Trends

##### <Tokyo's 23 Wards>

- Supply volume in 2014 was 870,000m<sup>2</sup> (150% of the previous year's volume).
- Supply volume in 2015 will be 1,100,000m<sup>2</sup> (126% of the previous year's volume).

##### <Central 3 Wards>

- Supply volume in 2014 was 700,000m<sup>2</sup> (130% of the previous year's volume).
- Supply volume in 2015 of 800,000m<sup>2</sup> (114% of the previous year's volume) will account for 73% of the supply volume of Tokyo's 23 Wards.

#### ■ Demand Trends

##### <Tokyo's 23 Wards>

- Absorption capacity (new demand) in 2014 was 1,390,000m<sup>2</sup> (140% of the previous year).
- Vacancy rate at the end of 2014 was 4.3% (1.9 point decrease from the previous year).

##### <Central 3 Wards>

- Absorption capacity (new demand) in 2014 was 1,060,000m<sup>2</sup> (174% of the previous year).
- Vacancy rate at the end of 2014 was 3.5% (2.4 point decrease 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<sup>2</sup>-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, we are pleased to present you with this report.

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

Research execution: End of December 2014

Research area: Tokyo's 23 Wards

Research subject buildings: Buildings with total office floor area exceeding 10,000m<sup>2</sup> with a construction completion date of 1986 or later

※ Supply volume is calculated based on publicly available information as well as on-site and "interview" research undertaken in December 2014.

※ Supply volume is a tabulation of gross total office floor area of all large-scale office buildings completed since 1986, including properties owned and used by the same company.

※ Absorption capacity (new demand) is the newly occupied office floor space for a given year of all large-scale office buildings constructed since 1986 and is calculated as follows: (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 values are converted to a total floor area value by applying an average "effective rentable space ratio" for large-scale buildings.

#### For more information & inquiries, please contact:

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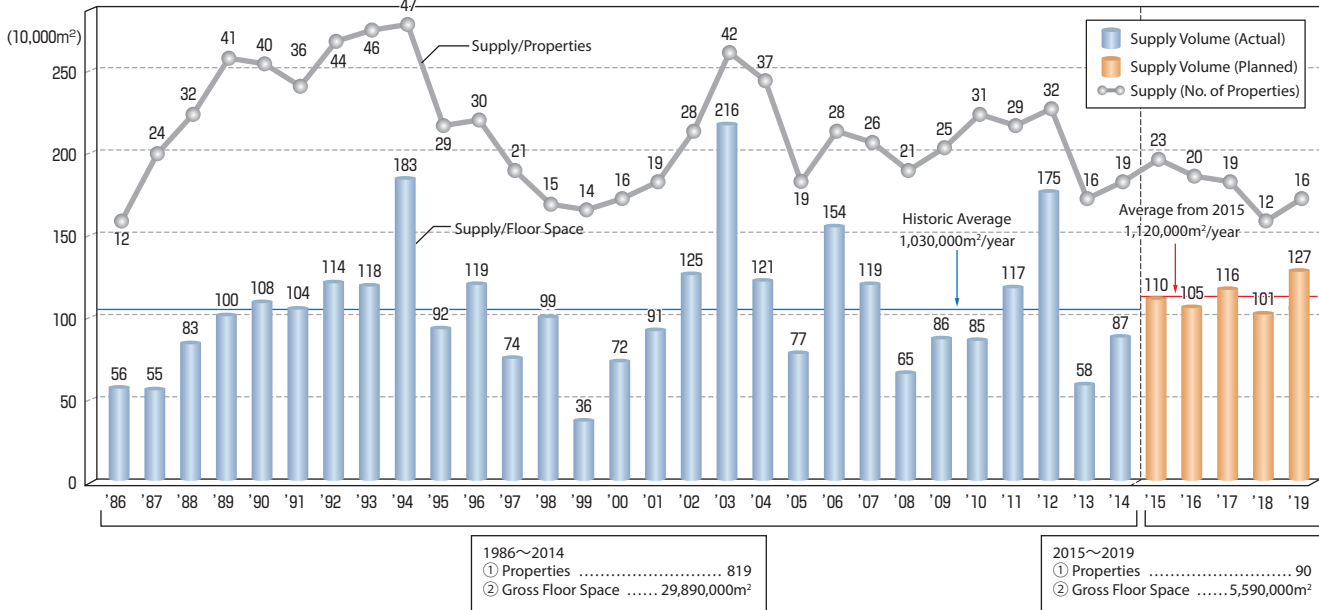
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# 1 Supply Trends

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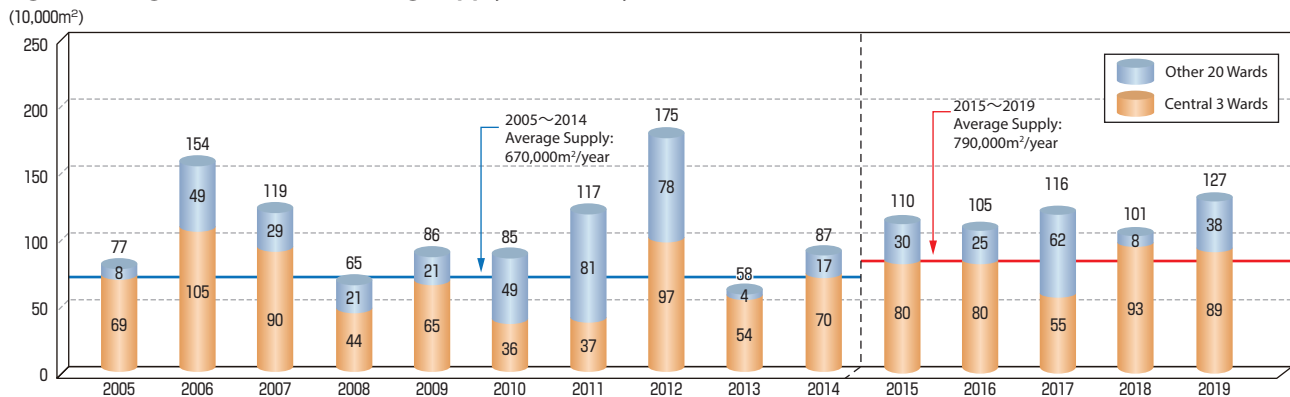
The 2014 supply volume of large-scale office buildings in Tokyo's 23 Wards (870,000m<sup>2</sup>) exceeded the relatively low level of the previous year (580,000m<sup>2</sup>), yet did not surpass the historic average. Supply volume for 2015 is expected to be 1,100,000m<sup>2</sup> and remain above the 1,000,000m<sup>2</sup> level even after 2015. The annual average supply volume over the next 5 years (2015-2019) is forecast to be 1,120,000m<sup>2</sup>/year, surpassing the historic average (1,030,000m<sup>2</sup>/year) (Figure 1).

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



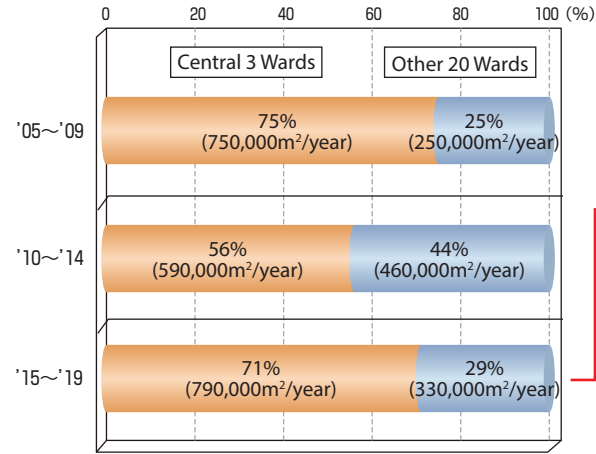
The average large-scale office building supply volume in the Central 3 Wards for 2014 was 700,000m<sup>2</sup>, and is forecast as 800,000m<sup>2</sup> in 2015. Over the next 5 years (2015-2019), the average will increase to 790,000m<sup>2</sup>/year, surpassing the average of 670,000m<sup>2</sup>/year for the past 10 years (2005-2014) (Figure 2).

Figure 2: Large-Scale Office Building Supply Volume by Area

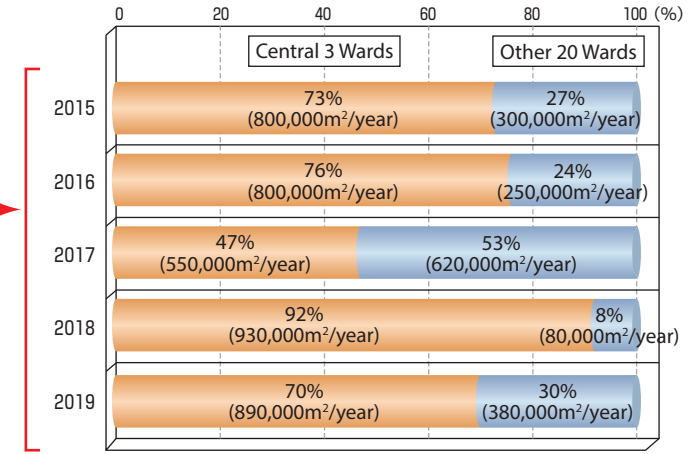


The Central 3 Wards are forecast to account for 71% of total supply during the next 5-year period, showing an increase from the previous 5-year period. When examined by year, while this proportion diminishes only in 2017, the Central 3 Wards will again account for 90% of total supply in 2018 (Figures 3 and 4).

**Figure 3: Large-Scale Office Building Supply Volume by Area**



**Figure 4: Annual Large-Scale Office Building Supply Volume by Area over the next 5 Years**



## 2 Demand Trends

### <Tokyo's 23 Wards>

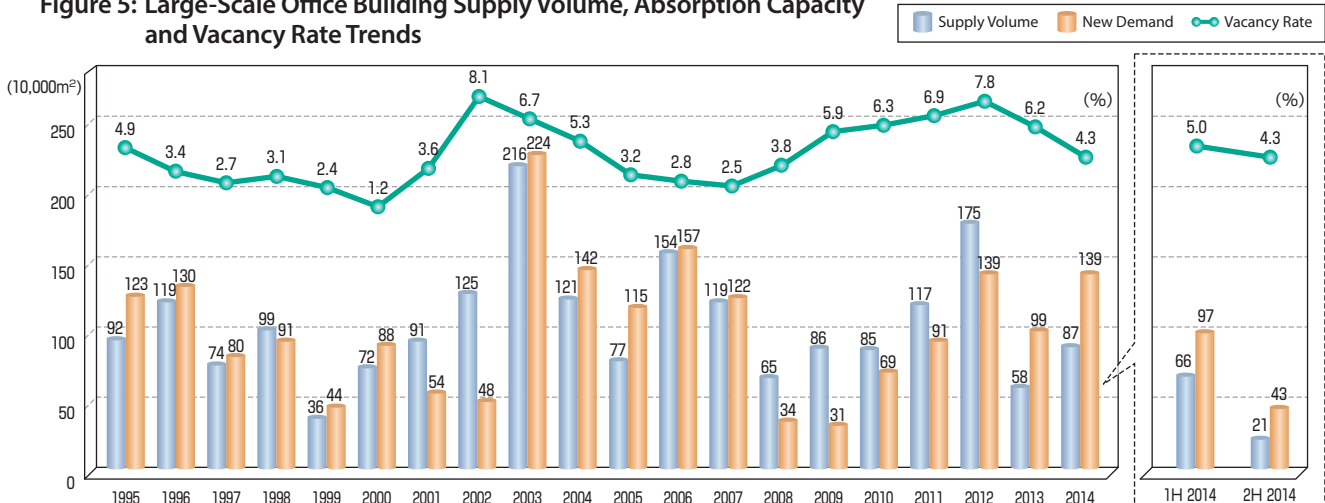
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In 2014 in Tokyo's 23 Wards, absorption capacity for large-scale office buildings was 1,390,000m<sup>2</sup> (140% of the previous year). On the other hand, the supply volume was 870,000m<sup>2</sup> (150% of the previous year's volume), falling below the absorption capacity. Although the vacancy rate for the end of 2014 was forecast to be 4.6% last year, the actual vacancy rate decreased to a more favorable 4.3% (a 1.9 point decrease from the previous year) due to an accumulated absorption capacity in the second half of 2014 which exceeded expectations (Figure 5).

**Figure 5: Large-Scale Office Building Supply Volume, Absorption Capacity and Vacancy Rate Trends**



Absorption capacity for large-scale office buildings in the Central 3 Wards in 2014 reached 1,060,000m<sup>2</sup> (174% of the previous year). This is the first time for capacity to exceed 1,000,000m<sup>2</sup> in the past 8 years, since 2006. Absorption capacity exceeded supply volume (700,000m<sup>2</sup>), causing the vacancy rate at the end of 2014 to drop by 2.4 points from the previous year to 3.5%. In both the first and second half of the year, absorption capacity exceeded supply volume, causing the vacancy rate to fall. In the second half, in particular, the absorption capacity remained high (360,000m<sup>2</sup> or 51% of first half absorption capacity) despite a reduced supply volume (100,000m<sup>2</sup> or 17% of first half supply volume) in the second half of 2014. As a result, the vacancy rate in the Central 3 Wards dropped by 1.6 points between the end of June 2014 (5.1%) and the end of 2014 (3.5%).

On the other hand, absorption capacity in the Other 20 Wards was 330,000m<sup>2</sup> (87% of the previous year). As in the Central 3 Wards, absorption capacity exceeded supply volume (170,000m<sup>2</sup>), causing the vacancy rate to drop. Although the vacancy rate decreased in the first half of the year, absorption capacity dropped below supply volume in the second half, causing the vacancy rate to increase (Figure 6).

**Figure 6: Supply, Absorption Capacity and Vacancy Rate Trends by Area**

