

May 25, 2023

Survey of Large-scale Office Building Market in Tokyo's 23 Core Cities

Although supply will be somewhat favorable in 2023 and 2025, average annual supply in Tokyo's 23 core cities over the next five years is expected to be lower than the historical average.

The vacancy rate in 2022 was 5.9%, up 0.3 point from 2021, revealing a significant slowdown in the pace of increase.

Vacancy rates varied by area and property grade, such as 5.5% in major business areas and 4.4% for properties with gross office-floor areas of 100,000m² or more.

General Trends in Supply

- The supply of large-scale office buildings in Tokyo's 23 core cities will be somewhat favorable in 2023 and 2025, but is expected to fall below the historical average in the five-year period from 2023 to 2027.
- Supply over the next five years will continue to be dominated by properties with gross office-floor areas of 100,000m² or more. Office buildings will continue to grow in size.
- Office building supply in Tokyo's three central cities is expected to increase by 71% over the next five years, particularly in the areas of Toranomon, Shinagawa and Akasaka/Roppongi.

General Trends in Demand

- The vacancy rate for large-scale office buildings in Tokyo's 23 core cities at the end of 2022 rose 5.9%, up 0.3 point for the year, but at a significantly slower pace than last year's 1.6-point increase.
- The vacancy rate in major business areas was 5.5% at the end of 2022 (up 0.3 point), but 4.4% in these same areas for properties with gross office-floor areas of 100,000 m² or more (down 0.1 point), reflecting differences in vacancy rates depending on area and property grade.

■ Survey Framework

Research area: Tokyo's 23 core cities

Target: Office buildings with gross floor areas of at least 10,000 m² and fully constructed by or after 1986.

"Supply volume" is calculated based on publicly available information and both on-site and interview-based research undertaken through early May 2023.

The report tabulates gross office-floor space in all large-scale office buildings completed by 1986, including properties owned and used by the same company but excluding floor space for non-office uses such as retail, residential and hotels.

1-1 General Trends in Supply Volume

○ The supply of large office buildings in Tokyo's 23 core cities will be somewhat favorable in 2023 and 2025 but is expected to fall below the historical average over the next five years.

The supply of large office buildings in Tokyo's 23 core cities will be somewhat favorable in 2023 (1.26 million m²) and 2025 (1.36 million m²). However, supply will be limited in 2024 (730,000 m²), 2026 (720,000 m²) and 2027 (580,000 m²), as well as in the five-year period from 2023 to 2027 (930,000 m²/year), all below the historical average (1,020,000 m²/year) (Figure 1).

Figure 1: Large Office Building Supply Trend in Tokyo's 23 Core Cities

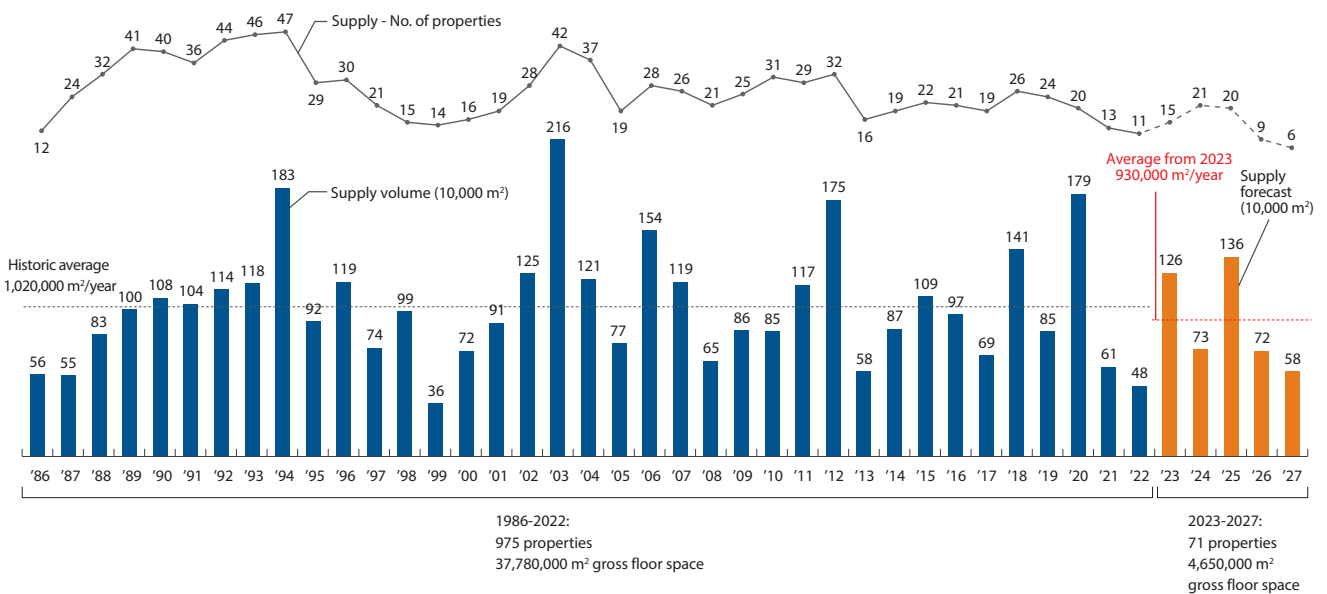
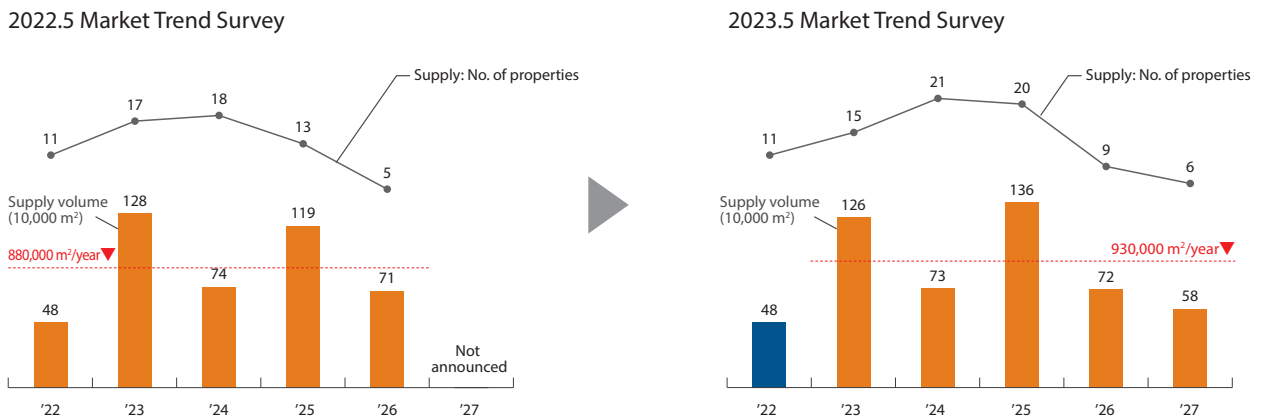


Figure 2 compares the new five-year supply forecast to the forecast in last year's survey (released on May 26, 2022). While the forecasted trend is generally the same, expected volume in 2025 has increased due to new projects, revised construction-completion dates and other factors.

Figure 2: Comparison of Current and Previous 5-year Trends in Large Office Building Supply Volume



1-2 Supply Volume Trends by Office Building Scale

- Average floor space per property in 2022 was lower than in the past 10 years.
- Average floor space per property is trending upward and office buildings will continue to grow in size.

Figure 3 shows the trend of annual average supply per property. In 2022, the average was 44,000 m², lower than the 49,000 m² average over the past 10 years (2012-2021). In the early 1990s, the average was about 20,000 m² to 30,000 m², but in recent years it has become more common for properties to exceed 50,000 m². The approximation line shows a clear increase in the size of available office buildings.

Figure 3: Trend in Average Supply per Property

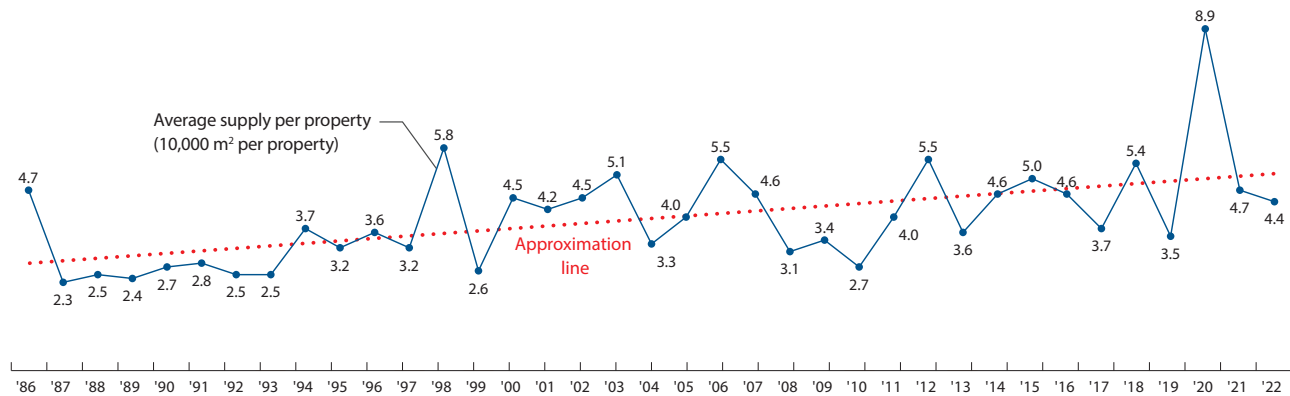
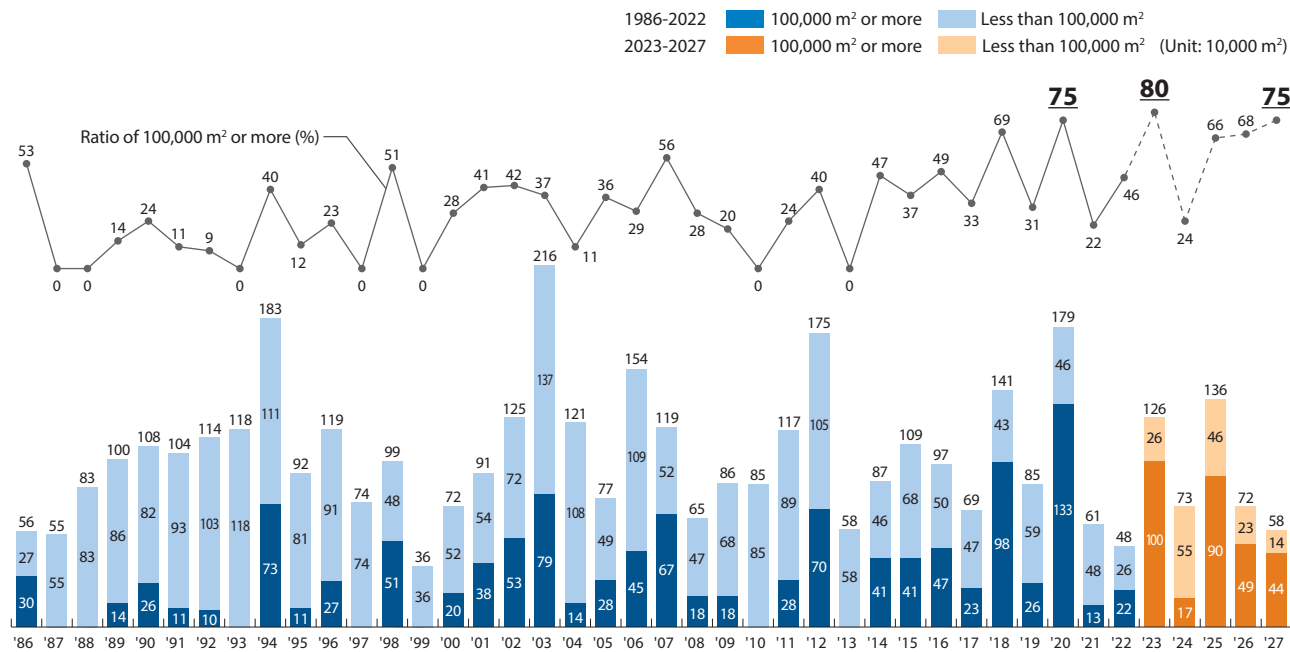


Figure 4 shows supply figures from Figure 1 broken down into properties with gross office-floor spaces of more or less than 100,000 m². Total supply in the “100,000 m² or more” category reached 1.33 million m² in 2020, the highest figure since the survey began, and is forecasted to remain relatively high at 1.00 million m² in 2023 and then contract to 900,000 m² in 2025. The supply ratio of “100,000 m² or more” properties is forecasted to increase from a survey-record 75% in 2020 to a new high of 80% in 2023 before returning to 75% in 2027.

Figure 4: Trend in Supply of Properties with 100,000 m² or More of Gross Office-floor Space



1-3 Supply Volume Trends by Area

- Although supply in Tokyo's three central cities in both 2023 and 2025 is expected to exceed the past 10-year average, and in 2023-2027 it will fall below the 2013-2022 average.
- 71% of supply will be located in the three central cities over the next five years, below the 74% average of the past decade.
- 71% of supply will be located in Tokyo's seven major business areas over the next five years.
- The Toranomon area is forecasted to account for the largest supply volume over the next five years, up sharply from before, which is expected to boost the area's competitiveness.

Although the supply of large-scale office buildings in the three central cities (Chiyoda, Chuo and Minato) in 2023 and 2025 will exceed the past 10-year average (690,000 m²/year), the new five-year forecasted average (660,000 m²/year) is lower (Figure 5). The three central cities will account for 71% of Tokyo's total annual supply over the next five years, below the past 10-year average of 74% (Figure 6).

Figure 5: Trends in Large Office Building Supply Volume by Area

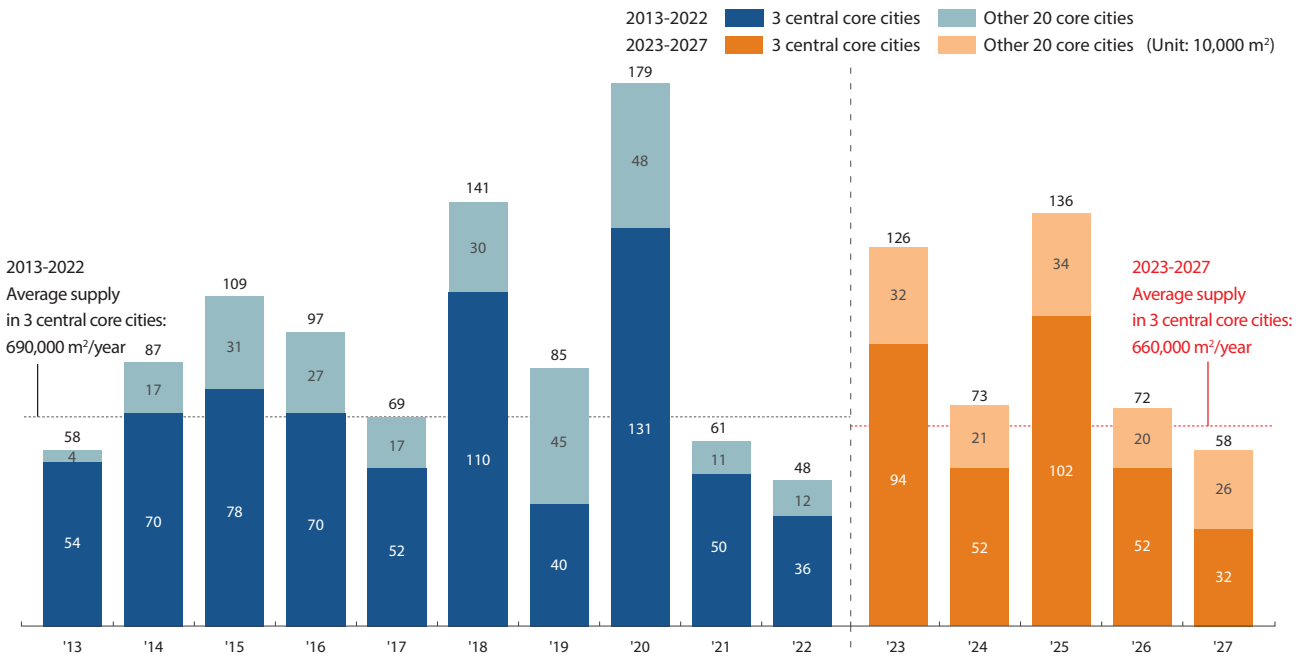


Figure 6: Large-scale Office Building Supply Volume Share by Area

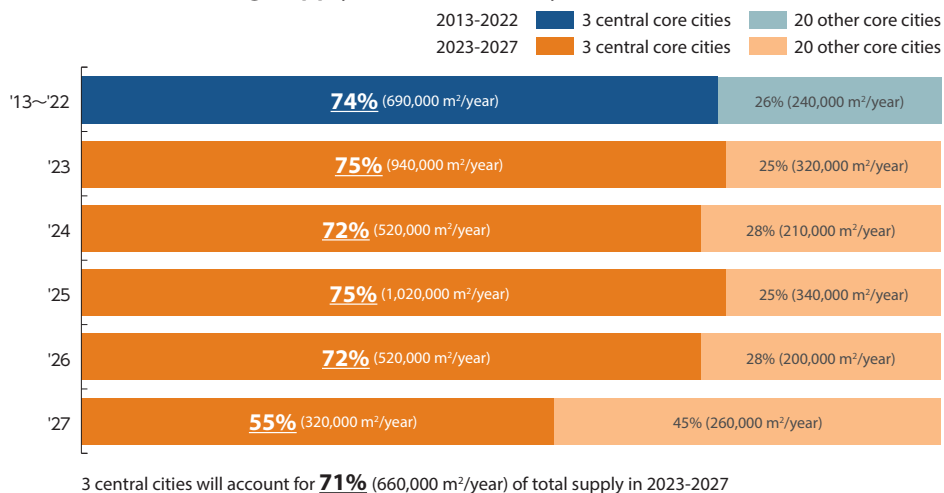


Figure 7 shows the seven major business areas that Mori Building monitors for referential purposes and Figure 8 shows the forecasted supply volumes and ratios in each area from 2023-2027. Total supply in Tokyo's 23 core cities is expected to reach 4.65 million m², of which the top seven areas will account for 3.30 million m², or 71%. The largest volume will be in Toranomon (850,000 m², 18%), where large-scale developments comprising offices, residences, hotels and commercial properties are under way near Toranomon Hills Station.

Figure 9 compares supply by area in 2018-2022 and 2023-2027. Supply is expected to increase in areas such as Toranomon (550,000 m² to 850,000 m²), Shinagawa (40,000 m² to 530,000 m²) and Akasaka/Roppongi (10,000 m² to 290,000 m²). In these areas, large-scale, multifunctional developments are creating transportation hubs combining train stations and large bus terminals as well as diverse urban functions for offices, residences, hotels and commercial facilities. The competitive power of these areas is expected to rise due to their transportation convenience and large, multifunctional facilities.

Figure 7: Major Business Areas for Reference



Figure 8: Supply Share in Major Business Areas (2023-2027)

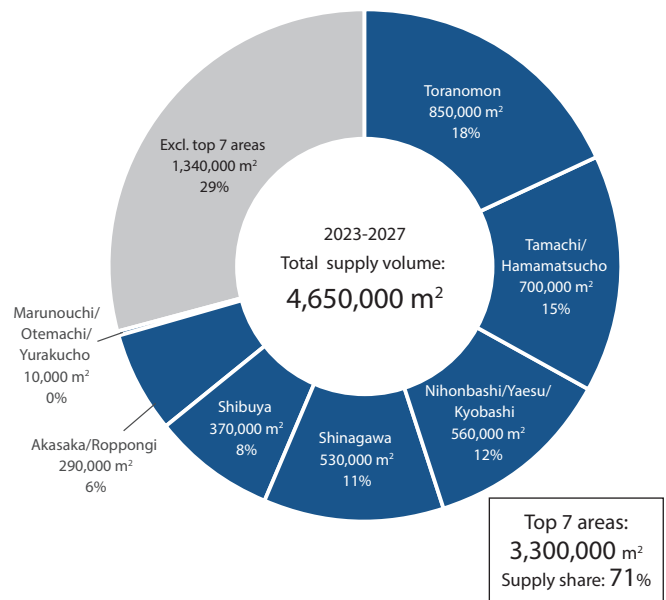
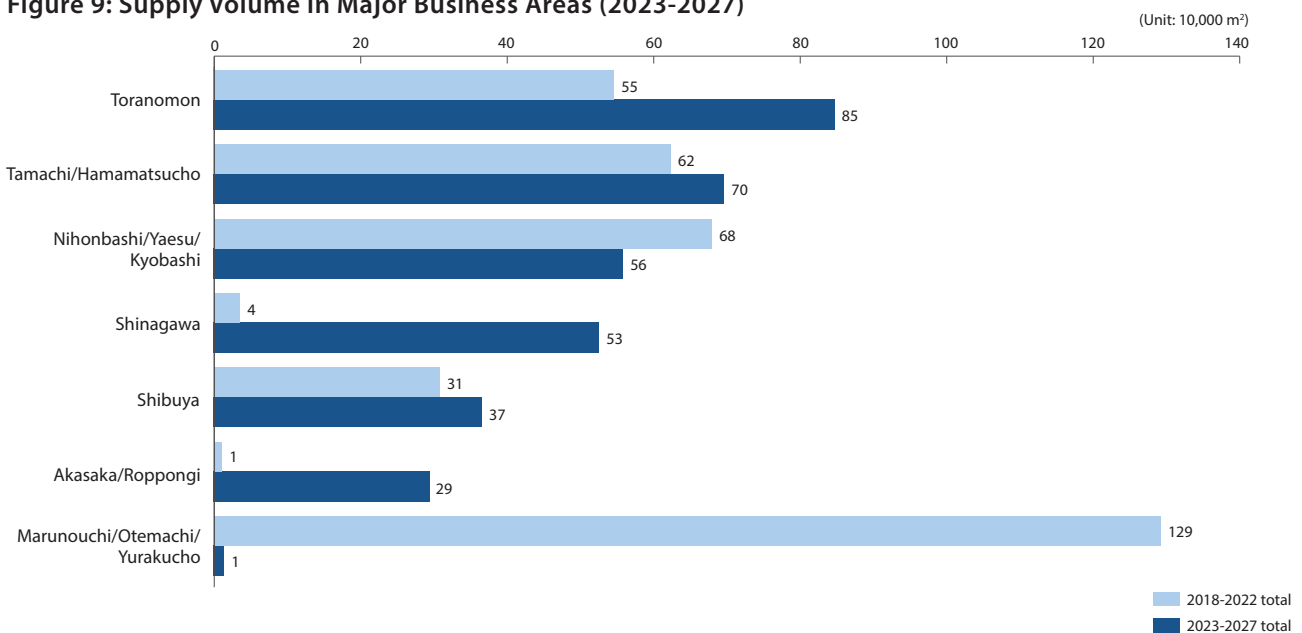


Figure 9: Supply Volume in Major Business Areas (2023-2027)



2 Absorption Capacity and Vacancy Rates

- The vacancy rate in Tokyo's 23 core cities at the end of 2022 was 5.9%, up just 0.3 point for the year, significantly slower than the 1.6-point increase at the end of 2021.
- The vacancy rate in major business areas at the end of 2022 was 5.5% (up 0.3 point), but in the same areas for properties with gross office space of "100,000 m² or more," the rate was 4.4% (down 0.1 point), reflecting differences depending on area and property grade.

At the end of 2022, the vacancy rate in large-scale office buildings in Tokyo's 23 core cities was up slightly from a year earlier, but absorption capacity (370,000 m²) fell short of supply volume (480,000 m²). The 5.9% rate was up 0.3 point from a year earlier, but the pace of increase slowed significantly compared to the 1.6-point rise at the end of 2021 (Figure 10). In major business areas, the vacancy rate was 5.5% overall but 4.4% among properties with gross office-floor areas of 100,000 m² or more, reflecting differences depending on area and property grade (Figure 11).

The supply of newly built properties was absorbed at a rate of nearly 80%. Absorption of existing properties also improved significantly from the previous year (-540,000 m² to -20,000 m²) but the vacancy rate slowed significantly. (Figure 12).

Figure 10: Supply Volume, New Demand (Absorption Capacity) and Vacancy Rate (Tokyo's 23 Core Cities)

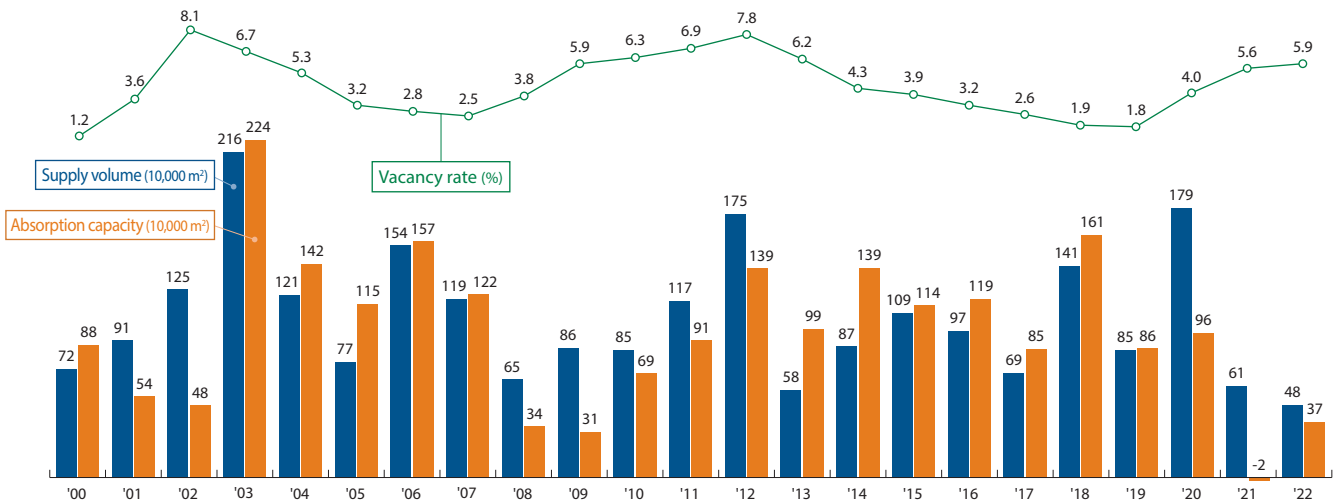


Figure 11: Supply Volume, New Demand (Absorption Capacity), and Vacancy Rate (Major Business Areas & Others)

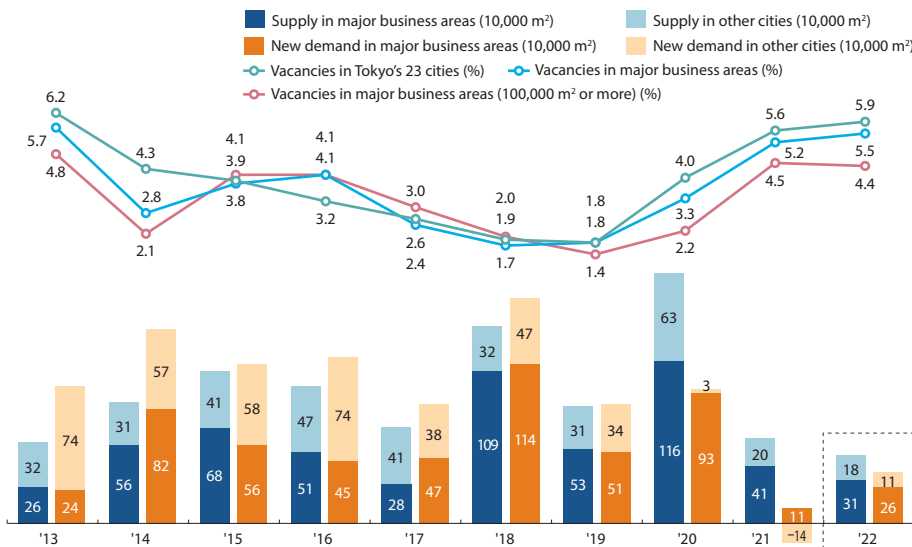
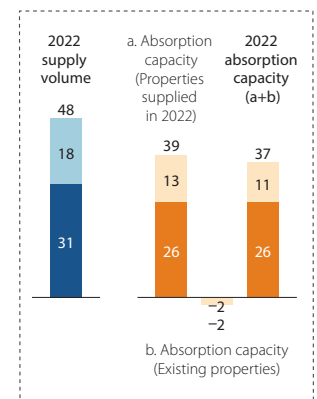


Figure 12: Breakdown of 2022 Supply Volume and Absorption Capacity

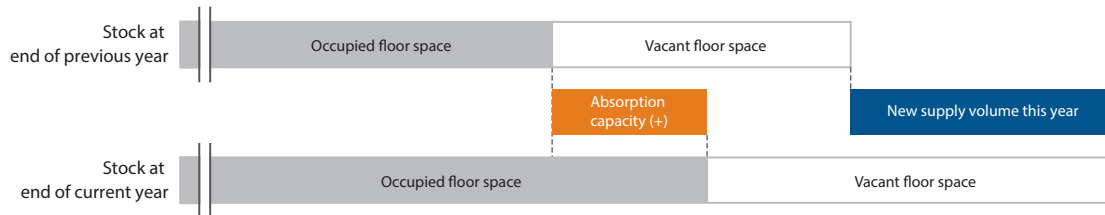


Concept of Absorption Capacity

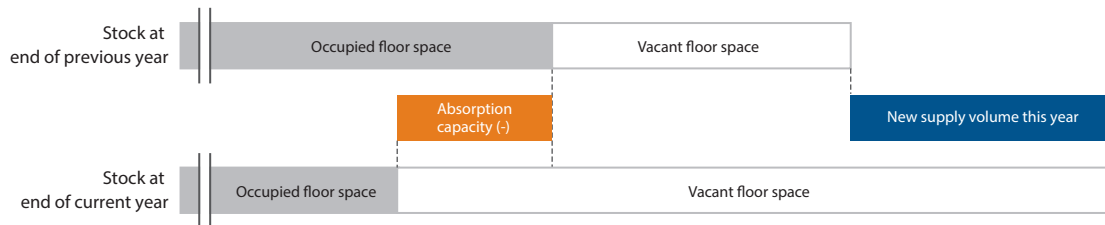
As shown in Figure 13, absorption capacity is calculated as newly occupied floor space in the current year [(vacant floor space at end of previous year) + (newly supplied floor space) - (vacant floor space at end of current year)] for all large-scale office buildings of at least 10,000 m² that were fully constructed by or after 1986.

Figure 13: Concept of New Demand (Absorption Capacity)

(1) When absorption capacity is positive



(2) When absorption capacity is negative



Figures are converted to gross floor area by dividing the net leased area by the average effective ratio of 65.5% for a typical large office building.

Major Large-scale Office Buildings Scheduled for Completion (includes some completed projects)

Name of Project (Name of Building)	Floor Area (m ²)	Lead Project Developer(s)	Location
2023			
Sumitomo Realty & Development TOKYO MITA GARDEN TOWER	199,700	Redevelopment Association (Sumitomo Realty & Development)	Mita, Minato City
TCG Building Reconstruction Plan	16,500	Takamatsu Construction Group	Shiba, Minato City
3rd MINAMI AOYAMA	14,800	Goko and Mitsubishi Estate	Minami-aoyama, Minato City
Sumitomo Realty & Development Shinjuku First Tower	90,600	Disaster Prevention District Improvement Project Association (Sumitomo Realty & Development)	Nishi-shinjuku, Shinjuku City
Kuramae JP Terrace, JP Lion Building	29,900	Japan Post Real Estate	Kuramae, Taito City
Dogenzaka-dori	41,900	Pan-Pacific International Holdings	Dogenzaka, Shibuya City
TOHO Hibiya Promenade Building	16,700	Toho	Yurakucho, Chiyoda City
Tamachi Tower	112,500	Tamachi Building, Tokuei Shoji, and Mitsubishi Heavy Industries	Shiba, Minato City
Azabudai Hills A District Tower	461,400	Redevelopment Association (Mori Building and Japan Post)	Azabudai, Minato City
Toranomon Hills Station Tower	236,600	Redevelopment Association (Mori Building)	Toranomon, Minato City
Fuji Soft Shiodome Building, Tower A	20,300	FUJISOFT	Higashi-shimbashi, Minato City
Sompo Japan Kasumigaseki Building	24,800	Sompo Japan Insurance	Kasumigaseki, Chiyoda City
Shibuya Sakura Stage SHIBUYA TOWER	184,700	Redevelopment Association (Tokyu Land Corporation)	Sakuragaoka-cho, Shibuya City
Shibuya Sakura Stage SAKURA TOWER	69,100	Redevelopment Association (Tokyu Land Corporation)	Sakuragaoka-cho, Shibuya City
Gotanda Project	69,000	Japan Post Real Estate	Nishi-gotanda, Shinagawa City
2024			
Shintora Yasuda Building	25,800	Yasuda Real Estate	Shimbashi, Minato City
Kanden Fudosan Shibuya Bldg	14,400	Kanden Realty & Development	Shibuya, Shibuya City
Seiho Building Reconstruction	17,600	Seiho Building and Urban Renaissance Agency	Kita-aoyama, Minato City
Sumitomo Realty & Development Nakano Station Redevelopment	49,800	Redevelopment Association (Sumitomo Realty & Development)	Nakano, Nakano City
Sumitomo Realty & Development Shinjuku South Exit Building	24,000	Sumitomo Realty & Development	Sendagaya, Shibuya City
POLA Aoyama Building Rebuilding Project	17,000	P.O. Real Estate	Minami-aoyama, Minato City
Nikon Corporation Head Office	43,300	Nikon Corporation	Nishi-oi, Shinagawa City
Shibuya 2-Chome 17 District Redevelopment	44,500	Redevelopment Association (Tokyu)	Shibuya, Shibuya City
AKASAKA GREEN CROSS	74,200	Sekisui House and Nippon Life Insurance Company	Akasaka, Minato City
Tokyo World Gate Akasaka, Akasaka Trust Tower	208,000	Mori Trust and NTT Urban Development Corporation	Akasaka, Minato City
TODA BUILDING	94,800	Toda Corporation	Kyobashi, Chuo City
Sumitomo Realty & Development Osaki Twin Building West	29,200	Sumitomo Realty & Development	Higashi-gotanda, Shinagawa City
Sumitomo Realty & Development Roppongi Station Front Project	32,100	Sumitomo Realty & Development	Roppongi, Minato City
2025			
Toranomon 2-Chome Project Office Tower	180,700	Urban Renaissance Agency and Nippon Steel Kowa Real Estate	Toranomon, Minato City
TAKANAWA GATEWAY CITY Complex Building I (North & South)	460,200	East Japan Railway Company	Konan, Minato City
Toyosu 4-2 District Development Project	136,000	IHI Corporation and Mitsubishi Estate	Toyosu, Koto City
Yaesu 1-Chome East Area Redevelopment Project in Front of Tokyo Station	225,000	Redevelopment Association (Tokyo Tatemono)	Yaesu, Chuo City
Nishi-Shinjuku 1-Chome Project	96,900	Meiji Yasuda Life	Nishi-shinjuku, Shinjuku City
Uchi-Kanda 1-Chome Project	85,300	Mitsubishi Estate	Uchikanda, Chiyoda City
Nihonbashi 1-Chome Central Block District	26,000	Mitsui Fudosan	Nihonbashi-honcho, Chuo City
Nakano Kakoicho East District Project Office Building	91,300	Redevelopment Association (Mitsui Fudosan)	Nakano, Nakano City

Name of Project (Name of Building)	Floor Area (m ²)	Lead Project Developer(s)	Location
2026			
Nihonbashi 1-Chome Central District Zone C	368,700	Redevelopment Association (Mitsui Fudosan)	Nihonbashi, Chuo City
TAKANAWA GATEWAY CITY Complex Building II	208,200	East Japan Railway Company	Konan, Minato City
Oimachi Station Hiromachi Area Development A-1 Zone Office Tower	250,000	East Japan Railway Company	Hiromachi, Shinagawa City
Toranomon 1-Chome East District Redevelopment	120,700	Redevelopment Association (Chuo-Nittochi, Urban Renaissance Agency, and Sumitomo Realty & Development)	Toranomon, Minato City
Iidabashi Station East Redevelopment Project	46,500	Redevelopment Association (Mitsubishi Estate)	Iidabashi, Chiyoda City
Urban Renewal Step-Up Project (Shibuya District) Shibuya 1-Chome Area Joint Development Project	46,600	Hulic and Shimizu Corporation	Shibuya, Shibuya City
2027			
Hamamatsucho 2-Chome Redevelopment Project Towers A-1 & A-2	210,000	World Trade Center Building, Kajima, Tokyo Monorail, and East Japan Railway Company	Hamamatsu-cho, Minato City
Dogenzaka 2-chome South District Redevelopment Project	87,100	Redevelopment Association (Mitsubishi Estate)	Dogenzaka, Shibuya City
Higashigotanda 2-Chome Block 3 Redevelopment Project District 1 Office Tower	69,100	Redevelopment Association (Tokyu Land Corporation)	Higashi-gotanda, Shinagawa City
Shinagawa Station West Exit Area A District	313,100	Keikyu	Takanawa, Minato City
Higashi Ikebukuro 1-Chome Redevelopment Project	155,000	Redevelopment Association (Sumitomo Realty & Development)	Higashi-ikebukuro, Toshima City

- The supply volume figure provided by Mori Building is calculated from the actual office floor area, and does not agree with the total floor area figures shown in this chart (which includes retail and residence floor areas)

- Projects that have only been published for the supply financial year are recorded, in principal, as supply for the end of the financial year.

- In the column "Lead Project Developer(s)", a company or organization in parentheses () is a major enterprise that is participating as an association member, investor in a special purpose company (S.P.C.), specified constructor, partner or joint venture party.