February 9, 2006

MARKET TREND SURVEY of LARGE-SCALE OFFICE BUILDINGS IN TOKYO'S 23 WARDS ("ku")

<Preliminary Report>

(As of December 2005)

－Vacancy rate of large-scale office buildings, showed dramatic improvement, at 3.2%－

○ Demand (absorption capacity) in 2005 was 1.15 million m², far exceeding supply of 0.77 million m².

○ Office demand remained robust in 2005.

Since 1986, Mori Building Company Ltd. (Headquarters: Minato-ku, Tokyo; President and CEO: Minoru Mori) has been regularly conducting surveys of demand and supply trends of large office buildings with total office floor space of over 10,000 m² (in this survey, they will be referred to as "large-scale office buildings") throughout Tokyo's 23 wards. Latest data (as of December 2005) became available; this summary report shows preliminary results of the survey.

A detailed analysis on the supply and demand trends and future observations and outlook on the office market will be announced in the Spring of 2006, on the basis of the "Survey on Office Demand in Tokyo's 23 Wards" that we have published on January 11, 2006 (conducted through October to November 2005 by our company.)

■ Outline of Market Trend Survey

Survey period : December end 2005

Coverage : Tokyo's 23 wards ("ku")

Type of property: Large office buildings with total floor space of over 10,000 m² (built after 1986)

(Notes)

※ This survey is not only based on publicly available information, but also shows the result of the compilation of on-site observations and direct interviews with developers on the progress situation and other conditions of each project.

※ Supply volume in this survey refers to the gross total floor space of office accommodation in all large-scale office buildings completed after 1986, excluding floor space in those buildings reserved for other purposes, such as retail, residences, hotels and others. The supply volume figures are calculated based on the planned completion date of the respective projects.

※ Absorption capacity in this survey is calculated as follows: net increase of occupied total floor space in all large-scale office buildings completed after 1986[(total vacant floor space as of the end of the previous year) + (total newly supplied floor space) – (total vacant floor space as of the end of the current year)]. In order to facilitate comparison with supply volume, the total floor space (gross) is calculated based on the leased areas in the original data (net) converted to gross numbers using a ratio of 65.5%, which represents the average effective rentable ratio of typical large-scale office buildings.

[CONTACT]

Mori Building Company Limited

Shigeichiro Hashimoto/Tomio Murata, Strategic Planning and Marketing Department

Roppongi Hills Mori Tower, 10-1 Roppongi 6-Chome, Minato-ku, Tokyo 〒106-6155

Tel+81-3-6406-6672/Fax+81-3-6406-9363 http://www.mori.co.jp

1. General Trends in Supply

○Supply volume in 2006 to reach 1.54 million m²
○Average supply volume between 2006 and 2010 to be 0.80 million m² (equivalent to 78% of the past average supply volume)

On the basis of the large-scale office building supply trend, the supply volume in 2006 is expected to reach 1.54 million m², followed by further supply of 1.09 million m² in 2007. However, in the following years between 2008 and 2010, the supply volume is expected to go down to a total of 1.35 million m². As a result, the average supply volume between 2006 and 2010 is expected to be around 0.80 million m², equivalent to 78% of the past average supply volume of 1.02 million m², from the beginning of this survey until 2005.

In this year's survey, a substantial number of new plans for comparatively medium-scale buildings (with total floor area comprised between 10,000 and 20,000 m²) were observed, particularly for 2007. The majority of these buildings are built within a short time, about two years from the commencement of work until completion. Another feature of these buildings is that they are being constructed to replace existing buildings. This trend suggests that, against the backdrop of continued office market recovery, building owners want to enhance their yield or sell buildings to investment funds.

Supply of super-large office buildings has been observed with great attention since 2003; however, supply trend of comparatively medium-scale office buildings and its effect on urban functions should also be monitored closely in the coming years.

Figure1: Fluctuation of supply volume of large-scale office building within Tokyo's 23 wards

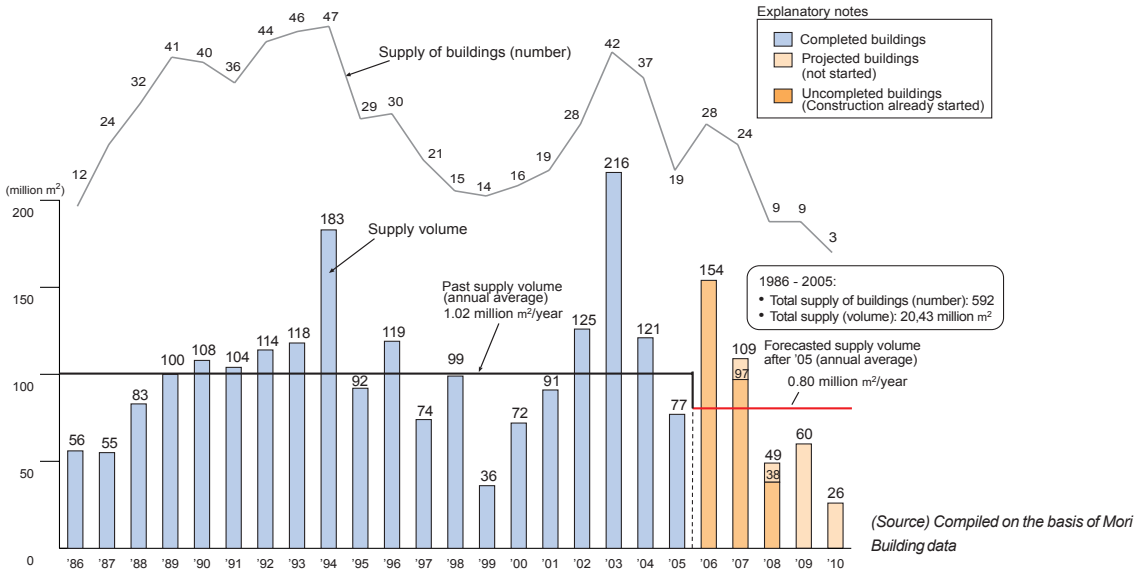
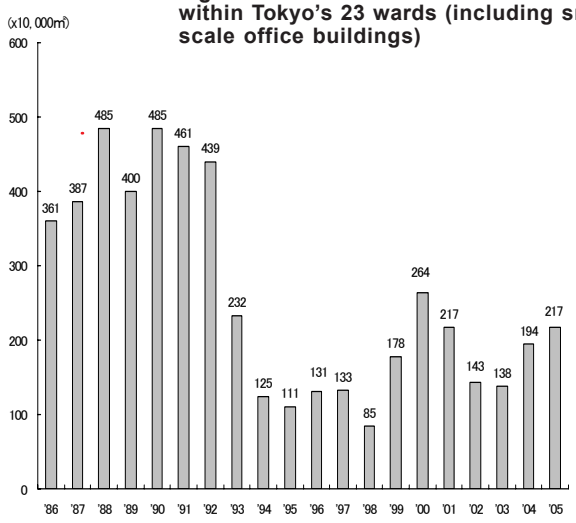


Figure 2: Fluctuation of total construction within Tokyo's 23 wards (including small-scale office buildings)



Besides, when we observe the total construction starts volume of all office buildings, including small-scale buildings of under 10,000 m² that are not subject to this present survey, construction starts volume in 2005 totalled 2.17 million m² (Figure 2.)

Due to projects scheduled for completion in 2006 and 2007, this total construction start volume is on an incresing trend, but it is still at very low levels compared to those of the "bubble era" during the latter half of 1980's and the first half of 1990's, at less than half of the average at those years.

2. General Trends in Demand

○Absorption capacity in 2005 was 1.15 million m², far exceeding the supply volume of 0.77 million m².
○Vacancy rate in 2005 was 3.2%, showing dramatic improvement.
○Office demand remained robust in 2005.

Next, let us examine the demand trends from the viewpoint of "absorption capacity*" (Figure 3.)

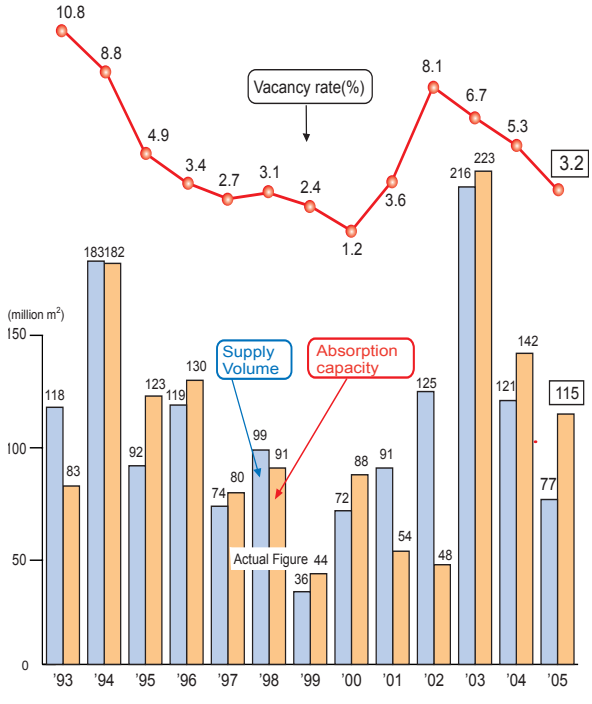
2005 showed an absorption capacity of 1.15 million m², which is far exceeded the supply volume of 0.77 million m². The ratio of absorption capacity over the new supply volume was 149%, the historically highest absorption rate since the start of the survey. As a result, the vacancy rate in 2005 dramatically improved, to 3.2%.

Last year's report analyzed that potential demand will continue to materialize after 2005, suggesting a forecast absorption capacity of 1.06 m² and a 3.6% vacancy rate (Figure 4.) The actual figure in 2005 exceeded this estimation.

As a result, one can say that while the office market continued to recover steadily since 2003, office demand remained robust in 2005.

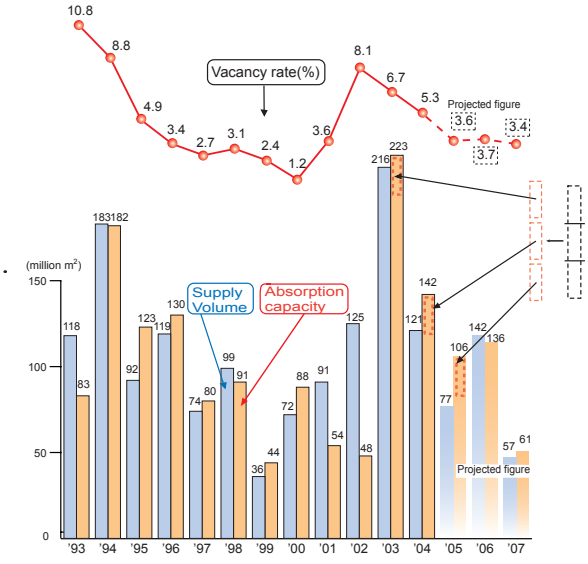
※ Absorption capacity is calculated as follows: net increase of occupied total floor space in all large-scale office buildings completed after 1986 [(total vacant floor space as of the end of the previous year)+ (total newly supplied floor space) – (vacant floor space as of the end of the current year)] (Figure calculated on the basis of total floor area.)

Figure 3: Fluctuation of supply volume, absorption capacity and vacancy rate of large-scale
(Actual figure of this year)



(Source) Compiled on the basis of Mori Building data

Figure 4: Projection of absorption capacity and vacancy rate (Estimate from last year's report)
~Potential demand to materialize in 2005 as well~



(Source) Compiled on the basis of Mori Building data

(Method of Calculation)
(1) Projection figures of absorption capacity of after 2005 are calculated on the basis of the correlation between the supply volume and absorption capacity from 1993 to 2001, using the least squares method (coefficient: - 0.85.)
(2) As for the projection for 2005, the potential demand remaining from 2002 (0.28 million m²) is added under the assumption that this will materialize this year.