

MARKET TREND SURVEY OF LARGE - SCALE OFFICE BUILDINGS IN TOKYO'S 23 WARDS ("ku") (As of December 2009)

<Market Trends>

- Supply volume of 2010 is expected to be 0.85 million sq. m., which will result in a 3rd consecutive year with a supply volume below the past average level of 1.03 million sq.m.
- Supply volumes for 2011 (1.53 million sq.m.) and 2012 (1.4 million sq.m.) are projected to exceed past levels.
- Supply ratio of Tokyo's three central wards (57%) is lower than the average level of the past 10 years (75%).
- Reconstruction ratio (66%) of Tokyo's three central wards is high, as a result, the increase in stock is roughly half of the supply volume.

<Demand Trends>

- The absorption capacity (new demand) for 2009 was 0.31 million sq.m. and the vacancy rate at the end of 2009 was 5.9%.
- Desire for new leases has recovered and 75% of the respondents have plans for new leases within Tokyo's three central wards.
- Non-Japanese enterprises and finance/insurance industries are expected to plan for more new leases.

<Future Market Trends>

- Within 2010-12, absorption volume is expected to exceed the supply volume and in 2012, the vacancy rate is expected to be below 5%.

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 sq. m. (in this survey, they will be referred to as "large-scale office buildings") throughout Tokyo's 23 wards. Forecasts of future trends in the office market are also carried out by analyzing the results of this survey from a variety of angles. This report presents the results of December-end 2009.

Outline of Market Trend Survey

Survey date : December, 2009

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

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

<Notes on the contents>

- This survey is not only based on publicly available information, but also shows the results of the compilation of on-site observations and direct interviews with developers on the progress 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 on the basis of 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.

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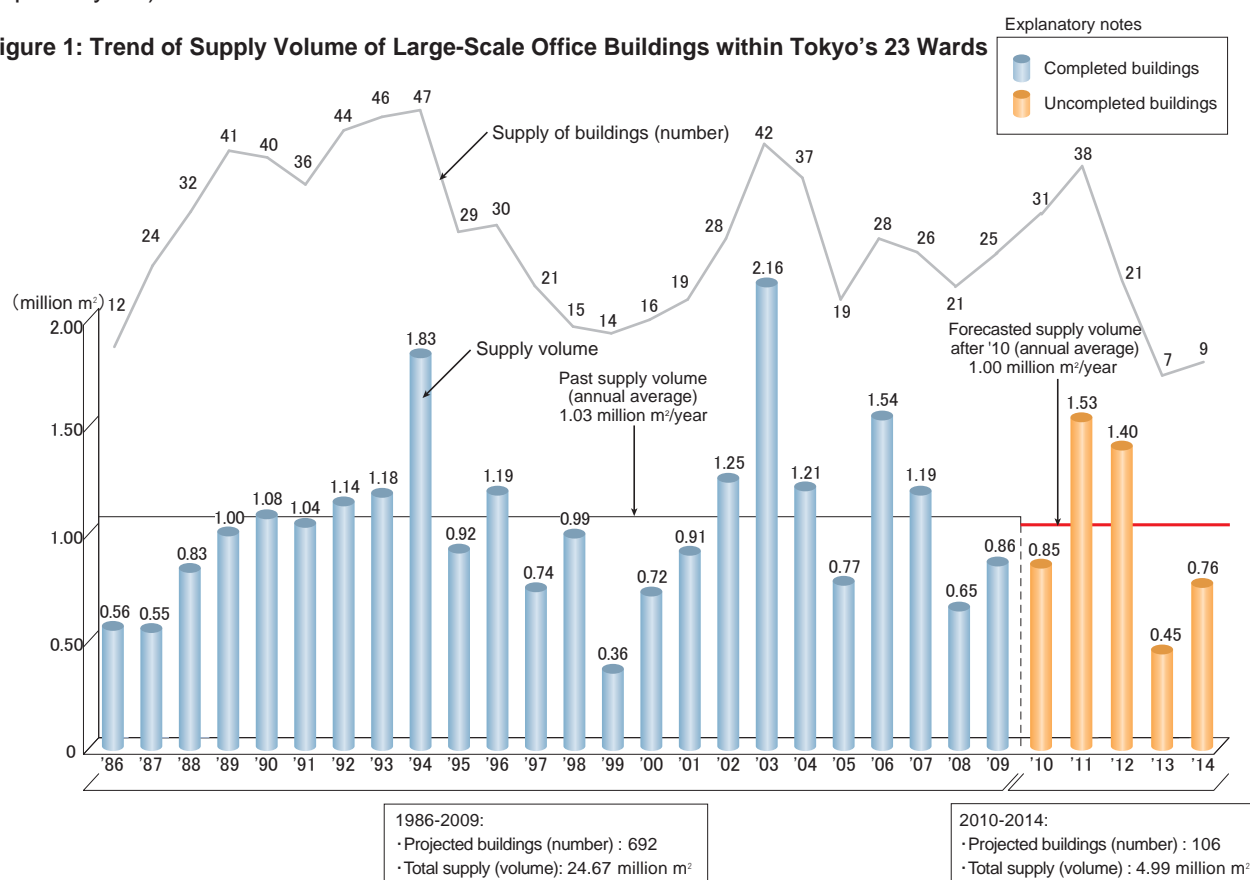
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1-1. General Trends in Supply

- Supply volume of 2010 is expected to be 0.85 million sq. m., which will result in a 3rd consecutive year with a supply volume below the past average level of 1.03 million sq.m.
- Supply volumes for 2011 (1.53 million sq.m.) and 2012 (1.4 million sq.m.) are projected to exceed past levels.

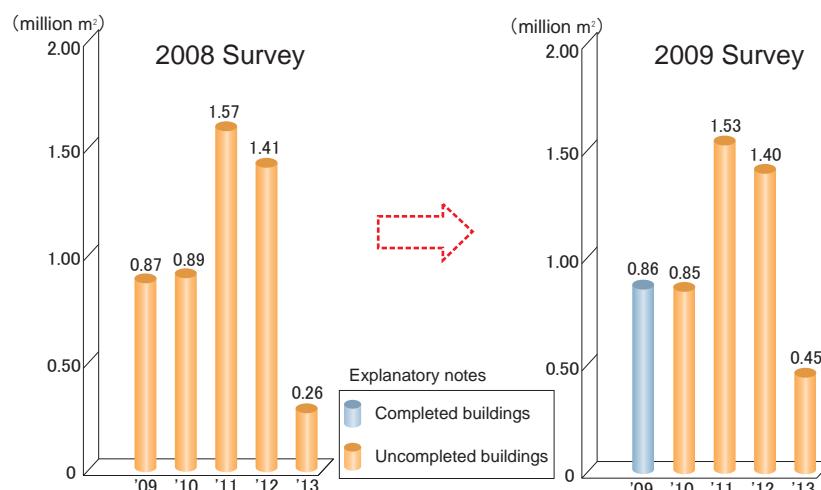
In 2010, for the third consecutive year, the supply volume for large-scale buildings will remain below the past average (1.03 million sq. m.) with a **supply volume of 0.85 million sq. m.** (Figure 1). On the other hand, **the supply volumes for 2011 and 2012 are expected to exceed the past average with a supply volume of 1.53 million sq. m. and 1.41 million sq. m. respectively**, and throughout 2010-2014, the total supply volume is forecast at 4.99 million sq. m. (roughly 1.00 million sq. m. / year).

Figure 1: Trend of Supply Volume of Large-Scale Office Buildings within Tokyo's 23 Wards



Normally the supply volume for a given year tends to exceed the level in the previous survey due to new projects that arise through the course of a year; however, because of discontinued projects as well as delayed ones, the supply volume in 2010-2012 is expected to remain below the level announced in the previous survey (2010 -0.04 million sq.m., 2011 -0.04 million sq.m., 2012 -0.01 million sq.m.)

Figure 2: Comparison of Supply Volume



1-2. Supply Trend by Size

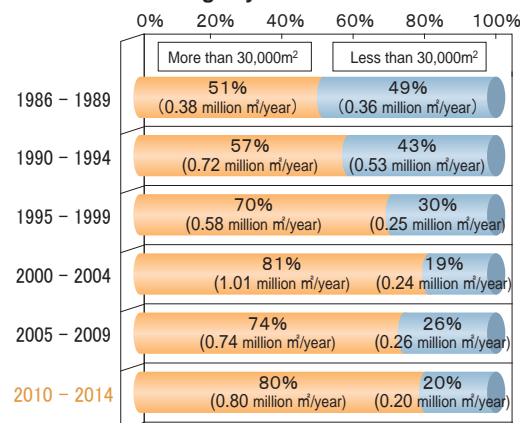
- In the next 5 years, the percentage of super large-scale office buildings (with office floor space of over 30,000 sq.m.) will remain high, accounting for 80% of total supply.

Let us now look at trend in supply by building size. Large-scale office buildings are divided into two groups: buildings with office floor space of between 10,000 sq. m. and 30,000 sq. m., and buildings with office floor space of over 30,000 sq. m. (hereafter called “super large-scale office buildings”) as shown in Figure 3.

In the past 15 years, the percentage of super large-scale office buildings hovered between 70-80%.

The ratio of super large-scale office buildings in the total supply volume of the next 5 years will continue to remain high, at 80%.

Figure 3 : Supply Volume of Large-Scale Office Buildings by Size



1-3. Supply Trend by Area

- In the next 5 years, supply ratio of Tokyo’s three central wards (57%) is lower than the average level of the past 10 years (75%).
- More particularly in 2010 and 2012, this percentage of Tokyo’s three central wards will decline to 47%.

Next, let us examine the trends in supply by area. Although in the past 10 years, the three central wards accounted for approximately 75%, in the next 5 years, supply ratio of Tokyo’s three central wards will decline to 57%, therefore the supply trend by area will change significantly (Figure 4).

When observing the supply area by year (Figure 5), between 2010 and 2012, the percentage of the supply in Tokyo’s three central wards will be limited to 47% while the supply volume in the other 20 wards is expected to increase rapidly. This is mainly because land for large-scale developments in the central areas has become scarce.

Figure 4: Supply Volume of Large-Scale Office Buildings by Area for Each Period

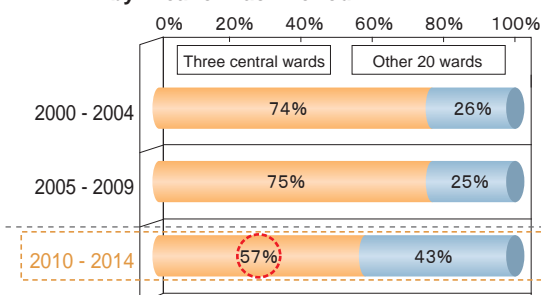
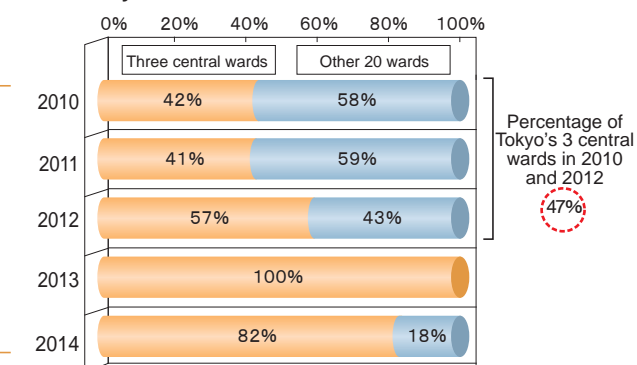
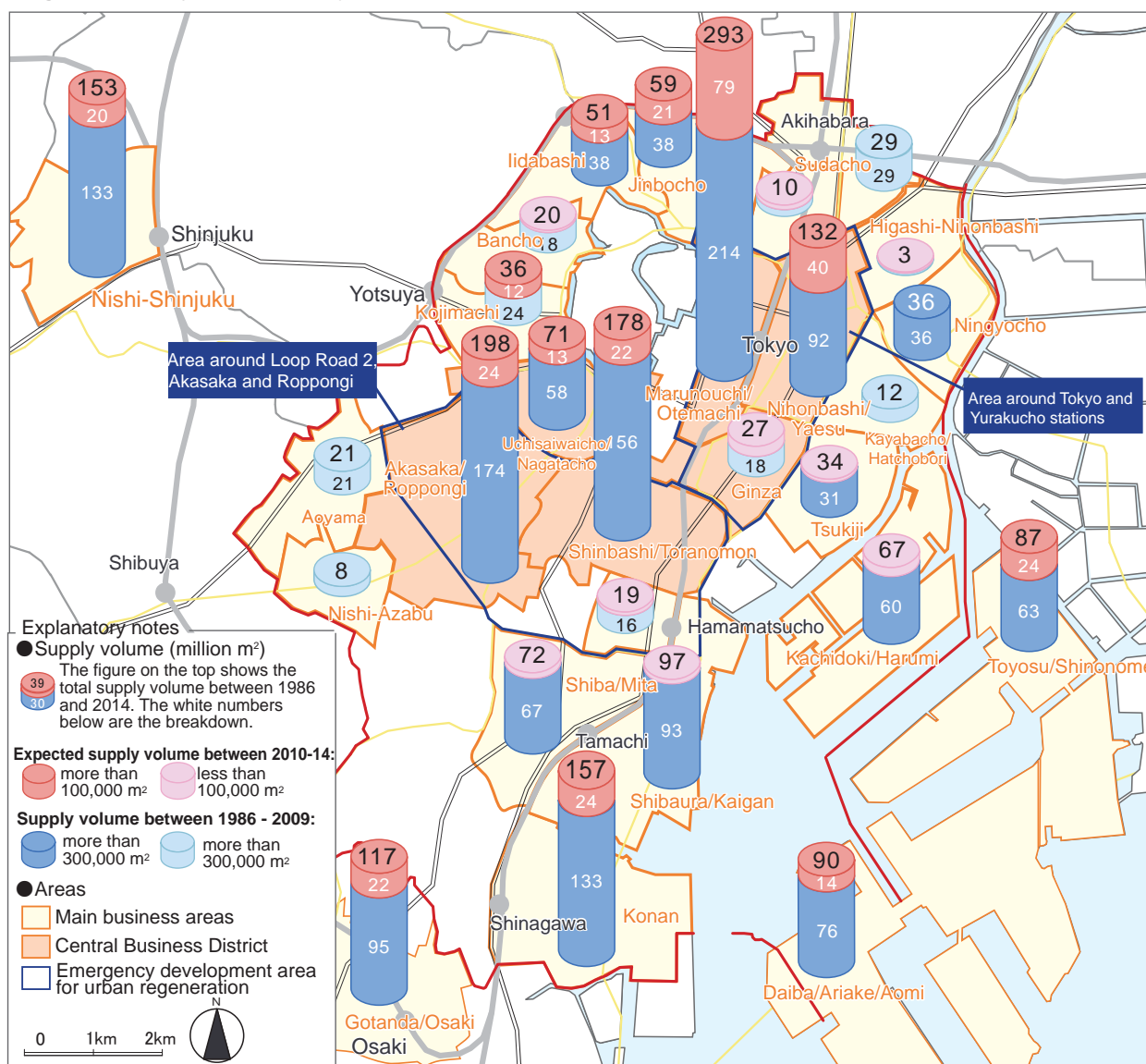


Figure 5: Supply Volume of Large-Scale Office Buildings by Area in the Next 5 Years



Let us take a closer look at supply trend by business areas (Figure 6). The result showed that **new supply in the Marunouchi/Otemachi area (0.79 million sq.m.) and Nihonbashi/Yaesu area (0.40 million sq.m.) stood out with a combined area of 1.19 million sq.m., which accounted for a quarter of the supply volume for the next 5 years.** Areas that have supply exceeding 0.20 million are the following; Akasaka/Roppongi (0.24 million sq. m.), Konan (0.24 million sq. m.), Toyosu/Shinonome (0.24 million sq. m.), Shinbashi/Toranomon (0.22 million sq. m.), Gotanda/Osaki (0.22 million sq. m.), Jinbocho (0.21 million sq. m.) and Nishi-Shinjuku (0.20 million sq. m.).

Figure 6: Supply Volume in Major Business Areas



*The areas in which both the actual supply in the past and expected supply for the future are high are 1) Akasaka/Roppongi area, 2) Marunouchi/Otemachi area, and 3) Shinbashi/Toranomon area. Meanwhile, in terms of the emergency development areas for urban regeneration based on the “Law on Emergency Measures for Urban Regeneration” in which supply is expected to further accelerate in the future, we can see that the areas mentioned above are mostly within or surrounding “the area around Loop Road No. 2, Akasaka and Roppongi” or “the area around Tokyo and Yurakucho stations.” We therefore define these areas as the Central Business District of Tokyo (Tokyo CBD).

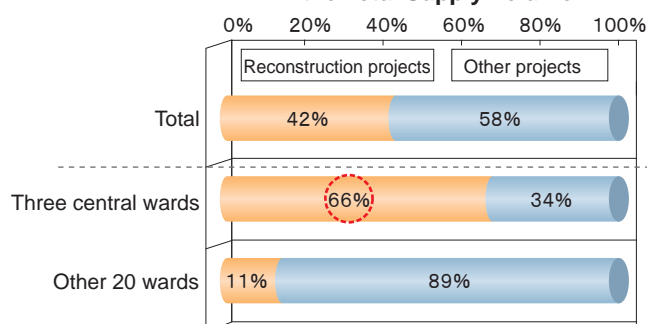
1-4. Supply Trend of New/ Reconstruction Projects

- In the next 5 years, two-thirds of new supply volume within Tokyo's three central wards will consist of reconstruction projects.
- Stock increase in Tokyo's three central wards (1.45 million sq.m.) is roughly half of the supply volume (2.84 million sq.m.)

Figure 7 shows the breakdown of the supply volume in the next 5 years. Approximately 40% of the total supply will consist of reconstruction projects*. When we take a closer look by area, in the three central wards, two-thirds of the supply volume within Tokyo's three central wards consists of reconstruction projects.

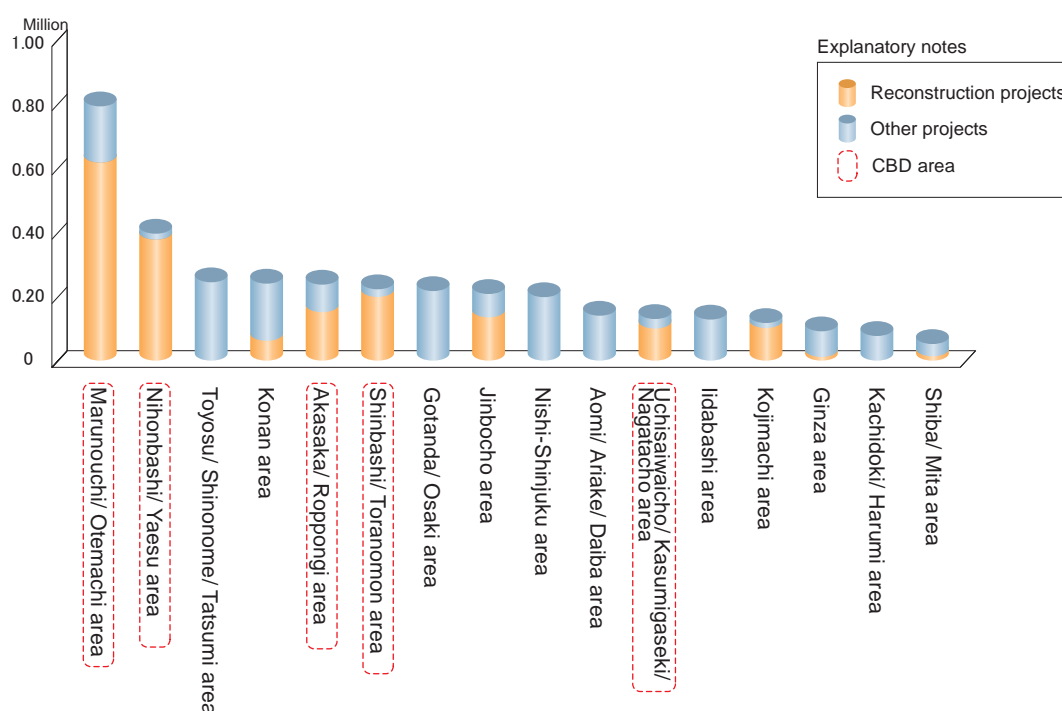
* In this survey, "reconstruction" means reconstruction of existing buildings that fit our definition of large-scale office buildings in the project area. Therefore, re-building into large office buildings of existing residences, hotels, small-scale office building etc. are not included. All the existing buildings subject to reconstruction were completed before 1985.

Figure 7: Percentage of Reconstruction Projects in the Total Supply Volume



In our analysis by business area, it appears that the reconstruction ratio is high in the Tokyo CBD (Figure 8). More particularly, in the Marunouchi/Otemachi area where a little less than 80% of supply volume consists of reconstruction projects as well as the Nihonbashi/Yaesu area where a little over 90% of supply volume consists of reconstruction projects.

Figure 8: Breakdown of Reconstruction Projects in Main Business Areas



<For Reference>

Through our survey last year, we found that the net increase of the office floor area, calculated by subtracting the total floor area before reconstruction from the new supply volume realized by the reconstruction projects, corresponded to 26% of the new supply volume (Figure 9).

By applying these figures **to calculate the increase in office stock within Tokyo's three central wards, the result is roughly half (1.45 million sq.m.) of the supply volume (2.84 million sq.m.).***

**The net increase of the office floor area calculated by subtracting the total floor area before reconstruction from the new supply volume realized by the reconstruction projects corresponded to 26% of new supply volume. (Reference: Market Trend Survey of Large-Scale Office Buildings in 23 Tokyo Wards in 2008.)*

Formula:

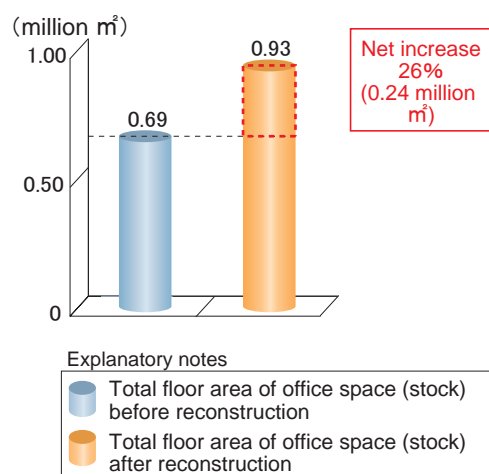
Supply volume in Tokyo's three central wards (2.84 million sq.m.) = Overall Supply Volume (4.99 million sq.m.) × Ratio of Tokyo's three central wards (57%)

Increase in stock of office space within Tokyo's three central wards(1.45 million sq.m.)

= Stock increase due to reconstruction projects + Stock increase due to other projects excluding reconstruction

= Supply volume of Tokyo's three central wards (2.84 million sq.m.) × Reconstruction rate within Tokyo's three central wards (66%) × Net increase coefficient (26%) + Supply volume of Tokyo's three central wards (2.84 million sq.m.) × Reconstruction rate outside of Tokyo's three central wards (34%)

Figure 9: Change in Stock of Office Space Before and After Reconstruction (16 projects)

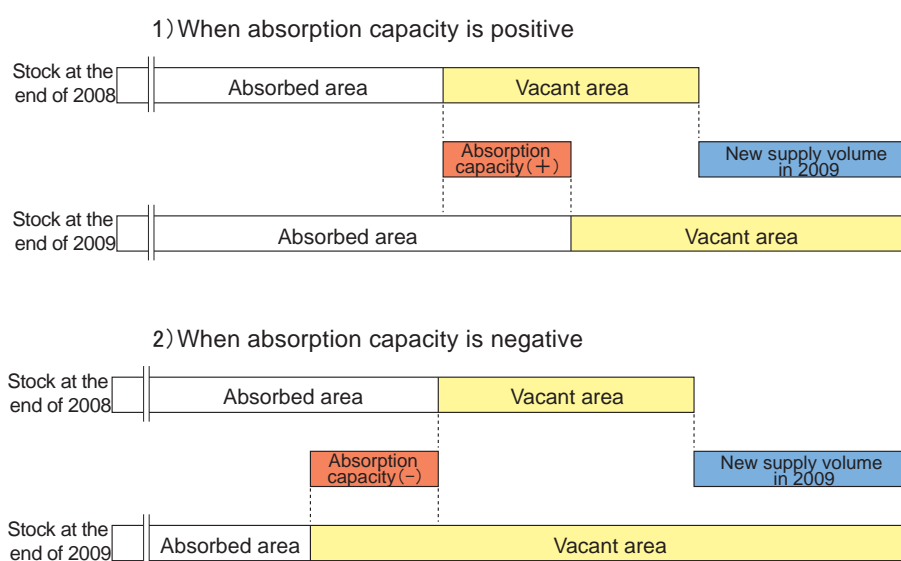


2-1. General Trends in Demand

- Absorption capacity (new demand) for 2009 was 0.31 million sq. m.
- As a result, vacancy rate at the end of 2009 was 5.9%

In this section, we will look at the trends in demand, using the concept of “absorption capacity”. As depicted in Figure 10, absorption capacity shows the newly absorbed area [(vacant floor area at the end of the previous year) + (newly supplied floor area) - (vacant floor area at the end of the present year)] in all large-scale office buildings covered in this survey, which are those completed in 1986 and after.

Figure 10: Concept of Absorption Capacity



Note: Total floor space (gross) is calculated on the basis of floor area for lease (net) grossed up by the ratio of 65.5%, the average effective rentable ratio of a typical large-scale office building.

In our previous survey, taking into account the severe economic turndown, we predicted the absorption capacity of 2009 would be 0.03 million sq. m. and the vacancy rate to be at 7.1% at the end of 2009 (Figure11). However, **the actual reading exceeded our expectations in the previous survey with the absorption capacity reaching 0.31 million sq.m. and the vacancy rate at 5.9% (Figure 12).** The reason is that the lease market was adjusted according to the rise in vacancy rate; large-scale office buildings with relatively strong competitiveness could catch potential demand through improvement of building grade and integration/combination needs.

Figure 11: Predictions in the Previous Survey

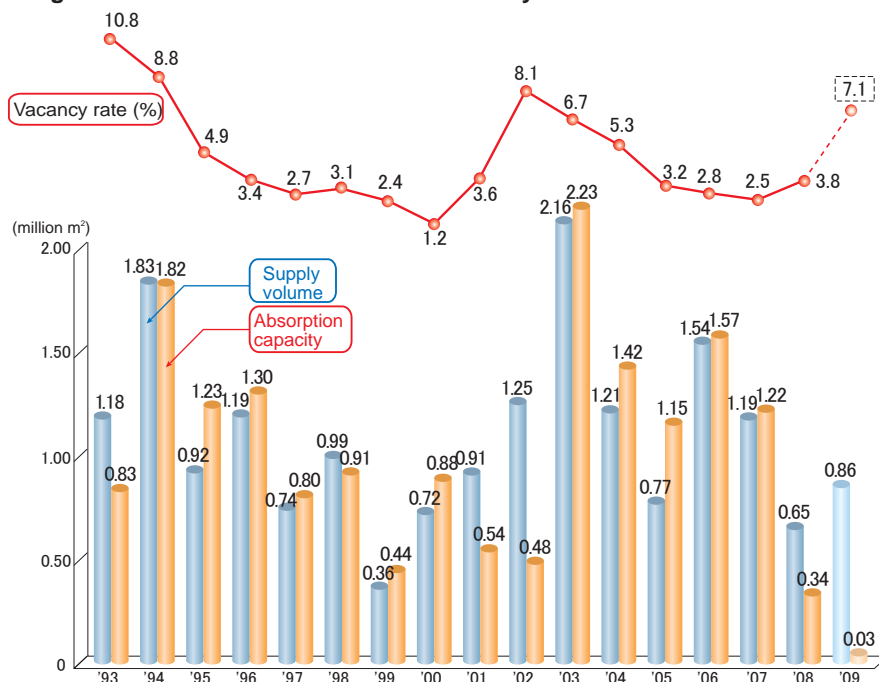
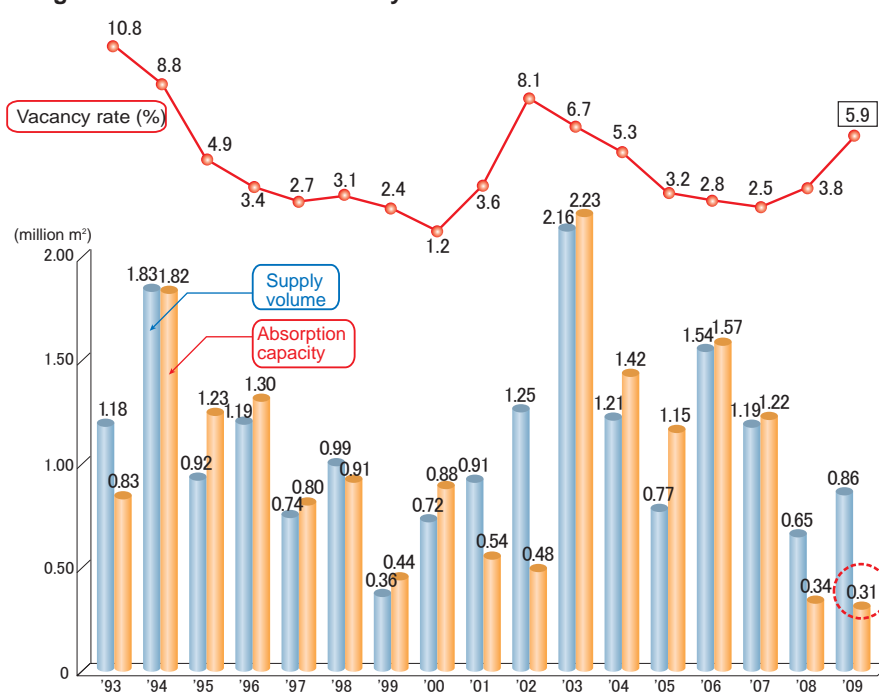


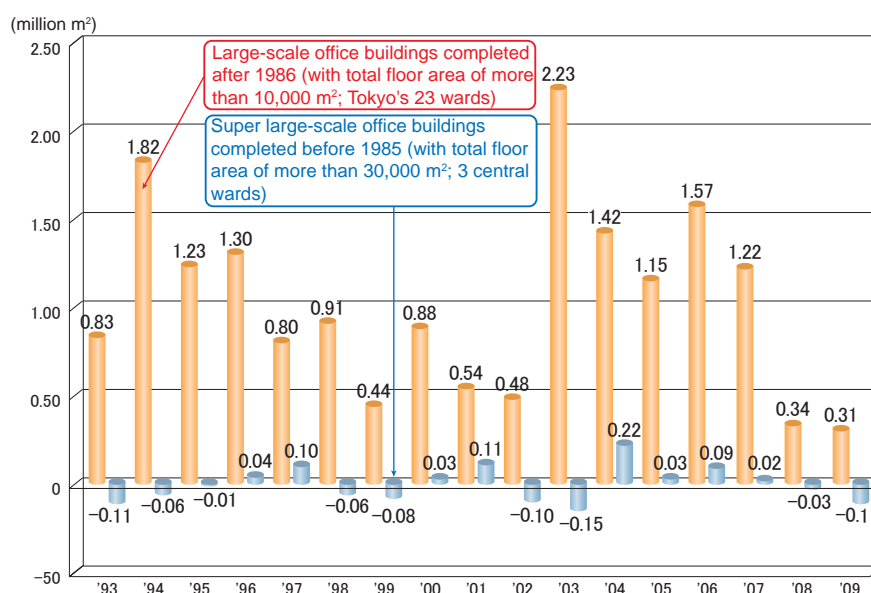
Figure 12: Results in This Survey



<For Reference>

Figure 13, we have added the absorption capacity of super large-scale office buildings (total office floor space of 30,000 sq. m. or more) in the three central wards completed in 1985 or before (hereafter referred to as “pre-1985 super large-scale office buildings”). The purpose is to analyze the demand trends for large-scale office buildings in prime locations even though they may have been built many years ago. As for the new demand trends of pre-1985 super large-scale office buildings, absorption volume for 2009 continued from the negative 0.03 million sq. m. of 2008 to a negative 0.11 million sq. m.

<Note> Figure 13: Trend of Absorption Capacity: Super Large-Scale Office Buildings Completed Before 1985 in the Three Central Wards and Large-Scale Office Buildings Completed After 1986



2-2. Future Demand Trend

- **Desire for new leases has recovered and 75% of the respondents have plans for new leases within Tokyo's three central wards.**
- **Non-Japanese enterprises and finance/insurance industries are expected to plan for more new leases.**

In this section, we will share our forecast as to how the trend of demand will likely fluctuate in the future through our own "Survey of office needs in Tokyo's 23 Wards which has been conducted since 2003.

As our previous survey was conducted in November 2008, immediately after the global financial crisis, the ratio of companies that responded as "planning for new leases" has declined to 13 % (11 points down from previous year). **However, in this year's survey taken in November 2009, the percentage of companies that responded as "planning for new leases" recovered to 21% (Figure 14) (8 points up from previous year).** This ratio is comparable to the ratio in our survey taken in 2003, when the demand for new leases suddenly materialized after the wait-and-see attitude triggered by the extremely large new supply expected for that year. **In addition, the ratio of companies with plan for new leases within a year was 40% and those within 2 years was 60 % (Figure 15).**

If we look at the breakdown by capital ownership and by industry, **non-Japanese enterprises (31%) and finance/insurance industries (29%) have a high ratio of respondents who are "planning for new leases"** (Figure 16), both categories increased by 14 and 12 points, respectively (Figure 17) from last year.

From the above, we believe that the demand for office space has been on a recovery trend within the past year, mainly in non-Japanese enterprises and finance/insurance industries.

Figure 14: Corporate Plans for New Leases

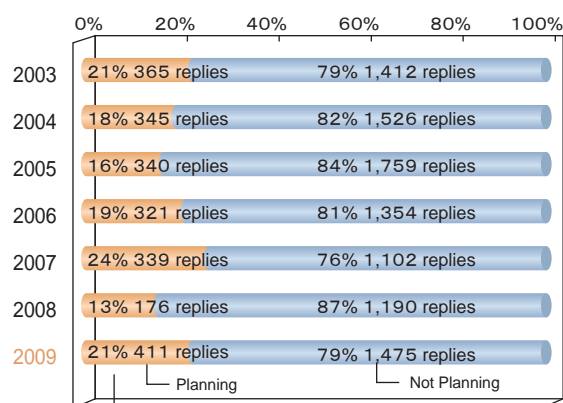


Figure 16: Breakdown of Responses by Industry in 2009

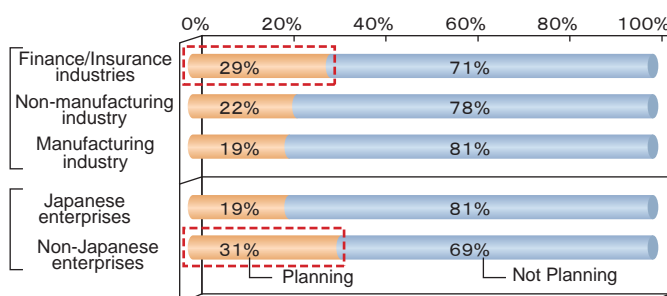


Figure 15: Timing for New Lease Plans

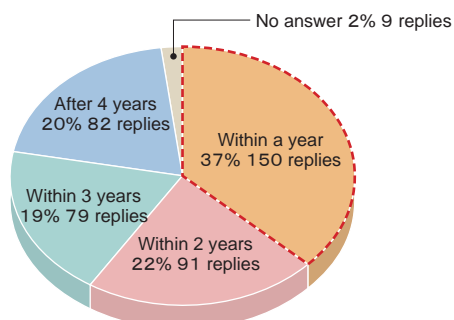
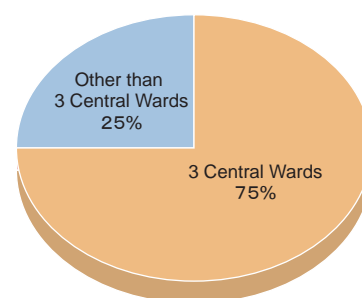


Figure 17: Breakdown of Companies with New Lease Plans Past 5 Years (by Industry)

		2005	2006	2007	2008	2009
by industry	Finance/Insurance industries	21%	25%	23%	17%	29%
	Non-manufacturing industry	17%	20%	28%	13%	22%
	Manufacturing industry	14%	15%	17%	11%	19%
by capital ownership	Japanese enterprises	15%	19%	21%	12%	19%
	Non-Japanese enterprises	23%	21%	36%	17%	31%

In terms of area, **75% of the planned new leases desired for their location to be in Tokyo's three central wards (Figure 18).**

Figure 18 : Desired Location for New Leases



Overall, the Marunouchi, Nihonbashi, Shinagawa and Shibuya areas had a high ratio of plans, while Minato-ku's business area also had a high level generally (Figure 19).

Non-Japanese enterprises, which have strong intentions for new leasing plans, chose the Akasaka, Roppongi, Shinagawa, Toranomon areas just as much as the Marunouchi area (Figure 20).

The finance/insurance industries, which also have strong intentions for new leaseings had a high ratio of desiring to be in the Marunouchi Area followed by Otemachi, Nihonbashi, Akasaka, Roppongi and Toranomon areas (Figure 21).

Figure 19: Area Desires for New Leasing Plans

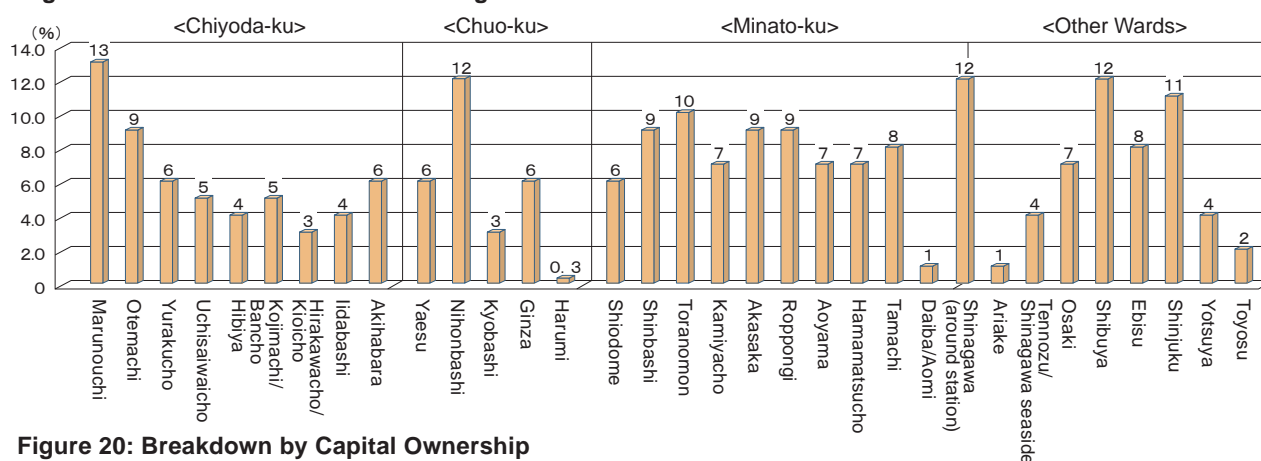


Figure 20: Breakdown by Capital Ownership

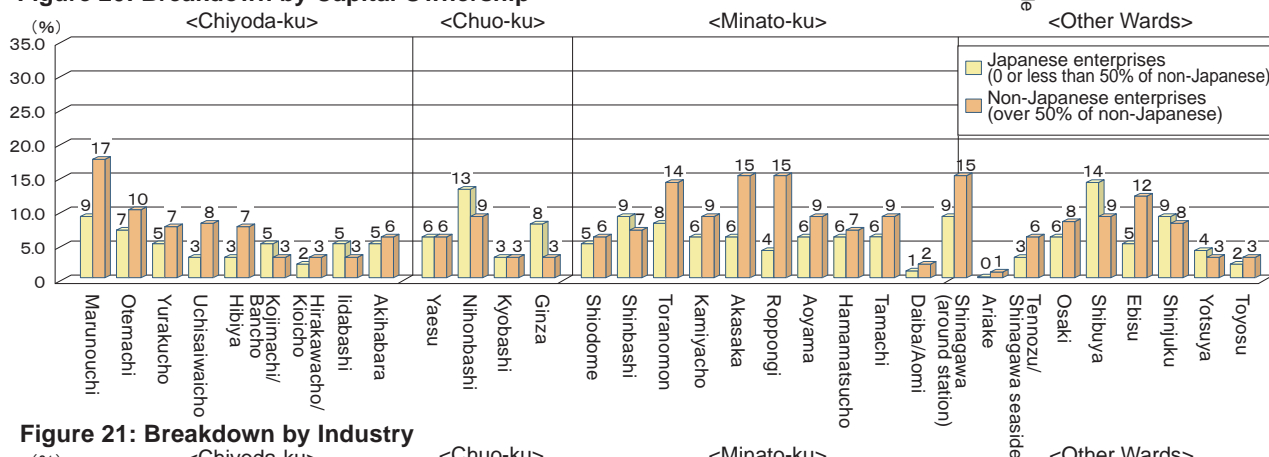
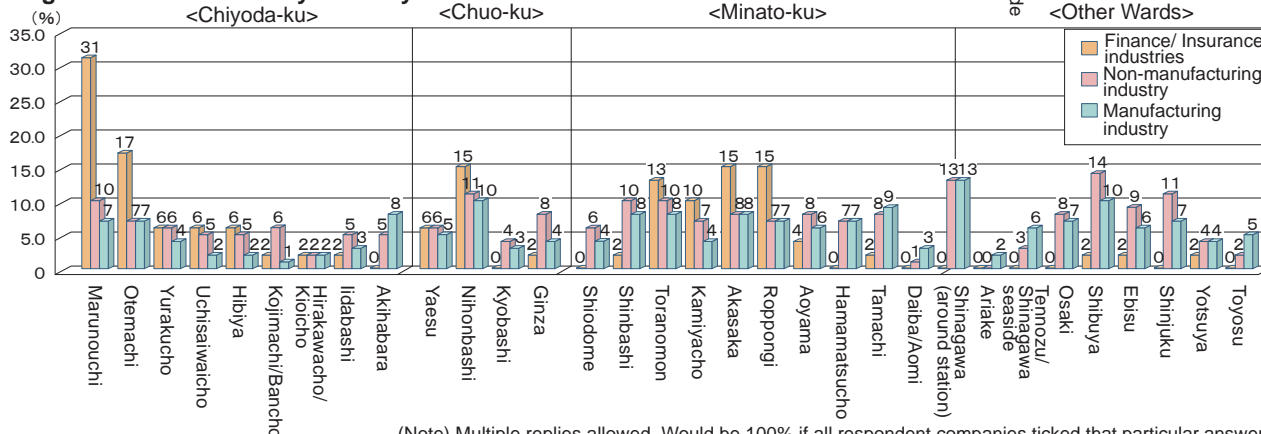


Figure 21: Breakdown by Industry



(Note) Multiple replies allowed. Would be 100% if all respondent companies ticked that particular answer.

Because of the global recession, companies grew more cost-conscious; the primary driver for new leases was “lower rents (40%)”. “Business expansion and increase of staff (28%)” which was the top reason given last year decreased but still remained in second position, followed by “larger floor plates (21%)”, “better location (20%)” and “building with higher standard equipment (19%)” (Figure 22).

For the non-Japanese companies, the percentage of “better location”, “building with higher standard equipment” and “aiming at higher corporate profile” were higher than for Japanese companies, showing their priorities for location and building grade (Figure 23).

Finance/insurance industries are less interested in “lower rents (40%)” compared to the other industries (Figure 24).

Figure 22: Reasons for New Leases

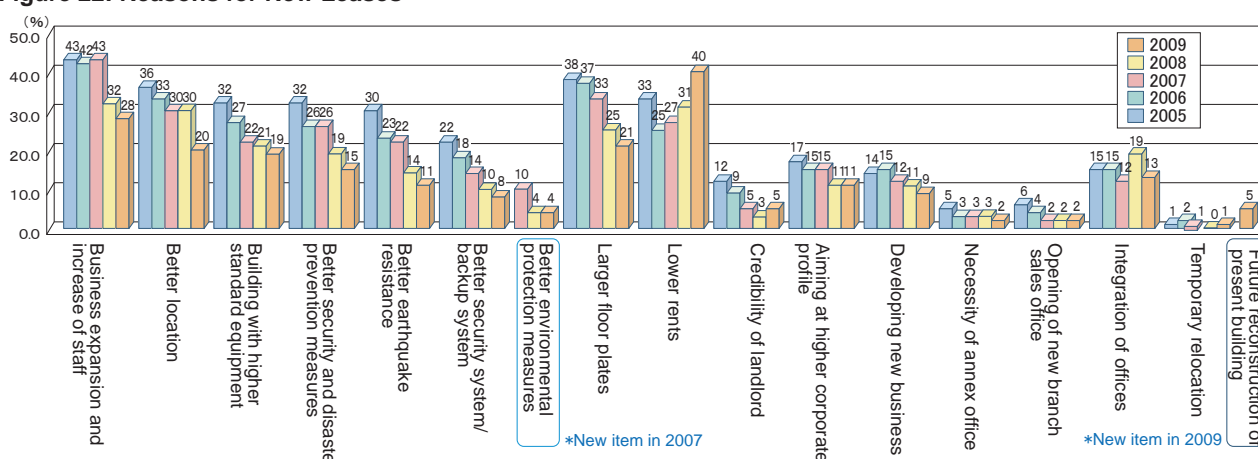


Figure 23: Breakdown by Capital Ownership

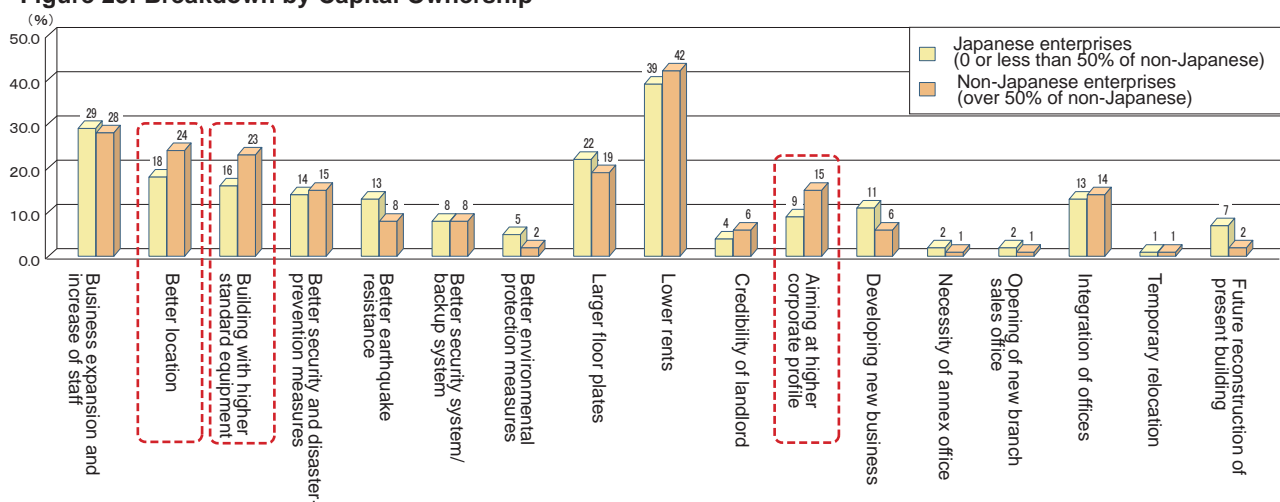
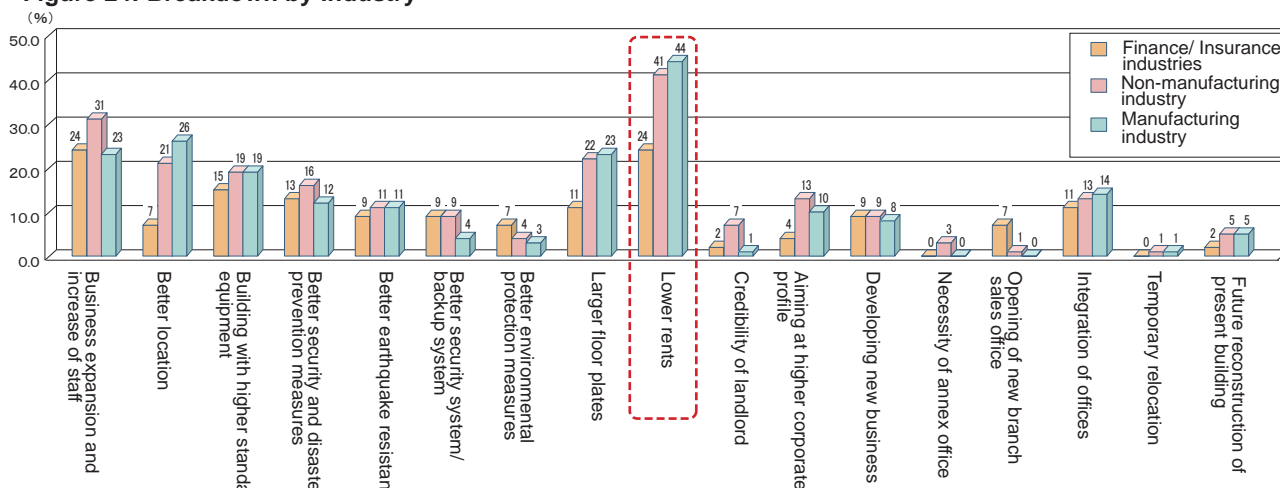


Figure 24: Breakdown by Industry



(Note) Multiple replies allowed. Would be 100% if all respondent companies ticked that particular answer.

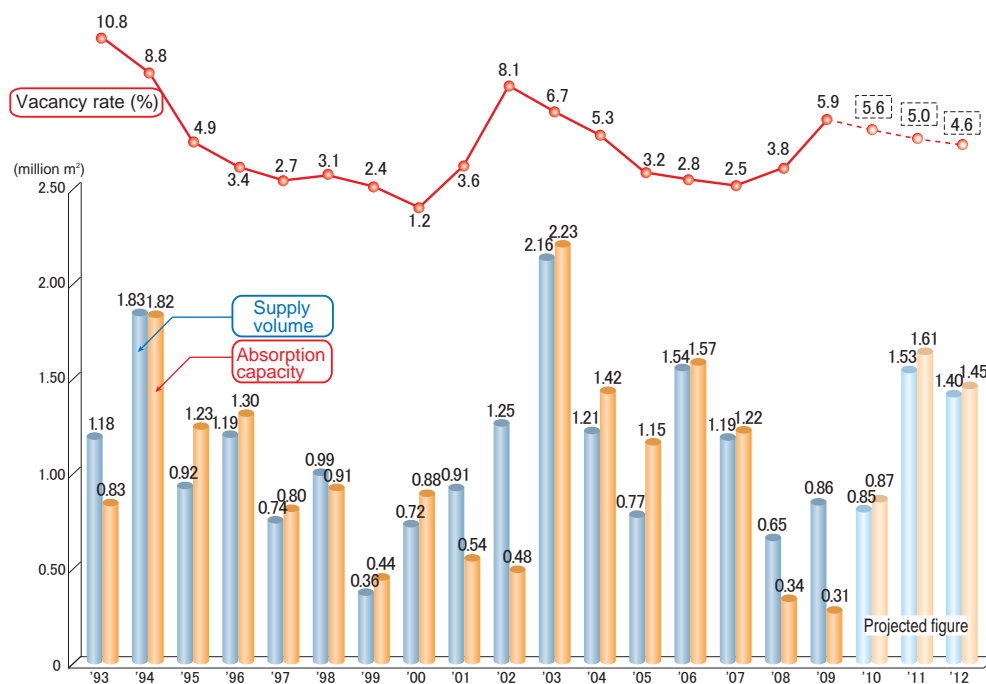
<For Reference> Future Market Trends

Due to the rapid decline of economic activities since September 2008, the levels of absorption volume in 2008 and 2009 were far below the supply volume. As a result, vacancy rate rose for the second consecutive year at the end of 2009 to 5.9%.

On the other hand, after 2010, as the projection of real GDP growth turns positive on a year-on-year basis and desire for new leases by companies is recovering, **we forecast that after 2010, the absorption volume will exceed the supply volume and as a result, in 2012, the vacancy rate will become lower than 5%.**

Supply volume within Tokyo's three central wards is relatively low compared to the past ten years, however, as the desire for new leases is concentrated within Tokyo's three central wards, the vacancy rates within those central wards are expected to recover prior to the entire Tokyo's 23 wards.

Figure 25: Future Demand Projections



Major Large-scale Office Buildings to be Completed in the Future (Some of the Projects have been already Completed)

Name of Project (Name of Building)	Floor Area		Development led by:	Location
	(㎡)	(Tsubo)		
2010				
Toyosu 3-1 District	106,877	32,330	Mitsubishi Estate Co., Ltd., IHI	Toyosu, Koto-ku
Sumitomo Realty & Development Iidabashi First Tower	78,398	23,715	Sumitomo Realty & Development Co., Ltd.	Koraku, Bunkyo-ku
Sumitomo Realty & Development Shinjuku Central Park Building	153,464	46,423	Sumitomo Realty & Development Co., Ltd.	Nishi-Shinjuku, Shinjuku-ku
Sumitomo Mitsui Banking Corporation Head Office Building	80,134	24,241	Mitsui Fudosan Co., Ltd.	Marunouchi, Chiyoda-ku
Chunichi News, Reconstruction of the old Tokyo Head Office	72,621	21,968	The Chunichi Shimbun Inc.	Konan, Minato-ku
2011				
Kita-Shinjuku Urban Area, #1Area Redevelopment Project, 1-2 Office Tower (Tentative)	96,000	29,040	Mitsubishi Estate Co., Ltd., Heiwa Real estate Co., Ltd.	Kita-Shinjuku, Shinjuku-ku
Nishi Shinjuku 8-chome Naruko Area, Redevelopment Project Superhigh-rise Tower Building (Tentative)	180,163	54,499	Redevelopment Association of Nishi-Shinjuku 8-chome Naruko Area (Sumitomo Realty and Development Co., Ltd.)	Nishi-Shinjuku, Shinjuku-ku
Osaki Station West Exit C Area Redevelopment Project (Tentative)	123,962	37,499	Sony Corporation	Osaki, Shinagawa
Ariake Central Tower	71,285	21,564	Nippon Tochi-Takemono Co., Ltd., Daiwa House Industry Co., Ltd.	Ariake, Koto-ku
Toyosu 3-3 District	98,823	29,894	Dai-ichi Mutual Life Insurance Company	Toyosu, Koto-ku
Gotenyama Project Block A (Tentative)	63,000	19,058	Sekisui House, Ltd.	Kita-Shinagawa, Shinagawa-ku
New Iino Building Project (Tentative)	106,000	32,065	Iino Lines Kaisha, Ltd.	Uchisaiwaicho, Chiyoda-ku
JA Kyosai Building	87,620	26,505	National Mutual Insurance Federation of Agricultural Cooperatives (ZENKYOREN)	Hirakawacho, Chiyoda-ku
Kyobashi 2-chome District 16 Development Area A (Shimizu Corporation Head Office Building) (Tentative)	51,000	15,428	Shimizu Corporation	Kyobashi, Chuo-ku
Palace Hotel Reconstruction Project, Office Building	68,000	20,570	Palace Hotel	Marunouchi, Chiyoda-ku
Moto-Akasaka K Project (Old Kajima Head Quarters Reconstruction) (Tentative)	53,710	16,247	Kajima Corporation	Moto-Akasaka, Minato-ku
Higashi-Gotanda District (district B) Development Project (Tentative)	72,543	21,944	Toyo Seikan Kaisha, Ltd.	Higashi-Gotanda, Shinagawa-ku
Narihirabashi-Oshiage District Development Project (New Tower Project) (Tentative)	229,410	69,397	Toubu Railway Co., Ltd.	Oshiage, Sumida-ku
2012				
Shinjuku East Side Square	170,274	51,508	Mitsubishi Estate Co., Ltd., Nippon Tochi-Tatemono Co., Ltd., Daiwa House Industry Co., Ltd., Heiwa Real Estate Co., Ltd.	Shinjuku, Shinjuku-ku
Shibuya Hikarie	144,177	43,614	Tokyu Corporation	Shibuya, Shibuya-ku
Toranomon, Roppongi Area Redevelopment Building Complex (Tentative)	143,726	43,477	Mori Building Co., Ltd.	Roppongi, Minato-ku
Nanpeidai-Cho Project (Tentative)	61,600	18,634	Sumitomo Realty & Development Co., Ltd.	Nanpeidai-cho, Shibuya-ku
Mitsui Sumitomo Insurance Kanda Surugadai 3-chome Project Annex (Tentative)	66,475	20,109	Mitsui Sumitomo Insurance Co., Ltd.	Kanda-Surugadai, Chiyoda-ku
JP Tower (Tentative)	212,131	64,170	Japan Post Holdings Co., Ltd.	Marunouchi, Chiyoda-ku
Otemachi 1-chome 2nd District, Category 1 Urban Area Redevelopment Project A Tower	110,000	33,275	Urban Renaissance Agency	Otemachi, Chiyoda-ku
Otemachi 1-chome 2nd District, Category 1 Urban Area Redevelopment Project B Tower	132,000	39,930	Mitsubishi Estate Co., Ltd.	Otemachi, Chiyoda-ku
Marunouchi 1-4 Project (Tentative)	139,728	42,268	Mitsubishi Estate Co., Ltd.	Marunouchi, Chiyoda-ku
Mita Belge Building Construction Project (Tentative)	56,500	17,091	Belge	Shiba, Minato-ku
Meiji Yasuda Life Insurance, New Toyocho Building Construction Project (Tentative)	96,227	29,109	Meiji Yasuda Life Insurance Company	Toyo, Koto-ku
Nakano-Station Area Development Project (North East side) (Tentative)	39,025	11,805	Tokyo Tatemono Co., Ltd.	Nakano, Nakano-ku
Nakano-Station Area Development Project (South East side) (Tentative)	151,577	45,852	Tokyo Tatemono Co., Ltd.	Nakano,Nakano-ku
JR Minami-Shinjuku Building (Tentative)	57,984	17,540	East Japan Railway Company	Yoyogi, Shibuya-ku
2013				
Kabukiza Reconstruction Project (Tentative)	93,900	28,405	Shochiku Group	Ginza, Chuo-ku
Awajicho 2-chome West District Category 1 Urban Area Redevelopment Project (Tentative)	129,223	39,090	Preparation Association (Yasuda Real Estate Co., Ltd.)	Kanda-Awajicho, Chiyoda-ku
Muromachi East District Development Project (2-3 district) (Tentative)	63,000	19,058	Mitsui Fudosan Co., Ltd.	Muromachi, Chuo-ku
Reconstruction Project of Mori Building #21 and #25 (Tentative)	55,061	16,656	Mori Building Co., Ltd.	Roppongi, Minato-ku
Kyobashi 3-chome 1st District Redevelopment (Tentative)	116,000	35,090	Tokyo Tatemono Co., Ltd., Daiei Real Estate & Development	Kyobashi, Chuo-ku
2014				
Otemachi 1-6 Project (Tentative)	198,390	60,013	Tokyo Tatemono Co., Ltd., Taisei Corporation	Otemachi, Chiyoda-ku
Loop Road (Kanjo) No. 2 Project (Tentative)	259,200	78,408	Mori Building Co., Ltd.	Toranomon, Minato-ku
Shibaura Water Recycling Center Reconstruction Project (Tentative)	179,980	54,444	NTT Urban Development	Konan, Minato-ku
Ueno Gate Tower Project (Tentative)	41,200	12,463	Risa Partners	Higashi-Ueno, Taito-ku

* Total floor area includes residential, commercial, public office buildings

* Projects are excluded from this list if discrepancies are found between public information and results from Mori Building's investigation.

* The supply volume figure announced from Mori Building is calculated from the "genuine office floor area", and does not agree with the total floor area figures shown in this chart.