

April 21, 2016

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

Special Bulletin Report of Survey Results as of December 31, 2015

**Supply volume exceeded the historical average (1,030,000m<sup>2</sup>), but greater demand than predicted led to an even lower vacancy rate in 2015.**

**The average supply volume is expected to surpass the historical average over the next 5 years. Part of the supply volume in 2019, however, has been pushed back to 2020, resulting in a smaller difference between years.**

## ■ Supply Trends

### <Tokyo's 23 Wards>

- Supply volume in 2015 of 1,090,000m<sup>2</sup> (125% of the previous year's volume) exceeded the historical average for the first time in 3 years.
- Supply volume in 2016 of 1,020,000m<sup>2</sup> (94% of the previous year's volume) is expected to be at approximately the historical average.
- Over the next 5 years, the average supply volume will be 1,140,000 m<sup>2</sup>/year. In particular, a large supply volume after 2018 will boost the average supply. Meanwhile, part of the supply volume in 2019 which was expected to be large has been pushed back to 2020, resulting in a smaller difference between years.

## ■ Demand Trends

### <Tokyo's 23 Wards>

- Absorption capacity (new demand) in 2015 was 1,140,000m<sup>2</sup> (82% of the previous year).
- Vacancy rate at the end of 2015 was 3.9% (0.4 point decrease from the previous year). Although the vacancy rate for the end of 2015 was forecast to be 4.3% last year, the actual vacancy rate decreased more than predicted due to an accumulated absorption capacity in the second half of the year which exceeded expectations.

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 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 2015.
- ※ 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.

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## 1 Supply Trends

### <Tokyo's 23 Wards>

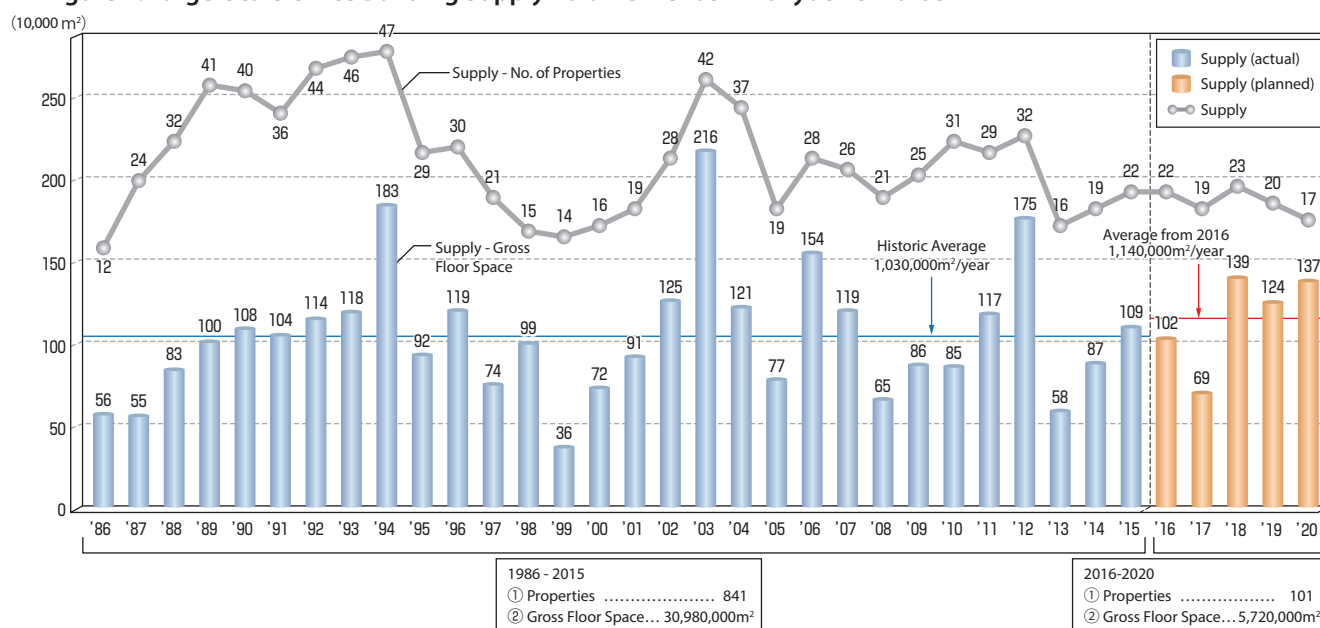
- Supply volume in 2015 was 1,090,000m<sup>2</sup> (125% of the previous year's volume).
- Supply volume in 2016 will be 1,020,000m<sup>2</sup> (94% of the previous year's volume).

### <Central 3 Wards>

- Supply volume in 2015 was 780,000m<sup>2</sup> (111% of the previous year's volume).
- Supply volume in 2016 of 770,000m<sup>2</sup> (99% of the previous year's volume) will account for 75% of the supply volume of Tokyo's 23 Wards.

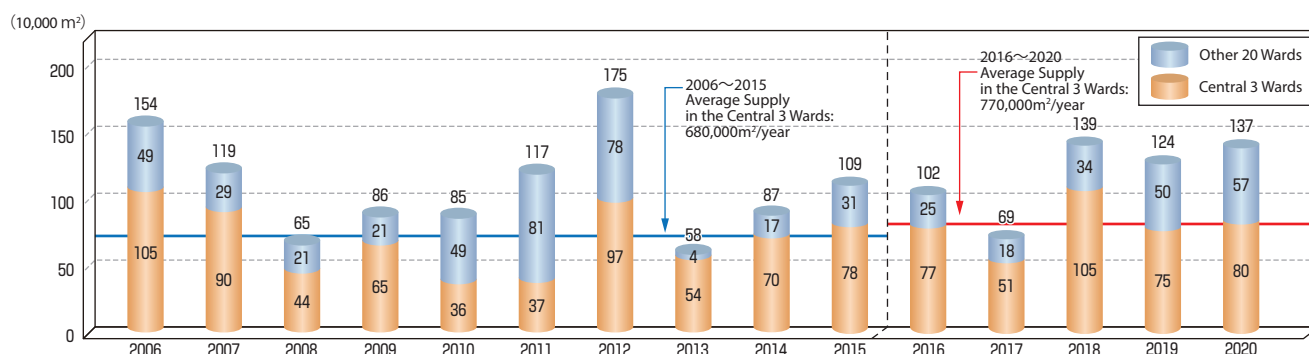
The 2015 supply volume of large-scale office buildings in Tokyo's 23 Wards (1,090,000m<sup>2</sup>) exceeded the historical average (1,030,000m<sup>2</sup>) for the first time in 3 years. Supply volume for 2016 of 1,020,000m<sup>2</sup> is expected to be at approximately the historical average. The annual average supply volume over the next 5 years (2016-2020) is forecast to be 1,140,000m<sup>2</sup>/year. In particular, a large supply volume after 2018 will boost the supply average (Figure 1). Although the previous research in August 2015 predicted a large accumulation of supply volume for 2019, part of the supply has been pushed back to 2020, resulting in a smaller difference between years.

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



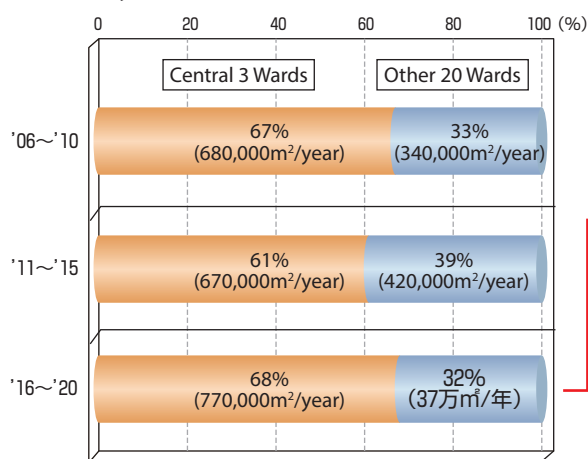
The average large-scale office building supply volume in the Central 3 Wards (Chiyoda Ward, Chuo Ward and Minato Ward) for 2015 was 780,000m<sup>2</sup>, and is forecast as 770,000m<sup>2</sup> in 2016. Over the next 5 years (2016-2020), the average will increase to 770,000m<sup>2</sup>/year, surpassing the average of 680,000m<sup>2</sup>/year for the past 10 years (2006-2015) (Figure 2). Supply volume in the Central 3 Wards in 2018 is expected to be 1,050,000m<sup>2</sup>, exceeding 1,000,000 m<sup>2</sup> for the first time in 12 years, since 2006.

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

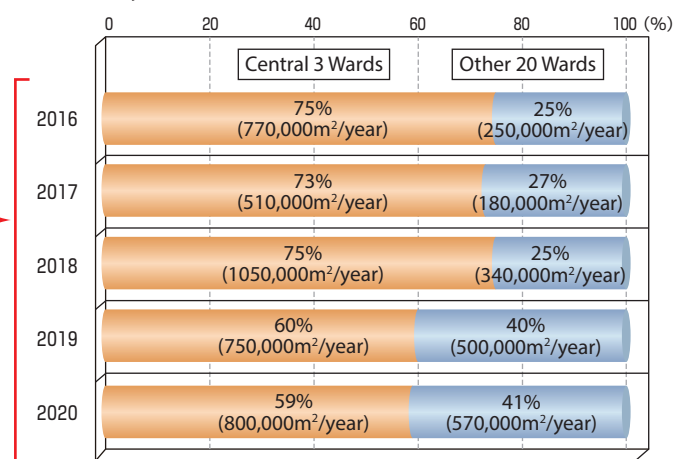


The Central 3 Wards are forecast to account for 68% of total supply during the next 5-year period, showing an increase from the previous 5-year period. When examined by year, the Central 3 Wards will account for over 70% of total supply over the next 3 years (2016-2018) (Figure 3 and 4).

**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>

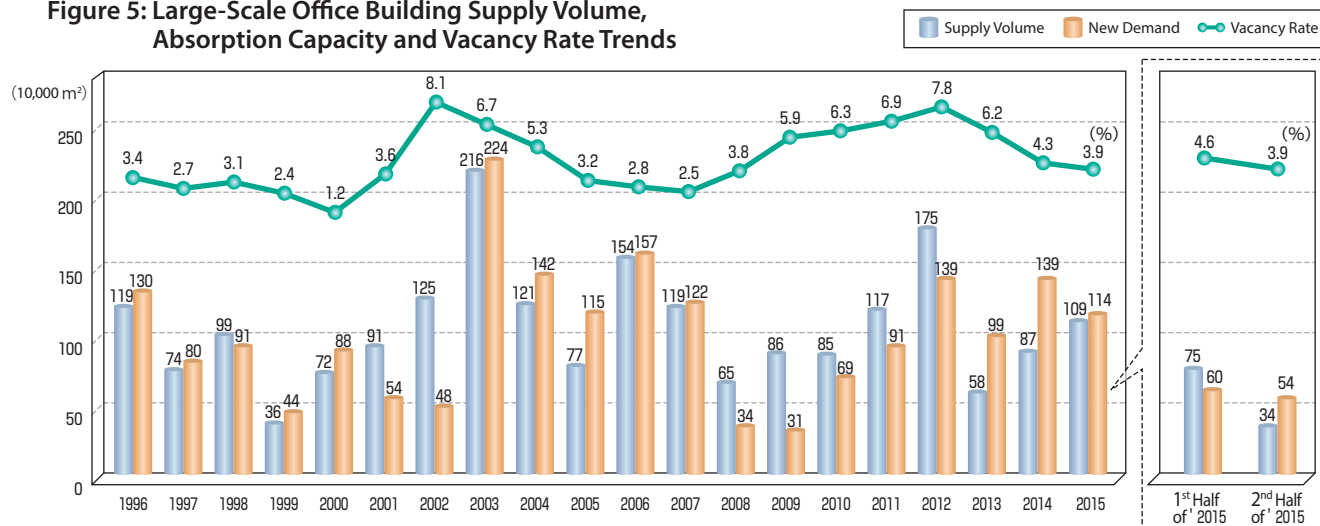
- Absorption capacity (new demand) in 2015 was 1,140,000m<sup>2</sup> (82% of the previous year).
- Vacancy rate at the end of 2015 was 3.9% (0.4 point decrease from the previous year).

### <Central 3 Wards>

- Absorption capacity (new demand) in 2015 was 750,000m<sup>2</sup> (71% of the previous year).
- Vacancy rate at the end of 2015 was 3.6% (0.1 point increase from the previous year).

In 2015 in Tokyo's 23 Wards, absorption capacity for large-scale office buildings was 1,140,000m<sup>2</sup> (82% of the previous year). On the other hand, the supply volume was 1,090,000m<sup>2</sup> (125% of the previous year's volume), falling below the absorption capacity. Although the vacancy rate for the end of 2015 was forecast to be 4.3% last year, the actual vacancy rate decreased to more favorable 3.9% (0.4 point decrease from the previous year) due to an accumulated absorption capacity in the second half of 2015 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 was 750,000m<sup>2</sup> and supply volume 780,000m<sup>2</sup> (71% and 111% of the previous year, respectively) in the Central 3 Wards in 2015. While there were still vacant spaces, several large-scale office buildings were completed in the first half of the year, causing the temporary increase in vacancy rate to 4.3%. The vacant spaces, however, were steadily taken up during the second half, leading to a stabilized vacancy rate of 3.6% (0.1 point increase from the previous year) at the end of 2015.

On the other hand, absorption capacity in the Other 20 Wards was 390,000m<sup>2</sup> (118% of the previous year). Absorption capacity exceeded supply volume (310,000m<sup>2</sup>), causing the vacancy rate to drop. As in the Central 3 Wards, the vacancy take-up was more significant in the second half of the year (Figure 6).

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

