April 16, 2019

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

General Trends in Supply

– The Shimbashi-Toranomon area, which has seen a major increase in supply volume as well as growth in size of properties, is expected to become more competitive due to several large-scale development projects including a new metro station.

■ In Tokyo's 23 cities, there is expected to be abundant supply of large-scale office buildings in 2020 and 2023 while that supply will be low in 2021 and 2022. The average over the next 5 years is forecast to be about the same as the historic average. In addition, the average amount of floor space provided per property is trending upward. In 2023, the supply and the percentage of total supply of large-scale office buildings of 100,000m² or more are expected to be greatest since this report was first released, which shows that properties are growing in size.

■ Broken down by area, the three central cities will account for at least 70% of yearly total supply from 2020 through 2023, surpassing the historical average. In particular, the Shimbashi-Toranomon area, which has seen a marked increase in supply, is expected to become significantly more competitive due to several large-scale development projects.

General Trends in Demand

– Demand for office space expected to remain firm

■ The percentage of companies that intend to lease more office space is trending upward every year. 45% of companies "expect to increase the number of workers." Among the reasons why companies intend to lease new office space, positive reasons for moving have been trending upward. For example, "to expand business or to accommodate an increase in employees" is the top reason for the sixth consecutive year. There is strong desire among companies to expand and demand for office space is forecast to remain firm.

Vacancy rate

– Vacancy rate at the end of 2018 falls to 1.9%, the first time in 18 years, since 2000, that it declines to the 1% level

■ The vacancy rate at the end of 2018 fell to 1.9%, the first time in 18 years, since 2000, that it declined to the 1% level. At the end of 2019, it is expected to remain at the low level of 2.0% due to strong demand for office space. At the end of 2020, it is forecast to rise slightly on account of the large supply.

Since 1986, Mori Building Co., Ltd. (Minato-ku, Tokyo; President & CEO Shingo Tsuji) has regularly conducted market surveys of supply and demand trends for 10,000m2-class or higher office buildings that were constructed in Tokyo's 23 Cities since 1986 (hereinafter referred to as "large-scale office buildings"). Through a diverse analysis of the results of this survey, we are also able to develop forecasts of future office market trends. We are pleased to present you with the results of our survey in the following report.

■ "Survey of the Large-scale Office Building Market in Tokyo's 23 Cities" Framework

Research area: Tokyo's 23 Cities

Research Subject Buildings: Office buildings with gross floor area exceeding 10,000m² and a construction completion date of 1986 or later.

※"Supply volume" is calculated based on publicly available information, and on-site and "interview" research undertaken in January and February 2019.

※This is a tabulation of gross total office floor space of all large-scale office buildings completed since 1986 (including properties owned and used by the same company) but excluding floor space reserved for non-office uses such as retail, residential, hotel, etc.

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1-1 General Trends in Supply Volume

- ○ In 2018, the supply of large-scale office buildings in Tokyo's 23 cities was at a high level, surpassing the historical average.
- ○ Supply will be low in both 2021 and 2022.
- ○ Supply volume for the next 5 years is expected to be on par with the average of past years.

The supply of large-scale office buildings in Tokyo's 23 cities rose to 1,410,000 m² in 2018, surpassing the historical average of 1,030,000 m²/year. Although there is expected to be abundant supply in 2020 (1,720,000 m²) and 2023 (1,320,000 m²), supply is forecast to be low for two consecutive years, 2021 (570,000 m²) and 2022 (500,000 m²). Supply volume for the next 5 years will be on par with the average for past years, with an average of 102,000 m²/year. (Fig. 1).

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

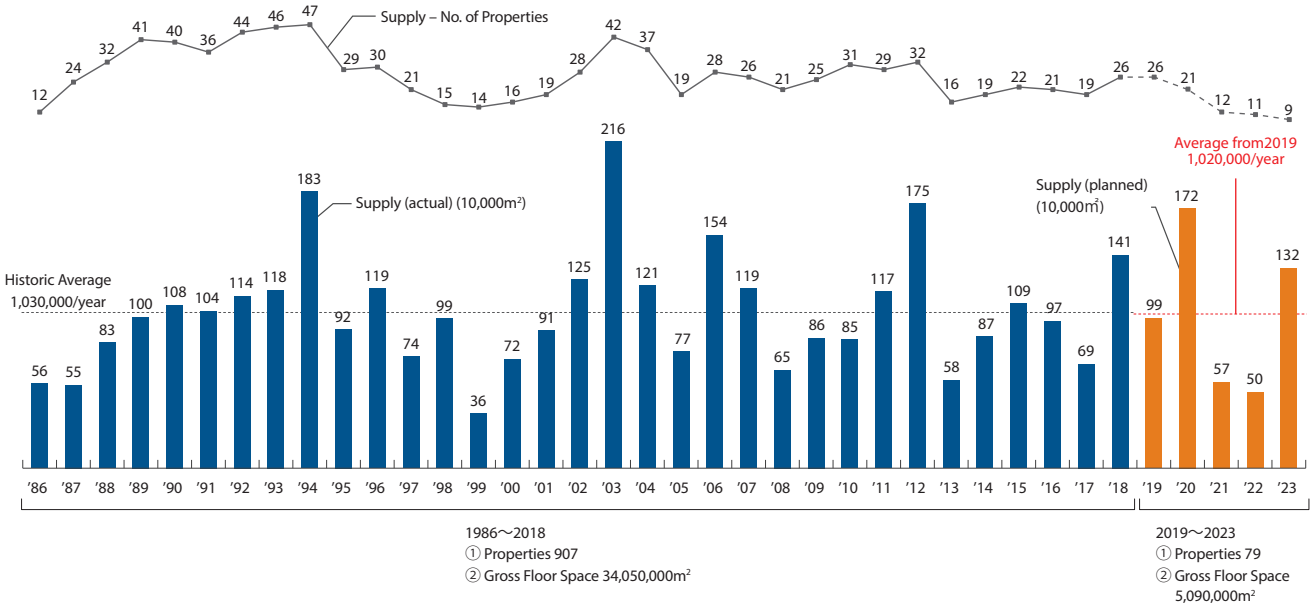
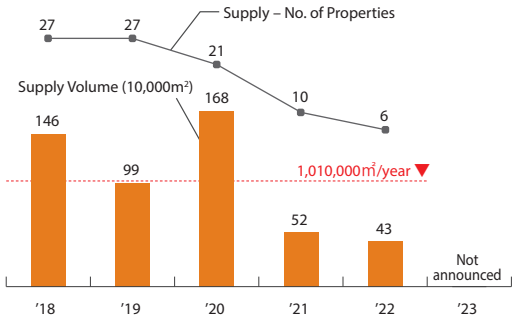


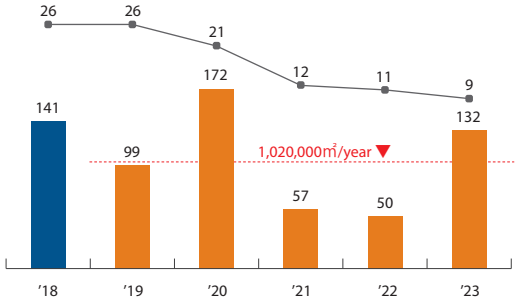
Fig. 2 compares the 5-year forecast for supply data from last year's survey (released April 27, 2018) with survey results from this year. There have been no major changes in overall trends indicated in the supply graph for 2018–2022, which proves the supply is developing as predicted. The forecast supply for each year between 2020 and 2022 rose slightly, primarily because of small-scale projects of 10,000–20,000 m² coming to light.

Figure 2: Comparison of Shifts in Large-scale Office Building Supply Volume with Previous Years

2018.4 Market Trend Survey



2019.4 Market Trend Survey



1-2 Supply Volume Trends by Office Building Scale

◯ Average floor space per property is trending upward, which indicates office buildings are growing in size.
◯ In 2023, supply provided by properties of 100,000 m² or more is expected to account for the largest percentage of total supply since this report was first released.

Fig. 3 shows the trend of annual average supply per property. Around 1990, the average supply was 20,000 to 300,000 m² per property. However, in recent years, it has become more common for the average supply to exceed 50,000 m² per property. Even in 2018, the figure was 540,000 m² per property. The increasing trend for average supply volume per property is clear from the approximation curve. The conclusion is that the scale of office buildings being supplied is increasing.

Figure 3: Trend in Average Supply per Property

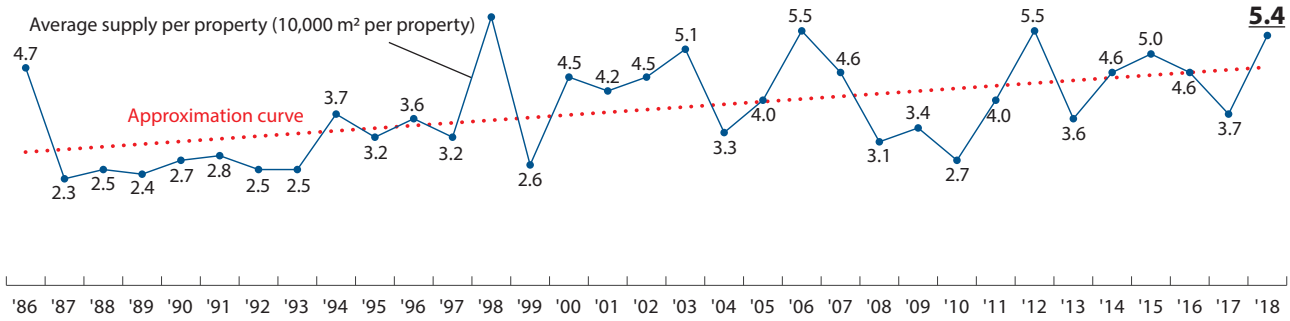
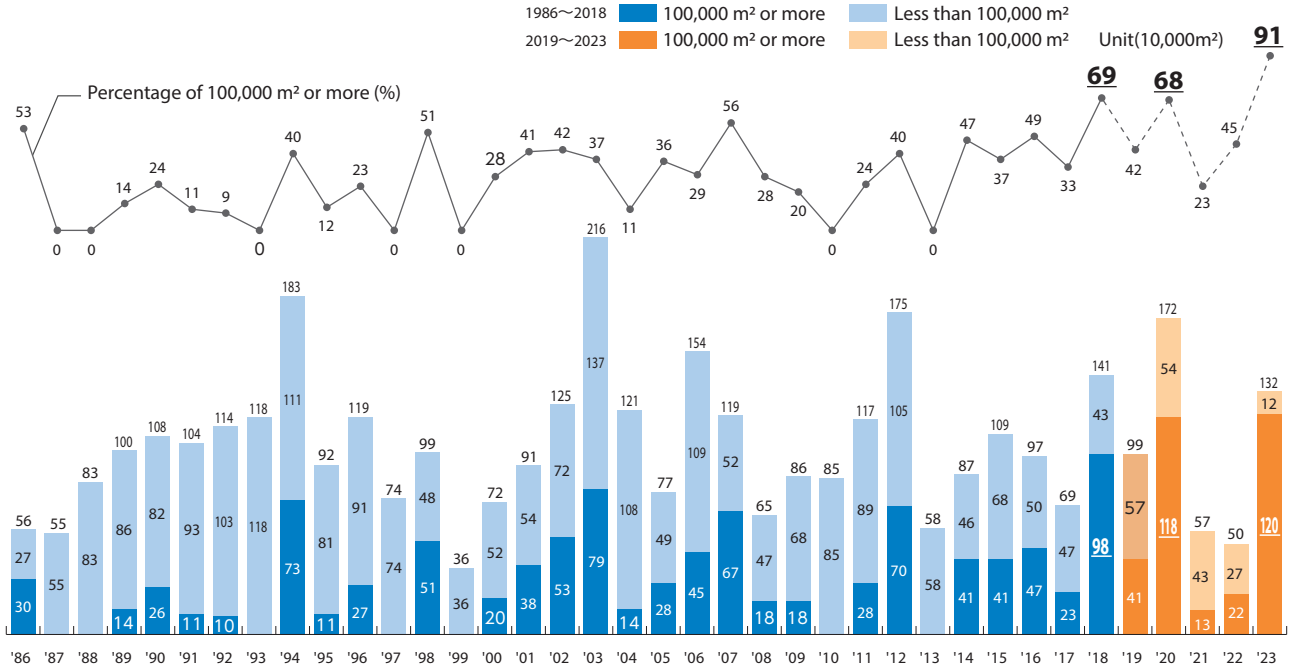


Fig. 4 shows the supply trends shown in Fig. 1 dividing properties into those with gross office floor space of 10,000 m² or more and those with less than 10,000 m². For properties with gross office floor space of 10,000 m² or more, supply for 2023 (1,200,000 m²) is expected to be the highest figure since the study began. In 2023, properties with a gross office floor space of 100,000 m² or more are expected to account for the largest percentage of supply (91%) since this report was first released.
In addition, properties with gross office floor space of 100,000 m² accounted for much of the supply both in absolute terms and as a percent of total supply in 2018 (980,000 m², 69%). This is forecast to be true in 2020, too (1,180,000 m², 68%).
The proportion of supply of large-scale office buildings with 100,000 m² or more is large and it can be said that the amount of floor space of large-scale office buildings is increasing.

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

- ○ The supply in the three central cities will exceed 1,000,000 m² in both 2020 and 2023, greatly surpassing the historical average.
- ○ Between 2020 and 2023, at least 70% of supply will be in the three central cities.
- ○ The Shimbashi-Toranomon area, which has seen a marked increase in supply, is expected to become more competitive.

The supply volume of large-scale office space in the three central cities (Chiyoda, Chuo and Minato Cities) over the next 5 years is expected to average 730,000 m²/year, exceeding the 670,000 m²/year average of the past decade (Figure 5). In particular, supply is expected to exceed 1,000,000 m² in 2020 (1,230,000 m²) and 2023 (1,080,000 m²), greatly exceeding the historical average.
The three central cities will account for at least 70% of total supply in each year from 2020 through 2023, surpassing the 10-year average of 65%.

Figure 5: Shifts in Large-scale Office Building Supply Volume by Area

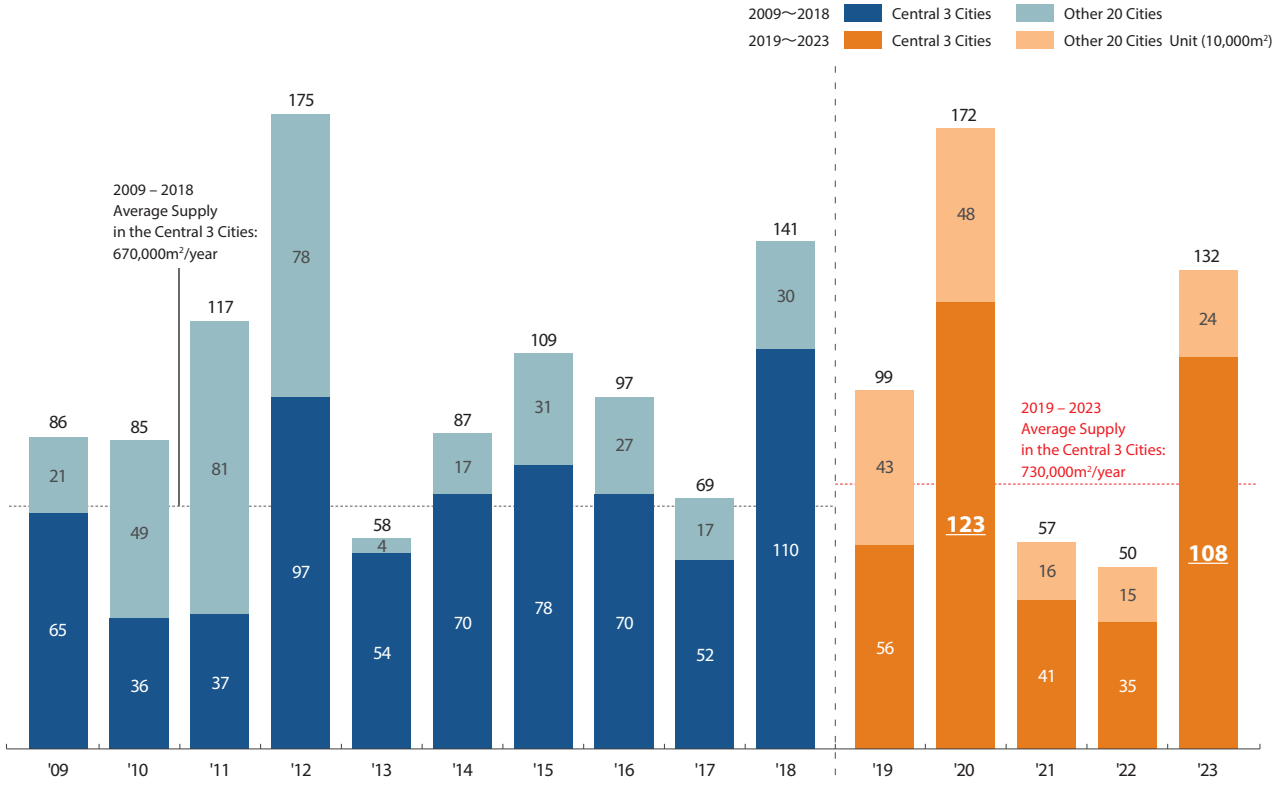


Figure 6: Large-scale Office Building Supply Volume Share by Area

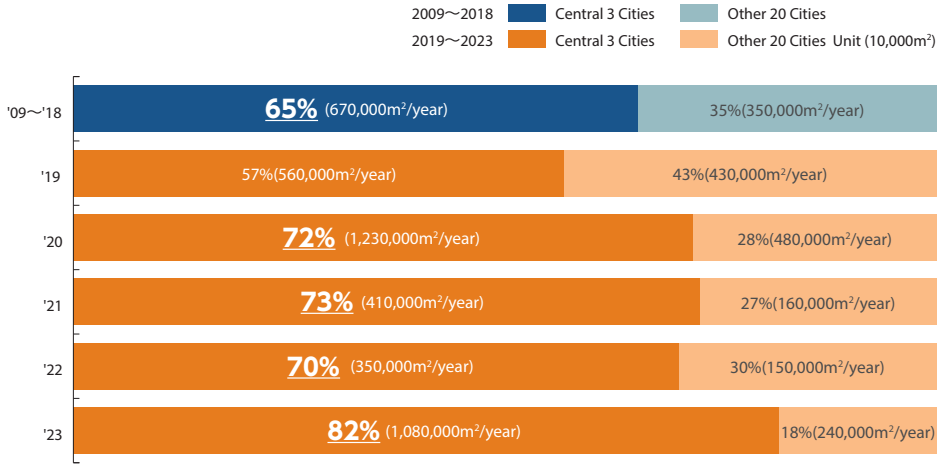


Figure 7 shows the five main business areas that Mori Building is focusing on. Figure 8 gives the amount of supply and the percentages of total supply for each area for the 5-year period 2019–2023. The 5-year average supply in Tokyo's 23 cities is 5,090,000 m². These 5 main areas account for 3,670,000 m², which is 72% of that supply.
Driven by various projects, including massive development projects underway in areas around Toranomon Hills, the Shimbashi-Toranomon area is the source of the greatest supply (1,380,000 m², 27%).
Figure 9 gives a comparison of the supply for the period 2014–2018 and the period 2019–2023 for each area. Looking at change in supply between the two periods, there will be a decline in supply in the Marunouchi Otemachi area (1,330,000 m² → 700,000 m²), which boasts the largest supply over the past 5 years, and the Nihombashi-Yaesu-Kyobashi area (680,000 m² → 460,000 m²). On the other hand, supply will grow in the Shimbashi-Toranomon area (230,000 m² → 1,380,000 m²) and the Shibuya area (140,000 m² → 390,000 m²). There has been a particularly marked increase in supply in the Shimbashi-Toranomon area. It is projected that the competitiveness of the whole area will increase dramatically because of the renovation of urban functions and concentration of companies on account of various major development projects, including the construction of a new metro station.

Figure 7:Main Business Areas of Focus

Figure 8:Supply Share by Major Business Areas for the Years 2019 – 2023

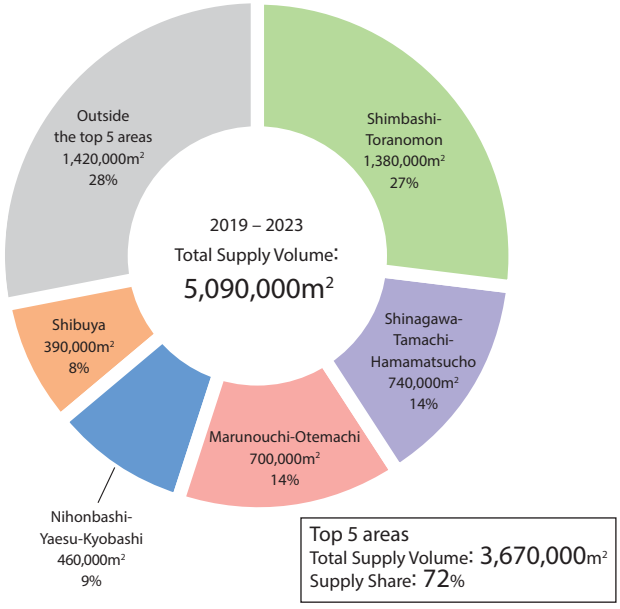
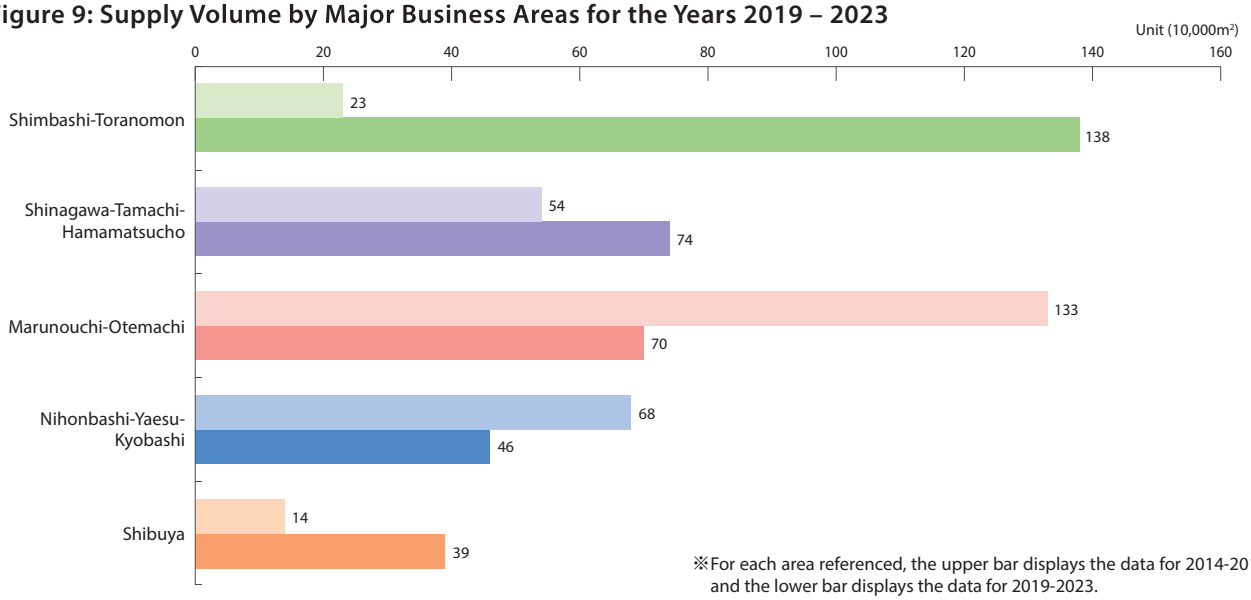


Figure 9: Supply Volume by Major Business Areas for the Years 2019 – 2023



※For each area referenced, the upper bar displays the data for 2014-2018, and the lower bar displays the data for 2019-2023.

2-1 Tenant Office Needs

- ○ Among the companies who intend to lease new office space, "to increase office space" is soaring year by year as their main reason.
- ○ For the sixth consecutive year, the number one reason was 'To Expand Business/To Accommodate an Increase in Employees'.
- ○ 45% of firms indicated plans to increase employee numbers.

In the following section, we would like to present our views on future demand trends, drawing on the results of the "Survey of Office Needs in Tokyo's 23 Cities" (taken in October 2018), a survey conducted by Mori Building Co., Ltd. since 2003 that targets the top 10,000 companies (based on capital) who have their head office in one of Tokyo's 23 Cities.
When companies were asked about plans to lease new offices, 27% answered yes. This percentage is increasing year by year (Figure 10). In addition, companies that expect to lease new office were asked if they plan to increase or decrease office space. The percentage that answered that they plan to increase office space is also increasing year by year (Figure 11). There is strong desire among companies to expand, which proves demand for office space is forecast to remain firm.

Figure 10: Future Plans to Lease New Office Space

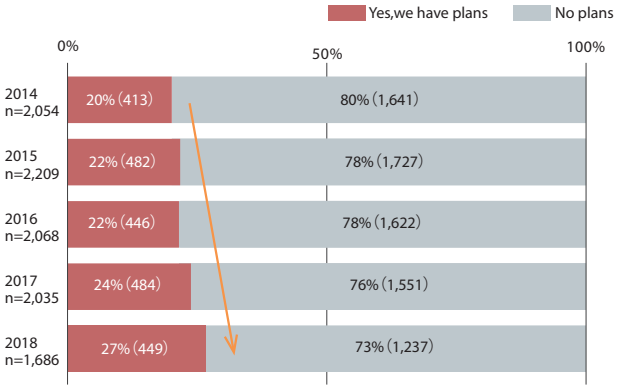
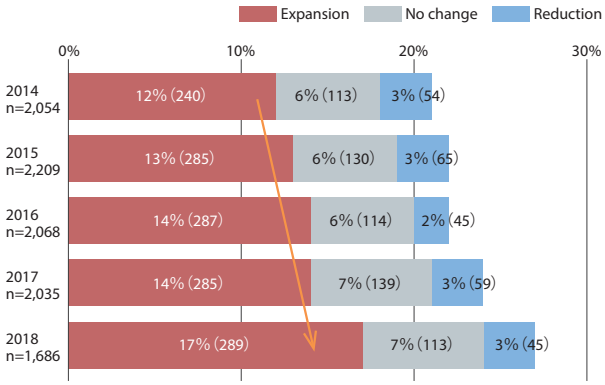
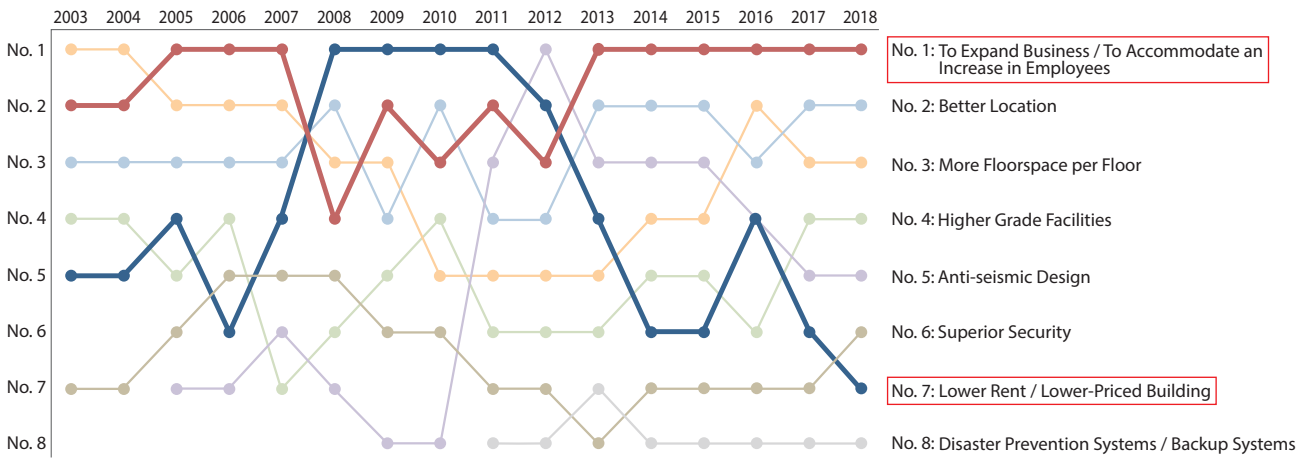


Figure 11: Plans for Expansion vs. Reduction of Space (over time)



Among the reasons for planning to lease new office space, 'To Expand Business/ To Accommodate an Increase in Employees' was 1st for the sixth consecutive year. (Fig. 12). The top five reasons were the same as for the last year, which shows that the trend toward actively changing offices is continuing.
In addition, "lower rent/lower priced building" fell to the 7th position, making it the second consecutive year it has fallen and the lowest rank for this reason since the survey was first conducted.

Figure 12: Trends in the Reason for Plans to Lease New Office Space



When asked about the number of employees in the current office compared with last year, 44% of companies answered that it had 'increased' (Fig. 13). Subsequently, when asked about the prospects for the future, 45% of companies said they 'expect an increase' (Fig. 14). It is clear that the 'expected increase' is much greater than the 'expected decrease', indicating that the number of employees is on an upward trend.

Figure 13: Changes to Employee Numbers Over Previous Year

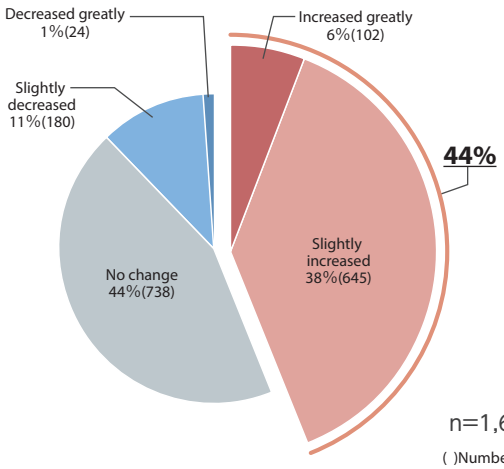
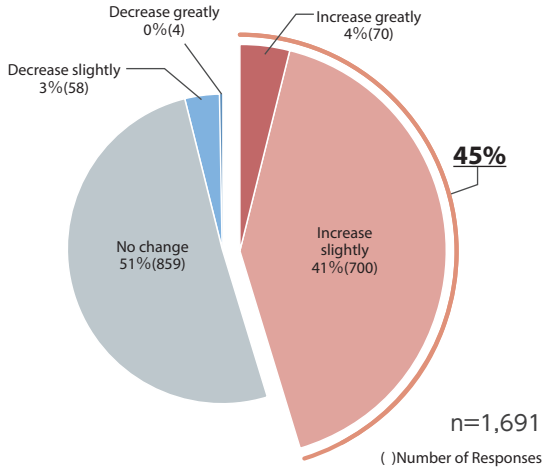


Figure 14: Outlook for Employee Numbers

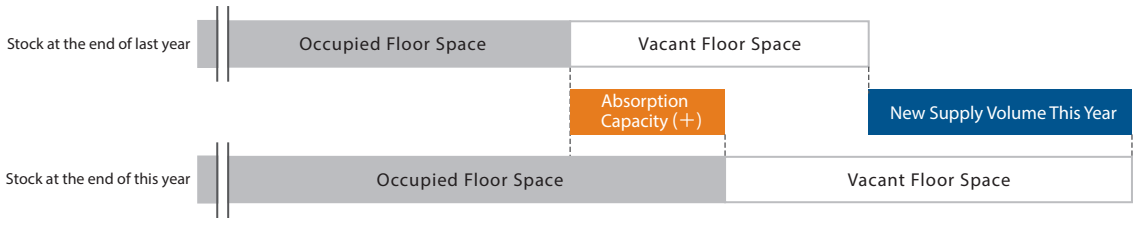


2-2 Absorption Capacity and Vacancy Rates

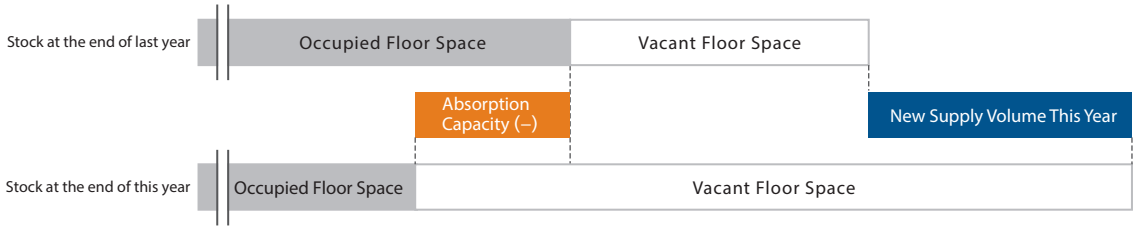
The next section examines new demand trends using the concept of "absorption capacity". As shown in Fig. 14, the concept of "absorption capacity" is newly occupied floor space for the current year [(vacant floor space at the end of the previous year) + (newly supplied floor space) – (vacant floor space at the end of the current year)] in all large-scale office buildings as defined in this survey (over 10,000m² and completed since 1986).

Figure 14: Concept of New Demand (Absorption Capacity)

(1) When absorption capacity is positive



(2) When absorption capacity is negative



※Total Floor Space (gross) is calculated by dividing the effective leasable space ratio for a typical large-scale office building (65.5%) to the leasable floor space (net).

◯ The vacancy rate in Tokyo's 23 cities at the end of 2018 fell to 1.9%, the first time in 18 years, since 2000, that it declined to the 1% level.
◯ The vacancy rate at the end of 2019 is forecast to remain low with 2.0% because of firm demand for office space.
◯ The vacancy rate at the end of 2020 is expected to increase slightly to 2.3% due to the increase in supply.

In Tokyo's 23 cities in 2018, the vacancy rate fell from 2.6% to 1.9% (Figure 16), the first time it has declined to the 1% level in 18 years, since 2000, because the amount of new floor space absorbed (1,610,000 m²) exceeded the supply (1,410,000 m²). A breakdown by area reveals that the decline in the vacancy rate in the three central cities drove the overall fall (Figure 17). The vacancy rate in the three central cities declined by 1.2 percent (3.1%→1.9%) while that in the other 20 cities remained unchanged (1.8%→1.8%).

Current demand for office space remains firm. Many companies are giving positive reasons for moving, including "to expand business or to accommodate an increase in employees," " to move to a better location," and "wanting more floor space per floor." The percentage of companies that plan "to increase floor space" and "increase in the number of workers" is trending upward year by year. Although there are concerns about the risk of secondary vacancies*as a result of the increase in supply, it will have a limited impact due to strong demand. * Vacancies in existing buildings as a result of tenants moving to new buildings

It is also becoming more important to create easy-to-work-in environments because of the recent labor shortage and work-style reforms. Companies moving to the city center to improve office location and an increase in shared offices and co-working offices are leading to a decrease in vacancies, particularly in the three central cities.

In 2019, demand is expected to still be firm as in 2018 and the vacancy rate at the end of 2019 is expected to remain low at 2.0%.

Demand in 2020 is forecast to continue to be strong thanks to not only the Tokyo Olympics and Paralympics but also Japan's continuing gentle economic recovery. On the other hand, the vacancy rate in 2020 is forecast to increase slightly to 2.3% because of the abundant supply, which will surpass the historical average.

Figure 16: Supply Volume, New Demand (Absorption Capacity) and Vacancy Rate Trends (Tokyo's 23 Cities)

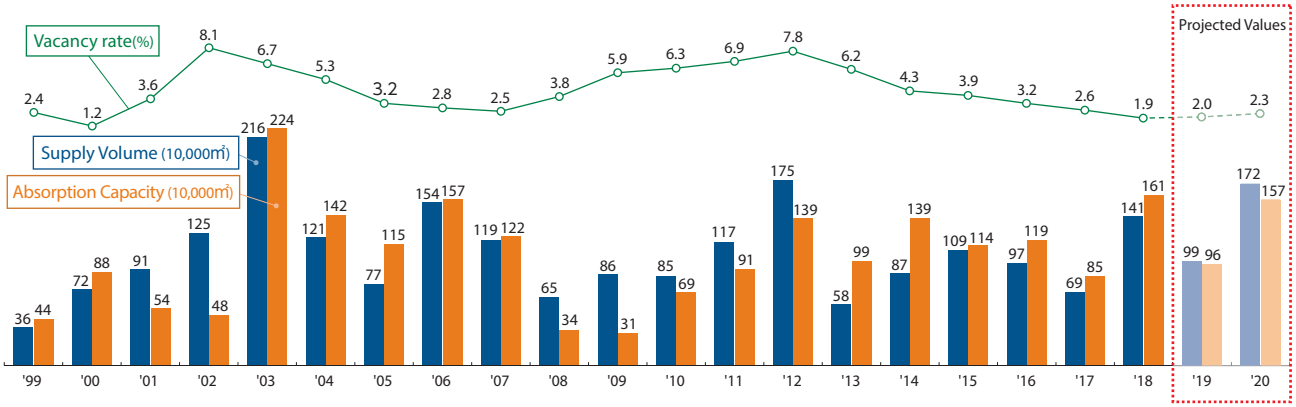
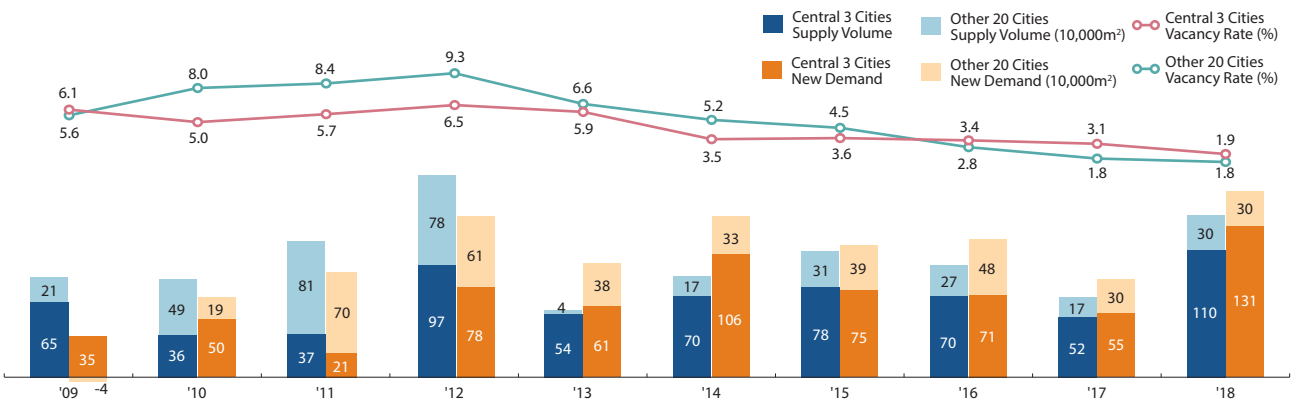


Figure 17: Supply Volume, New Demand (Absorption Capacity), and Vacancy Rate Trends by Area



Major Large-Scale Office Buildings to be Completed in the Future (includes some completed projects)

Name of Project (Name of Building)	Floor Area		Lead Project Developer(s)	Location
	(m²)	(Tsubo)		
2019				
Shinagawa HEART	39,500	11,949	HATO BUS Co., Ltd., Urban Renaissance Agency	Konan, Minato-ku
Abema Towers	37,900	11,465	Sumitomo Realty & Development Co., Ltd.	Utagawacho, Shibuya-ku
Nihonbashi Muromachi Mitsui Tower	168,000	50,820	Redevelopment Association (Mitsui Fudosan Co., Ltd.)	Nihonbashi-Muromachi, Chuo-ku
DaiyaGate Ikebukuro	49,700	15,034	Seibu Railway Co., Ltd.	Minami-Ikebukuro, Toshima-ku
Shibuya Solasta	47,000	14,218	Dogenzaka 121 (Tokyu Land Corporation)	Dogenzaka, Shibuya-ku
Nittetsu Nihonbashi Building	27,400	8,289	Nippon Steel Kowa Real Estate Co., Ltd.	Chuo-ku, Nihonbashi
Park 24 Head Office Building	17,000	5,143	Park 24	Nishi Gotanda, Shinagawa-ku
S5 Project	19,500	5,899	Yodobashi Holdings	Shinjuku, Shinjuku-ku
New Japan Sports Association & JOC Hall	19,100	5,778	Japan Sports Association / JOC	Kasumigaokamachi, Shinjuku-ku
The Okura Prestige Tower	180,700	54,662	Hotel Okura Co., Ltd.	Toranomon, Minato-ku
Yamato Group Shin-Konan Building Project	19,600	5,929	Yamato Transport	Konan, Minato-ku
Museum Tower Kyobashi	41,800	12,645	Nagasaka Sangyo	Kyobashi, Chuo-ku
Urbannet Uchisaiwaicho Building	36,100	10,920	NTT Urban Development Corporation	Shimbashi, Minato-ku
Jimbocho Kita Tokyu Building	11,400	3,449	Tokyu Land Corporation	Misaki-cho, Chiyoda-ku
Shinjuku South Exit Project	43,800	13,250	Mitsubishi Estate Co., Ltd., Nippon Flour Mills Co., Ltd.	Sendagaya, Shibuya-ku
Sumitomo Fudosan Akihabara First Bldg.	26,200	7,926	Sumitomo Realty & Development Co., Ltd.	Sotokanda, Chiyoda-ku
Sumitomo Fudosan Akihabara Ekimae Bldg.	30,800	9,317	Redevelopment Association (Sumitomo Realty & Development Co., Ltd.)	Kanda Neribeicho, Chiyoda-ku
Sumitomo Fudosan Central Park Tower	60,500	18,301	Sumitomo Realty & Development Co., Ltd.	Nishi Shinjuku, Shinjiku-ku
Sumitomo Fudosan Ikebukuro Higashi Building	16,100	4,870	Sumitomo Realty & Development Co., Ltd.	Higashi Ikebukuro, Toshima-ku
Udagawacho Area 14-15 Redevelopment Project	63,900	19,330	Parco Co., Ltd., Hulic Co., Ltd.	Udagawacho, Shibuya-ku
WING New Building Expansion	14,800	4,477	LIXIL	Oshima, Koto-ku
Shibuya Fukuras	59,000	17,848	Redevelopment Association (Tokyu Land Corporation)	Dogenzaka, Shibuya-ku
Konami Creative Center Ginza	22,500	6,806	Konami Real Estate, Inc.	Ginza, Chuo-ku
BOATRACE Roppongi	13,400	4,054	Boat Race Promotion Association	Roppongi, Minato-ku
Shibuya Scramble Square East Building	181,000	54,753	Tokyu Corp., East Japan Railway Company, Tokyo Metro Co., Ltd.	Shibuya, Shibuya-ku
Toranomon Hills Business Tower	173,200	52,393	Redevelopment Association (Mori Building, Nishimatsu Construction)	Toranomon, Minato-ku
2020				
CO・MO・RE YOTSUYA	139,600	42,229	Urban Renaissance Agency, Mitsubishi Estate and others	Yotsuya, Shinjuku-ku
Nippon Koei Building	17,600	5,324	Nippon Koei Co., Ltd.	Koji-machi, Chiyoda-ku
OH-1 Project	358,500	108,446	Mitsui & Co., Ltd., Mitsui Fudosan Co., Ltd	Otemachi, Chiyoda-ku
msb Tamachi Tamachi Station Tower N	152,800	46,222	Tokyo Gas Co., Ltd.	Shibaura, Minato-ku
Kanda Nishikicho 2-chome Project	85,400	25,834	Sumitomo Corporation	Kanda Nishikicho, Chiyoda-ku
Tokyo World Gate Kamiyacho Trust Tower	195,200	59,048	Mori Trust	Toranomon, Minato-ku
D Tower Nishi Shinjuku	39,500	11,949	Daiwa House Industry	Nishi Shinjuku, Shinjiku-ku
Kita Aoyama 2-chome Project	22,900	6,927	MEC Urban Development No. 6 (Mitsubishi Estate Co., Ltd.)	Kita Aoyama, Minato-ku
Toyosu Bayside Cross Tower A, Tower C	185,800	56,205	Mitsui Fudosan Co., Ltd.	Toyosu, Koto-ku
Waters Takeshiba	102,600	31,037	East Japan Railway Company	Kaigan, Minato-ku
Takeshiba District Development Project, Architectural Plan	180,700	54,662	Albero Grande (Tokyu Land Corporation, Kajima Corporation)	Kaigan, Minato-ku
Hareza Tower	68,600	20,752	Tokyo Tatemono Co., Ltd., The Sankei Building Co., Ltd	Higashi Ikebukuro, Toshima-ku
Haneda Airport Former Site Zone 1 Development (Stage 1)	57,400	17,364	Haneda Mirai Specified Purpose Company	Haneda Airport, Ota-ku
Kao Sumida Workplace Central Building Expansion	12,600	3,812	Kao Corporation	Bunka, Sumida-ku
Toranomon Station Area Redevelopment	47,300	14,308	Redevelopment Association (Nomura Real Estate Development, Tokyo Metro)	Toranomon, Minato-ku
Sumitomo Fudosan Kojimachi Garden Tower	48,000	14,520	Sumitomo Realty & Development Co., Ltd.	Koji-machi, Chiyoda-ku
Marunouchi 1-3 Project	181,000	54,753	Mitsubishi Estate, Mizuho FG, Japanese Bankers Association	Marunouchi, Chiyoda-ku
Marubeni New Head Office Building	80,600	24,382	Marubeni Corporation	Otemachi, Chiyoda-ku
Toyosu Bayside Cross Tower B	72,600	21,962	Mitsui Fudosan Co., Ltd.	Toyosu, Koto-ku

Name of Project (Name of Building)	Floor Area		Lead Project Developer(s)	Location
	(m^2)	(Tsubo)		
2021				
World Trade Center Building, South Building	95,200	28,798	World Trade Center Building, Kajima Corporation, Tokyo Monorail Co., Ltd., East Japan Railway Company	Hamamatsu-cho, Minato-ku
Ochanomizu Project	12,700	3,842	Sumitomo Realty & Development Co., Ltd.	Yushima, Bunkyo-ku
Nihonbashi Kabutocho, 7-district Development Plan	39,400	11,919	Heiwa Real Estate Co., Ltd., Yamadane Fudosan, Chibagin Securities Co., Ltd.	Nihonbashi Kabuto-cho, Chuo-ku
Shibaura 3-chome Project	13,000	3,933	Sumitomo Realty & Development Co., Ltd.	Shibaura, Minato-ku
Shimbashi Tamuracho Area Redevelopment	105,600	31,944	Redevelopment Association (Mitsui & Co., Ltd. Urban Development)	Nishi Shimbashi, Minato-ku
Toyosu District 4-2 block Development Plan	88,000	26,620	Shimizu Corporation	Toyosu, Koto-ku
Tokyo Station Area Tokiwabashi Project, Building A	146,000	44,165	Mitsubishi Estate Co., Ltd.	Otemachi, Chiyoda-ku
Kanda Izumicho Project	10,300	3,116	Sumitomo Realty & Development Co., Ltd.	Kanda Izumi-cho, Chiyoda-ku
Fukuda Denshi Hongo Office New Construction	13,700	4,144	Fukuda Denshi Co., Ltd.	Hongo, Bunkyo-ku
Nippon Express New Head Office Building	42,600	12,887	Nippon Express	Kanda Izumi-cho, Chiyoda-ku
2022				
Yanmar Tokyo Building New Construction	22,300	6,746	Seirei Kosan Co., Ltd.	Yaesu, Chuo-ku
Toranomon 2-chome Project District B	26,200	7,926	Toyo Kaiji Kogyo	Toranomon, Minato-ku
Tokyo Station Area Tokiwabashi Project, Building D	30,000	9,075	Mitsubishi Estate Co., Ltd.	Otemachi, Chiyoda-ku
Kyodo Printing Head Office Refurbishment	33,000	9,983	Kyodo Printing	Koishikawa, Bunkyo-ku
Shibuya-ku Dogenzaka 2-chome Development Project	41,000	12,403	Pan Pacific International Holdings Corporation	Dogenzaka, Shibuya-ku
Kudanminami 1-chome Project	68,500	20,721	Nove Grande (Tokyu Land Corporation, Kajima Corporation)	Kudan Minami, Chiyoda-ku
Yaesu 2-chome North Redevelopment, Districts A-1 and A-2	289,800	87,665	Redevelopment Association (Mitsui Fudosan Co., Ltd.)	Yaesu, Chuo-ku
Nishishinjuku Gochome North Area Disaster Protection District Development Project	134,900	40,807	Disaster Protection District Development Project Association (Sumitomo Realty & Development Co., Ltd.)	Nishi Shinjuku, Shinjiku-ku
Nakano Nichome Area Redevelopment	96,200	29,101	Redevelopment Association (Sumitomo Realty & Development Co., Ltd.)	Nakano, Nakano-ku
2023				
Toranomon and Azabudai District Urban Redevelopment Project	864,100	261,390	Redevelopment Association (Mori Building)	Azabudai, Minato-ku
Toranomon 1&2-chome District Urban Redevelopment Project	253,100	76,563	Redevelopment Association (Mori Building)	Toranomon, Minato-ku
Mita 3&4-chome District Redevelopment Project	225,000	68,063	Redevelopment Association (Sumitomo Realty & Development Co., Ltd.)	Mita, Minato-ku
Toranomon 2-chome District Redevelopment Project Business Building	181,000	54,753	Urban Renaissance Agency	Toranomon, Minato-ku

* 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 are 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)", the companies and organization in brackets ( ) are major enterprises that are participating as an association member, investor in the special purpose company (S.P.C.), specified constructor, partner or joint venture party.