

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

The vacancy rate in Tokyo's 23 cities dropped to 1.8% as of the end of 2019. Supply in 2020 is expected to be the second largest since our survey began, but the average supply over the next five years is expected to remain at the same level as the past average.

General Trends in Supply

- Supply of large-scale office buildings in Tokyo's 23 cities will reach the second-highest level since the start of the survey in 2020, but then is expected to decline in 2021 and 2022. The average supply over the next five years is expected to remain the same level as the past average.
- Compared with the high supply level in the past years, the supply ratio of large buildings, and the supply ratio in the seven major business areas of central Tokyo are forecast to be high in 2020, indicating changes in the composition of high supply.
- The supply of properties of 100,000 m² or more in 2020 is expected to be the largest since the survey started. Further, the supply ratio in the three central cities is expected to exceed 70% annually for the next five years, indicating that the main supply trends will be offices that are "larger" and "more centralized".

Vacancy Rate

- The vacancy rate in Tokyo's 23 cities at the end of 2019 was 1.8%, remaining in the 1% range since the end of 2018.

Note: This survey is based on information up to the end of March 2020.

It will be necessary to pay attention to the degree to which COVID-19 impacts these figures.

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, on-site and interview-based research undertaken up through the end of March 2020.

※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 2020, the supply of large-scale office buildings in Tokyo's 23 cities is expected to be the second highest since the survey began.
- In both 2021 and 2022, however, supply will be low.
- Supply volume for the next 5 years is expected to be on par with the average of past years.

In 2020, the supply of large-scale office buildings in Tokyo's 23 cities is expected to reach 1.87 million m², the second highest level since the survey began. A high level of supply is expected in 2023 (1.43 million m²), but owing to the low levels of supply predicted for 2021 (540,000 m²) and 2022 (540,000 m²), the average supply over the next five years (1.03 million m² per year from 2020 to 2024) is expected to be at the same level as the historical average of 1.03 million m² per year (Figure 1).

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

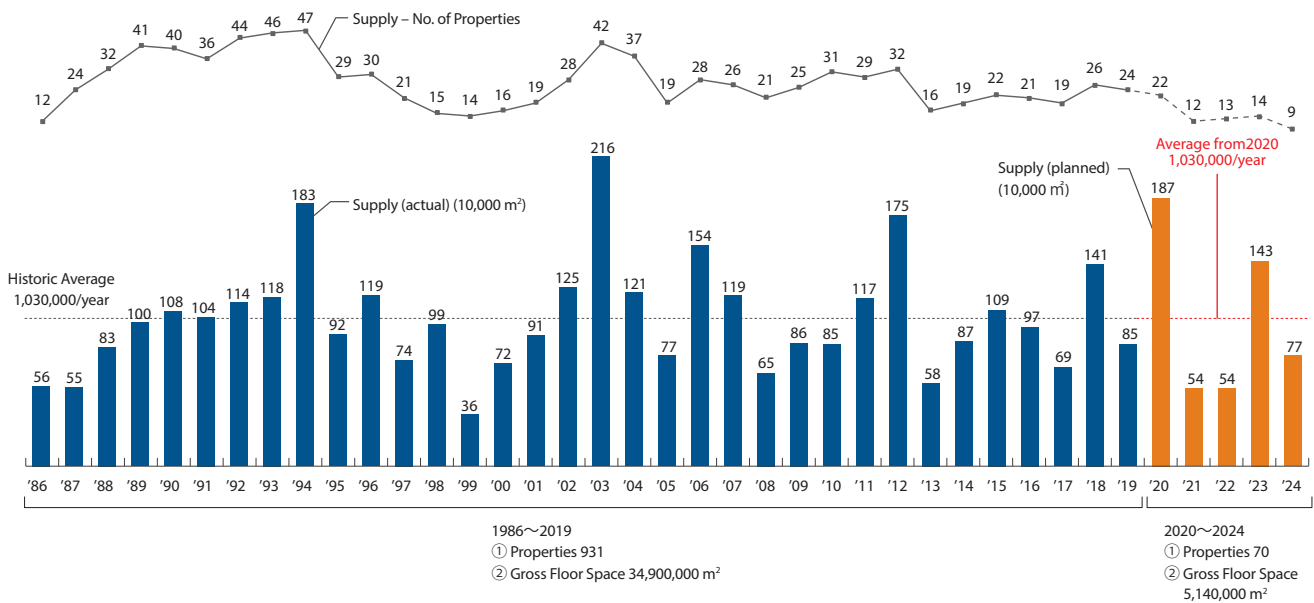


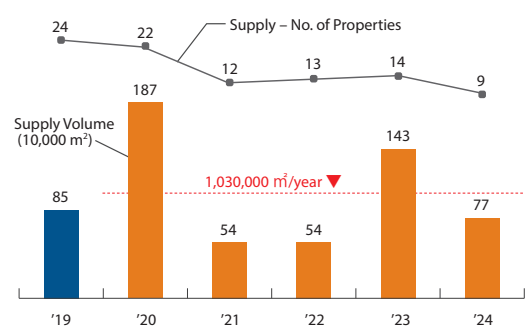
Figure 2 compares the 5-year forecast for supply data from last year's survey (released April 16, 2019) and survey results from this year. Despite the emergence in the past year of plans for certain new supply as well as postponement of other new supply, there has been no significant change in future supply trends.

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

2019.4 Market Trend Survey



2020.4 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 2020, the supply volume for properties of 100,000 m² or more is expected to be the largest since the survey began.

Figure 3 shows the trend of annual average supply per property. Around 1990, the average supply per property was 20,000 m² to 30,000 m². In recent years, however, it has become more common for the average supply per property to exceed 50,000 m². The approximation line shows a clear increase in the scale of office buildings being supplied.

Figure 3: Trend in Average Supply per Property

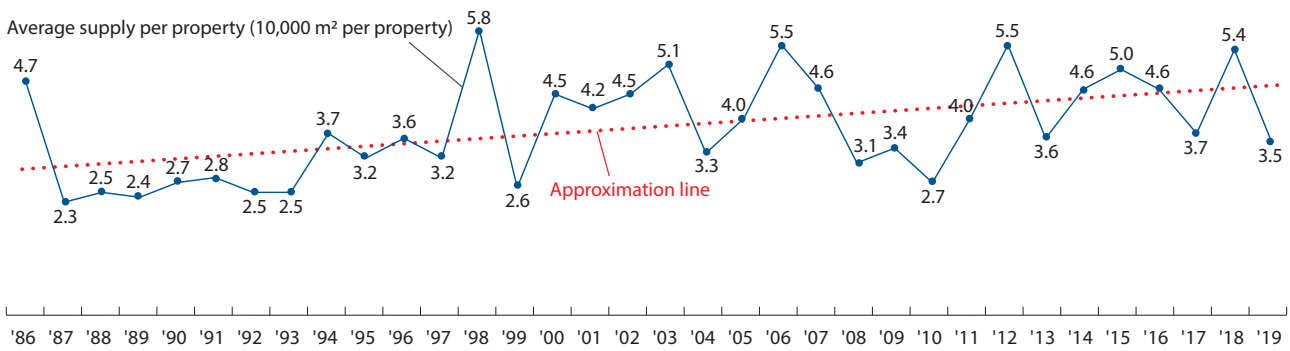
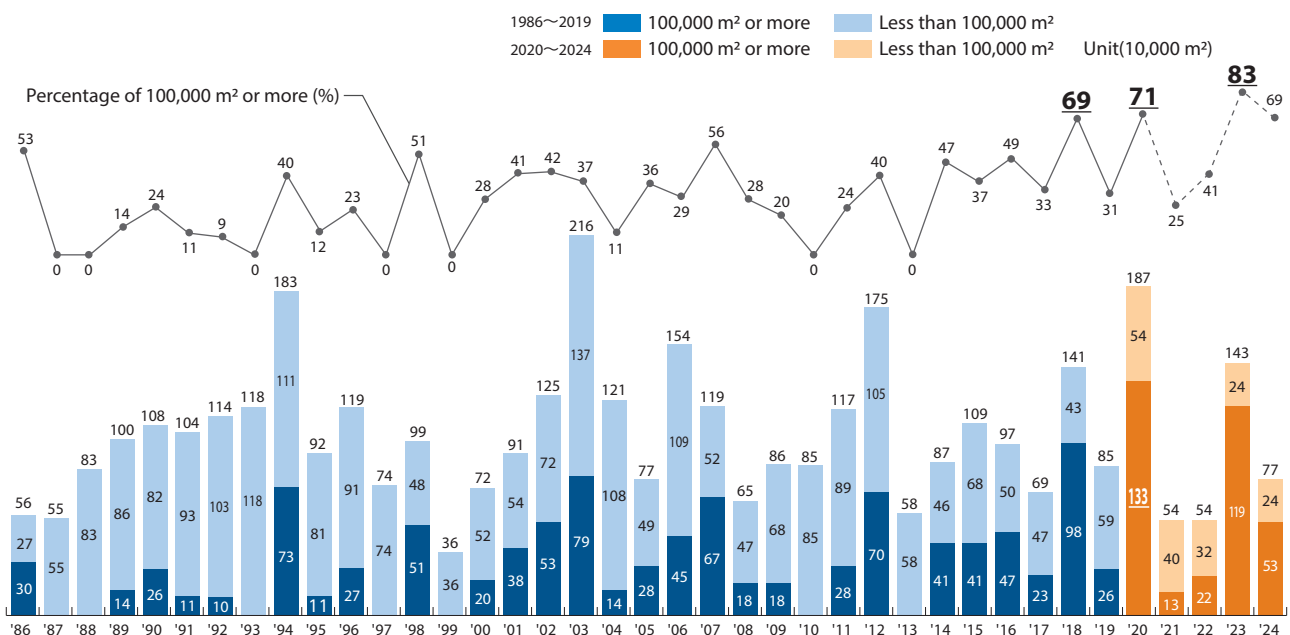


Figure 4 shows the trends in supply figures from Figure 1 into properties with gross office floor space of at least or less than 100,000 m². In 2020, total supply in the category of at least 100,000 m² is expected to amount to 1,330,000 m², the highest figure since the survey began.

The supply ratio of properties with a gross office floor space of 100,000 m² or more reached highs of 980,000 m² and 69%, respectively in 2018, which are expected to be exceeded in both 2020 (1.33 million m² and 71%) and 2023 (1.19 million m² and 83%). The proportion of such properties is large and generally 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 3 central cities will exceed 1,000,000 m² in both 2020 and 2023, greatly surpassing the past average.
- The supply ratio to the 3 central cities will exceed 70% annually over the next five years.
- 75% of the supply will go to the 7 major business areas in central Tokyo over the next five years.

The supply volume of large-scale office building in the 3 central cities (Chiyoda, Chuo and Minato) over the next 5 years is expected to average 800,000 m²/year, exceeding the 640,000 m²/year average of the past decade (Figure 5). In particular, supply is expected to exceed 1,000,000 m² in 2020 (1,390,000 m²) and 2023 (1,080,000 m²), greatly exceeding the past average. In addition, the 3 central cities will account for more than 70% of the annual supply ratio over the next five years, exceeding the past decade's average of 63% (Figure 6).

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

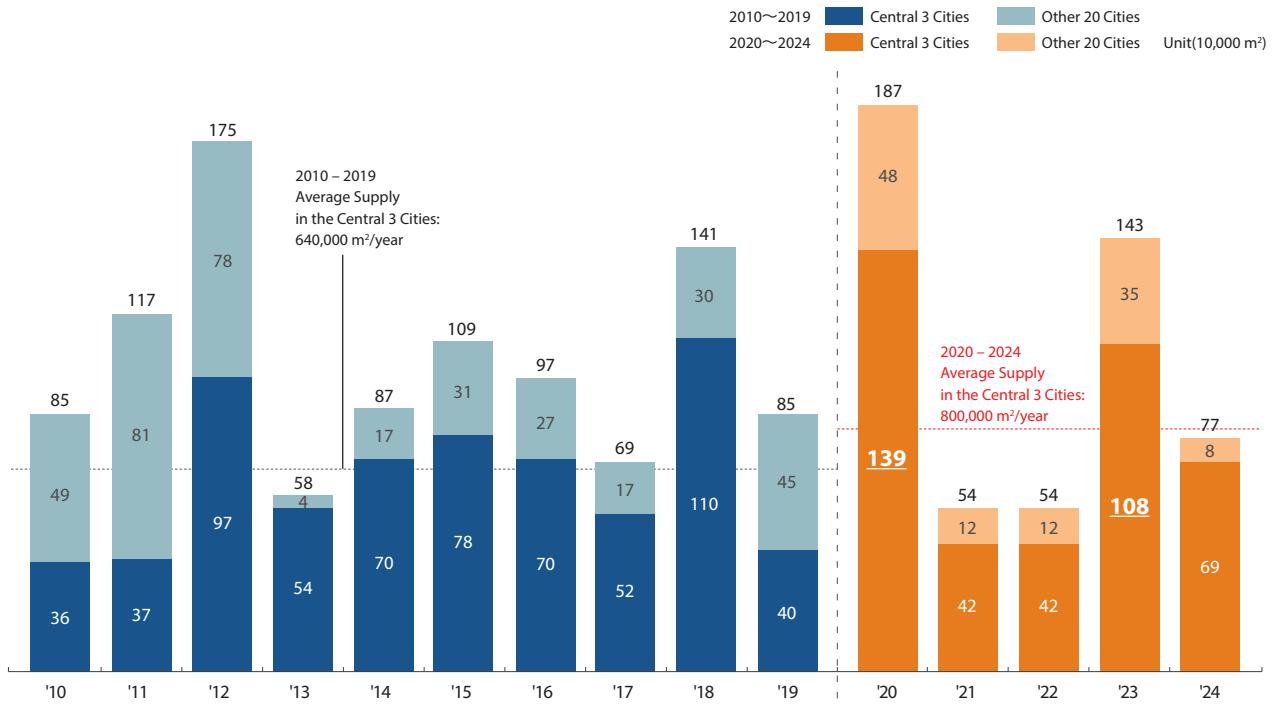


Figure 6: Large-scale Office Building Supply Volume Share by Area

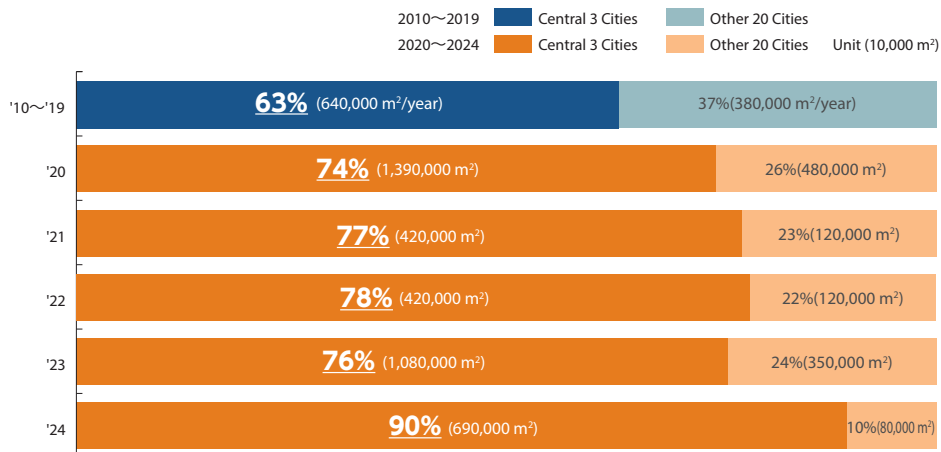


Figure 7 shows the seven main business areas in which Mori Building business is focused. Figure 8 gives the amount of supply and the ratio of total supply for each area for the 5-year period of 2020–2024. The 5-year average supply in Tokyo's 23 cities is expected to reach 5,140,000 m², of which the seven main areas will account for 3,840,000 m², or 75%.

Figure 9 is a comparison of supply by area in 2015–2019 and 2020–2024.

While supply will decrease in areas around Tokyo Station, such as Marunouchi/Otemachi (from 1.13 million m² down to 0.72 million m²) and Nihonbashi/Yaesu/Kyobashi (from 0.71 million m² down to 0.35 million m²), supply in other areas is expected to increase, such as in Toranomon (from 0.21 million m² up to 1.25 million m²), Tamachi/Hamamatsucho (from 0.27 million m² up to 0.71 million m²) and Shinagawa (from 0.20 million m² up to 0.37 million m²).

Figure 7: Main Business Areas of Focus



Figure 8: Supply Share by Major Business Areas for the Years 2020 – 2024

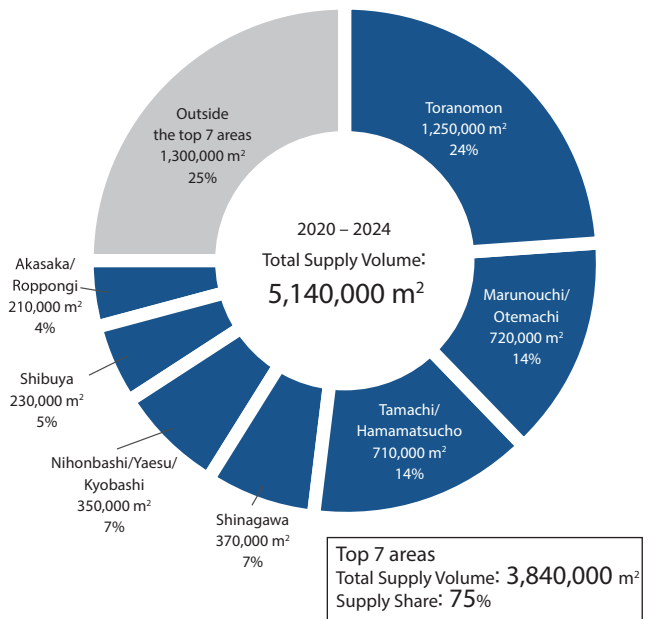
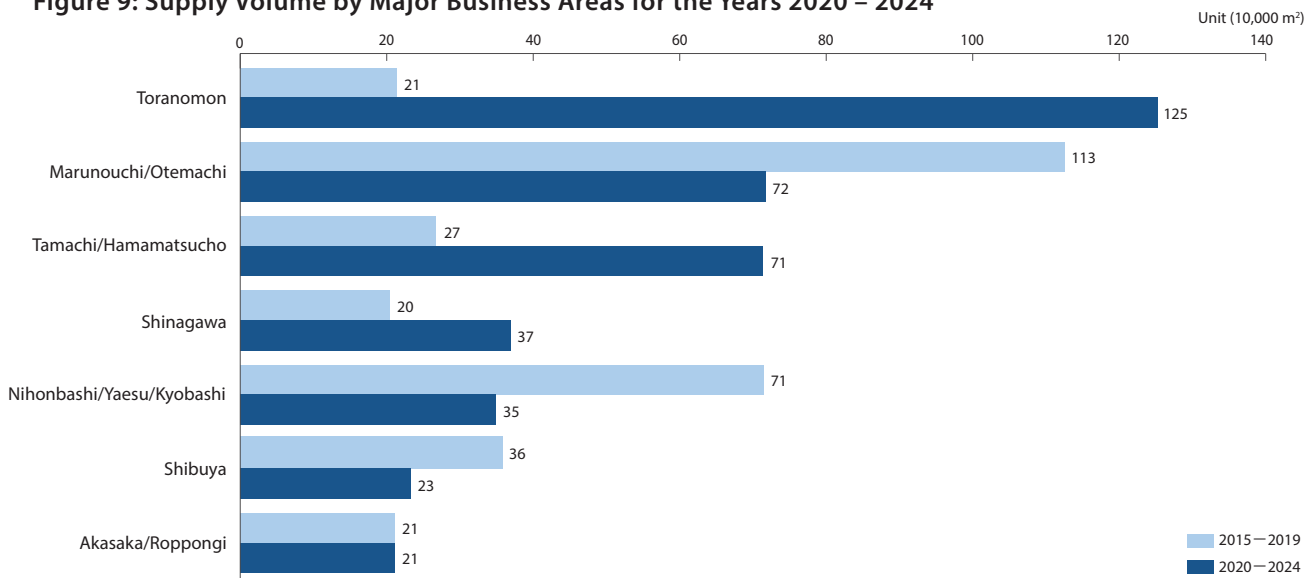


Figure 9: Supply Volume by Major Business Areas for the Years 2020 – 2024



1-4 Comparison of high supply levels in 2020 and past years

○ Compared with past years in which there was a high level of supply, 2020 is expected to see shifts towards more large-scale buildings and in specific areas.

The second largest supply since the start of the survey is expected in 2020 (1.87 million m²), which is compared to previous high standard years, 1994 (1.83 million m²), 2003 (2.16 million m²) and 2012 (1.75 million m²). “Supply Comparison” (Figure 10) shows annual supply averaging around 1.8 million m², but the average supply per property has been trending upward trend from 1994 (37,000 m²/property) to 2020 (85,000 m²/property forecast). Figure 11 shows about 70% are expected to measure 100,000 m² or more in 2020, compared to about 40% in 1994, 2003 and 2012. The proportion of large-scale properties is clearly increasing.

Figure 12 (covering the major business areas shown in Figure 7) shows that the supply volume and ratio of properties with gross office space of 100,000 m² or more are expected to increase between 1994 (0.14 million m², 8%) and 2020 (1.23 million m², 66%). Further, the number of properties of 100,000 m² or more in major business areas was about 20% until 2012 but is expected to increase to 59% in 2020.

Accordingly, the supply ratio of large-scale buildings in major business areas should be comparatively high in 2020, indicating a change in the composition of high supply.

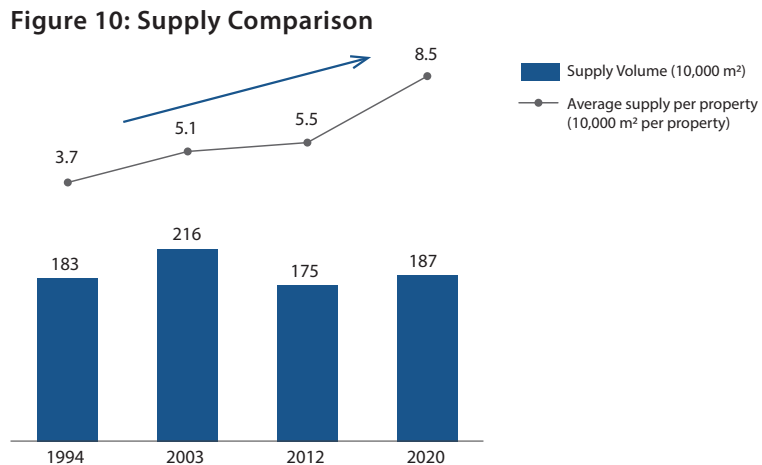


Figure 11: Supply Ratio of Properties with Gross Office Floor Space of 100,000 m² or More

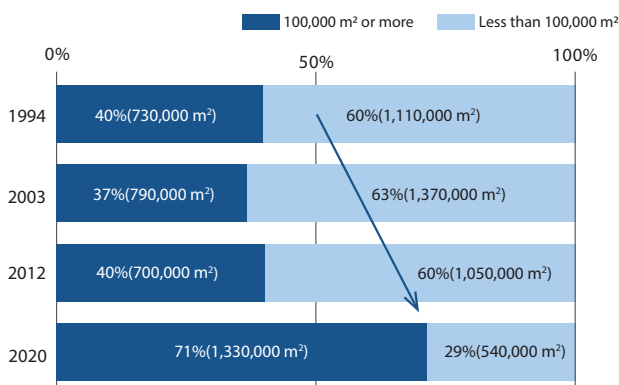
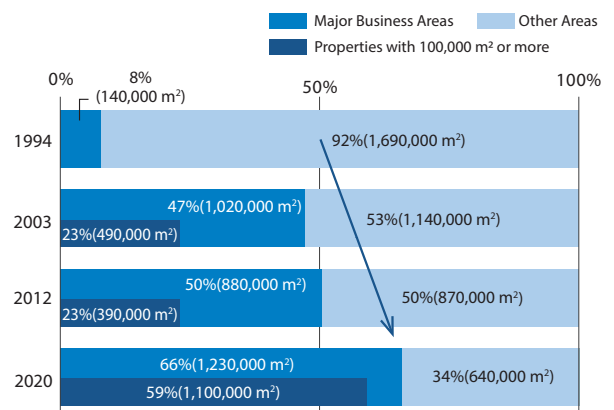


Figure 12: Supply Ratios in Major Business Areas



2 Absorption Capacity and Vacancy Rate

○ The vacancy rate for Tokyo's 23 cities at the end of 2019 dropped to 1.8%, to remain in the 1% range since the end of 2018.

In 2019, the vacancy rate of Tokyo's 23 cities decreased from 1.9% to 1.8%, reflecting the fact that the absorption capacity of 860,000 m² exceeded the supply volume of 850,000 m² (Figure 13), keeping the rate in the 1% range since the end of 2018. By area, the 3 central cities decreased by 0.1 point, from 1.9% to 1.8%, and the other 20 cities remained the same at 1.8%. Overall, the 23 cities of Tokyo continue to show a low rate of vacancy (Figure 14).

Figure 13: Supply Volume, New Demand (Absorption Capacity) and Vacancy Rate (Tokyo's 23 Cities)

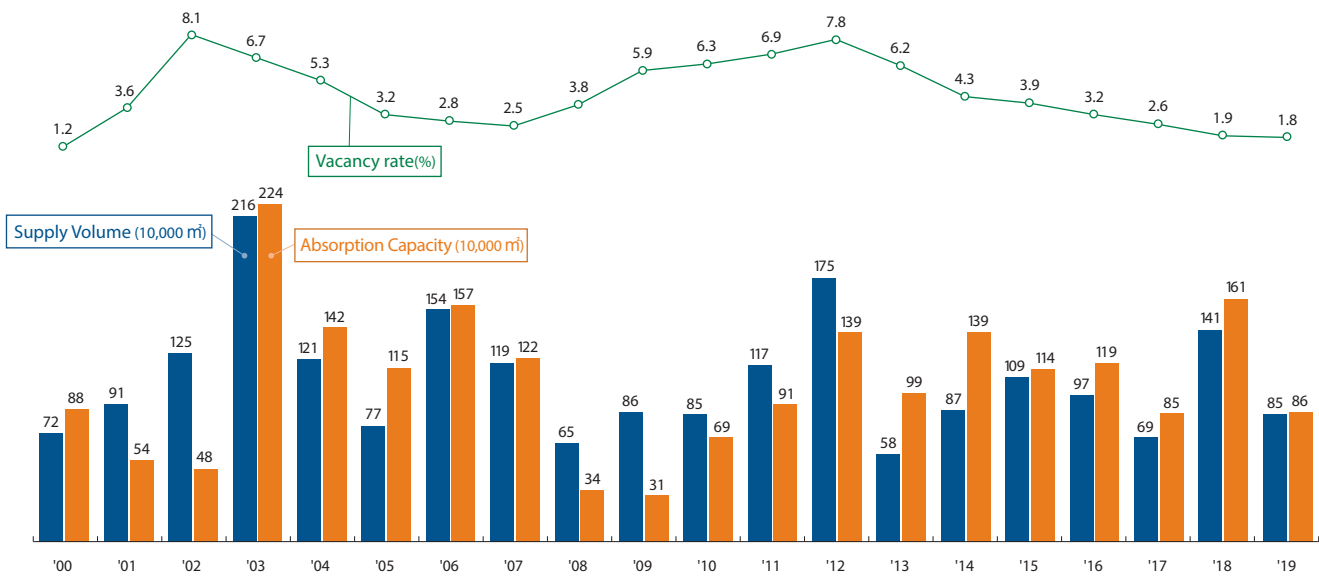
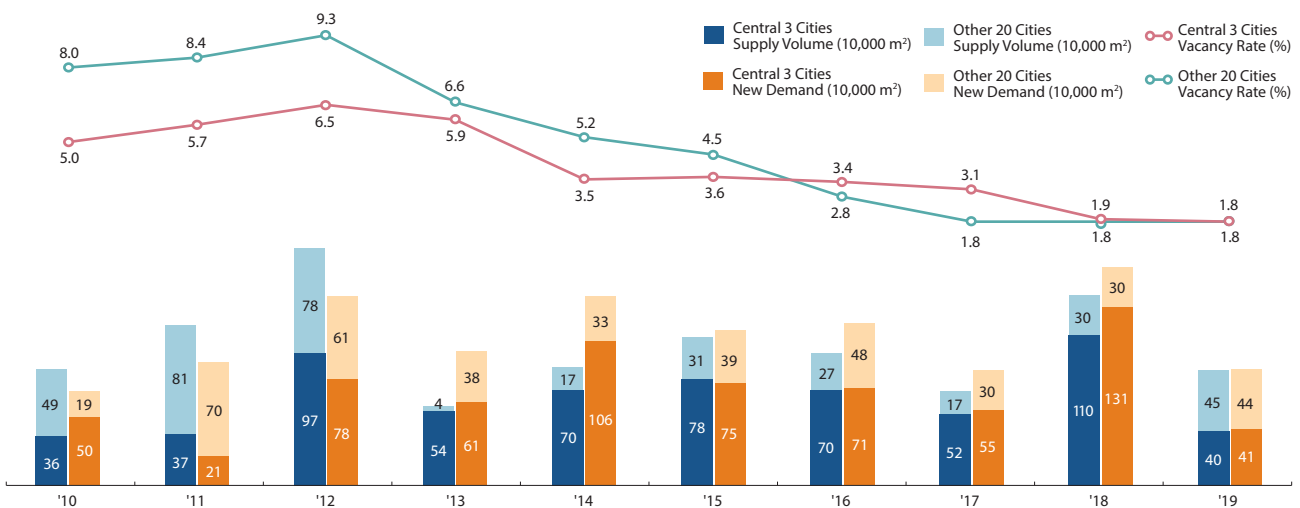


Figure 14: Supply Volume, New Demand (Absorption Capacity), and Vacancy Rate by Area

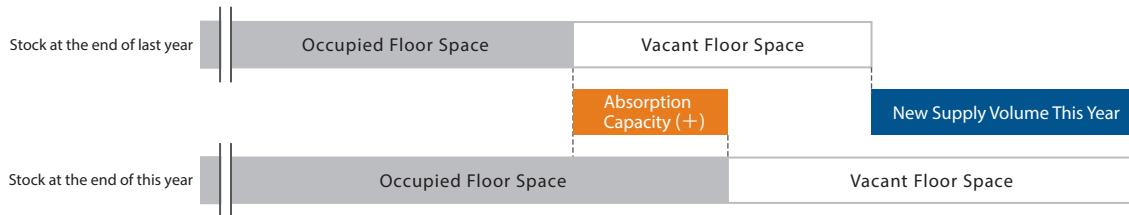


Concept of absorption capacity

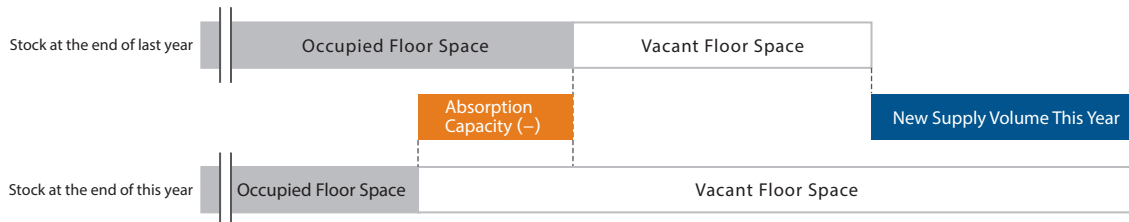
As shown in Figure 15, absorption capacity is calculated as newly occupied floor space for the current year [(vacant floor space at end of previous year) + (newly supplied floor space of current year) – (vacant floor space at end of current year)] for large-scale office buildings (over 10,000 m² and completed since 1986).

Figure 15: 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).

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 |
|----------------------------------------------------------------|-------------------|---------|---------------------------------------------------------------------------------------------|--------------------------------|
| | (m ²) | (Tsubo) | | |
| 2020 | | | | |
| Tranomom Hills Business Tower | 172,900 | 52,302 | Redevelopment Association (Mori Building) | Toranomon, Minato-ku |
| CO·MO·REYOTSUYA | 139,600 | 42,229 | Urban Renaissance Agency, Mitsubishi Estate and others | Yotsuya, Shinjuku-ku |
| Nippon Koei Building | 17,600 | 5,324 | Nippon Koei | Koji-machi, Chiyoda-ku |
| Otemachi One | 357,700 | 108,204 | Mitsui & Co, Mitsui Fudosan | Otemachi, Chiyoda-ku |
| KANDA SQUARE | 85,300 | 25,803 | Sumitomo Corporation | Kanda Nishikicho, Chiyoda-ku |
| Tokyo World Gate Kamiyacho Trust Tower | 195,200 | 59,048 | Mori Trust | Toranomon, Minato-ku |
| Toyosu Bayside Cross Tower | 184,800 | 55,902 | Mitsui Fudosan | Toyosu, Koto-ku |
| BUNKYO GARDEN GATETOWER | 94,600 | 28,617 | Redevelopment Association (Mitsui Fudosan) | Koishikawa, Bunkyo-ku |
| D Tower Nishi Shinjuku | 39,500 | 11,949 | Daiwa House Industry | Nishi Shinjuku, Shinjuku-ku |
| the ARGYLE aoyama | 23,100 | 6,988 | MEC Urban Development No. 6 (Mitsubishi Estate) | Kita Aoyama, Minato-ku |
| WATERS takeshiba | 102,600 | 31,037 | East Japan Railway Company | Kaigan, Minato-ku |
| TOKYO PORTCITY TAKESHIBA Office Tower | 181,800 | 54,995 | Albero Grande (Tokyu Land Corporation, Kajima Corporation) | Kaigan, Minato-ku |
| Hareza Tower | 68,600 | 20,752 | Tokyo Tatemono, The Sankei Building | Higashi Ikebukuro, Toshima-ku |
| Kao Sumida Workplace Central Building Expansion | 12,600 | 3,812 | Kao Corporation | Bunka, Sumida-ku |
| TOKYO TORANOMON GLOBAL SQUARE | 47,300 | 14,308 | Redevelopment Association (Nomura Real Estate Development and others) | Toranomon, Minato-ku |
| msb Tamachi Tamachi Station Tower N | 152,300 | 46,071 | Tokyo Gas | Shibaura, Minato-ku |
| Sumitomo Fudosan Kojimachi Garden Tower | 48,000 | 14,520 | Sumitomo Realty & Development | Koji-machi, Chiyoda-ku |
| Marunouchi 1-3 Project | 181,000 | 54,753 | Mizuho FG, Japanese Bankers Association, Mitsubishi Estate | 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 | Toyosu, Koto-ku |
| 2021 | | | | |
| Toyosu District 4-2 block Development Plan | 88,000 | 26,620 | Shimizu Corporation | Toyosu, Koto-ku |
| Tohan Headquarters Building, New Development Plan | 11,400 | 3,449 | Tohan | Nishi goken-cho, Shinjuku-ku |
| World Trade Center Building, South Building | 95,200 | 28,798 | World Trade Center Building, Kajima Corporation, Tokyo Monorail, East Japan Railway Company | Hamamatsu-cho, Minato-ku |
| Sumitomo Fudosan Ochanomizu Building | 12,700 | 3,842 | Sumitomo Realty & Development | Yushima, Bunkyo-ku |
| Fukuda Denshi Hongo Office New Construction | 13,700 | 4,144 | Fukuda Denshi | Hongo, Bunkyo-ku |
| Sumitomo Fudosan Tamachi Building East | 12,800 | 3,872 | Sumitomo Realty & Development | Shibaura, Minato-ku |
| Tokyo Station Area Tokiwabashi Project, Building A | 146,000 | 44,165 | Mitsubishi Estate | Otemachi, Chiyoda-ku |
| Shimbashi Tamuracho Area Redevelopment | 105,600 | 31,944 | Redevelopment Association (Mitsui & Co. Real Estate) | Nishi shimbashi, Minato-ku |
| KABUTO ONE | 39,200 | 11,858 | Heiwa Real Estate, Yamadane Fudosan, Chibagin Securities | Nihonbashi Kabuto-cho, Chuo-ku |
| Nippon Express New Head Office Building | 42,600 | 12,887 | Nippon Express | Kanda Izumi-cho, Chiyoda-ku |
| Sumitomo Fudosan Kanda Izumicho Building | 10,000 | 3,025 | Sumitomo Realty & Development | Kanda Izumi-cho, Chiyoda-ku |
| Nihonbashi 3-chome Kyodo Bldg. | 14,400 | 4,356 | Toshin Development | Nihonbashi, Chuo-ku |
| 2022 | | | | |
| Fujisoft Shiodome Bldg. A | 20,200 | 6,111 | Fujisoft | Higashi shimbashi, Minato-ku |
| Sumitomo Realty & Development, Osaki East Project | 47,500 | 14,369 | Sumitomo Realty & Development | Kita Shinagawa, Shinagawa-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 | Otemachi, Chiyoda-ku |
| Kyodo Printing Head Office Refurbishment | 33,100 | 10,013 | Kyodo Printing | Koishikawa, Bunkyo-ku |
| Nishigotanda 3-chome Project Building A | 39,000 | 11,798 | JR East Japan Bldg. | Nishi Gotanda, Shinagawa-ku |
| Kanden Realty and Development, New Construction of Yaesu Bldg. | 13,400 | 4,054 | Kanden Realty and Development | Kyobashi, Chuo-ku |
| Konan 2-chome Project | 16,200 | 4,901 | Obayashi-Shinseiwa Real Estate | Konan, Minato-ku |
| Kudanminami 1-chome Project | 67,700 | 20,479 | Nove Grande (Tokyu Land Corporation, Kajima Corporation) | Kudan Minami, Chiyoda-ku |
| Yanmar Tokyo Building New Construction | 21,800 | 6,595 | Seirei Kosan | Yaesu, Chuo-ku |
| Yaesu 2-chome North Redevelopment, Districts A-1 and A-2 | 289,800 | 87,665 | Redevelopment Association (Mitsui Fudosan) | Yaesu, Chuo-ku |
| TCG Bldg., New Construction | 16,500 | 4,991 | Takamatsu Construction Group | Shiba, Minato-ku |
| Minami-aoyama 3-chome Development Plan | 15,000 | 4,538 | Mitsubishi Estate | Minami Aoyama, Minato-ku |

| Name of Project (Name of Building) | Floor Area | | Lead Project Developer(s) | Location |
|--------------------------------------------------------------------|-------------------|---------|--------------------------------------------------------------------|-----------------------------|
| | (m ²) | (Tsubo) | | |
| 2023 | | | | |
| Shibuya-ku Dogenzaka 2-chome Development Project | 42,000 | 12,705 | Pan Pacific International Holdings Corporation | Dogenzaka, Shibuya-ku |
| Toranomon and Azabudai District Urban Redevelopment Project | 860,400 | 260,271 | Redevelopment Association (Mori Building) | Azabudai, Minato-ku |
| Shimbashi 4-chome Development Plan | 26,200 | 7,926 | Yasuda Real Estate | Shimbashi, Minato-ku |
| TTM Project | 113,000 | 34,183 | Tamachi Bldg., Tokuei Shoji, Mitsubishi Heavy Industries | Shiba, Minato-ku |
| Toho Twin Tower Bldg. Reconstruction | 16,700 | 5,052 | Toho | Yurakucho, Chiyoda-ku |
| Gotanda Plan | 68,000 | 20,570 | Japan Post Real Estate | Nishi Gotanda, Shinagawa-ku |
| Kuramae Plan, Office Wing | 30,000 | 9,075 | Japan Post Real Estate | Kuramae, Taito-ku |
| Toranomon 1&2-chome District Urban Redevelopment Project | 255,300 | 77,228 | Redevelopment Association (Mori Building) | Toranomon, Minato-ku |
| Park Tower Kachidoki Mid | 138,300 | 41,836 | Redevelopment Association (Mitsui Fudosan Residential) | Kachidoki, Chuo-ku |
| Toranomon 2-chome District Redevelopment Project Business Building | 181,000 | 54,753 | Urban Renaissance Agency, Nippon Steel Kowa Real Estate and others | Toranomon, Minato-ku |
| Shibuya Station Sakuragaoka Exit District Redevelopment, A Block | 184,800 | 55,902 | Redevelopment Association (Tokyu Land Corporation) | Sakuragaoka-cho, Shibuya-ku |
| Shibuya Station Sakuragaoka Exit District Redevelopment, B Block | 69,200 | 20,933 | Redevelopment Association (Tokyu Land Corporation) | Sakuragaoka-cho, Shibuya-ku |
| 2024 | | | | |
| Nakano Nichome Area Redevelopment | 99,800 | 30,190 | Redevelopment Association (Sumitomo Realty & Development) | Nakano, Nakano-ku |
| Harumi 3-chome Development Plan | 50,700 | 15,337 | Mitsubishi Estate | Harumi, Chuo-ku |
| Shibuya 2-chome, Region 17 Redevelopment | 44,600 | 13,479 | Redevelopment Association (Tokyu Corporation) | Shibuya, Shibuya-ku |
| New TODA Building | 101,500 | 30,704 | Toda Corporation | Kyobashi, Chuo-ku |
| Shinagawa Development Project (Phase I), Block 3 | 211,000 | 63,828 | East Japan Railway Company | Konan, Minato-ku |
| Shinagawa Development Project (Phase I), Block 4 | 460,000 | 139,150 | East Japan Railway Company | Konan, 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.