

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

Although supply will be somewhat favorable in 2023 and 2025, average annual supply in Tokyo's core 23 cities (a.k.a. wards or "ku") over the next five years is expected to be lower than the historical average.

The vacancy rate in 2021 was 5.6%, up 1.6 points from 2020.

Vacancy rates varied by area and property grade, including 5.2% in major business areas and 4.5% for properties with gross office floor space of 100,000 m² or more.

General Trends in Supply

- The supply of large-scale office buildings in Tokyo's core 23 cities, although looking somewhat favorable in 2023 and 2025, is expected to fall below the historical average over the next five years.
- Supply over the next five years will continue to be dominated by properties with gross office floor space of 100,000 m² or more. Office buildings will continue to grow in size.
- Office building supply in Tokyo's three central cities will increase over the next five years, particularly in the areas of Toranomon, Nihonbashi/Yaesu/Kyobashi, Shinagawa and Akasaka/Roppongi.

General Trends in Demand

- The vacancy rate for large-scale office buildings in Tokyo's core 23 cities was 5.6% at the end of 2021, up 1.6 points annually.
- The vacancy rate for major business areas was 5.2% at the end of 2021, but 4.5% in these same areas for properties with gross office floor space of 100,000 m² or more, reflecting differences in vacancy rates depending on the area and property grade.

■ Survey Framework

Research area: Tokyo's core 23 cities

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

"Supply volume" is calculated based on publicly available information and both on-site and interview-based research undertaken through early May 2022.

The report tabulates gross office floor space in all large-scale office buildings completed by 1986, including properties owned and used by the same company but excluding floor space for non-office uses such as retail, residential, and hotels.

1-1 General Trends in Supply Volume

○ The supply of large-scale office buildings in Tokyo's core 23 cities, although being somewhat favorable in 2023 and 2025, is expected to fall below the historical average over the next five years.

The supply of large-scale office buildings in Tokyo's core 23 cities will be somewhat favorable in 2023 (1.28 million m²) and 2025 (1.19 million m²). However, supply in 2022 (480,000 m²), 2024 (740,000 m²) and 2026 (710,000 m²) are expected to fall below the historical average (1,040,000 m²/year), bringing the current five-year (2022-2026) annual average (880,000 m²/year) below the historical average as well (Figure 1).

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

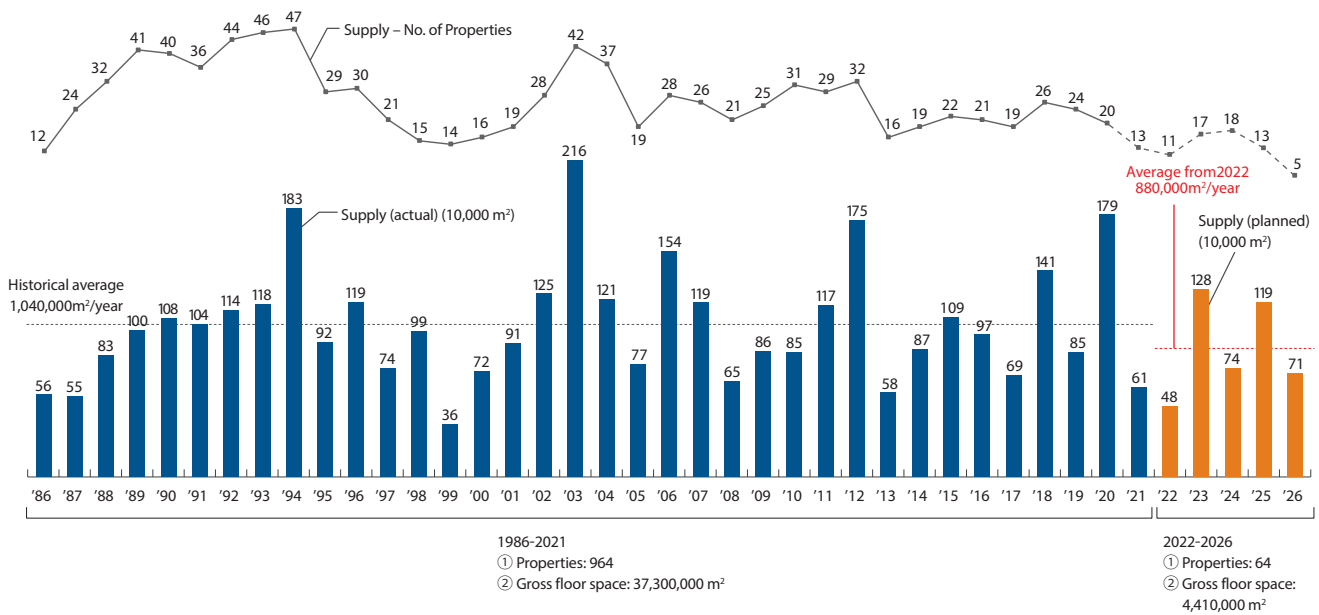
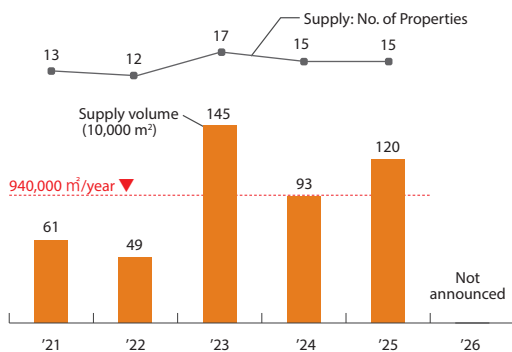


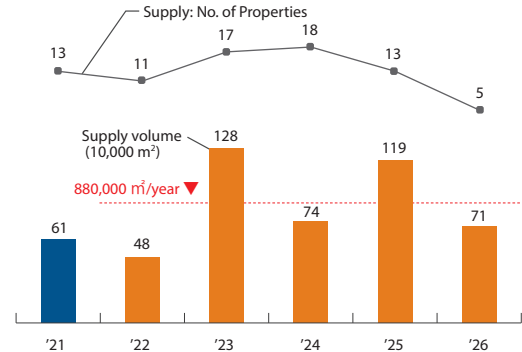
Figure 2 compares the new five-year supply forecast to last year's survey (released on May 27, 2021). The forecasted trend is generally the same, but expected volume between 2023 and 2025 has been lowered due to revised construction-completion dates and other factors.

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

2021.5 Market Trend Survey



2022.5 Market Trend Survey



1-2 Supply Volume Trends by Office Building Scale

- Average floor space per property in 2021 was about the same as in the past 10 years.
- Average floor space per property is trending upward and office buildings will continue to grow in size.

Figure 3 shows the trend of annual average supply per property. In 2021, the average was 47,000 m², almost the same as the 49,000 m² average over the past 10 years (2011-2020). Around 1990, the average was about 20,000 m² to 30,000 m², but in recent years it has become more common for properties to exceed 50,000 m². The approximation line shows a clear increase in the size of available office buildings.

Figure 3: Trend in Average Supply per Property

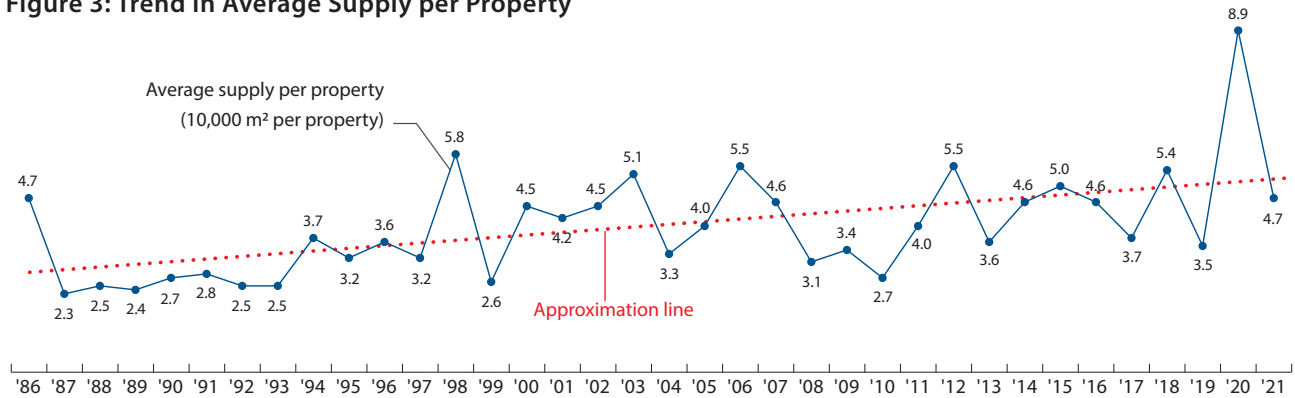
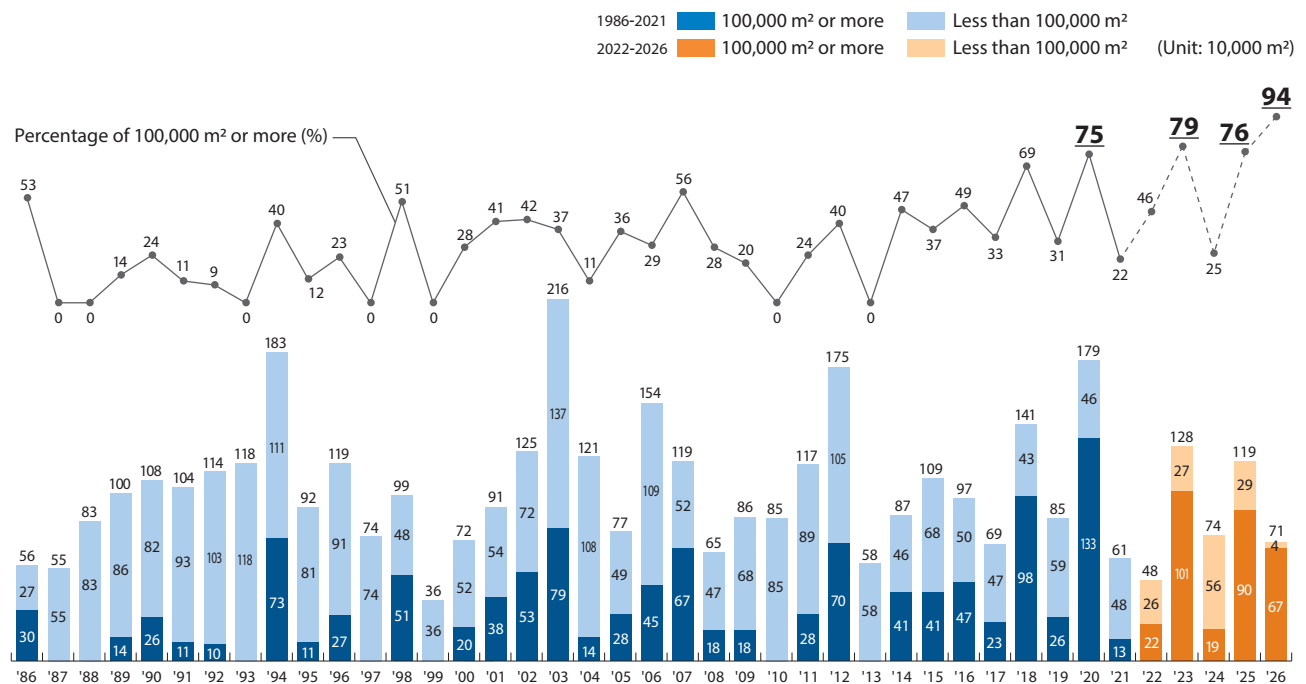


Figure 4 shows supply figures from Figure 1 broken down into properties with gross office floor spaces of more or less than 100,000 m². In 2020, total supply in the category of 100,000 m² or more reached 1.33 million m², the highest figure since the survey began, and is forecasted to reach 1.01 million m² in 2023 and 900,000 m² in 2025. The supply ratio of properties with a gross office floor space of 100,000 m² or more is forecasted to increase from 75% in 2020 to 79% in 2023, 76% in 2025, and a survey-record 94% in 2026.

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

- Although supply in the three central cities in both 2023 and 2025 is expected to exceed the past 10-year average, the average for the next five years is below the past 10-year average.
- 75% of supply will be located in the three central cities over the next five years, exceeding the 71% average of the past decade.
- 72% of supply will be located in Tokyo's seven major business areas over the next five years.
- The Toranomon area is forecasted to account for the largest supply volume over the next five years, up sharply from before, which is expected to boost the area's competitiveness.

Although the supply of large-scale office buildings in the three central cities (Chiyoda, Chuo, and Minato) in 2023 and 2025 is expected to exceed the past 10-year average (750,000 m²/year), the average over the next five years (660,000 m²/year) will be lower (Figure 5). The three central cities will account for 75% of Tokyo's total annual supply over the next five years, exceeding the past 10-year average of 71% (Figure 6).

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

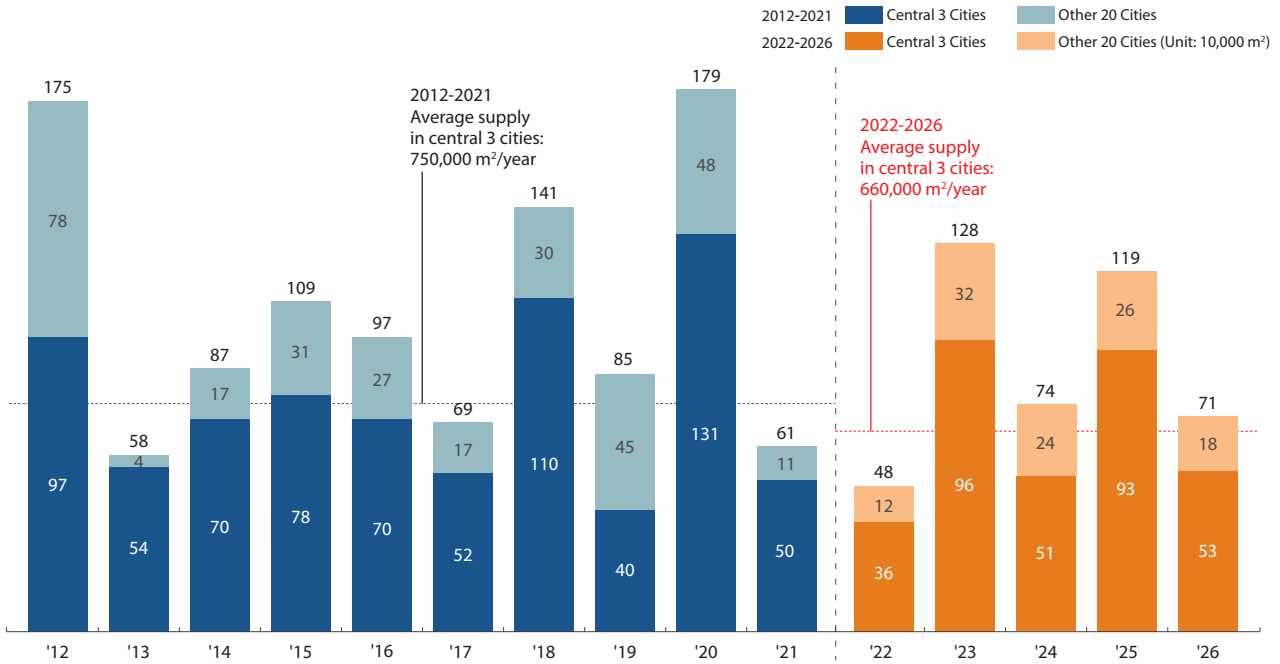
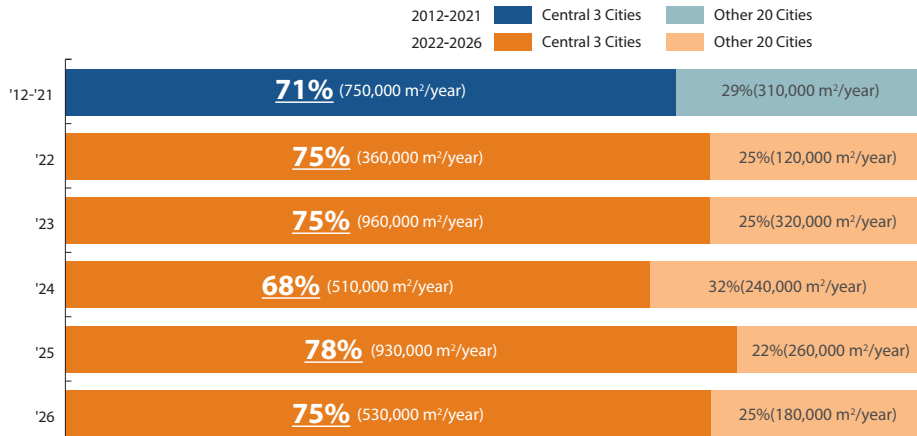


Figure 6: Large-scale Office Building Supply Volume Share by Area



Three central cities account for **75%** (660,000 m²/year) of total supply (2022 to 2026)

Figure 7 shows the seven major business areas of interest to Mori Building, and Figure 8 shows the forecasted supply volumes and ratios in each area from 2022-2026. Total supply in Tokyo's core 23 cities is expected to reach 4.41 million m², of which the top seven areas will account for 3.18 million m², or 72%. The largest volume will be in Toranomon (870,000 m², 20%), where large-scale developments comprising offices, residences, hotels and retail properties are under way near Toranomon Hills Station.

Figure 9 compares supply by area in 2017-2021 and 2022-2026. Supply is expected to increase in areas such as Toranomon (650,000 m² to 870,000 m²), Nihonbashi/Yaesu/Kyobashi (440,000 m² to 820,000 m²), Shinagawa (20,000 m² to 370,000 m²) and Akasaka/Roppongi (10,000 m² to 280,000 m²). In these areas, large-scale, multifunctional developments are creating transportation hubs combining train stations and large bus terminals as well as diverse urban functions for offices, residences, hotels, and retail facilities. The competitive power of these areas is expected to rise owing to their transportation convenience and large, multifunctional facilities.

Figure 7: Major Business Areas of Interest

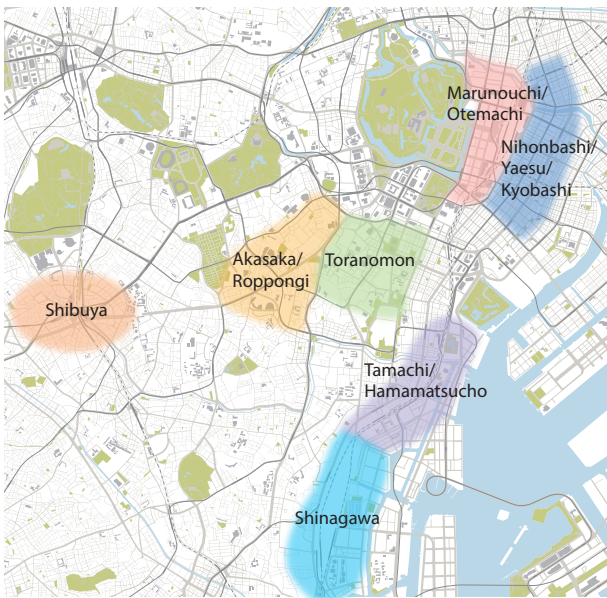


Figure 8: Supply Share in Major Business Areas (2022-2026)

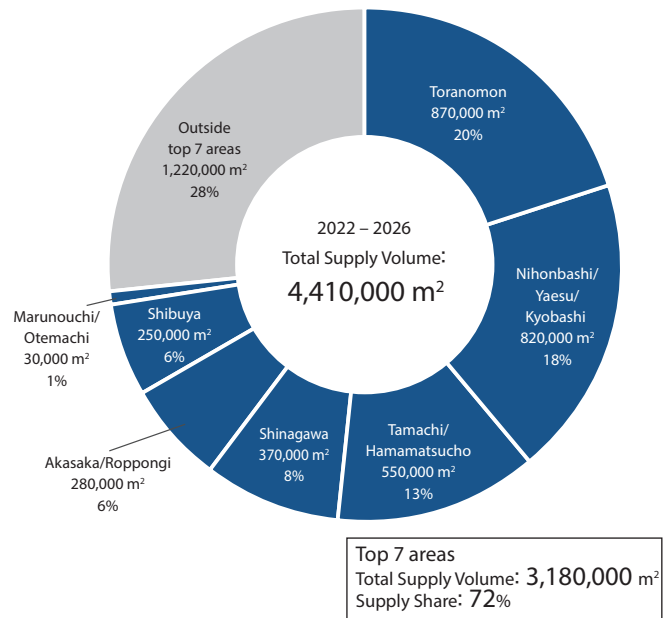
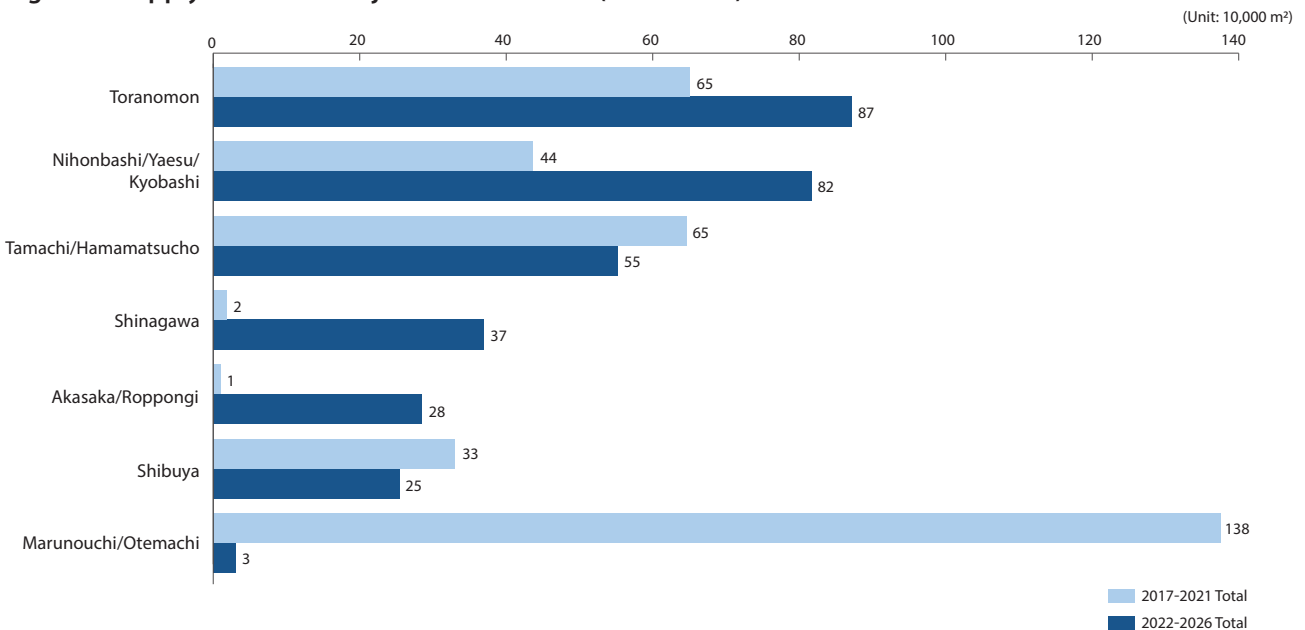


Figure 9: Supply Volume in Major Business Areas (2022-2026)



2 Absorption Capacity and Vacancy Rates

- The vacancy rate in Tokyo's core 23 cities at the end of 2021 was 5.6%, up 1.6 points from the end of 2020.
- The vacancy rate in major business areas at the end of 2021 was 5.2%, but 4.5% in the same areas for properties with gross office space of 100,000 m² or more, reflecting differences in vacancy rates depending on the area and property grade.

At the end of 2021, the vacancy rate for large-scale office buildings in Tokyo's core 23 cities rose annually by 1.6 points to 5.6% due to absorption capacity (-0.2 million m²) falling short of supply volume (0.61 million m²) (Figure 10). In major business areas, the rate was 5.2% overall but 4.5% for properties with gross office floor areas of 100,000 m² or more, reflecting different vacancy rates depending on the geographic area and property grade (Figure 11).

While the supply of newly built properties was absorbed at a rate of nearly 90%, the negative absorption capacity was a function of many tenants cancelling leases for existing properties in order to relocate to newly built properties, etc., which created secondary vacancies that required time to fill. The tendency was especially pronounced outside of major business areas (Figure 12).

Figure 10: Supply Volume, New Demand (Absorption Capacity) and Vacancy Rates (Tokyo's Core 23 Cities)

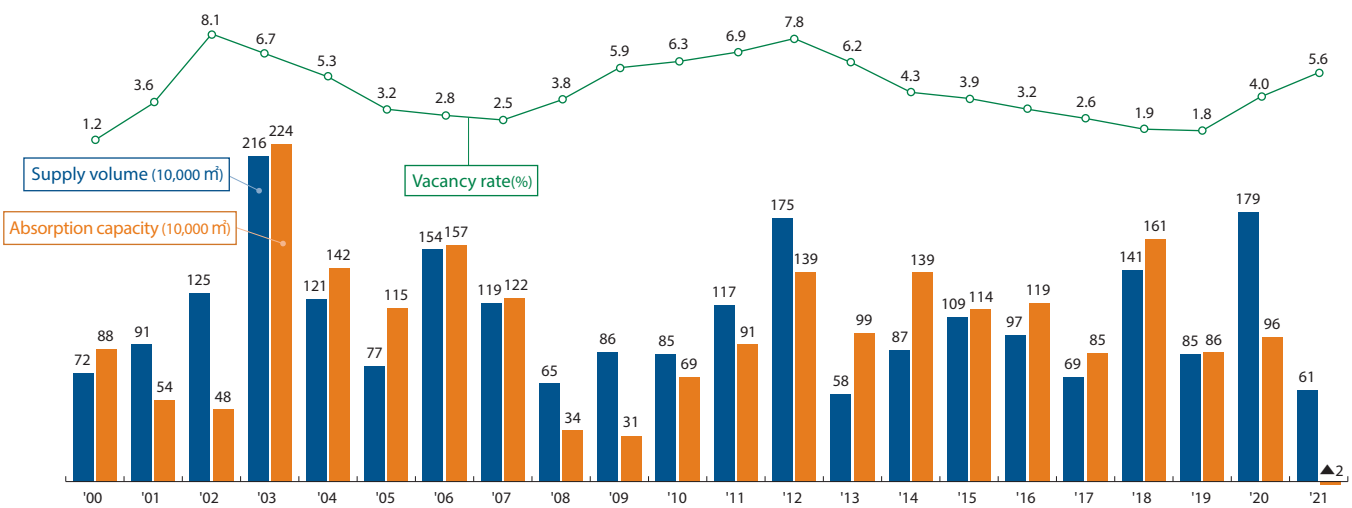


Figure 11: Supply Volume, New Demand (Absorption Capacity), and Vacancy Rates (Major-Business & Other Areas)

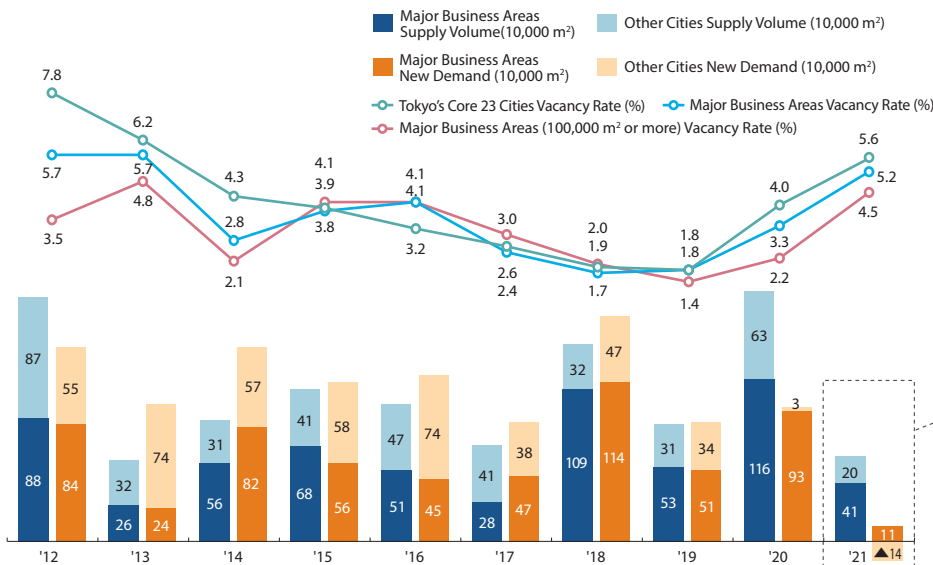
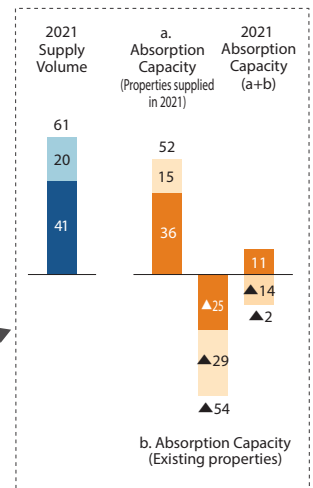


Figure 12: Breakdown of 2021 Supply Volume and Absorption Capacity

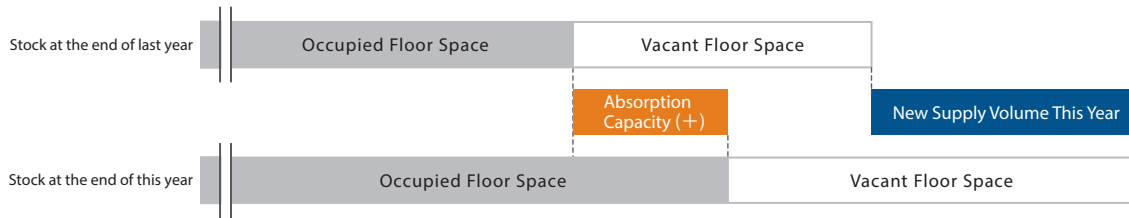


Concept of absorption capacity

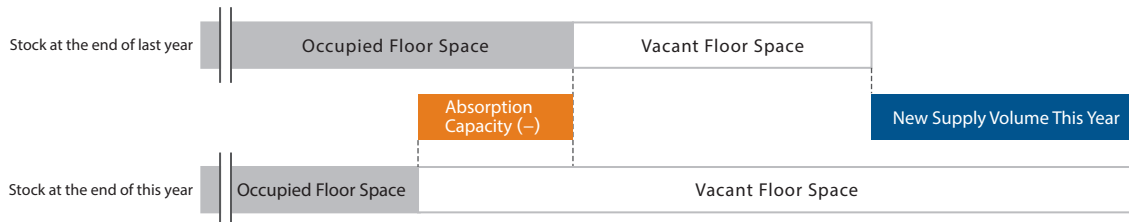
As shown in Figure 13, absorption capacity is calculated as newly occupied floor space in the current year [(vacant floor space at end of previous year) + (newly supplied floor space) – (vacant floor space at end of current year)] for all large-scale office buildings of at least 10,000 m² and completed in or after 1986.

Figure 13: 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 Scheduled for Completion (includes some completed projects)

Name of Project (Name of Building)	Floor Area (m ²)	Lead Project Developer(s)	Location
2022			
Sumitomo Fudosan Osaki Twin Building East	47,200	Sumitomo Realty & Development	Kitashinagawa, Shinagawa City
T-LITE (Toranomom 2-chome Plan District B)	26,200	Oriental Maritime Industry	Toranomon, Minato City
TOKYO TORCH Zenigamecho Building(Tower D)	30,000	Mitsubishi Estate	Otemachi, Chiyoda City
Kyodo Printing New Head Office Building	33,100	Kyodo Printing	Koishikawa, Bunkyo City
MEGURO MARC Office Tower	38,700	JR East Building	Nishigotanda, Shinagawa City
Kanden Realty & Development, Yaesu Building	13,500	Kanden Realty & Development	Kyobashi, Chuo City
Konan 2-chome Project	16,300	Obayashi-Shinseiwa Real Estate	Konan, Minato City
Kudan-kaikan Terrace	68,000	Nove Grande (Tokyu Land Corporation, Kajima Corporation)	Kudanminami, Chiyoda City
Yanmar Tokyo Building	21,800	Seirei Kosan	Yaesu, Chuo City
Tokyo Midtown Yaesu A-1 District	283,900	Redevelopment Association (Mitsui Fudosan)	Yaesu, Chuo City
2023			
Tokyo Mita Redevelopment Project	199,700	Redevelopment Association (Sumitomo Realty & Development)	Mita, Minato City
TCG Building, New Construction Plan	16,500	Takamatsu Construction Group	Shiba, Minato City
Minami-aoyama 3-chome Project	14,800	Mitsubishi Estate	Minami-aoyama, Minato City
Toranomon-Azabudai Project A District	461,400	Redevelopment Association (Mori Building)	Azabudai, Minato City
Sumitomo Realty & Development Nishi-Shinjuku 5-chome Project	90,700	Disaster Prevention District Improvement Project Association* (Sumitomo Realty & Development)	Nishi-shinjuku, Shinjuku City
Kuramae 1-chome Development Project, Office Tower	29,500	Japan Post Real Estate	Kuramae, Taito City
Dogenzaka 2-chome Development Plan	42,000	Pan-Pacific International Holdings	Dogenzaka, Shibuya City
Toho Hibiya Promenade Building*	16,700	Toho	Yurakucho, Chiyoda City
Tamachi Tower (TTM Project)	112,500	Tamachi Building, Tokuei Shoji, Mitsubishi Heavy Industries	Shiba, Minato City
Sompo Japan Kasumigaseki Building	24,800	Sompo Japan Insurance	Kasumigaseki, Chiyoda City
Toranomon 1-chome, 2-chome Area Redevelopment	253,200	Redevelopment Association (Mori Building)	Toranomon, Minato City
FUJISOFT Shiodome Building, Tower A	20,300	FUJISOFT	Higashi-shimbashi, Minato City
Shibuya Station Sakuragaoka-guchi Area Redevelopment Block A	184,800	Redevelopment Association (Tokyu Land Corporation)	Sakuragaoka-cho, Shibuya City
Shibuya Station Sakuragaoka-guchi Area Redevelopment Block B	69,200	Redevelopment Association (Tokyu Land Corporation)	Sakuragaoka-cho, Shibuya City
Gotanda Plan	69,000	Japan Post Real Estate	Nishi-gotanda, Shinagawa City
POLA Aoyama Building New Construction Plan	17,100	P.O. Real Estate	Aoyama, Minato City
2024			
Shintora Yasuda Building*	25,800	Yasuda Real Estate	Shimbashi, Minato City
Shibuya 3-chome Project*	14,200	Kanden Realty & Development	Shibuya, Shibuya City
Seiho Building (Reconstruction)	17,600	Seiho Building, Urban Renaissance Agency	Kita-aoyama, Minato City
Sumitomo Realty & Development Nakano Station Redevelopment*	49,800	Redevelopment Association (Sumitomo Realty & Development)	Nakano, Nakano City
Sumitomo Realty & Development Shinjuku South Exit Building*	24,000	Sumitomo Realty & Development	Sendagaya, Shibuya City
Nikon New Headquarters Construction Plan*	43,200	Nikon Corporation	Nishi-oi, Shinagawa City
Shibuya 2-chome Area 17 Redevelopment	44,500	Redevelopment Association (Tokyu)	Shibuya, Shibuya City
TODA Building	94,800	Toda Corporation	Kyobashi, Chuo City
Akasaka 2-chome Project	74,200	Sekisui House, Nippon Life Insurance Company	Akasaka, Minato City
Tokyo World Gate Akasaka, Akasaka Trust Tower*	220,000	Mori Trust, NTT Urban Development Corporation	Akasaka, Minato City
Higashi-gotanda 2-chome Project	29,200	Sumitomo Realty & Development	Higashi-gotanda, Shinagawa City
Roppongi 7-Chome Project	32,100	Sumitomo Realty & Development	Roppongi, Minato City

Name of Project (Name of Building)	Floor Area (m ²)	Lead Project Developer(s)	Location
2025			
Toranomon 2-Chome Project Office Tower	180,700	Urban Renaissance Agency, Nippon Steel Kowa Real Estate	Toranomon, Minato City
Yaesu 1-chome East Area Redevelopment Area B	225,200	Redevelopment Association (Tokyo Tatemono)	Yaesu, Chuo City
Takanawa Gateway City Complex I (North and South)	460,200	East Japan Railway Company	Konan, Minato City
Toyosu 4-2 District Development Project	136,500	IHI Corporation, Mitsubishi Estate	Toyosu, Koto City
Nishi-Shinjuku 1-chome Project	96,900	Meiji Yasuda Life	Nishi-shinjuku, Shinjuku City
Uchikanda 1-chome Plan	84,500	Mitsubishi Estate	Uchikanda, Chiyoda City
Nihonbashi-honcho 1-chome Plan	26,000	Mitsui Fudosan	Nihonbashi-honcho, Chuo City
2026			
Nihonbashi 1-Chome Central District Zone C	368,700	Redevelopment Association (Mitsui Fudosan)	Nihonbashi, Chuo City
Takanawa Gateway City Complex II	208,200	East Japan Railway Company	Konan, Minato City
Oimachi Station Hiromachi District Development Plan A-I zone	250,000	East Japan Railway Company	Hiromachi, Shinagawa City
Toranomon 1-Chome East District Redevelopment	126,000	Redevelopment Association (Chuo-Nittochi, Urban Renaissance Agency, Sumitomo Realty & Development)	Toranomon, Minato City

- 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 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)", a company or organization in parentheses () is a major enterprise that is participating as an association member, investor in a special purpose company (S.P.C.), specified constructor, partner or joint venture party.