

Since 1986, Mori Trust Co., Ltd. (Head Office: Minato-ku, Tokyo) has surveyed trends in the supply of large-scale office buildings containing total office space of 10,000 square meters or more within Tokyo's 23 wards, based on various published materials, field surveys, and interviews. The results of the most recent surveys (including the survey of mid-size office buildings) are presented below. In the calculation of total office floor area, where the survey deals with multi-purpose buildings—buildings coupled with stores, living quarters or residences, hotels, etc.—only the floor area purely for office use is taken into consideration. [Survey Date: December 2015]

Supply to increase in 2018-19 ahead of Tokyo Olympics —2016-20 average nearly the same as the past average—

☞ Main Results of This Survey

1. Supply of large-scale office buildings

Office supply in 2015 was 1.18 million square meters, exceeding the past 20-year average of 1.06 million square meters. While the supply is projected to drop sharply in 2017, the supply is expected to increase significantly during the two-year 2018-2019 period. At the same time, with supply projected to drop sharply from 2020, the 2016-20 average will be 1.09 million square meters, around levels equivalent to the past average. This figure will also be lower than the most recent five-year average of 1.17 million square meters.

2. Supply trends by area

In 2016-20, the shift toward greater concentration of supply in central Tokyo will accelerate, and supply in Tokyo's three central wards is projected to exceed 70% of total supply. Minato Ward's share of the supply will be 30%, which will exceed the supply in Chiyoda Ward to take the top share. Outside the three central wards, Shibuya's share will be above 10%. By district, the districts within Minato Ward, led by the Toranomon/Shinbashi district, will account for the majority of the supply. Outside the three central wards, supply will increase sharply in Shibuya, where station area development is anticipated.

3. Supply trends by type of development site

In Tokyo's three central wards in 2016-20, supply provided through rebuilding will remain at high levels, accounting for around 70% of total supply. Other than rebuilding, supply through redevelopment is expected to increase significantly. Outside the three central wards, supply on undeveloped/underdeveloped land, including redevelopment, etc., will account for approximately 70% of total supply.

4. Supply of mid-size office buildings

Supply in 2015 was 84,000 square meters, significantly lower than the 10-year average. In 2016-17, supply is also expected to be lower than the past average. In terms of supply share by ward, Minato Ward will hold the highest share, accounting for 25% of the total, while Chuo Ward, which had maintained a large share, will decline.

1 . Supply of large-scale office buildings

In 2015, the supply of large-scale office space in Tokyo's 23 wards was 1.18 million square meters, above the average of the past 20 years of 1.06 million square meters, with supply exceeding the past average for the first time in three years. **(See Chart 1-1 on the next page.)**

Supply in 2016 is expected to decline to 1.06 million square meters, levels equivalent to the past average; supply in 2017 is expected to fall to 720,000 square meters, significantly below the past average. Supply will be limited for the next two years. Thereafter, in reaction to the previous year and due to mounting development momentum ahead of the Tokyo Olympics, supply will increase significantly in 2018 to 1.36 million square meters, and increase in 2019 to 1.52 million square meters. A sharp decline relative to the preceding year is expected for 2020; the average supply for 2016-20 will be 1.09 million square meters, just above the average for the past 20 years and under the average supply for the most recent five-year period, which was 1.17 million square meters. **(See Chart 1-1 on the next page.)**

If we divide supply trends in 2016 into trends for Tokyo's three central wards and trends for other locations, the three central wards supply in 2018 will peak and exceed supply in 2019; outside the three central wards, the supply in 2019 will be significant, when multiple development projects around Shibuya Station are completed. **(See Chart 1-2 on the next page.)**

With respect to supply trends by building scale, supply in 2016-20 is expected to continue to center on large-scale buildings of 50,000 square meters or more. Among these, ultra-large-scale buildings of 100,000 square meters or larger are expected to account for a record-high share of around 60%. **(See Chart 1-3 on the next page.)**

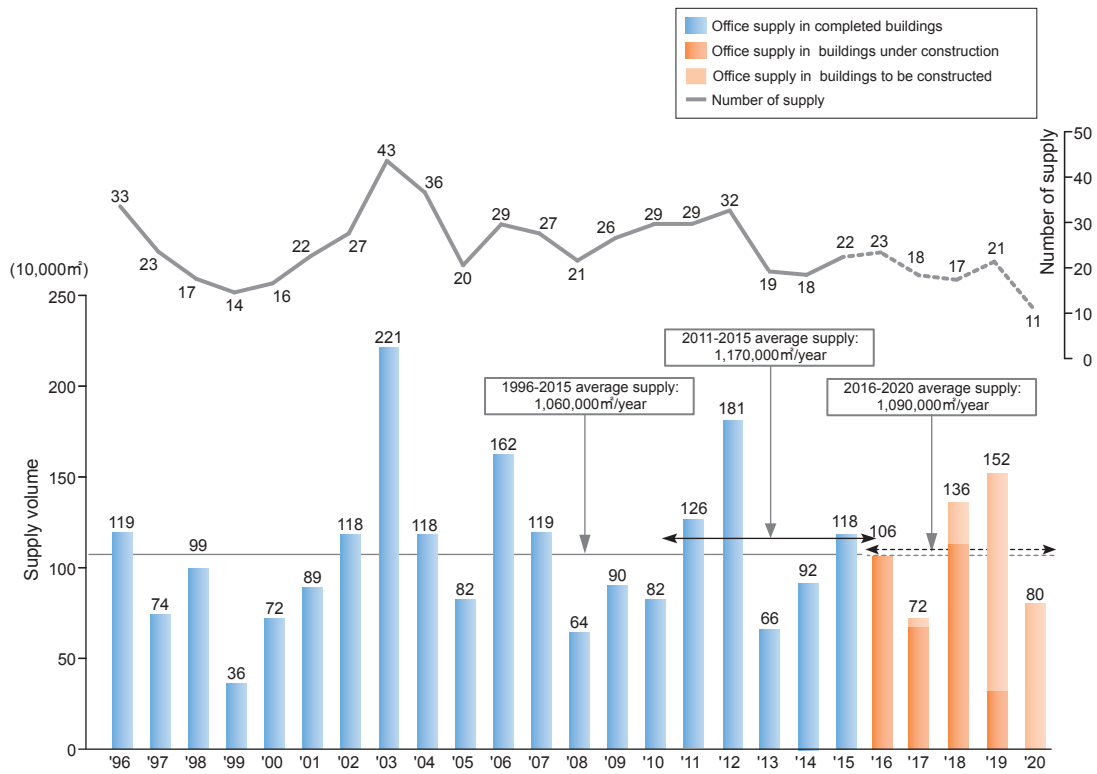
As this shows, for the next five years, ahead of the Tokyo Olympics, there will be years in which supply temporarily increases, but overall supply will be close to the past average and will center on ultra-large-scale buildings in the three central wards where demand is high. Stable market conditions are expected to continue.

2 . Supply trends by area

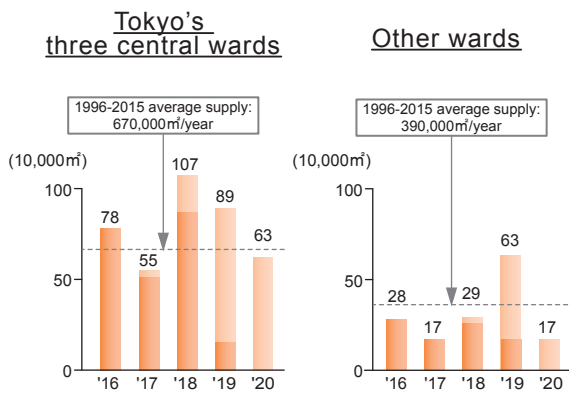
The concentration of supply in central Tokyo is expected to accelerate in 2016-20; supply in Tokyo's three central wards is projected to exceed 70% of total supply. Minato Ward's share of supply will double to 30% of the total supply, exceeding supply in Chiyoda Ward and handing it the top share. Outside the three central wards, Shibuya Ward's share will exceed 10%, as it closes in on Chuo Ward. The combined share of Shinjuku Ward, Shinagawa Ward, and Koto Ward will be well under 10%. **(See Chart 2-1 on the 4th page.)**

Looking at supply by business district, supply in the Otemachi/Marunouchi/Yurakucho district is expected to remain high. Four districts in Minato Ward are ranked in the top 10, led by Toranomon/Shinbashi. In districts outside the three central wards, supply will increase sharply in Shibuya, where development is expected around Shibuya Station. **(See Chart 2-2 on the 4th page.)**

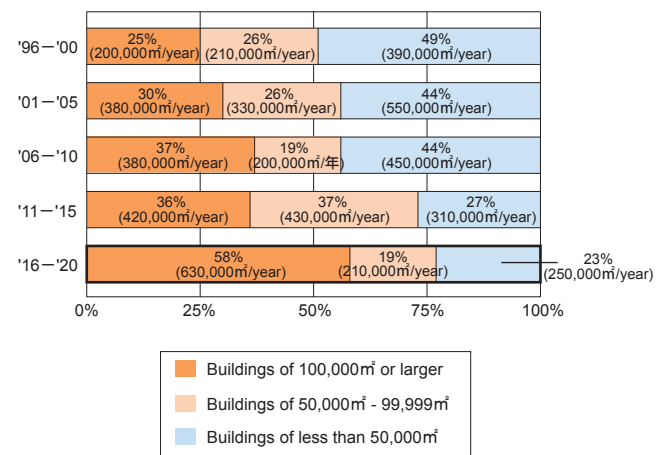
【Chart 1-1】 Supply trends for large-scale office buildings in Tokyo's 23 wards



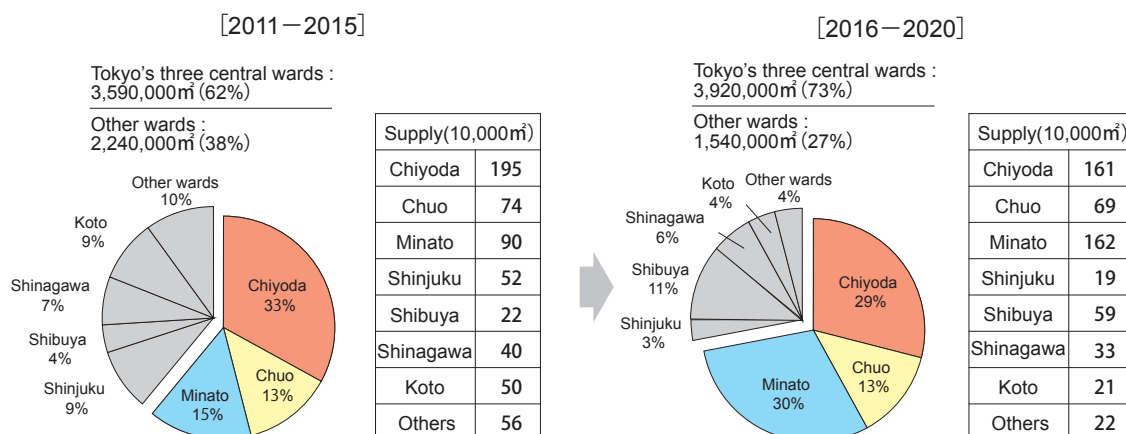
【Chart 1-2】 Tokyo's three central wards and other wards



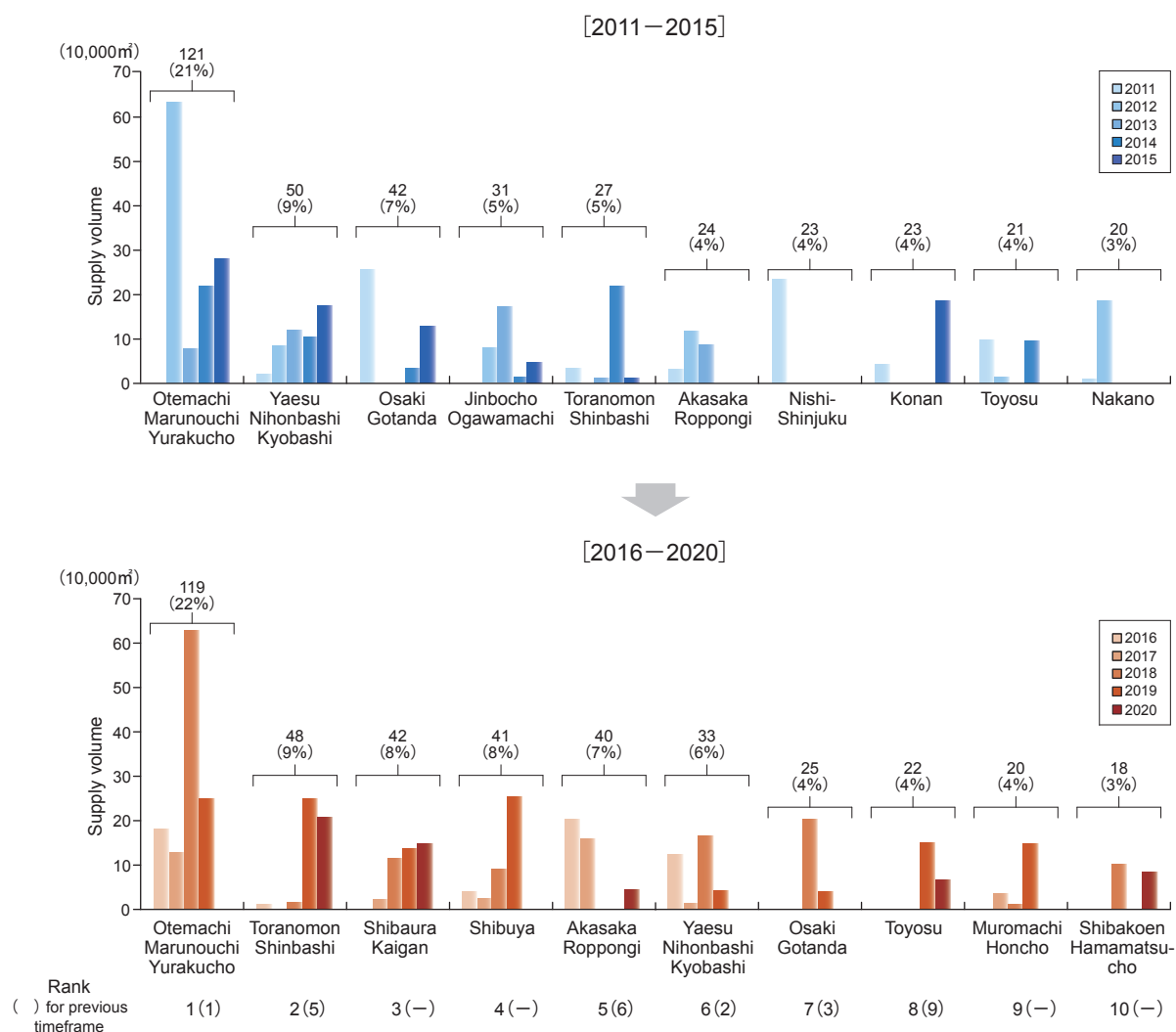
【Chart 1-3】 Supply and ratio by building scale



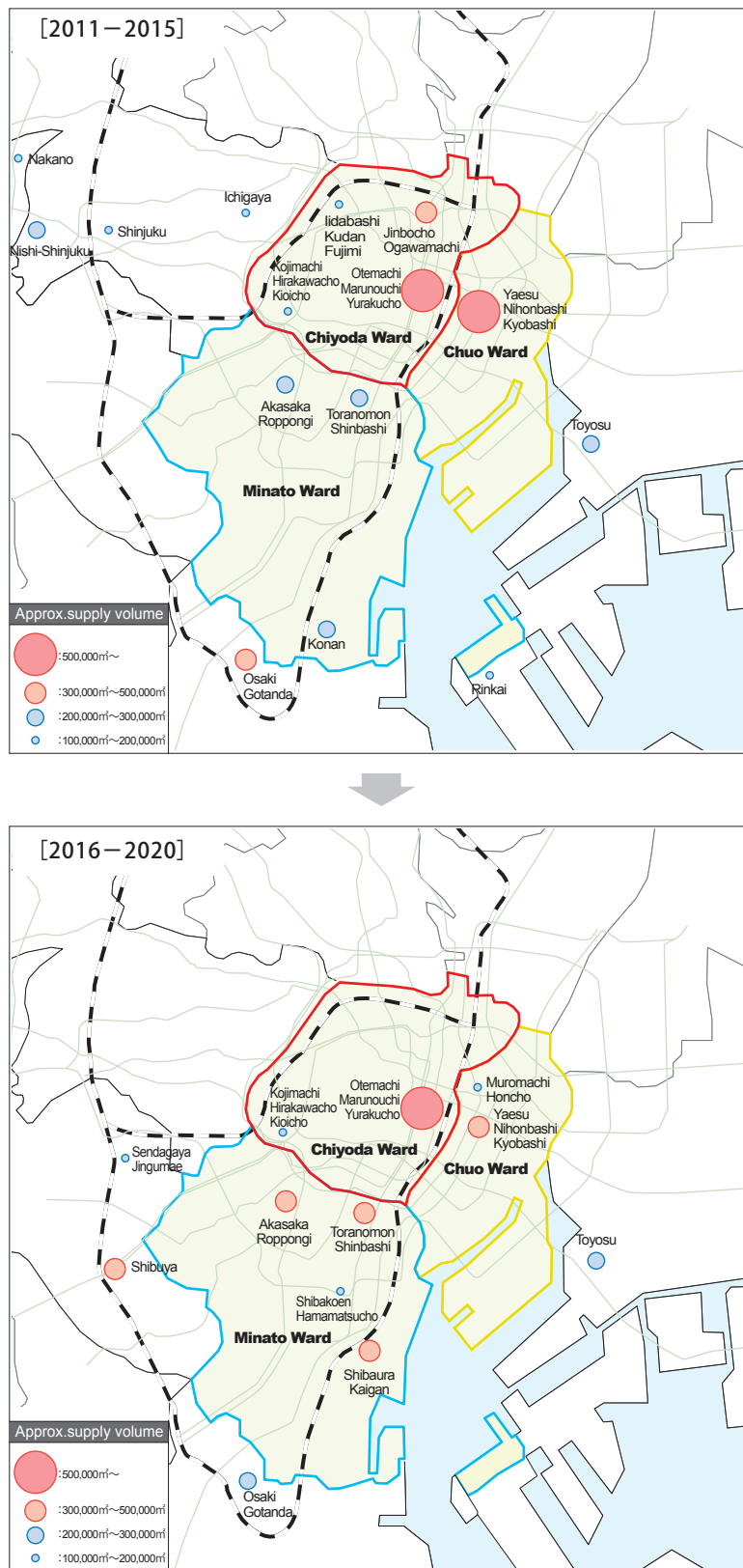
【Chart 2-1】 Supply of large-scale office space by ward



【Chart 2-2】 Top ten districts



【Chart 2-3】 Supply volume in the key business districts

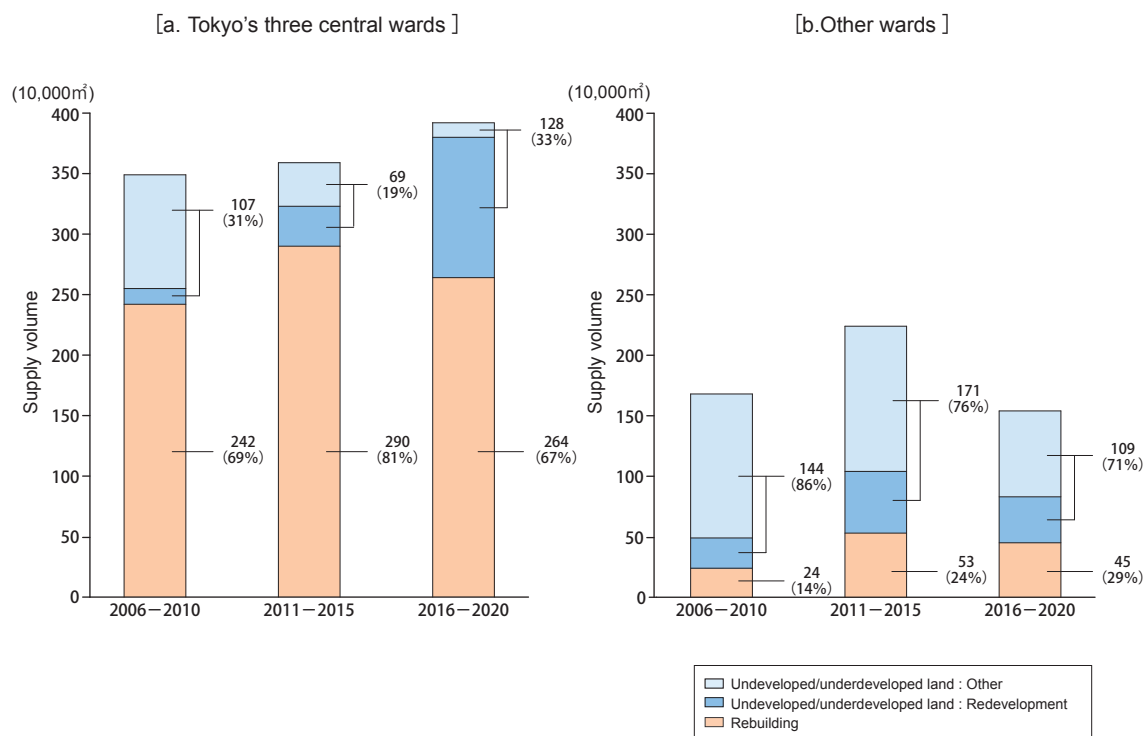


3. Supply trends by type of development site

In Tokyo's three central wards, supply through rebuilding will remain at a high level in 2016-20, accounting for approximately 70% of total supply. Stock continues to be upgraded, particularly in Otemachi/Marunouchi; moving forward, supply is expected to continue to center on rebuilding. Other than rebuilding, supply through redevelopment will increase significantly. **(See Chart 3-1.a.)**

Outside Tokyo's three central wards, in 2016-20, supply on undeveloped/underdeveloped land will account for approximately 70% of the total supply, while supply through rebuilding will remain low, at approximately 30%. As has been the case, most supply will be on "Other" undeveloped/underdeveloped land, such as idle land. **(See Chart 3-1.b.)**

【Chart3-1】 Supply volume and ratio by land for development



【Definition】

Rebuilding :

Land (or the development of such land) previously used as one site, occupied by a building for office, hotel, or residence which has been demolished.

Undeveloped/underdeveloped land :

Land (or the development of such land) not used effectively; for instance, mixed zones of parking lots and older buildings, densely populated residential areas, former plant sites, railway sites, or idle land.

4. Supply trends for mid-size office buildings in Tokyo's 23 wards

This section discusses supply trends for mid-size buildings with office space of 5,000 square meters to less than 10,000 square meters.

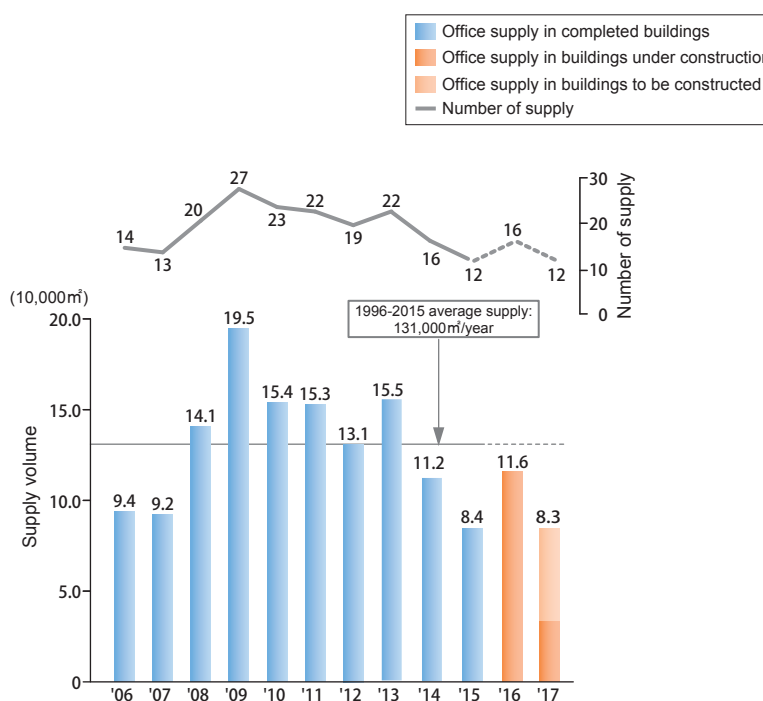
The supply of office space in mid-size office buildings in 2015 was 84,000 square meters, well below the average of the past 10 years. In 2016-17, it is projected to remain below the past average. **(See Chart 4-1.)**

By supply area, in 2016-17, the trend toward concentration in central areas will slow somewhat. Still, supply in Tokyo's three central wards will account for 60% of the total supply, while development will continue in central areas. In terms of supply by ward, Minato Ward will remain the leader, accounting for 25%. Chuo Ward, which had maintained a large share, will decline to around 10%. By district, supply will increase markedly in the Toranomon/Shinbashi district. Even with the slowing development of mid-size office buildings due in part to sharp rises in construction costs, functional upgrades will continue to accelerate. Development momentum is mounting in this district against a backdrop of the international business hub concept, completion of Loop Line No. 2, and plans for a new subway station and the BRT transit system, etc. **(See Chart 4-2 on the next page.)**

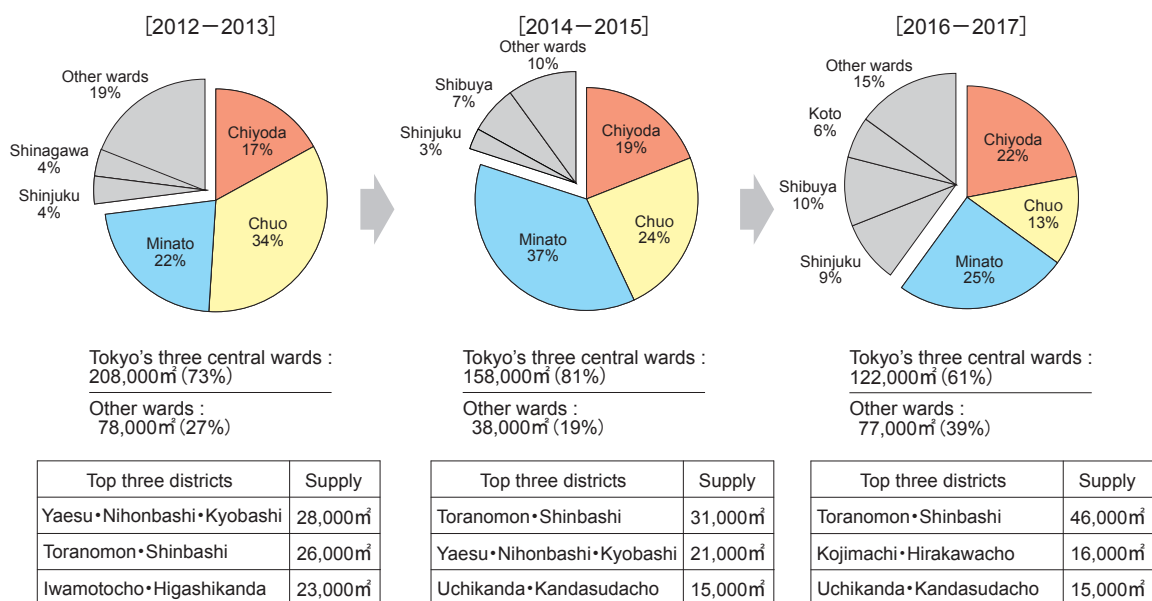
Looking at supply by type of development site, in 2016-17, supply through rebuilding will account for approximately 80% of total supply in Tokyo's three central wards. Outside the three central wards, supply on undeveloped/underdeveloped land is projected to account for 60%, the same result as large-scale office buildings. **(See Chart 4-3 on the next page.)**

In addition, in recent years, steady development by major developers has proceeded on mid-size office buildings. This supply will account for 30% of the total. **(See Chart 4-4 on the next page.)**

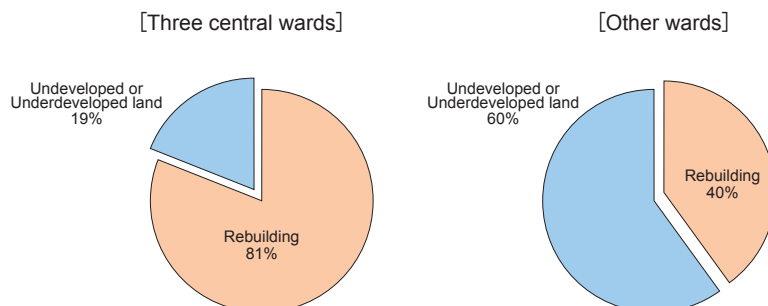
【Chart4-1】Supply trends for mid-size office buildings in Tokyo's 23 wards



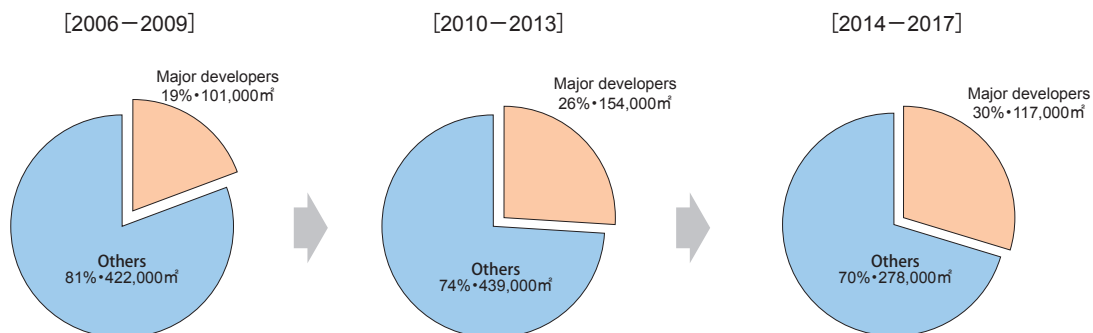
【Chart4-2】 Supply of mid-size buildings: Ratio by ward and top three districts



【Chart4-3】 Supply of mid-size buildings: Ratio by type of development site (2016-17)



【Chart4-4】 Supply of mid-size buildings: Ratio developed by major developers*



* Major developer: the developer capitalized at ten billion yen or more

5. Conclusion

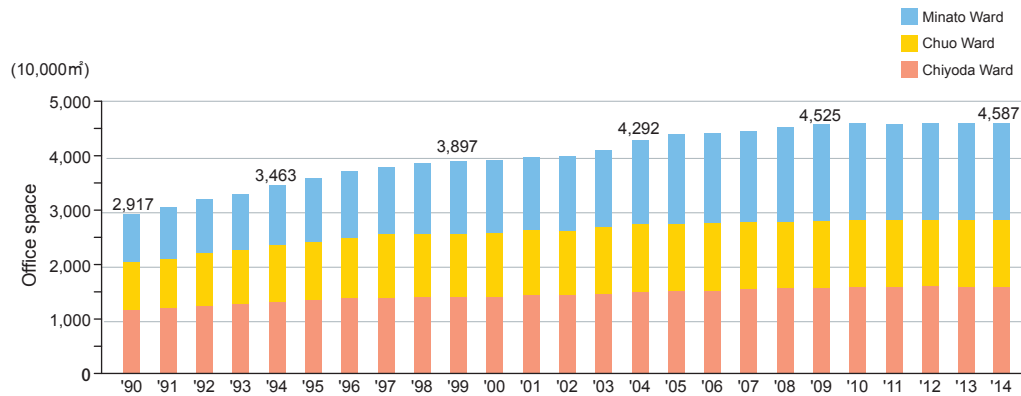
Market conditions in the Tokyo office space market continue to improve due to the combination of a demand recovery on corporate earnings growth and low levels of supply for the past few years. As vacancy rates have declined, there has been an increase in buildings in major business districts without extensive space available. Even new office buildings completed in 2015 are quickly filling up with tenants.

Supply from 2016 will fluctuate around the past average line, due to interplay between mounting development momentum foreshadowing the Tokyo Olympics and sharp increases in construction costs. However, for the full five years, supply is expected to end up at levels equivalent to the past average. In addition, supply will continue to center on rebuilding in the three central wards, diluting their relative contribution to stock increases. In fact, just as in the previous year, stock in the three central wards in 2014 was negative. The percentage decline has been especially high in Chuo Ward, where supply is low. **(See Chart 5-1, 2 on the next page.)**

Moving forward, through 2017, when supply is projected to decline significantly, the supply and demand equation is expected to tighten, while office demand related to the Olympics is expected to increase. Demand will trend up ahead of the supply increase in 2018-19. Additionally, supply will also shrink in 2020. For the five-year period from 2016 to 2020, the office market is expected to trend along a stable path.

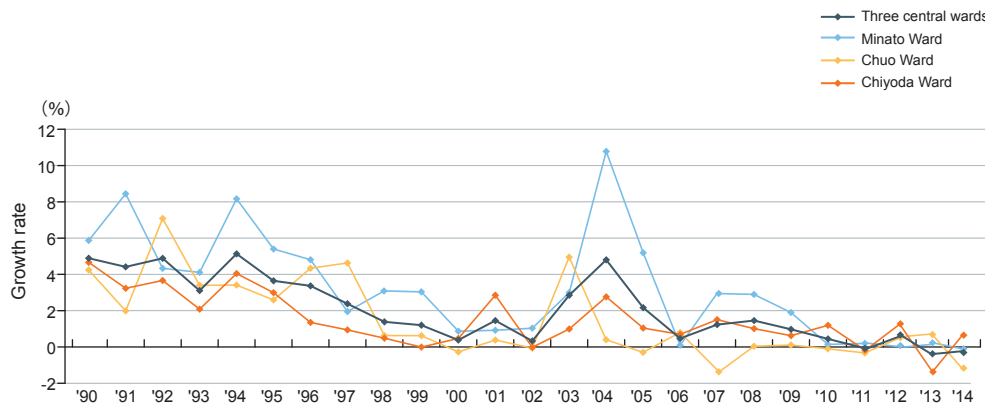
As mentioned in this report, sharp increases in construction costs in recent years have played a role in suppressing supply. But with infrastructure demand mounting in connection with hosting the Olympics, high costs are becoming the normal state of affairs. Even heading into this headwind, efforts in Tokyo will continue to promote office building development as part of efforts to position the city as an international business hub. Moving forward, no stagnation is expected in efforts to upgrade city functions ahead of the 2020 Olympics. The city is expected to move steadily toward realizing the “Global Business City Tokyo” concept.

【Chart 5-1】 Office stock in Tokyo's three central wards



Source: Compiled by Mori Trust based on "An Overview of Tokyo's Land" (Tokyo Metropolitan Government)

【Chart 5-2】 Growth of office stock



Source: Compiled by Mori Trust based on "An Overview of Tokyo's Land" (Tokyo Metropolitan Government)

Appendix 1. Large-scale office building supply for the 30 years from 1986

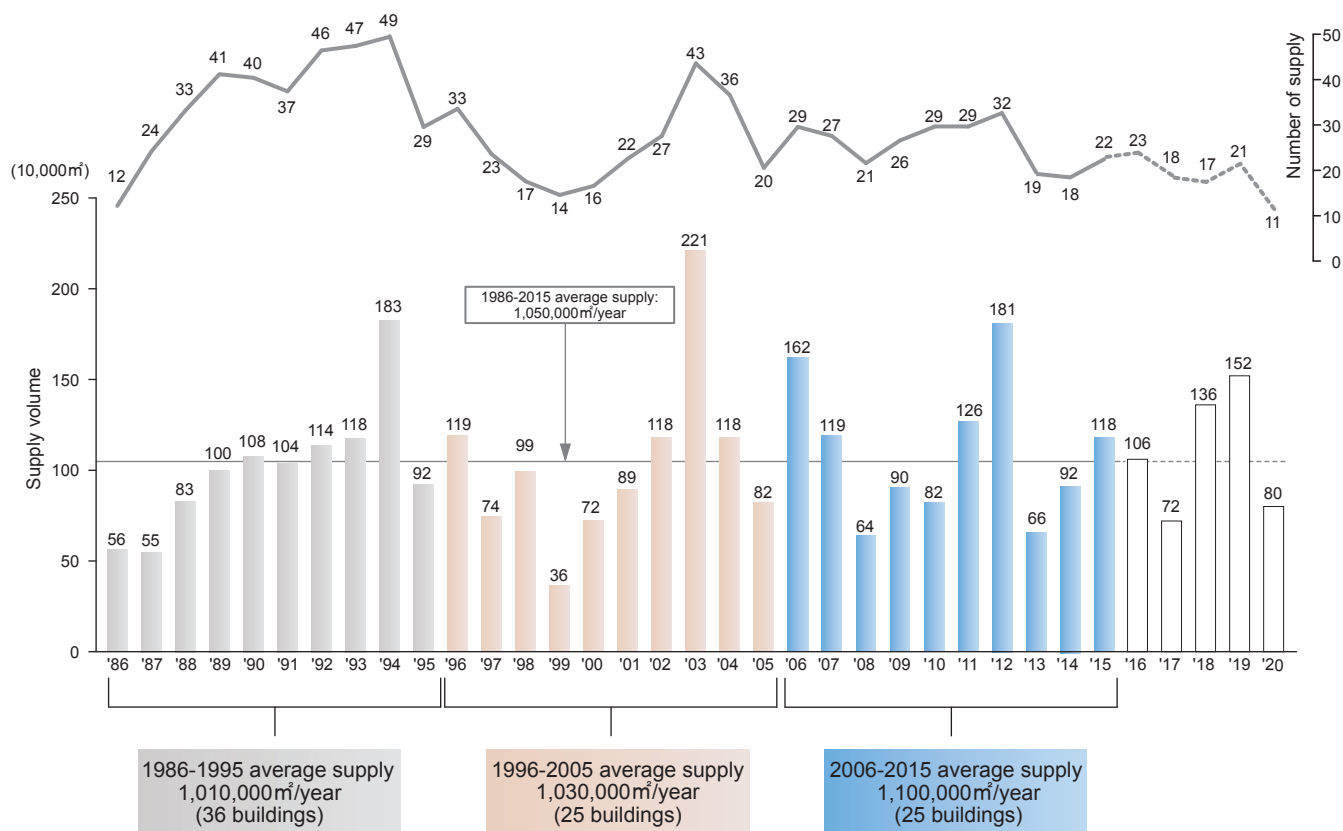
Surveys of large-scale office building supply began in 1986 and have been ongoing for the past 30 years. This section discusses supply trends over this 30-year period.

From 1986 to 1995, supply increased year after year due to insufficient office space associated with the economic expansion driven by the bubble economy. Even after the collapse of the bubble economy, development projects, etc. planned at the peak of the bubble were introduced to the market all at once. The supply in 1994 was 1.83 million square meters, the second highest figure on record. Thereafter, from 1996 to 2005, while office building development tailed off rapidly, the Japanese National Railway Settlement Corporation sold off Japanese National Railways land, which was something that did not occur during the bubble period. Coupled with demand for high-spec office buildings associated with the IT boom, this led to record-high supply in 2003 of 2.21 million square meters. In the period from 2006 to 2015, in reaction to the declines in supply that had taken place since the “mini-bubble” and through the global financial crisis, the third highest level of supply on record was recorded in 2012 (1.81 million square meters). In the second half of this period, a large number of BCP-compliant buildings entered the market, due partly to the Great East Japan Earthquake. The current market has taken shape due in part to this actualization of office building demand. **(See Chart A-1 on the next page.)**

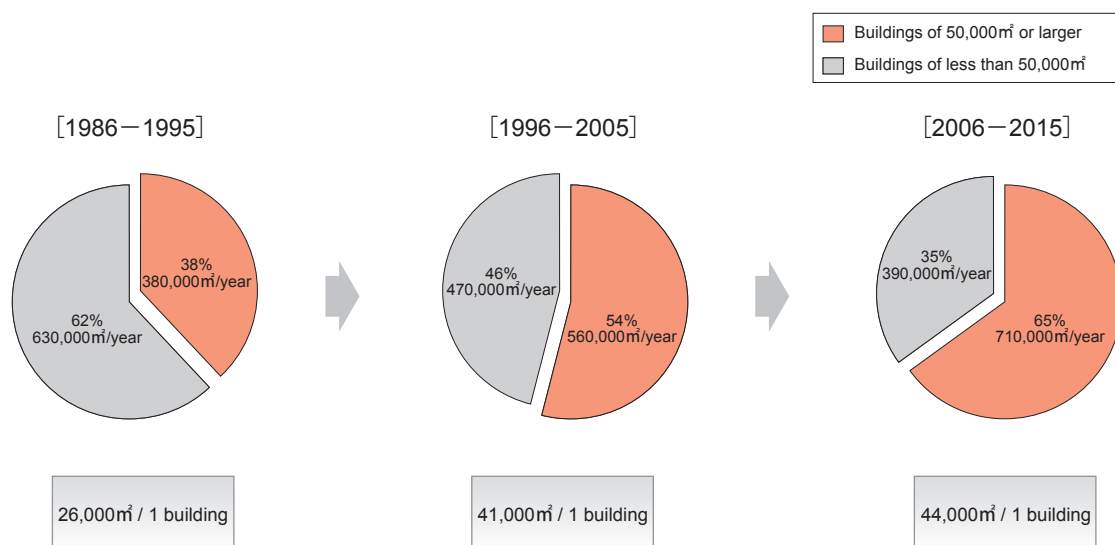
Additionally, looking at trends by building scale, we see that large-scale development of buildings of at least 50,000 square meters has increased, while the percentage of such buildings with respect to total supply exceeds 60%. In conjunction with this trend, supply space per building has also increased. The main factors for this have been an increase in floor-area ratios in commercial districts from the creation of zones where special floor-area ratios apply, etc. in connection with amendments to the City Planning Act and Building Standards Act, and designation of priority areas for urban revitalization under the Act on Special Measures concerning Urban Regeneration promulgated in 2002. **(See Chart A-2 on the next page.)**

With respect to supply by ward, initially during this period, supply outside the three central wards exceeded supply within the three central wards. Since that time, the three central wards have accounted for over 60% of supply, as supply continues to concentrate in central Tokyo. Looking at the three central wards, supply in Minato Ward has been consistently high, between 20% and 30%. Chiyoda Ward has seen both supply and its share of supply increase significantly over the 30-year period. This is mainly because rebuilding has continued in the Marunouchi/Otemachi district in particular since 2002, and supply has concentrated in this district. At the same time, throughout the period, supply in Chuo Ward has remained at around 10% of total supply. Although functional upgrades to office buildings have lagged, the area on the east side of Tokyo Station moving forward is expected to see a major increase in supply. **(See Chart A-3 on the 13th page.)**

【Chart A-1】 Supply trends for large-scale office buildings in Tokyo's 23 wards



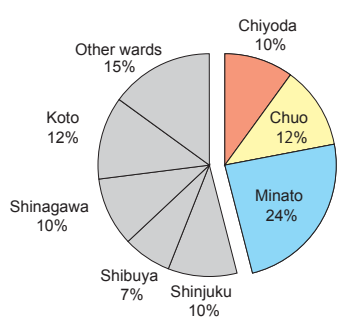
【Chart A-2】 Supply and ratio by building scale



【Chart A-3】 Supply of large-scale office space by ward

[1986—1995]

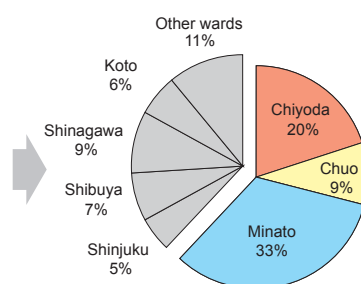
Tokyo's three central wards :
4,690,000m² (46%)
Other wards :
5,440,000m² (54%)



Supply(10,000m ²)	
Chiyoda	103
Chuo	119
Minato	247
Shinjuku	101
Shibuya	67
Shinagawa	100
Koto	120
Others	156

[1996—2005]

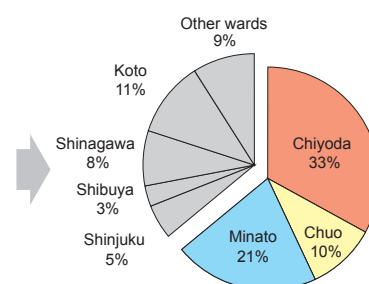
Tokyo's three central wards :
6,400,000m² (62%)
Other wards :
3,880,000m² (38%)



Supply(10,000m ²)	
Chiyoda	206
Chuo	97
Minato	337
Shinjuku	49
Shibuya	72
Shinagawa	92
Koto	61
Others	114

[2006—2015]

Tokyo's three central wards :
7,080,000m² (64%)
Other wards :
3,920,000m² (36%)



Supply(10,000m ²)	
Chiyoda	367
Chuo	108
Minato	233
Shinjuku	61
Shibuya	29
Shinagawa	87
Koto	119
Others	96