

NEWS & RELEASE

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Osaka City New Supply of Office Buildings & Office Stock Pyramid 2015

Xymax Real Estate Institute is releasing a report on new supply of office buildings and "Office Stock Pyramid" in Osaka City. New supply is the total rentable spaces that will be constructed in the coming years, and "Office Stock Pyramid" is the summary of the total rentable office space existing in the market. The former represents the market flow and the latter represents the stock in the market. Our data also includes the percentage of new additions to existing office stock ("Ratio of New Supply"), showing the impact of new supply to the overall market. These data are important in analyzing Osaka's future office market balance.

Prior to this release, Xymax Real Estate Institute has released reports on new supply* and Office Stock Pyramid** for Tokyo 23 Wards. We will release these data for Tokyo 23 Wards and Osaka City on a regular basis.

Key Findings

(1 tsubo = approx. 3.3 sqm)

New Supply

- ❑ **New supply** of office space in Osaka city in 2015-2018 is expected to be an average of **approx. 15,000 tsubo per year** based on rentable area; which is roughly **a half of 31,000 tsubo per year in the last ten-year average**.
- ❑ Of the new supply expected as of now, **90% are of large buildings with more than 10,000 tsubo gross floor area**.

Office Stock Pyramid

- ❑ Office building stock in Osaka City as of the end of 2014 was 2,700,000 tsubo in 1,571 buildings.
- ❑ Data breakdown:
 - Based on Rentable Area: **52% are large buildings** **48% are small/medium buildings**
 - Based on Number of Buildings: **12% are large buildings** **88% are small/medium buildings**
- ❑ **Average age of large buildings is 23.3 years** influenced by continuous supply after the bubble period.
- ❑ **Average age of small/medium buildings is 27.0 years** influenced by reduced supply after the bubble period.
 - ✓ **Future concern is the aging of small/medium building stock which are older than that of large buildings.**
- **Ratio of New Supply:** After additions of new supply in 2015-2018, the office stock will increase by a relatively subdued 2.2% (average of 0.5% per year).

Reference: Osaka City and Tokyo 23 Wards

New Supply (buildings with 3,000 tsubo or greater gross floor area)

- Osaka City's 15,000 tsubo average annual new supply is less than one-tenth of Tokyo 23 Wards' 180,000 tsubo.

Office Stock Pyramid (buildings with 300 tsubo or greater gross floor area)

- Osaka City's 2,700,000 tsubo total rentable area is about one-fourth of Tokyo 23 Wards' 11,250,000 tsubo.
- Osaka City and Tokyo 23 Wards have a similar percentage of large buildings and small/medium buildings (based on rentable area and number of buildings).
- Small/medium building stock is aging in both Osaka City and Tokyo 23 Wards.
- Osaka City's building stock is slightly more aged than that of Tokyo 23 Wards. The percentage of 20 years old or greater buildings are also high in Osaka City compared to Tokyo 23 Wards.

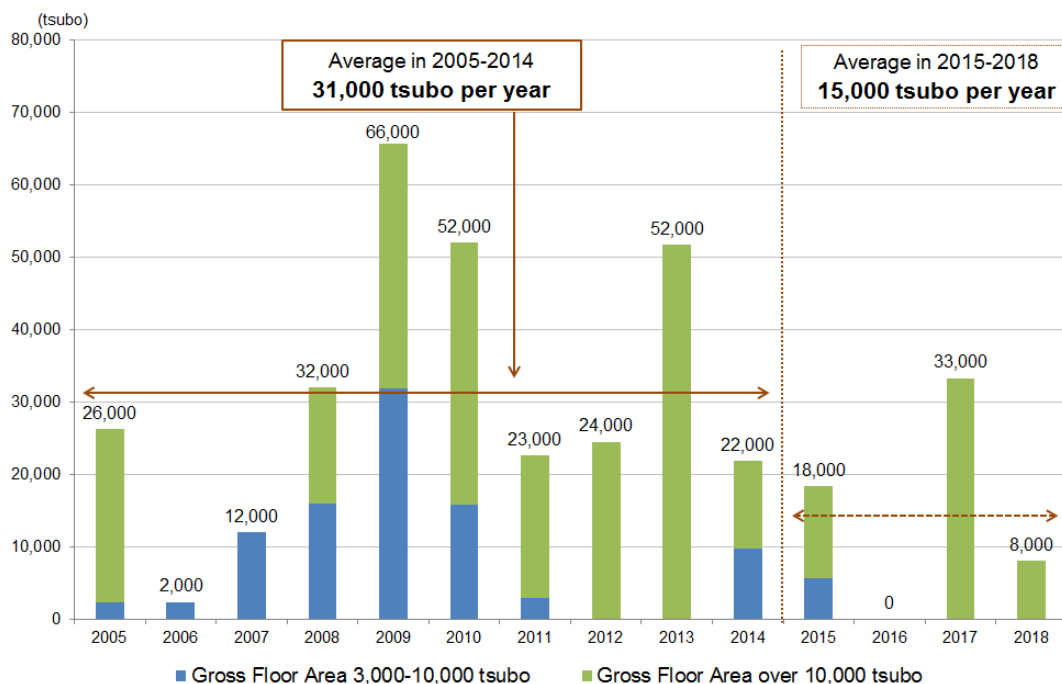
* "Supply of New Office Space Survey 2015" February 2, 2015 <http://www.xymax.co.jp/english/research/images/pdf/20150202.pdf>

** Office Stock Pyramid 2014" April 17, 2014 http://www.xymax.co.jp/english/research/images/pdf/140417_News-release.pdf

New Supply

The tenant-occupied office buildings (over 3,000 tsubo gross floor area) expected to be constructed in 2015-2018 in Osaka City will be an average of 15,000 tsubo of rentable office area each year (Figure 1). This is roughly the half of 31,000 tsubo per year in the 2005-2014 average. There may be some additions of not-so-large buildings (3,000-10,000 tsubo) later, but as of the moment, no construction of such buildings is planned for 2016 and beyond; 90% of the expected constructions are of large buildings of over 10,000 tsubo gross floor area.

Figure 1: New Supply in Osaka City (Rentable Area)



Office Stock Pyramid

Office Stock Pyramid compares office stock, namely the rentable area and the number of buildings, of large buildings (over 5,000 tsubo gross floor area) and small/medium buildings (300-5,000 tsubo gross floor area). This shows the balance between large buildings and small/medium buildings in the market and the age structure of the building stock. As of the end of 2014, Osaka City's total rentable office space was about 2,700,000 tsubo (Figures 2 and 3) and the number of office buildings was 1,571 (Figure 4).

The rentable area by size of buildings shows **52% were in large buildings** and **48% were in small/medium buildings**.

The **average age of large buildings was 23.3 years** since large supply continued after the bubble period. Compared to this, the **average age of small/medium buildings was 27.0 years** because the volume of new constructions was reduced after the bubble period. The average age of large buildings and small/medium buildings combined is 26.6 years.

Figure 2: Osaka City Office Stock Pyramid (Rentable Area)

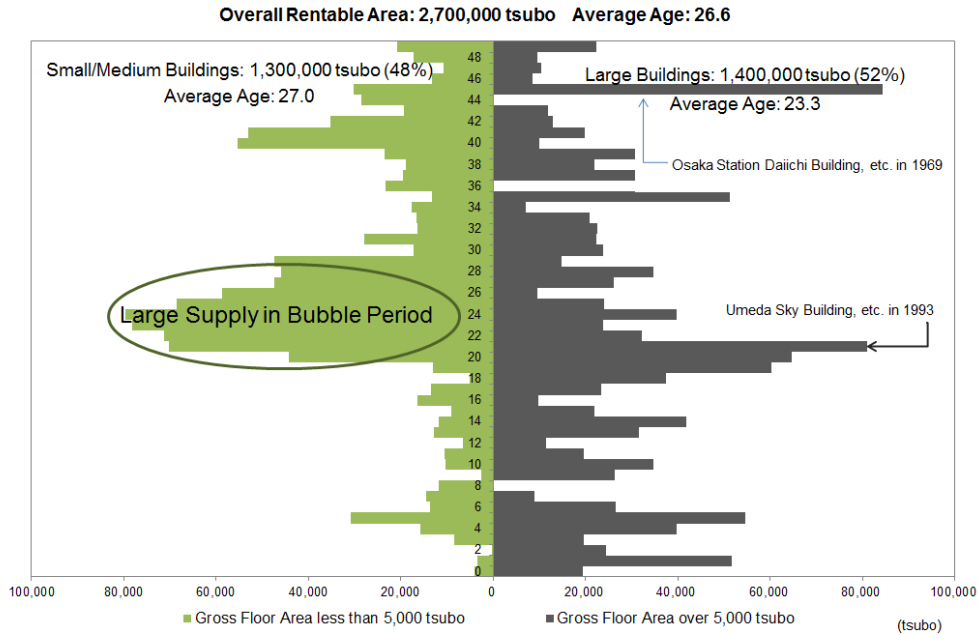


Figure 3: Osaka City Office Stock Pyramid (Rentable Area and Age Structure)

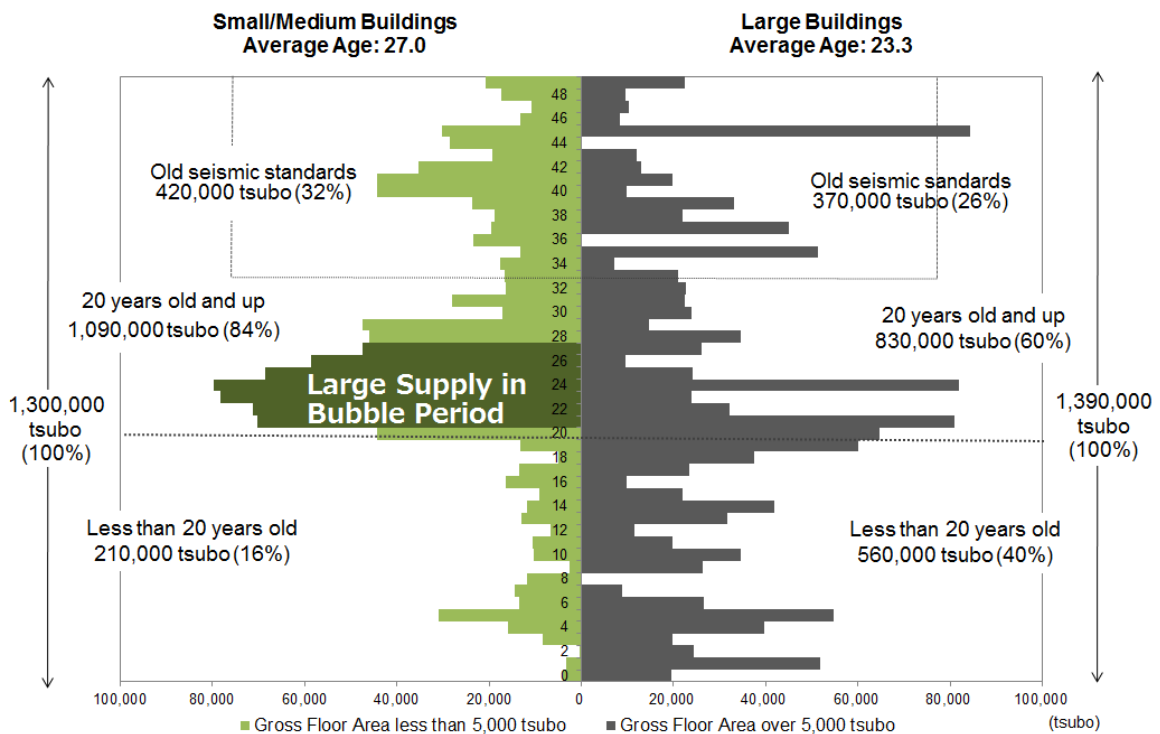
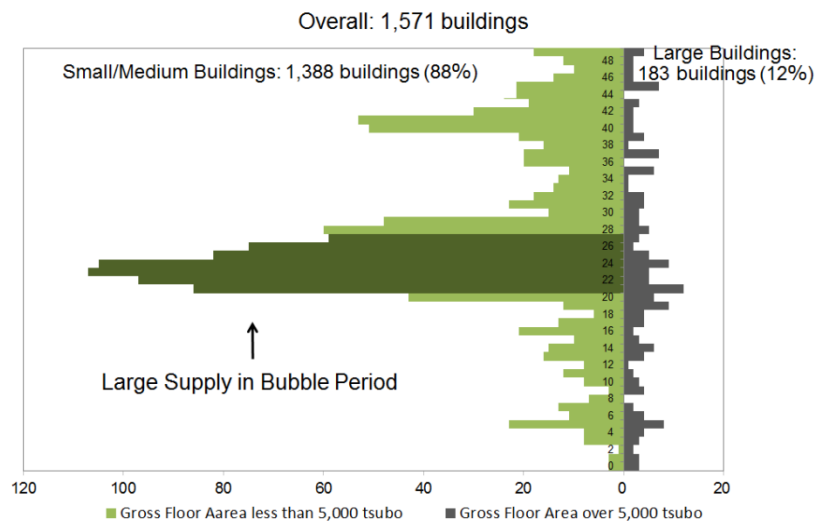


Figure 3 shows the percentage of each age group. Looking at large buildings, 560,000 tsubo or 40% are less than 20 years since construction. Compared to this, only 16% or 210,000 tsubo of small/medium buildings are less than 20 years since construction, meaning more than 80% are over 20 years old. This indicates that small/medium building stock is increasingly "aging". The graph also shows that, of the small/medium buildings, over 30% of spaces are thought to have been constructed under the old seismic standards.

The data based on the number of buildings shows a dominance of **small/medium buildings, accounting for 88%** of the total number while **large buildings accounting for 12%** (Figure 4). The graph also shows that the number of small/medium buildings constructed in the bubble period is outstanding.

Figure 4: Osaka City Office Stock Pyramid (Number of Buildings)



Ratio of New Supply

The percentage of new additions in 2015-2018 to the existing office stock ("Ratio of New Supply") is expected to be approximately 2.2%, which is around 0.5% per year.

Reference: Below is the comparison of Osaka City and Tokyo 23 Wards. See our releases for overview Tokyo 23 Wards.* **

- New supply in 2015-2018: Osaka City's 15,000 tsubo average annual new supply is less than one-tenth of Tokyo 23 Wards' 180,000 tsubo. (It should be noted that this comparison is based on buildings with 3,000 tsubo or greater gross floor area.)
- Stock as of 2014: Osaka City's 2,700,000 tsubo total rentable area (approx. 1,600 buildings) is about one-fourth of Tokyo 23 Wards' 11,250,000 tsubo (approx. 7,100 buildings). The balance between large buildings and small/medium buildings based on the rentable area and number of buildings is similar for both Osaka City and Tokyo 23 Wards. The rapidly aging small/medium building stock is a concern for both Osaka City and Tokyo 23 Wards.
- In Osaka City, 20 years old or older tenant-occupied buildings account for approximately 70% of the stock whereas in Tokyo 23 Wards they account for approximately 60%, indicating that aging of building stock in Osaka City is slightly stronger than in Tokyo 23 Wards.

* "Supply of New Office Space Survey 2015" February 2, 2015 <http://www.xymax.co.jp/english/research/images/pdf/20150202.pdf>

** Office Stock Pyramid 2014" April 17, 2014 http://www.xymax.co.jp/english/research/images/pdf/140417_News-release.pdf

Commentary

Overall market balance in Osaka City is, assuming some level of new demand, expected to improve as new supply in 2015-2018 remains relatively low. On the other hand, there will be a clear disparity between large buildings and small/medium buildings as large buildings will continue to have some volume of supply while small/medium buildings will have limited supply and their average age gets higher. Furthermore, regardless of size of the buildings, widening competitiveness gap between well-equipped new buildings and aging old buildings will be a concern. In the near future, maintenance and replacement of the office stock will be more important. Owners will have to focus on market trends and add new functions or improve them appropriately to meet the demand of occupiers and maintain competitiveness, or convert the office space to other use.

Osaka City New Supply of Office Buildings (as of May 2015)

Market: Osaka City
Buildings: Over 3,000 tsubo gross floor area, used mainly as office space
Subject Data: Rentable office area in tsubo

- The data is based on publicly available sources such as newspaper articles. Site inspections were conducted for some of them. Owner-occupied buildings are excluded. Spaces in new buildings are the subject of this survey. It should be noted that this is not a complete survey.
- If the size of the rentable area is publicly available, that size is used in this survey; if not, the rentable area is estimated based on the gross floor area of the building with the formula Xymax Real Estate Institute jointly developed with the laboratory of Dr. Naoki Katoh, Professor of Kyoto University Graduate School of Engineering.
- New supply in this survey is as of the date this survey was performed. Actual new supply changes as new information becomes available.

Osaka City Office Stock Pyramid (as of May 2015)

Market: Osaka City
Buildings: Office buildings with 300 tsubo or greater gross floor area, less than 50 years old (legal economic life) and used mainly as office space.
Subject Data: Rentable office space in tsubo and number of buildings of large buildings (over 5,000 tsubo gross floor area) and small/medium buildings (300-5,000 tsubo gross floor area)

- The data is based on publicly available sources such as newspaper articles and office rental information (including that in the past). Data of buildings used in this report is those accompanied with information of construction year. Owner-occupied buildings are excluded.
- The data of reconstructions and demolished spaces have been collected to the extent possible and reflected in this report, but our data may not include all the reconstructions and demolished spaces.
- In general, "the bubble period" refers to 1985-1991. However, in this report, "large supply in the bubble period" refers to the new supply in 1987-1993, considering the length of the period from development planning to completion.
- "Buildings constructed under the old seismic standards" refers to the buildings constructed before the enforcement of the new seismic standards in 1981. In this report, buildings constructed in 1981 or before are deemed as buildings constructed under the old seismic standards.