

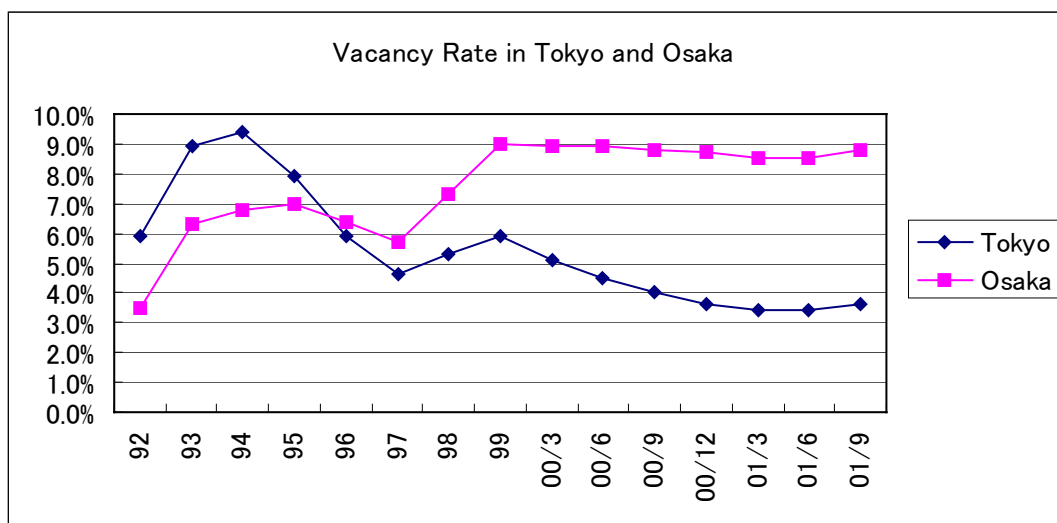
## Trends in New Projects in Osaka

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In addition to the increase in customers pulled in by Universal Studios Japan (USJ) which opened in March this year, the New York terrorist attacks on September 11 have resulted in increased demand for travel within Japan, and hotel demand in the Osaka District is recovering. According to the August 16, 2001 edition of the Nikkei Sangyo Shimbun, hotel occupancy rates for the first half of 2001 were as follows. The Tokyo district, which had maintained high levels recorded 80.0%, an increase of only 0.5% on the same period in the previous year, seemingly having peaked. In contrast, the occupancy rate for the Osaka District was 81.0%, an increase of 5.6% on the same period last year. The Osaka District, which has had no good economic news since the bursting of the economic bubble, at last has a chance to catch breath. Leaving hotel occupancy rates aside, however, what is the situation in the office market?

A comparison of vacancy rates for Tokyo and Osaka is shown below. While at last we are starting to see a break away from rises in vacancy rates, which look like leveling off, the vacancy rates remain at around 10%, which is a much tougher situation than the Tokyo Market. In the Tokyo market, there is a great deal of focus on the so-called "2003 problem" in which large areas of new floor space will hit the market, especially the Shiodome redevelopment, but in Osaka too a number of new projects are nearing completion, and we expect to see a large quantity of new floor space hit the market.

In contrast to the Tokyo market in which we may expect an expansion of the pie of office demand itself (although in the recent situation one cannot view the situation through rose-colored glasses even though it is Tokyo), the size of the pie in Osaka is expected to continue to contract. This means that at the time the new projects presented below are completed, there will be a greater difference between the winners and losers than in Tokyo, and investors will need to make more careful selections.



Source: Ikoma CBRE

The new projects presented below are planned for completion in the future, but examples of large buildings completed in 2001 are Kintetsu Nanba Building (floor space of approximately 8,000 tsubo) completed in March, Land Axis Tower (floor space of approximately 10,000 tsubo, formerly Osaka Meiji Life Insurance Building) completed in July, and Nissei Shin-Osaka Building (floor space approximately 30,000 tsubo) completed in October. The state of occupancy of these buildings at this point is as follows. Nanba Building initially experienced difficulties due to its geographical location, but has lately had 90% occupancy, Meiji Seimei Building has 70% occupancy, and Nissei Shin-Osaka Building has more than 90% occupancy.

New Projects for the Future in Osaka

Uemada Area

	Rentable area	No. of floors	Completion	Developed by	Tenants
Yodobashi Camera	34,000 tsubo	13F	Nov. 2001	Yodobashi Camera	Yodobashi Camera, Komusa Store etc.
Harbis Osaka II	32,000 tsubo	28F	Autumn 2004	Hanshin Railway	Office, retail
Diamond Tower	14,000 tsubo	27F	Oct. 2002	Takenaka	NTT Docomo Kansai
North Side of Osaka Station Bldg.	NA	NA	2008	JR West	Mitsukoshi
Chayamachi Redevelopment	9,000 tsubo	9F	2004	Redevelopment Association	NA

With the opening of Yodobashi Camera on the northern side of Osaka Station on November 22, and Mitsukoshi making its long-awaited entry into the area in front of Osaka Station with a huge 15,000 tsubo store, the Umeda District, with the addition of these two new stores to the existing Hankyu Department Store, Hanshin Department Store and Daimaru centering around Osaka Station, is expected to become a great commercial conglomeration.

In addition, although a development plan has yet to be formulated, there are plans for development of a 20ha site which was formerly a freight yard (owned by Japan Railway Construction Public Corporation) on the northern side of Osaka Station. If this plan comes to fruition it will be a large-scale development close to the size of the Shiodome redevelopment in Tokyo, so great expectations are being placed on this redevelopment to trigger revival of the Osaka economy.

**Nakanoshima Area**

	Rentable area	No. of floors	Completion	Developed by	Tenants
Nakanoshima Mitsui Bldg.	22,000 tsubo	31F	Autumn 2002	Mitsui Fudosan	Tore, etc.
Shin Kanden Bldg.	32,000 tsubo	41F	De. 2004	Kansai Denryoku	HQ of Kansai Denryoku
Daibiru East	18,000 tsubo	32F	2008	Daibiru	NA
Daibiru West	21,000 tsubo	32F	2012	Daibiru	NA
Redevelopment of Sumtomo Life HQ	NA	30F	NA	Sumitomo Life	NA (to be leased)

Starting with the Mitsui Fudosan building, the Nakanoshima District is experiencing a development rush, and the extension of the Keihan Line planned to open in 2008 will dramatically improve access to the Yodoyabashi Market and the Osaka International Convention Center, making this an area in which further growth can be expected.

**Nanba Area**

	Rentable area	No. of floors	Completion	Developed by	Tenants
Former Osaka Stadium	18,000 tsubo	30F	Autumn 2003	Nankai Dentetsu, Takashimaya	NA

Although the figures above are only for North Office Wing which is at the first phase of construction after having been commenced (in the first phase the Commercial Wing and the WINS wing are planned for), Yuzawaya had decided to have a store in the Commercial Wing, but in August this year it withdrew this proposal. This leaves an anxious future for Nanba District while commercial performance in Umeda continues to surge forward.



Nakanoshima Mitsui Bldg.



Shin Kanden Bldg.

Conclusion: As stated above, if not to the same extent as in Tokyo, there are plans for a considerable supply of new floor space, and the Osaka office demand which we are concerned about has hardly any expansion factors. Intensified competition for tenants therefore seems inevitable. On the other hand, tenants are expected to concentrate in quality properties, so if appropriate investment can be made in quality properties, then it may be described as a market which can yield satisfactory returns.

That being said, hopes for a drastic recovery in the Osaka market probably lie with a victory by the Hanshin Tigers (baseball team) rather than the effect of Universal Studios Japan.