

2016 Survey of Office Needs in Tokyo's 23 Wards

December 20, 2016

- **Over 60% of firms planning to lease new office space are “Planning to Expand Office Space”.**
- **“More Floorspace per Floor” moved up two places to second for the first time in nine years .**

Of the reasons cited for leasing new office space, the number one response was "To Expand Business/To Accommodate an Increase in Employees", followed by "More Floorspace per Floor" in second place. Approximately 40% of firms indicated a plan "To increase employee numbers", resulting in firm demand for office space. In creating an office environment, it became clear that "Open meeting space" and "Free address" were at the strong positive trend.

1. Plans to Lease New Office Space

- 22% of firms indicated a plan to lease new office space. Of these, 64% indicated plans for expansion.

2. Reasons for Plans to Lease New Office Space

- The primary reason for planning to lease new office space was 'To Expand Business/To Accommodate an Increase in Employees' for the fourth consecutive year.
- 'More Floorspace per Floor' was second place for the first time in 9 years (2007).
- 'Better Location' and 'Anti-seismic Design' were placed highly as usual.

3. Desired Areas for Planned Lease of New Office Space

- When examined by area "Shimbashi", "Toranomom" areas along Loop Rd. No. 2, "Hamamatsucho", and "Tamachi" which all lie between Tokyo Station and Shinagawa Station, increased in points.

4. Current Rent and Reasonable Rent for New Office Space

- 55% of all firms have a monthly rent of less than 20,000 yen per tsubo.
- There is little difference between current rent and what rent firms expect to pay to lease new office space.

5. 2016 Rent Revisions

- 18% of firms received a rent revision within the last year.
- 79% of firms received a rent increase after the revision. The increase rate in 2016 is the largest since 2007.

6. Employee Numbers & Work Space

- 40% of firms indicated a plan to increase employee numbers.
- The amount of workspace per person was approximately 28% for 'Lacking'.
- In terms of workspace measures, "Open meeting space" and "Free address" were measures preferred for emphasis in the future.

Since 2003, Mori Building Co., Ltd. (Minato-ku, Tokyo, President & CEO - Shingo Tsuji) has regularly conducted a Survey of Office Needs in Tokyo's 23 Wards in order to better understand trends in the office building market.

A survey regarding new demand for office space was sent to companies headquartered in the 23 wards and ranked in the top 10,000 in capitalization. We have compiled the 2016 survey results, and we would like to share some of our findings and insights in the following report.

*The survey was conducted between October 3 and 28, 2016. Surveys were sent to 10,320 firms with a response rate of 20.2% (2,080 firms).

*Results will be reported to participating firms separately.

For more information & inquiries, please contact:

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1 Plans to Lease New Office Space

• 22% of firms indicated a plan to lease new office space. Of these, 64% indicated plans for expansion.

When asked whether they were considering relocating or leasing further offices, 22% of firms indicated that they were planning on leasing a new office (Figure 1). When asked about plans for expansion vs. reduction of space, firms indicating 'Expansion' increased from last year to 64% (Figure 2). Firms planning to lease new office space 'Within 1 year' decreased for the second year, dropping to 29%. On the other hand, firms indicating 'Longer' (3 years or more) increased for the second consecutive year, making up nearly half of all responses with 48% (Figure 3).

Over the last 5 years there has been an increase in the number of firms planning on expanding, revealing a high potential demand for office space. Since peaking in 2012, the office vacancy rate for Tokyo's 23 Wards has shown a steady downward trend. The expectation for economic recovery up until about 2014 gave way to an anticipated rise in rent prices, leaving many vacancies in the market in relatively new, comparatively cheap, large buildings in desirable locations. This in turn resulted in the demand for offices being rapidly absorbed. We can also presume that this factored into the increase in firms planning to lease new office space 'Within 1 year'.

Uncertainty in the economy started to spread from around the middle of 2015, leading to a decline in vacant offices and a subsequent limit to the options for firms to lease new office space. It is anticipated that supply will increase in 2018. We can assume that these factors played a role in the decrease of firms planning to lease new office space 'Within 1 year' for two consecutive years. While the demand for new office space is stable, centering on 'Expansion', there appears to be no sense of urgency.

Figure 1: Future Plans to Lease New Office Space

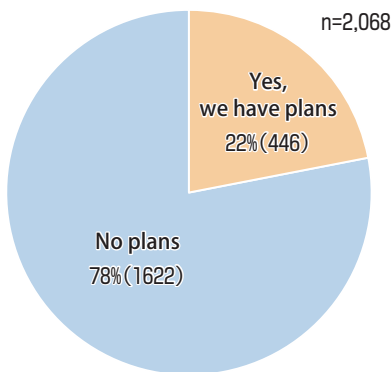


Figure 2: Plans for Expansion vs. Reduction of Space

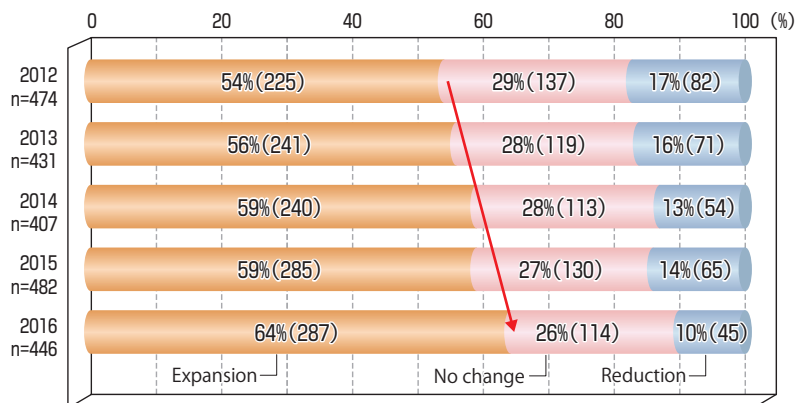
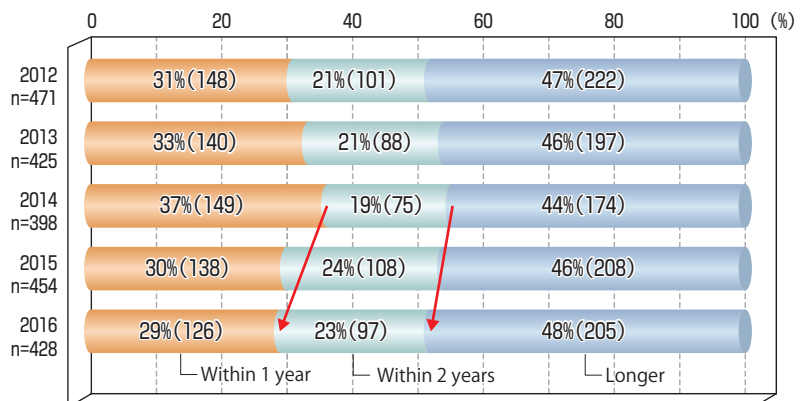


Figure 3: Timing of Planned Lease of New Office Space



2 Reasons for Plans to Lease New Office Space

- The primary reason for planning to lease new office space was 'To Expand Business/To Accommodate an Increase in Employees' for the fourth consecutive year.
- 'More Floorspace per Floor' was second place for the first time in 9 years (2007).
- 'Better Location' and 'Anti-seismic Design' were placed highly as usual.

In terms of the reason for planning to lease new office space, 'To Expand Business/To Accommodate an Increase in Employees' (35%) was first for the fourth consecutive year. 'More Floorspace per Floor' (28%) moved up two places to second for the first time in nine years (2007). 'Lower Rent/Lower-priced Building' (23%) also moved up two ranks to share fourth place with 'Anti-seismic Design' (23%) (Figure 4/Figure 5).

The positive trend in the reasons to plan a new lease continues with 'To Expand Business/To Accommodate an Increase in Employees'. While firms are working towards expanding business and accommodating an increase in employee numbers, we can also see increased hesitation by some firms worried about total costs and/or wanting to maintain the status quo. 'Better Location' and 'Anti-seismic Design' were placed highly as usual, however this year both were overtaken by 'More Floorspace per Floor'. While the market trend for rising rents continues, we can infer that by moving to an office with 'More Floorspace per Floor', firms want to create a more effective layout and enhance the office environment and handling of increased numbers of employees without overly increasing costs.

Figure 4: Reason for Plans to Lease New Office Space (compared to previous survey) ※ Multiple answers allowed.
 ※ Total number of responding firms is counted as 100.

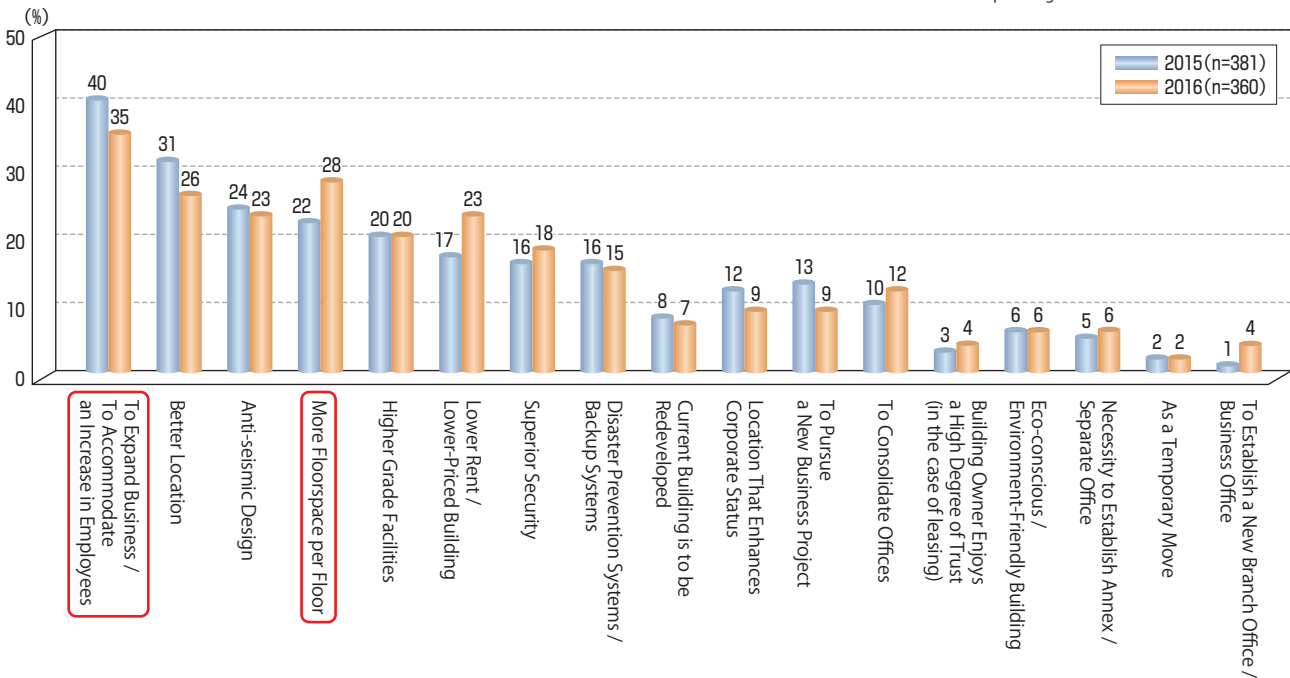
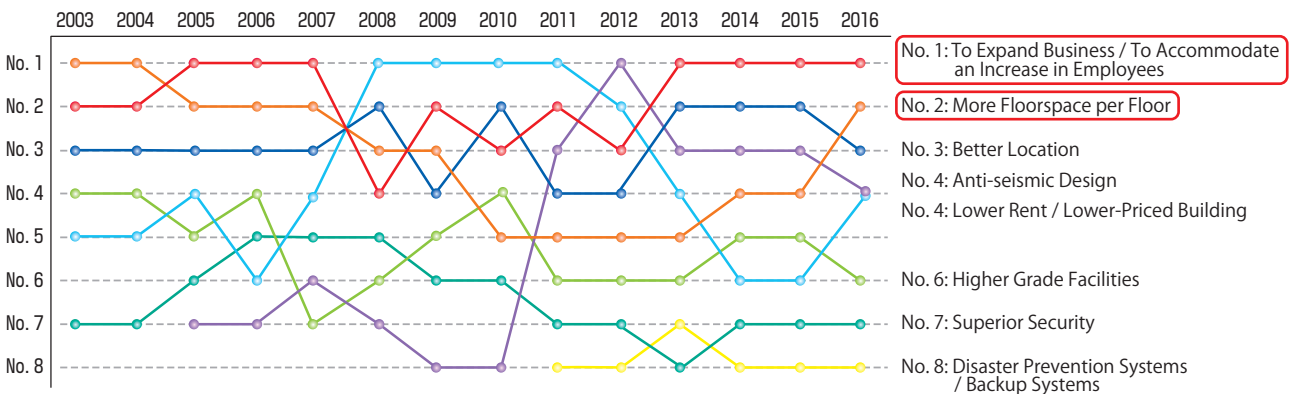


Figure 5: Trends in the Reason for Plans to Lease New Office Space



3 Desired Areas for Planned Lease of New Office Space

• When examined by area "Shimbashi", "Toranomom" areas along Loop Rd. No. 2, "Hamamatsucho", and "Tamachi" which all lie between Tokyo Station and Shinagawa Station, increased in points.

Regarding desired areas by those who plan to lease new office space, Shinbashi (+7pt), Hamamatsucho (+5pt), Tamachi (+8pt) and Shinjuku (+5pt) all showed major increases over last year (Figure 6).

We can assume that information published on the numerous development plans for the station areas of Hamamatsucho and Tamachi, as well as the obvious construction in the area had a positive impact for respondents choosing these areas. This also made neighboring Shinbashi a popular choice, with a ripple effect resulting in increased points for neighboring Toranomom, Hamamatsucho and Hibiya. We can assume that the newly opened businesses built as part of the development plan for the South exit of the Shinjuku JR station, a connecting hub for rail traffic, also played a role in respondent choices.

Of the top 10 areas Shinbashi (second), Tamachi (sixth), and Hamamatsucho (eighth) all rose more than five points over last year (Figure 7).

The common factor for all three areas is the likely increase in value to the area due to developments to infrastructure. Shinbashi is connected by Shintora Avenue (between Shinbashi on Loop Road No. 2 and Toranomom) to Toranomom, an area in which many new development projects have been held back. Road maintenance and improvements along Shintora Avenue has led to the development of large-scale events that utilize the wide road. A possible BRT system is being reviewed for the future. Such a system could make the area a transport node between the city and the new Tokyo waterfront subcenter. However, Tamachi and Hamamatsucho are also planning to enhance their convenience by developing new pedestrian decks and upgrading the station. In addition, increased convenience through the construction of new stations and a Linear Chuo Shinkansen should lead to a rise in values.

Figure 6: Desired Areas for Planned Lease of New Office Space (compared to previous survey) ※ Multiple answers allowed. ※ Total number of responding firms is counted as 100.

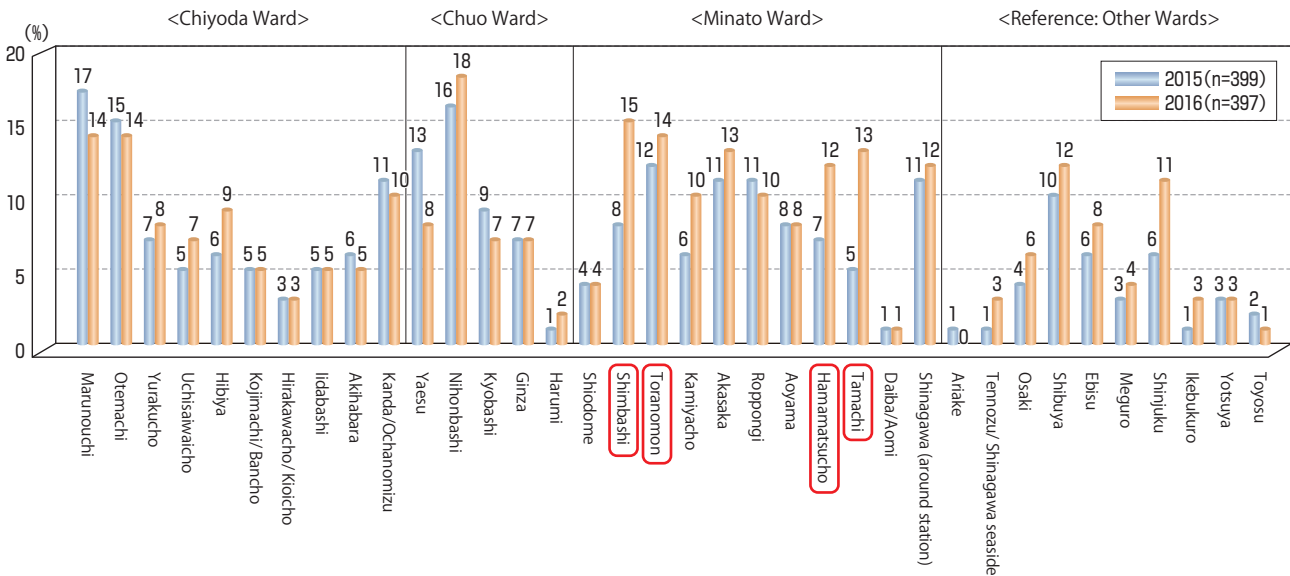
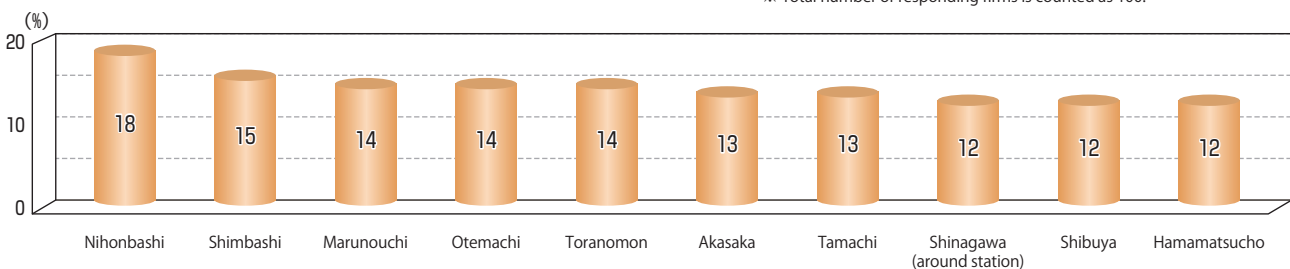


Figure 7: Desired Areas for Planned Lease of New Office Space (top 10 areas) ※ Multiple answers allowed. ※ Total number of responding firms is counted as 100.



4 Current Rent and Reasonable Rent for New Office Space

- 50% of all firms have a monthly rent of less than 20,000 yen per tsubo.
- There is little difference between current rent and what rent firms expect to pay to lease new office space.

In terms of current monthly rent, approximately 50% of all firms answered that they pay 20,000 yen or less per tsubo (including communal service charges). If monthly rent is increased to 30,000 yen or less per tsubo, the percentage of firms increases to 80% and in contrast, 15% pay more than 30,000 yen (Figure 8).

There is little difference between current monthly rent (per tsubo and including communal service charges) and what firms consider a reasonable amount to pay to lease new office space (Figure 9). On a whole this suggests that current monthly rents are in keeping with market trends.

Figure 8: Current Monthly Rent (per tsubo and including communal service charges)

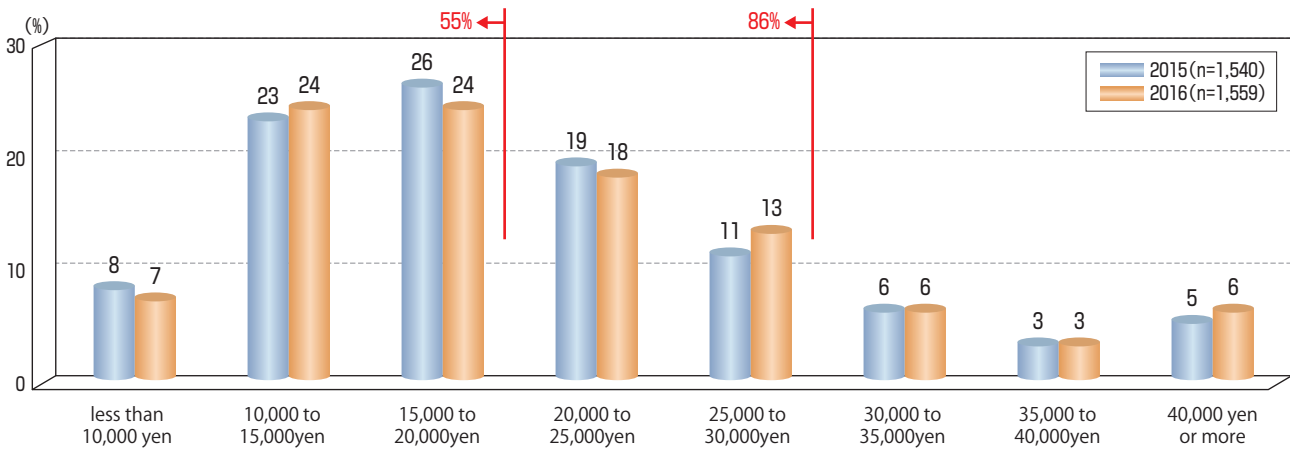
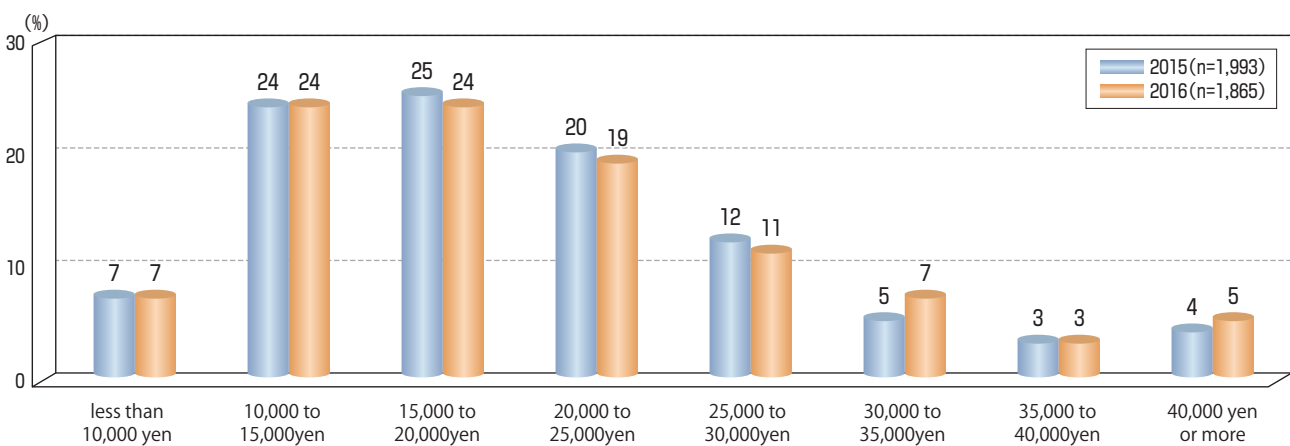


Figure 9: Reasonable Monthly Rent to Lease New Office Space (per tsubo and including communal service charges)



5 2016 Rent Revisions

- 18% of firms received a rent revision within the last year.
- 79% of firms received a rent increase after the revision. The increase rate in 2016 is the largest since 2007.

When asked about rent revisions within the last year 18% of firms answered 'Have Had a Rent Revision' and 6% answered 'Currently Under Revision' (Figure 10). Of 'Have Had a Rent Revision' firms 79% indicated that the revised rent was an 'Increase' (Figure 11). Looking at trends in rent revision status, the increase rate in 2016 is the largest since 2007, when the question was first introduced. In the rental office market, the vacancy rate has been on a downward trend since 2013, and it seems that the position of superiority of the lessor has gradually grown as the vacancy decreases.

Figure 10: Rent Revisions for Past Year

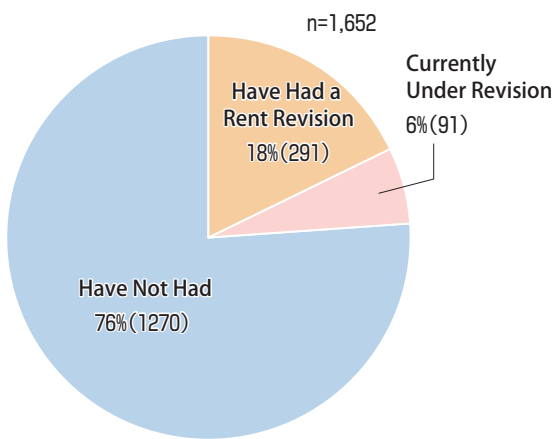
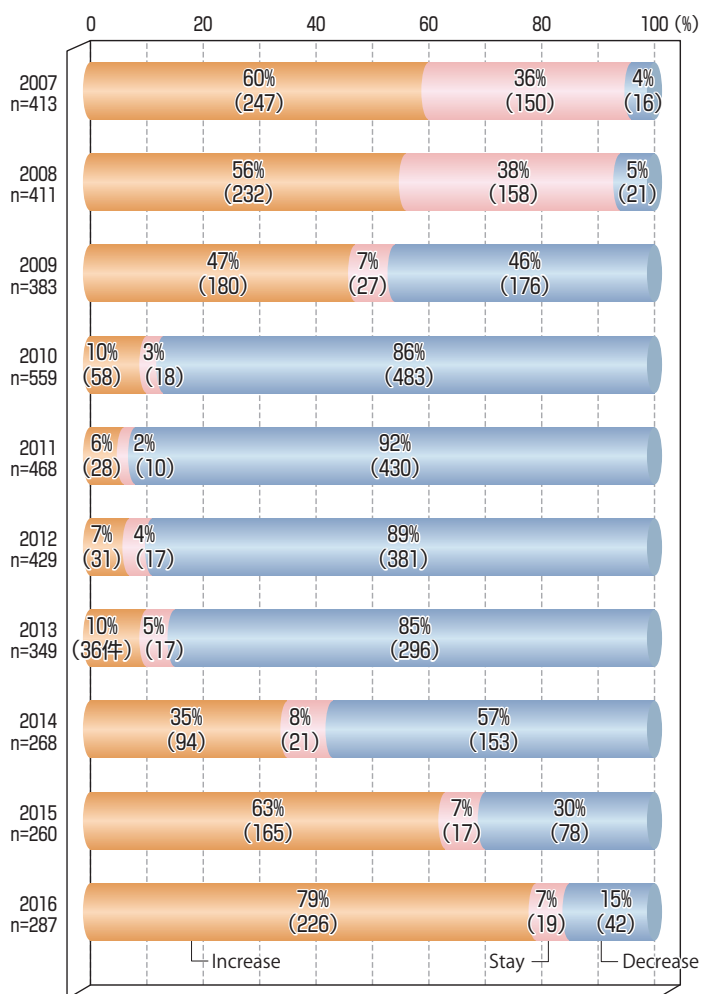


Figure 11: Post-Revision Rent (or expected rent) Increase vs. Decrease



6 Employee Numbers & Work Space

- Approximately 40% of firms indicated a plan to increase employee numbers.
- The amount of workspace per person was approximately 28% for 'Lacking'.
- In terms of workspace measures, "Open meeting space" and "Free address" were measures preferred for emphasis in the future.

In terms of the increase or decrease in employee numbers compared to the previous year, 37% of firms indicated an 'Increase' in numbers and 14% indicated a 'Decrease' (Figure 12). In terms of predicted changes to employee numbers, 40% of firms indicated a 'Predicted Increase' and 4% a 'Predicted Decrease' (Figure 13).

When asked about whether the floorspace per person within the office was adequate roughly the same number of firms indicated that it was 'Adequate' (30%) as they did 'Lacking' (28%) (Figure 14). When examined by corporate demographics Foreign companies (*over 50% foreign capital) tended to say that floorspace was adequate compared to their Japanese affiliated counterparts (*less than 50% foreign capital).

Figure 12: Changes to Employee Numbers over Previous Year

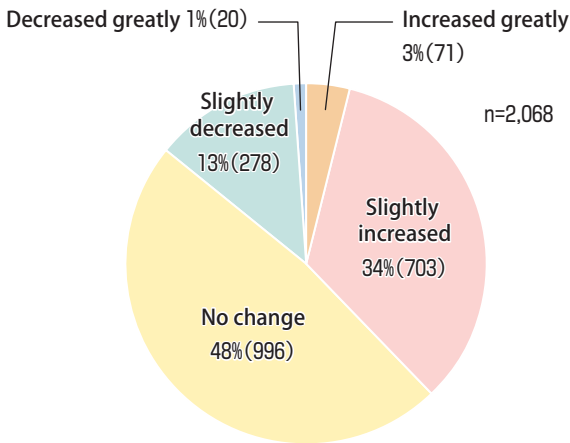


Figure 13: Outlook for Employee Numbers

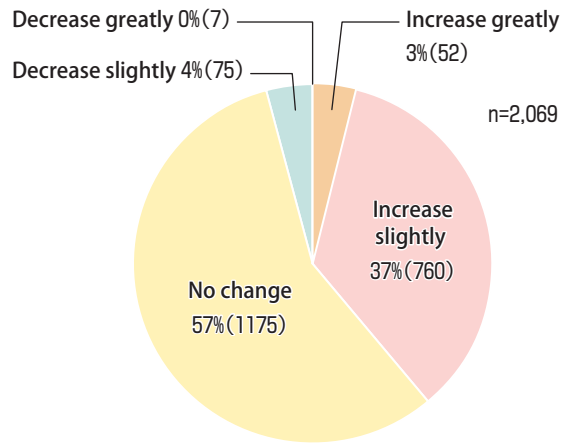
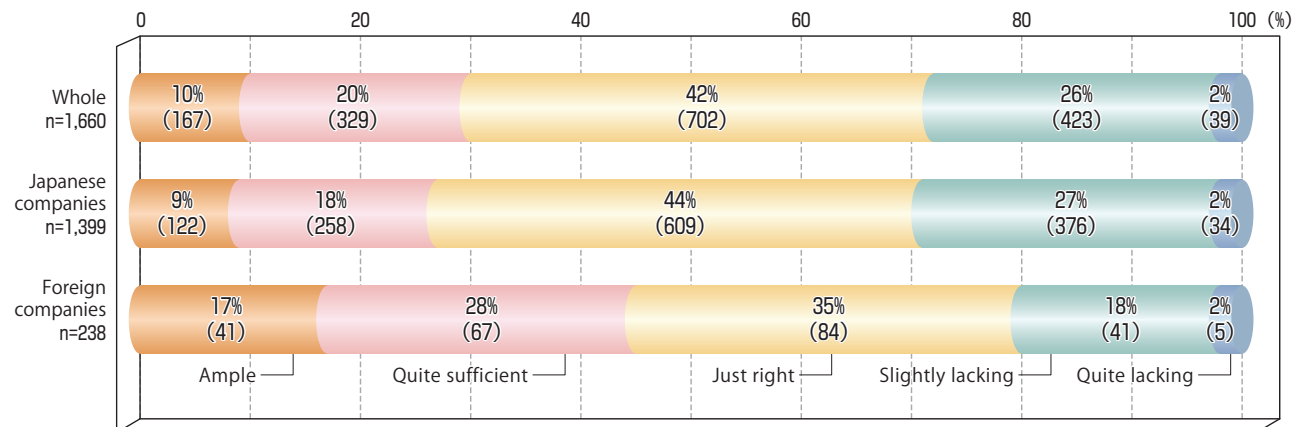


Figure 14: Workspace per Person



When asked about policy on future per-person workspace, over half of firms said they would 'Remain the Same'. Comparing the number of firms that chose 'Expand' (Total: 31pt) with those that chose 'Streamline' (Total: 46pt) it is apparent that more firms chose the latter (Figure 15). In terms of the 'Other' free comment space for companies 'Expanding', a trend is apparent for firms to carry out an overall review of workspace – through answers such as 'Expanding in line with moving office' and 'All of the above'. Answers such as 'Making more storage' and 'Getting bigger cabinets' also show a trend in firms expanding the amount of office storage. Regarding the free comments section for firms choosing 'Streamline', comments such as 'Reducing the boardroom', 'Replacing the meeting room' and 'Using external storage facilities' point to downsizing space for specific functions. Comments such as 'Using the meeting space for multiple purposes' shows creativity in operations.

In recent years there has been a focus on creating an office environment and system conducive to fostering creativity and productivity so that companies can attract the human resources necessary to create business solutions that give them a competitive edge. Firms were asked whether they viewed the costs to create this environment as an 'Investment' or a 'Cost'. The results were fairly even, with 37% of firms indicating it was an 'Investment' and 41% regarding it as a 'Cost' (Figure 16). Then when asked that in terms of the significant future measures for creating a better office environment, the top response was 'Open meeting space', and then 'Free address' (Figure 17).

Figure 15: Upcoming Workspace Policies

※ Multiple answers allowed.
 ※ Total number of responding firms is counted as 100.

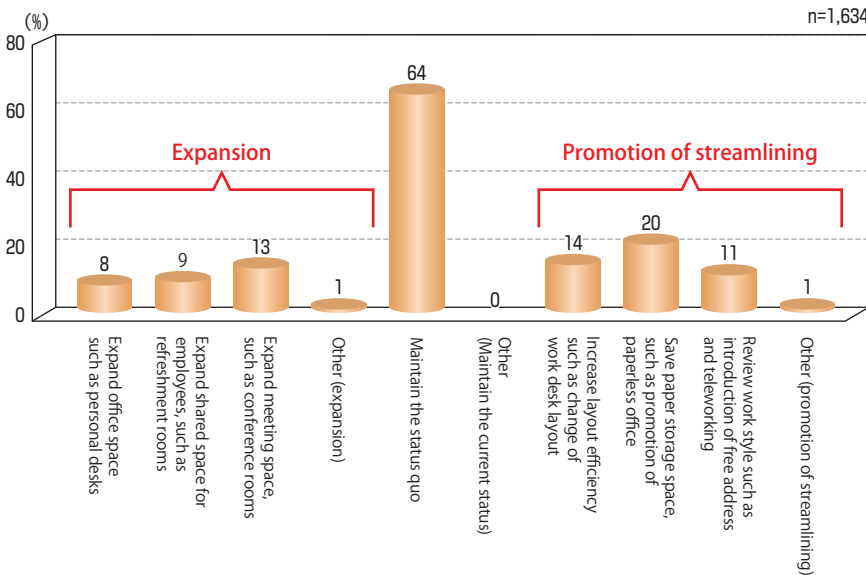


Figure 16: Is the Amount of Money Spent on Enhancing the Office Environment an Investment or a Cost?

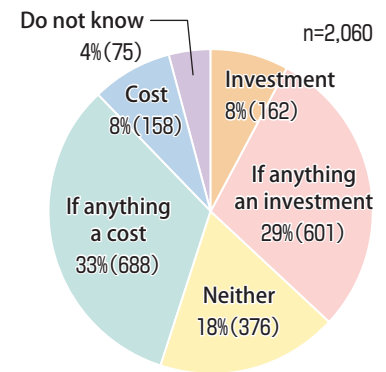


Figure 17: Significant Future Measures for Creating a Better Office Environment

※ Multiple answers allowed.
 ※ Total number of responding firms is counted as 100.

