

2018 Survey of Office Needs in Tokyo's 23 Wards

December 20, 2018

- **The percentage of firms planning to lease new office space continues to increase, with more than 60% of these firms responding that they are "Planning to Expand Office Space."**
- **For the sixth consecutive year, the number one reason for leasing new office space was "To Expand Business/To Accommodate an Increase in Employees."**
- **The ratio of firms whose rent had increased as a result of the latest rent revision was 91%, the highest ever since the survey began.**

The demand for offices remains stable, as many firms are expanding their office rental space, increasing their employee numbers and raising their rents. For the sixth consecutive year, the number one reason for leasing new office space was "To Expand Business /To Accommodate an Increase in Employees", while wanting to move to a "Lower Rent/ Lower-Priced Building" was the lowest rank since the survey began, showing an on-going positive trend for relocation. When asked about the challenges companies are facing regarding office environment, "Strengthening internal communication and collaboration" and "Consideration of employee health" ranked at the top. More companies are striving to relocate to higher quality offices for the purpose of acquiring more talented employees and promoting new ways of working.

1. Plans to Lease New Office Space

- The percentage of firms planning to lease new office space continues to increase, with more than 60% of these firms responding that they are planning to expand their space.
- Around 50% of those firms that are planning to lease new office space intend to do so within the next few years.

2. Reasons for Plans to Lease New Office Space

- For the sixth consecutive year, the number one reason for leasing new office space was "To Expand Business/To Accommodate an Increase in Employees".
- "Lower Rent/Lower-Priced Building" came in at 7th place, the lowest rank ever since the survey began.

3. Desired Areas for Planned Lease of New Office Space

- Areas that are expected to become even more appealing achieved top rankings, including the Tokyo station area and the Shimbashi-Toranomon area.

4. Current Rent and Reasonable Rent for New Office Space

- The percentage of price range over 25,000 yen per tsubo increased in both the "Current Monthly Rent" and "Reasonable Monthly Rent to Lease New Office Space".

5. 2018 Rent Revisions

- 21% of firms received a rent revision within the last year.
- The ratio of firms whose rent had increased as a result of the latest rent revision was 91%, the highest ever since the survey began.

6. Issues Regarding Business Management and Creating a Better Office Environment

- In regard to business management, the issue given the highest priority was "Strengthening human resources."
- As an issue regarding the creation of a better office environment, cost-cutting decreased, while "Strengthening internal communications" and "Consideration of employee health" have increased.

7. Number of Employees and Work Space

- 45% of firms indicated plans to increase their number of employees.
- For future workspace policies, the ratio of firms responding to "Maintain the status quo" decreased, while the ratio of companies seeking "Expansion" or "Promotion of streamlining" increased.

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

This survey regarding new demand for office space was sent to companies headquartered in the 23 wards and ranked in the top 10,000 in terms of capital. We have compiled the 2018 survey results, and we would like to share some of our findings and insights in the following report.

**This survey was conducted between October 1–31, 2018. Surveys were sent to 10,404 firms (excluding our tenants) with a response rate of 16.4% (1,702 firms).*

**A report on the results will be given to the participating firms separately.*

For more information & inquiries, please contact:

Office Business Department, Leasing Operations Division, Mori Building Co., Ltd.
Roppongi Hills Mori Tower, 6-10-1 Roppongi, Minato-ku, Tokyo 106-6155 TEL 03-6406-6672 (<http://www.mori.co.jp>)

1 Plans to Lease New Office Space

- The percentage of firms planning to lease new office space continues to increase, with more than 60% of these firms responding that they are planning to expand their space.
- Around 50% of those firms that are planning to lease new office space intend to do so within the next few years.

The percentage of companies planning to lease new office space was 27%, which has been a rising trend in recent years (Figure 1). Next, to break these results down, we confirmed whether the firms intended to expand or decrease their office space. The ratio of firms planning to expand are increasing each year (see Figure 2); and recently, out of the firms planning to lease new office space, more than 60% (65%) responded that they are planning to expand (Figure 3). In regard to the timing of expansion, 34% responded that they would expand “within 1 year,” and 16% responded that they would expand “within 2 years.” Thus, the ratio of companies who intend to expand their office space within 1–2 years was around 50% (Figure 4). Owing to the fact that the ratio of firms that are planning to expand their space is on the increase, and that many firms are planning to do so at an early stage, we can see that the demand for office space is on an upward trend.

Figure 1 : Future Plans to Lease New Office Space

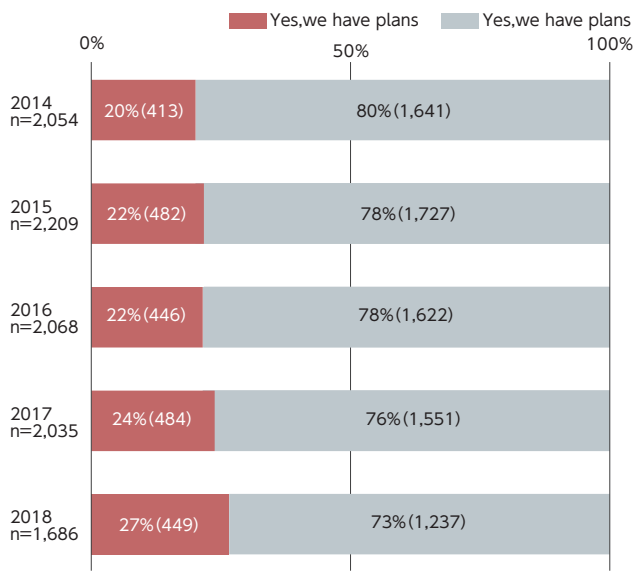


Figure 2 : Plans for Expansion vs. Reduction of Space (over time)

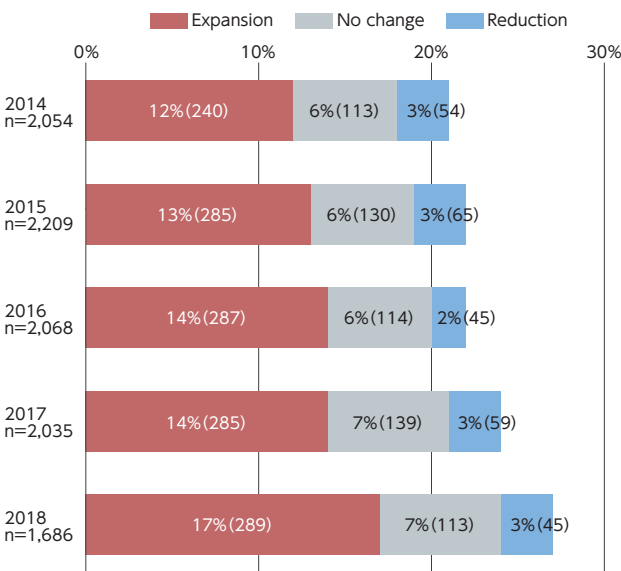


Figure 3 : Plans for Expansion vs. Reduction of Space (single year)

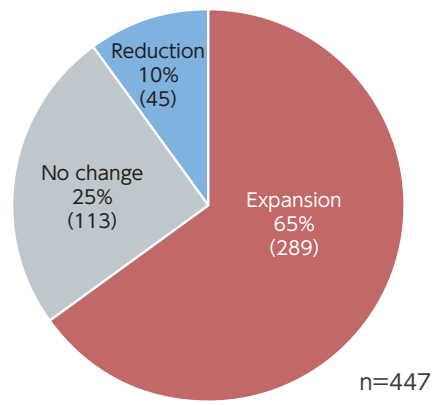
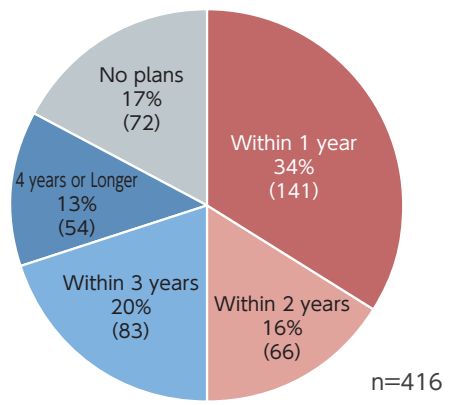


Figure 4 : Timing of Planned Lease of New Office Space



2 Reasons for Plans to Lease New Office Space

- For the sixth consecutive year, the number one reason for leasing new office space was "To Expand Business/To Accommodate an Increase in Employees".
- "Lower Rent/Lower-Priced Building" came in at 7th place, the lowest rank ever since the survey began.

In terms of the reason for planning to lease new office space, "To Expand Business/To Accommodate an Increase in Employees" (36%) was number one for the sixth consecutive year. The trend for firms to take greater initiative in office relocation continues, as can be seen by the fact that the 1st to 5th results were the same as last year, and that the number of points for these results rose over last year (#2: "Better Location" was 32%; #3: More "Floorspace per Floor" was 27%; Figures 5 and 6). On the other hand, "Lower Rent/Lower-Priced Buildings" (19%) came in at 7th, a decrease in rank for the second consecutive year, and is now at its lowest rank ever since the survey began.

Also, "To Consolidate Offices" (7%) decreased by seven points over last year. As the office vacancy rate has fallen below past minimum levels, we speculate that it may be difficult to obtain office space of appreciable sizes.

Figure 5 : Reason for Plans to Lease New Office Space (compared to previous survey)

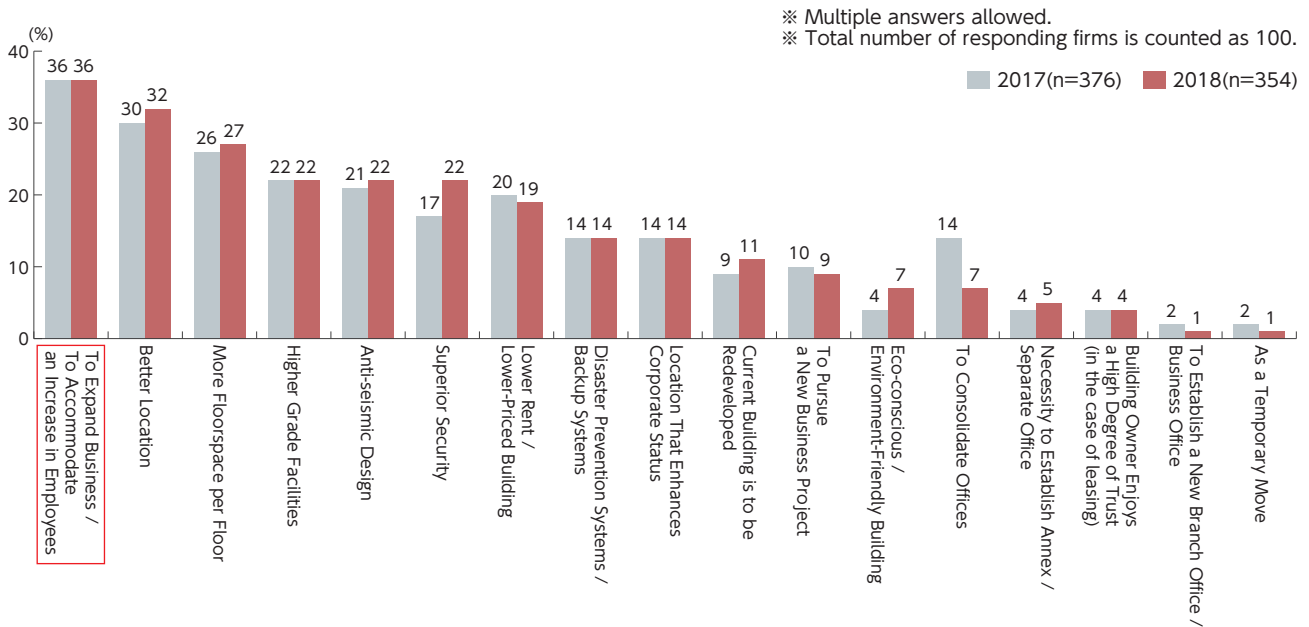
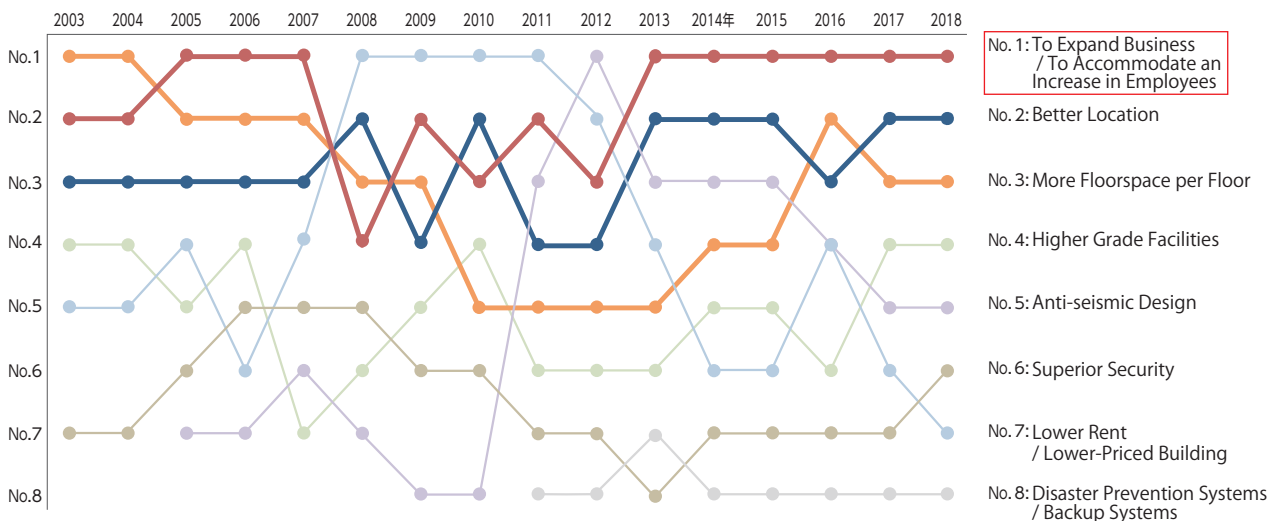


Figure 6 : Reason for Plans to Lease New Office Space (changes in ranking)



3 Desired Areas for Planned Lease of New Office Space

• Areas that are expected to become even more appealing achieved top rankings, including the Tokyo station area and the Shimbashi-Toranomon area.

For the “Desired Areas” of firms that are planning to lease new office space, Shimbashi (13%) coming in 5th place, traded places with Hamamatsucho (9%), once again moving into the top 10 areas for the first time in two years. It is speculated that the reason for this is because of the ripple effect generated by efforts to bring greater vitality to Shintora-dori Avenue and the progressing development of the Toranomon area. Areas such as Marunouchi (18%), Otemachi (18%), Nihombashi (17%), Toranomon (12%) gained more points to rank in the top positions (Figures 7 and 8).

We can say that upcoming supply of office space will be focused on these “desired areas.” In our “Survey of the Large-scale Office Building Market in Tokyo's 23 Wards” for 2018, around 70% (3.38 million m2) of the large-scale office building supply (5.08 million m2) during the five-year span of 2018–2022 is predicted to be centered in five areas (Marunouchi-Otemachi, Nihombashi-Yaesu, Shibaura-Seaside-Hamamatsucho, Shimbashi-Toranomon and Shibuya—see Figure 9). These five areas roughly correspond to the “Desired Areas for Planned Lease of New Office Space”.

In the areas where office space supply is centered, plans are being made to improve the convenience of key facilities such as stations and roads, as well as to create a high-quality city through multi-purpose development where areas of residences, work, and play are in close proximity. As a result, the areas that are expected to become even more appealing were selected.

Figure 7 : Desired Areas for Planned Lease of New Office Space (compared to previous survey)

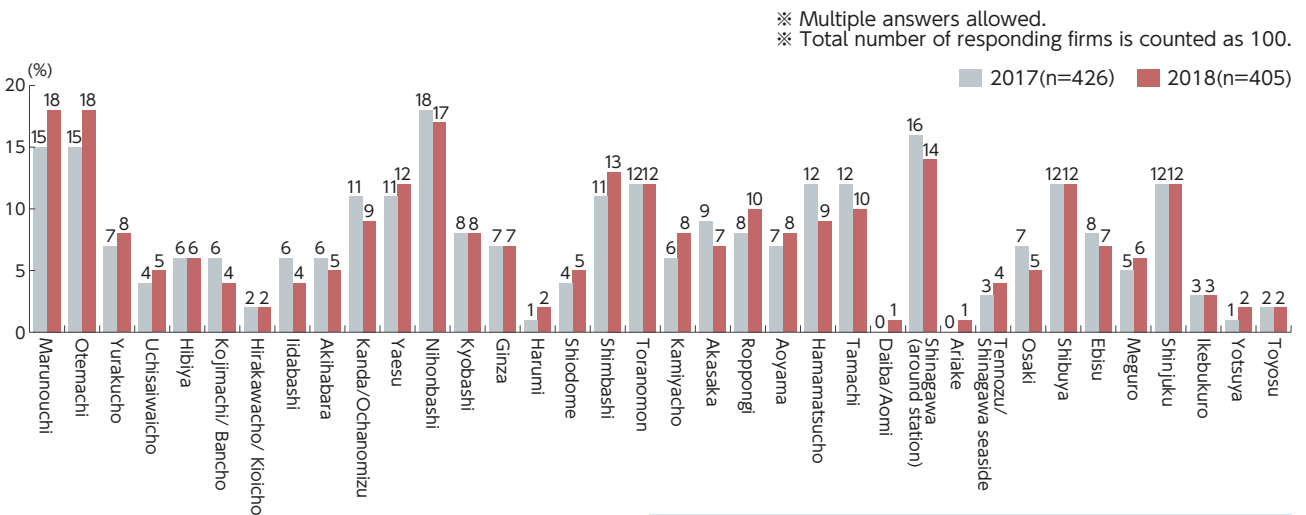


Figure 8 : Top 10 Desired Areas for Planned Lease of New Office Space

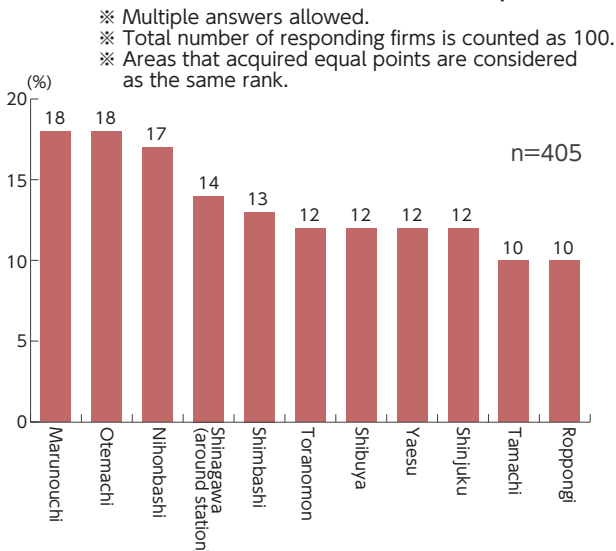
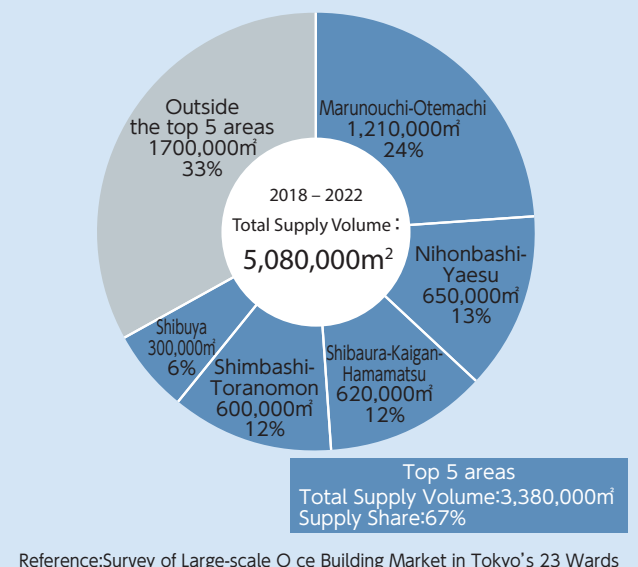


Figure 9 : Supply Volume by Major Business Areas for the Years 2018 - 2022



Reference: Survey of Large-scale Office Building Market in Tokyo's 23 Wards

4 Current Rent and Reasonable Rent for New Office Space

• The percentage of price range over 25,000 yen per tsubo increased in both the "Current Monthly Rent" and "Reasonable Monthly Rent to Lease New Office Space".

Regarding current monthly rent (per tsubo, including communal service charges) and the monthly rent that firms feel would be appropriate when leasing new office space (per tsubo, including communal service charges), the most responses for both questions were the same at "15,000 to 20,000 yen" (Figures 10 and 11).

In comparison with the previous year, the number of responses decreased for the price band ratio below 25,000 yen/tsubo for the current monthly rent (from a total of 71% to 66%), and the number of responses increased for the price band ratio of 25,000+ yen/tsubo (from a total of 28% to 34%). Comparing the price band ratio for "Reasonable Monthly Rent to Lease New Office Space" to the levels of the previous year (25,000 yen/tsubo), the number of responses decreased for the price band ratio below 25,000 yen/tsubo (from a total of 73% to 69%), and the number of responses increased for the price band ratio of 25,000+ yen/tsubo (from a total of 29% to 32%). In addition to the fact that the current rental market is on an upward trend, it appears that the market will be able to tolerate increased rents for office space expansion and relocation.

Figure10 : Current Monthly Rent (per tsubo, including common area charges)

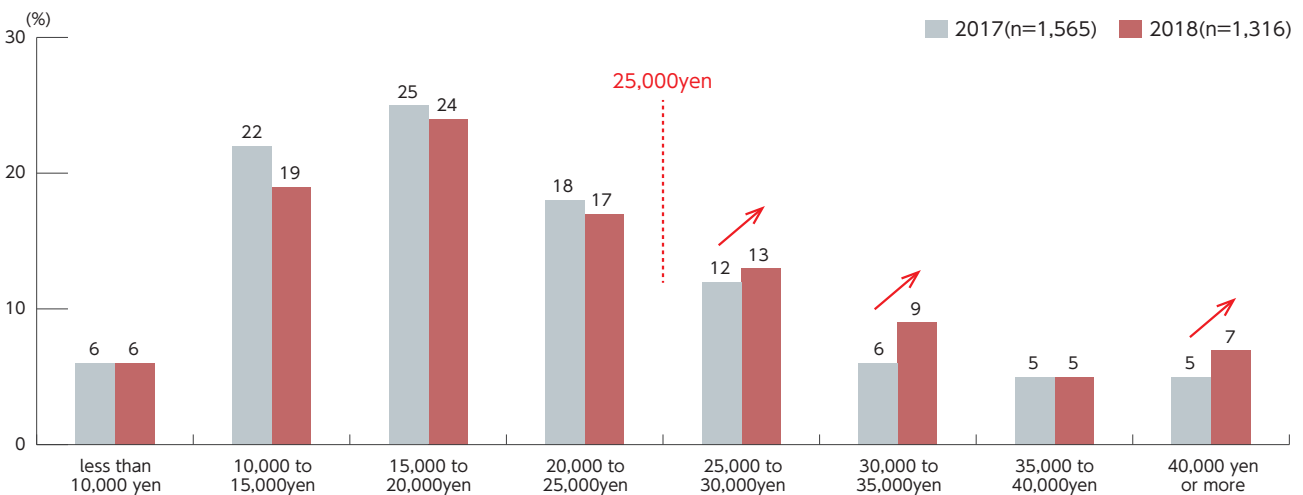
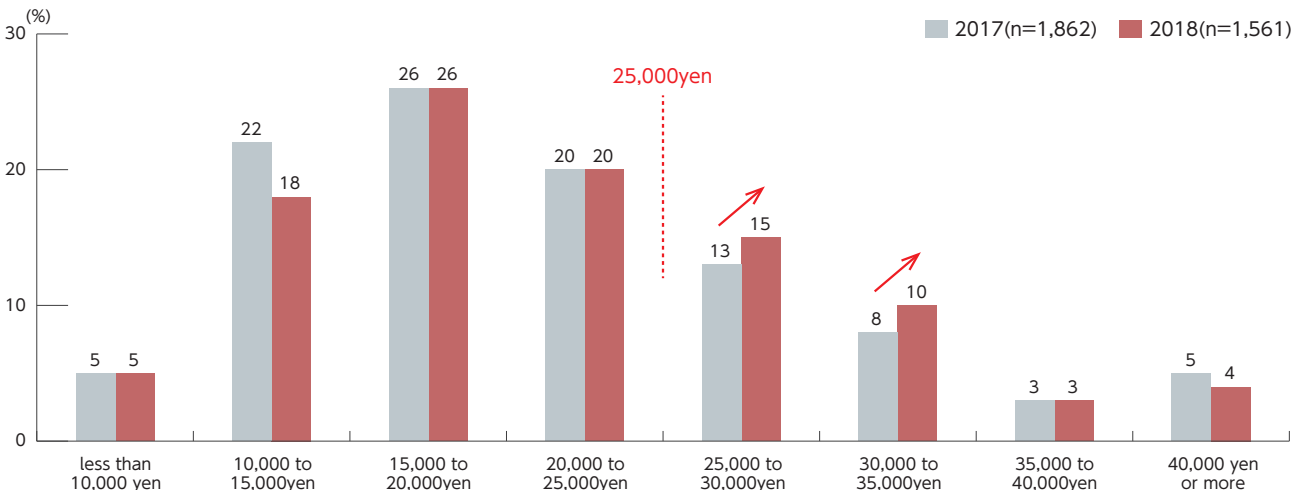


Figure11 : a Reasonable Monthly Rent to Lease New Office Space (per tsubo, including communal service charges)



5 2018 Rent Revisions

- 21% of firms received a rent revision within the last year.
- The ratio of firms whose rent had increased as a result of the latest rent revision was 91%, the highest ever since the survey began.

When asked about rent revisions within the last year, 21% of firms answered, "Have Had a Rent Revision" and 5% answered "Currently Under Negotiation" (Figure 12). Of the firms that indicated that they "Have Had a Rent Revision" or are "Currently Under Negotiation," 91% indicated that the revised rent was an "Increase," which was the highest proportion since 2007 (Figure 13). Although the market situation for 2018 was predicted to worsen due to the increased supply volume, the vacancy rate continues to fall, and lessors continue to hold an advantage amidst vigorous demand for office space.

Figure 12 : Rent Revisions for the Past Year

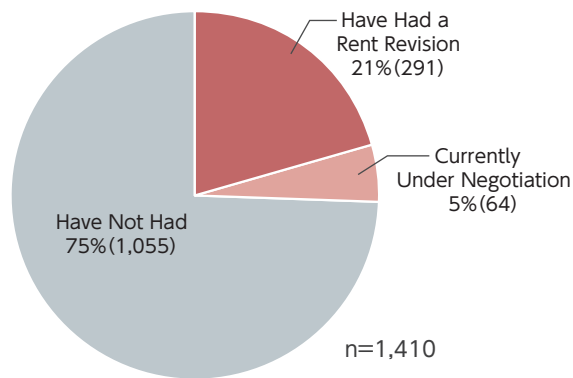
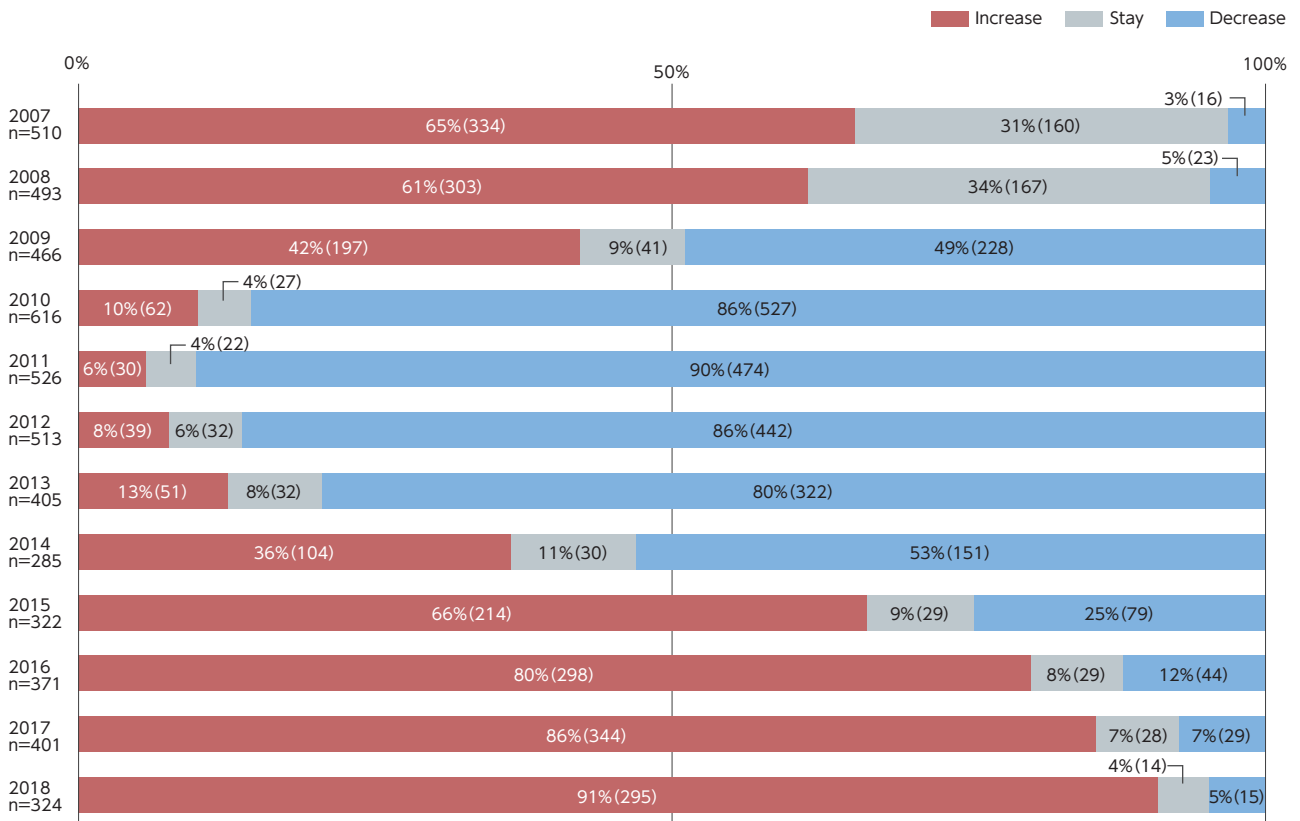


Figure 13: Increase/Decrease in Post-Revision Rent (or expected rent)



6 Issues Regarding Business Management and Creating a Better Office Environment

- In regard to business management, the issue given the highest priority was “Strengthening human resources.”
- As an issue regarding the creation of a better office environment, cost-cutting decreased, while “Strengthening internal communications” and “Consideration of employee health” have increased.

We compared the results of 2018 with 2015, in order to see how the situation has changed concerning issues for business management and creating a better office environment.

As with 2015, the top current business management issue was “Strengthening human resources” (62%), which beat out the issues of “improving profitability” (55%) and “Expanding sales and market share” (45%) for the top position (Figure 14). Companies are continuing to prioritize the acquisition of talented employees, amidst an increasingly tighter labor supply/demand situation.

Also, in regard to issues concerning the creation of a better office environment, “Cost-cutting to create an efficient office layout” (37%) decreased, whereas “Strengthening internal communications” (37%) and “Consideration of employee health” (34%) have increased (Figure 15). In recent years, more and more employees enjoy diverse working styles, and the importance of creating an office environment that is easy to work in is increasing. From this, we can see that advancements are being made in business management with a focus on human resources and on the office environment.

Figure 14: Current Business Management Issues

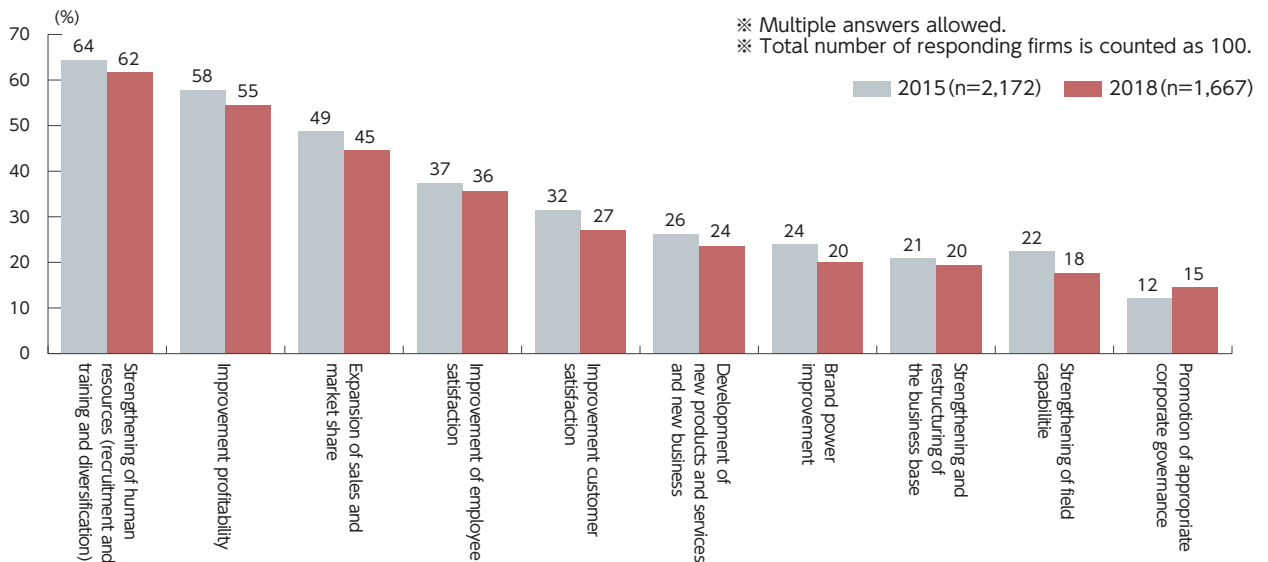
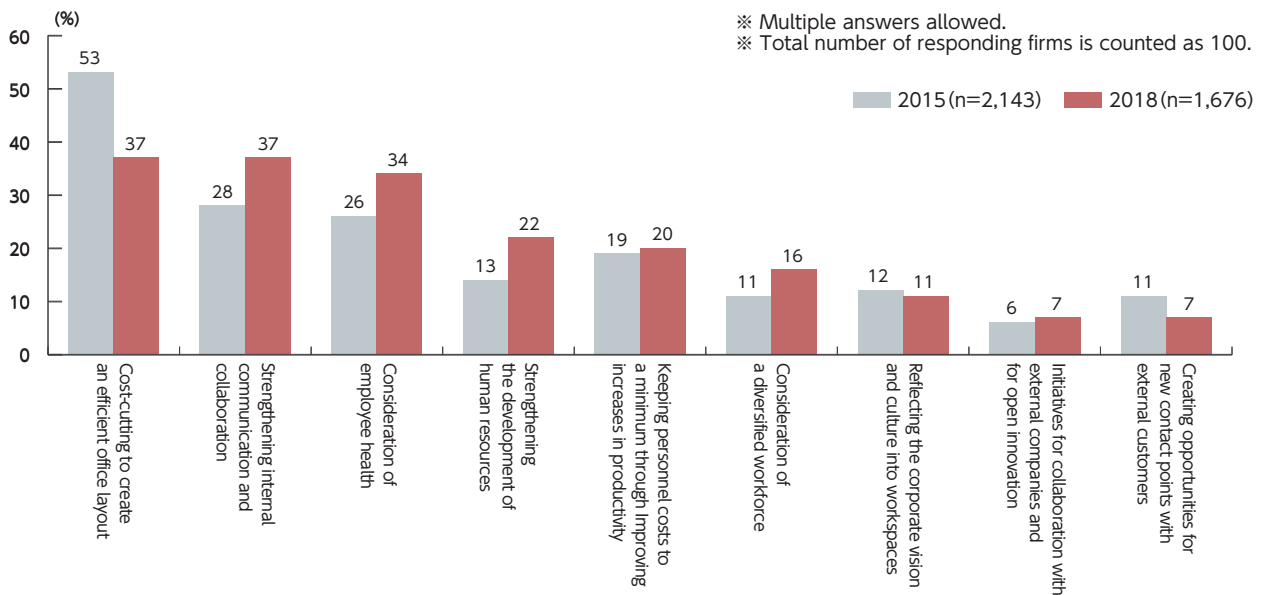


Figure 15: Issues Regarding Creating a Better Office Environment



7 Number of Employees and Work Space

- 45% of firms indicated plans to increase their number of employees.
- For future workspace policies, the ratio of firms responding to "Maintain the status quo" decreased, while the ratio of companies seeking "Expansion" or "Promotion of streamlining" increased.

When asked about the increase or decrease in employee numbers compared to the previous year, 44% of firms indicated an 'Increase' in numbers and 12% indicated a 'Decrease' (Figure 16). When asked to predict changes of employee numbers, 45% of firms indicated a 'Predicted Increase' and 3% a 'Predicted Decrease' (Figure 17).

Also, in response to future workspace "Maintain the status quo" (58%) have decreases, while the number of respondents selecting "Expansion" (total of 41%) and "Promotion of streamlining" (total of 62%) have each shown an increase. The answers "Expand shared space for employees, such as refreshment rooms" (14%, among those who selected "Expansion") as well as "Save paper storage space, such as promotion of paperless office" (27%) and "Consider work style such as introduction of free address and teleworking" (16%, among those who selected "Promotion of streamlining") have increased by around 1.5 times the number of points over 2016, which shows that improvements in the office environment are advancing at a rapid pace. (Figure 18)

Figure 16: Changes in Number of Employees vs. Previous Year

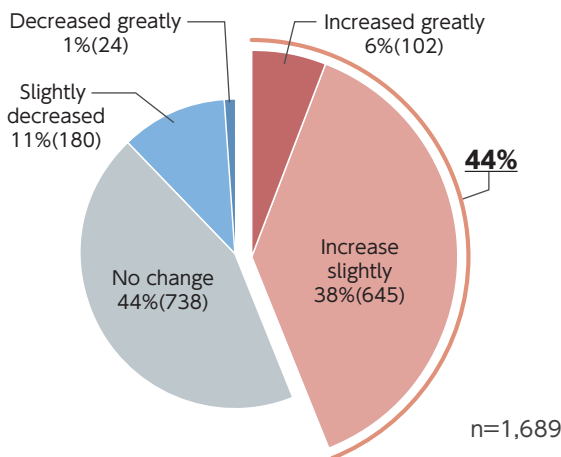


Figure 17 : Predictions for Upcoming Number of Employees

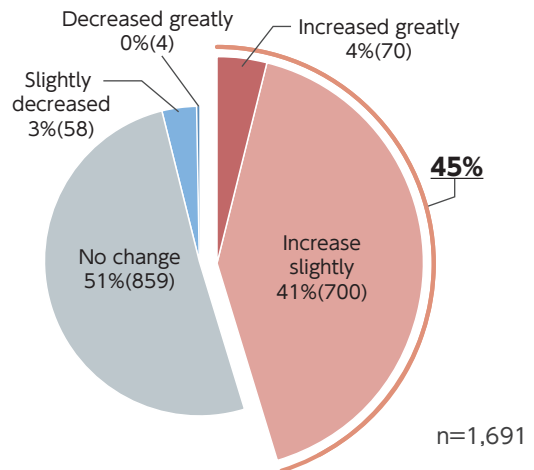


Figure 18 : Upcoming Workspace Policies

