

## 2019 Survey of Office Needs in Tokyo's 23 Wards

December 17, 2019

- **27% of firms indicated they planned to lease new office facilities; of these, more than 60% indicated plans to expand**
- **44% of firms—the highest percentage over the past decade—indicated that their reason for leasing new space was ‘To Expand Business/To Accommodate an Increase in Employees’ (the most common reason for seven consecutive years)**
- **The ratio of firms whose rent had increased as a result of the latest rent revisions was 93%, the highest since the survey began**

The overall situation is unchanged this year, with many companies expanding their business and their number of employees, expanding their office space and facing rising rents. We can see from this that there is continued demand for office space. For the seventh consecutive year, the #1 reason for leasing new office space was “To Expand Business/To Accommodate an Increase in Employees”; in this most recent survey this garnered the highest percentage of responses over the past decade. For the third consecutive year, the #2 reason was “Better Location,” and the #3 reason, for the third consecutive year, was “More Floorspace per Floor.” This shows a continued trend towards relocation. To add to this, the number of firms that view expenditure on creating an office environment as a necessary investment and not simply a cost is on the rise, and we believe that workplace programs and workspaces will change even more rapidly in the coming years to accommodate more diverse working styles.

### 1. Plans to Lease New Office Space

- 27% of firms indicated plans to lease new office space. Of these, more than 60% indicated plans to expand.
- Around 50% of firms planning to lease new office space intend to do so within the next two years.

### 2. Reasons for Plans to Lease New Office Space

- 44% of firms indicated that the reason for leasing new office space was “To Expand Business/To Accommodate an Increase in Employees.” This percentage was the highest it has been the past decade, and was the top reason given for seven consecutive years.
- “Better Location” was the #2 reason for the third consecutive year, and “More Floorspace per Floor” was #3 for the third consecutive year.

### 3. Desired Areas for Planned Lease of New Office Space

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

### 4. Current Rent and Reasonable Rent for New Office Space

- The ratio of firms considering 25,000 yen per month per tsubo and above to be a reasonable amount to pay for new office space continues to increase.

### 5. 2019 Rent Revisions

- 24% of firms received a rent revision within the last year.
- The ratio of firms whose rent increased as a result of their latest rent revision was 93%, the highest since the survey began.

### 6. Number of Employees

- 43% of firms indicated plans to increase their employee numbers.

### 7. Programs, activities and office environments etc. relating to working styles

- Around 50% of firms considered expenditure on office environments to be necessary investments and not simply costs.
- The number of firms stressing the importance of human resource development and diversity is on the rise.
- Around 60% of firms think positively about activities aimed at new styles of working, such as flex-time programs, working from home, etc.
- 25% of firms permit their employees to hold a second job or a side job. Overall, around 70% of firms have an attitude of acceptance regarding second jobs or side jobs.

### 8. Initiatives regarding environmental problems and other social issues

- Around 20% of firms responded that they are already implementing such initiatives or plan to do so.
- Around 50% of firms with at least 300 employees responded that they are already implementing such initiatives or plan to do so.

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, which monitors new demand for office space, is sent to companies headquartered in Tokyo's 23 wards and ranked in the top 10,000 globally in terms of capital. We have compiled the results of the 2019 survey, and we would like to share some of our findings and insights in the following report.

This latest survey was conducted during October 1–31, 2019. Invitations to respond were sent to 10,249 firms (excluding our tenants) with 1,827 responding, a response rate of 17.8%.

A report on the results will be shared with the participating firms separately.

#### For more information & inquiries, please contact:

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## 1 Plans to Lease New Office Space

- 27% of firms indicated plans to lease new office facilities. Of these, more than 60% indicated plans to expand.
- Around 50% of those firms that are planning to lease new office facilities intend to do so within the next two years.

The percentage of companies planning to lease new office facilities was 27% (Figure 1). 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 is increasing each year (Figure 2); and recently, 2 out of 3 firms planning to lease new office space responded that they are planning to expand (Figure 3). With regard to the timing of expansion, 29% responded that they would expand “within 1 year,” and 22% 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 more than 50% (Figure 4). The percentage of firms planning to newly lease or increase their office space was almost the same as that of last year, indicating that office demand in recent years seems to have remained stable.

Figure 1: Future Plans to Lease New Office Space

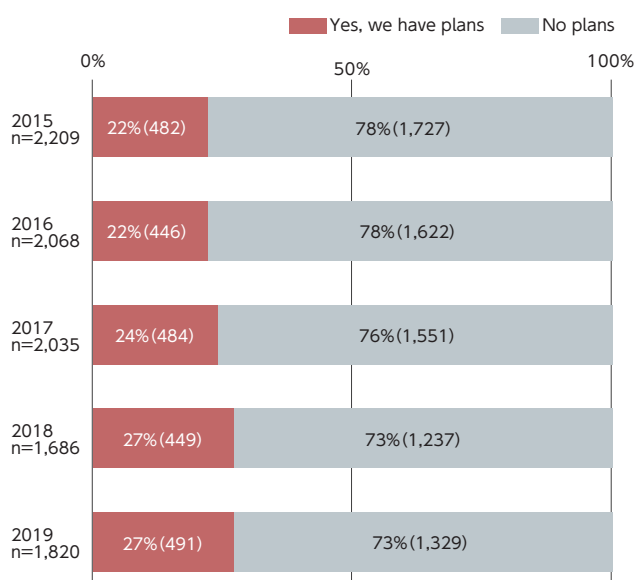


Figure 2: Plans for Expansion vs. Reduction of Space (over time)

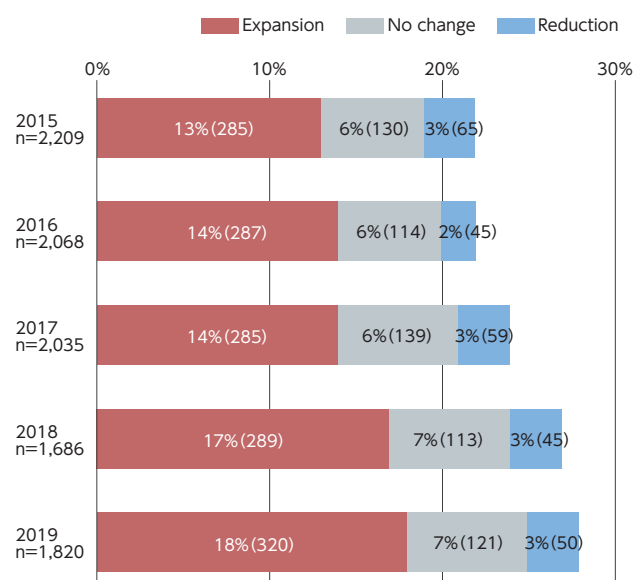


Figure 3: Plans for Expansion vs. Reduction of Space (single year)

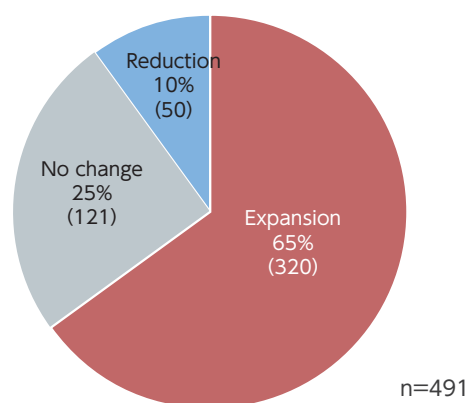
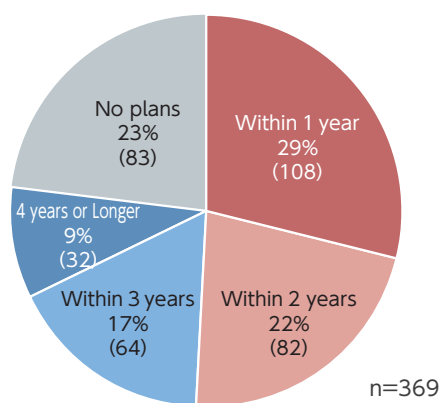


Figure 4: Timing of Planned Lease of New Office Space



## 2 Reasons for Planning to Lease New Office Space

- 44% of firms indicated that the reason for leasing new office facilities was “To Expand Business/To Accommodate an Increase in Employees” – the highest percentage over the past decade and the most commonly provided reason for seven consecutive years.
- “Better Location” was #2 for the third consecutive year, and “More Floorspace per Floor” was #3 for the third consecutive year.

In terms of the reason for planning to lease new office facilities, “To Expand Business/To Accommodate an Increase in Employees” showed a significant increase from 36% last year to 44% this year, and was the leading reason given for the seventh consecutive year. Also, the trend for firms to undertake office relocation at their own initiative is continuing (Figures 5 and 6), with “Better Location” (28%) #2 for the third consecutive year, and “More Floorspace per Floor” (27%) in third position.

Reasons for plans to lease new facilities that featured less frequently in this year’s survey included “Higher Grade Facilities” (falling from 22% to 18%), “Anti-seismic Design” (ditto) and “Superior Security” (falling from 22% to 15%). We believe that as more office buildings are being provided with higher-grade facilities, anti-seismic design and superior security, and as more firms relocate to such buildings, the number of firms citing these as top reasons for relocating is decreasing.

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

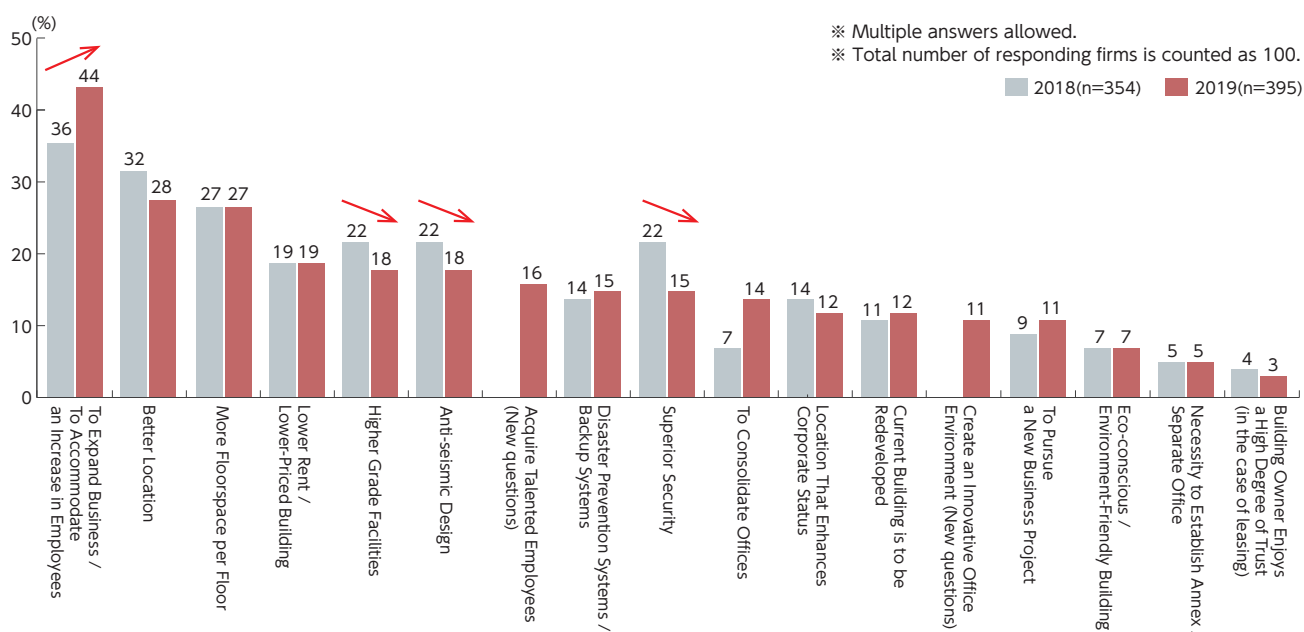
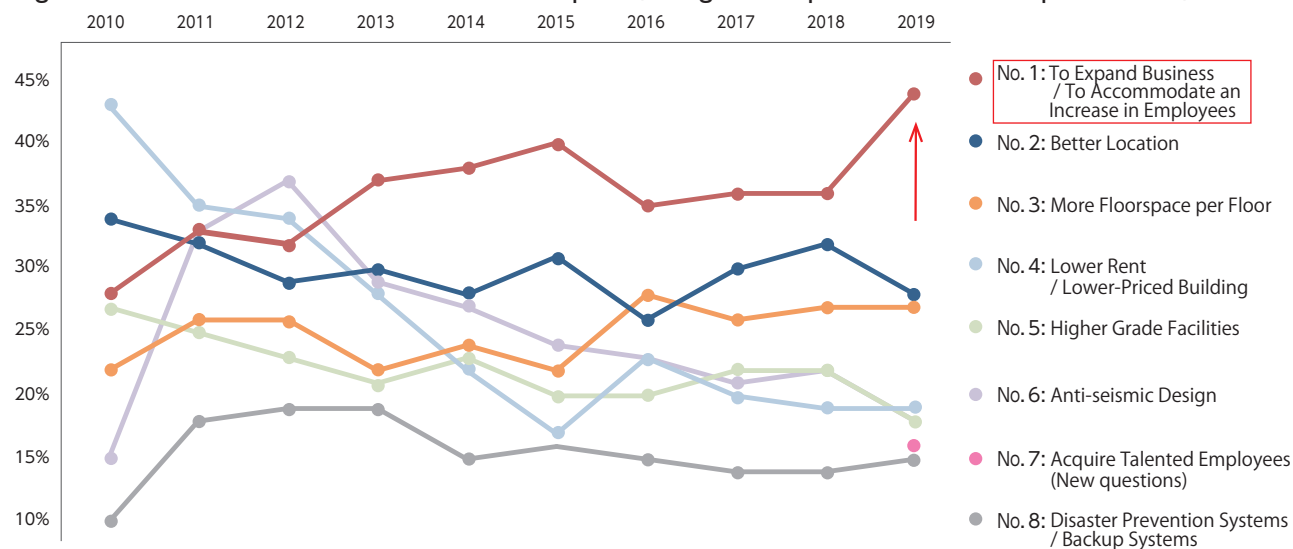


Figure 6: Reason for Plans to Lease New Office Space (changes in response rate over the past decade)



### 3 Desired Areas for Planned Lease of New Office Space

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

Similarly to last year, in the category of “Desired Areas” for firms planning to lease new office facilities, areas such as Nihombashi (the choice of 18% of respondents), Marunouchi (15%), Otemachi (15%) and Toranomon (13%) were ranked highest as areas in which office supply will be centered (Figures 7 and 8).

Our 2019 “Survey of the Large-scale Office Building Market in Tokyo's 23 Wards” indicated that around 70% (3.67 million m<sup>2</sup>) of the 5.09 million m<sup>2</sup> of new large-scale office building supply predicted to become available during the five-years of 2019–2023 is expected to be centered in five areas (Marunouchi-Otemachi, Nihombashi-Yaesu-Kyobashi, Shimbashi-Toranomon, Shinagawa-Tamachi-Hamamatsucho, and Shibuya; see Figure 9). These five areas roughly correspond to what this 2019 Survey of Office Needs revealed to be the “Desired Areas for Planned Lease of New Office Space”.

In areas where new office supply is concentrated, it is planned to improve facilities such as stations and roads, as well as deploying multi-purpose development methods to create highly functional city zones incorporating areas where residents live, work and play in close proximity to each other. As a result, these areas are expected to become even more appealing.

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

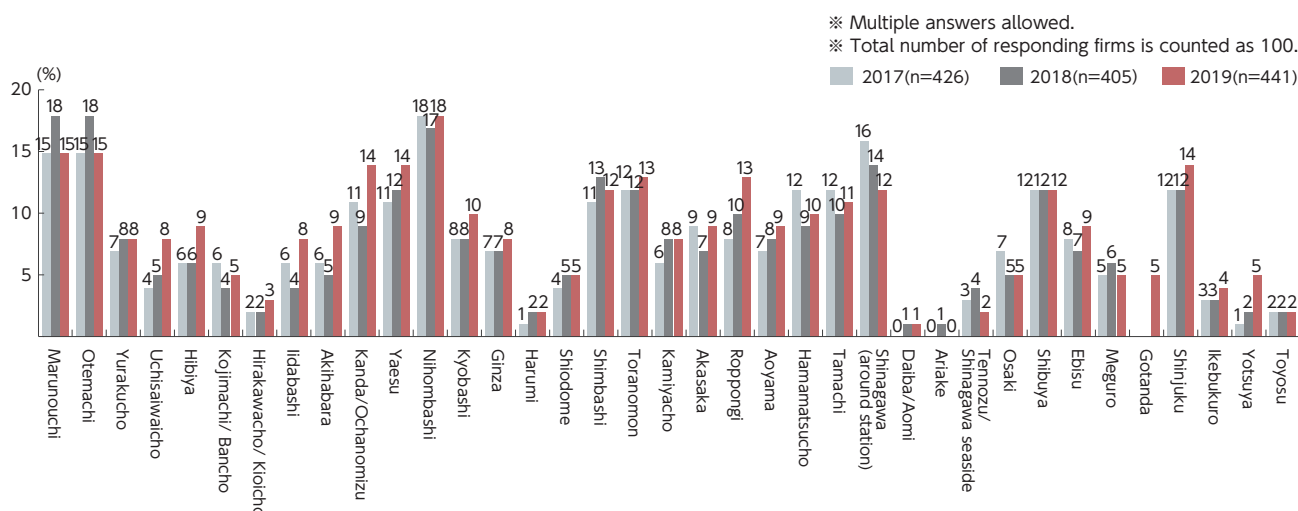


Figure 8: Top 10 Desired Areas for Planned Lease of New Office Space

- ※ Multiple answers allowed.  
※ Total number of responding firms is counted as 100.  
※ Areas that acquired equal points are considered as the same rank.

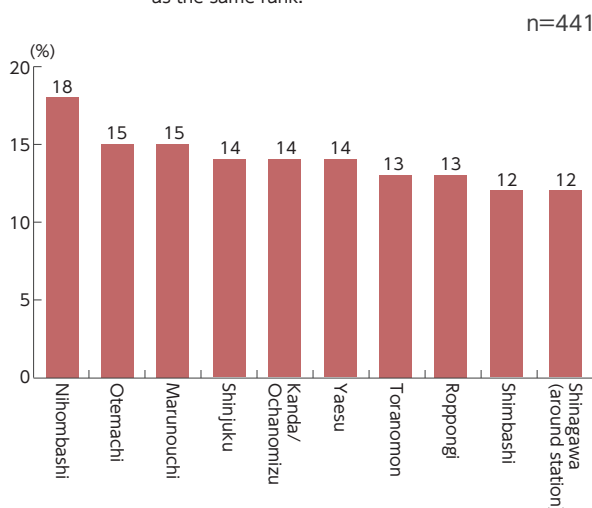
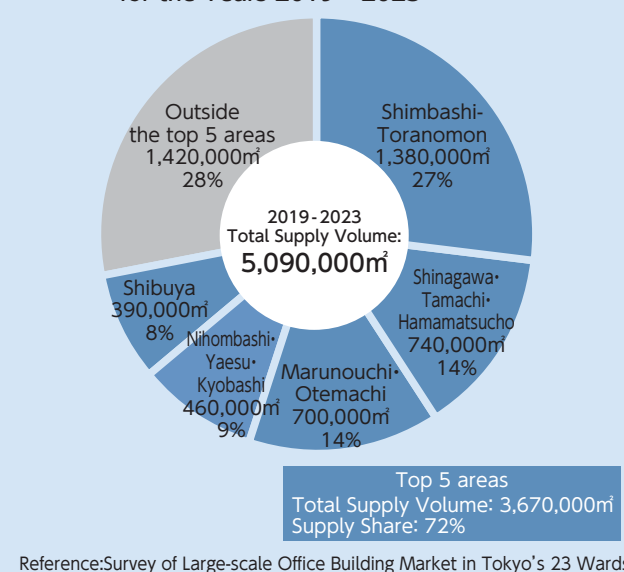


Figure 9: Supply Volume by Major Business Areas for the Years 2019 – 2023



## 4 Current Rent and Reasonable Rent for New Office Space

- The ratio of firms considering 25,000 yen per tsubo and above to be a reasonable amount to pay for new office space increased this year. In particular, the number of respondents seeing the price range of 35,000 yen per tsubo and above as reasonable saw an increase.

Regarding current monthly rent and the monthly rent that firms feel would be appropriate when leasing new office space (per tsubo, including communal service charges), the most common responses were the same at “15,000 to 20,000 yen” (Figures 10 and 11). Also, the percentage of firms considering 25,000 yen per tsubo and above a reasonable rent for new office space continued a year-on-year increase in price range (from a total of 29% of respondents in 2017 to 32% in 2018 and to 37% in 2019). In particular, as the amount of office space in the price range of 35,000 yen per tsubo and above is increasing this year and the basic sentiment of the rental market continues to improve, the market is likely to tolerate increased rents at times of office expansion or relocation.

Figure 10: Current Monthly Rent (per tsubo, including communal service charges)

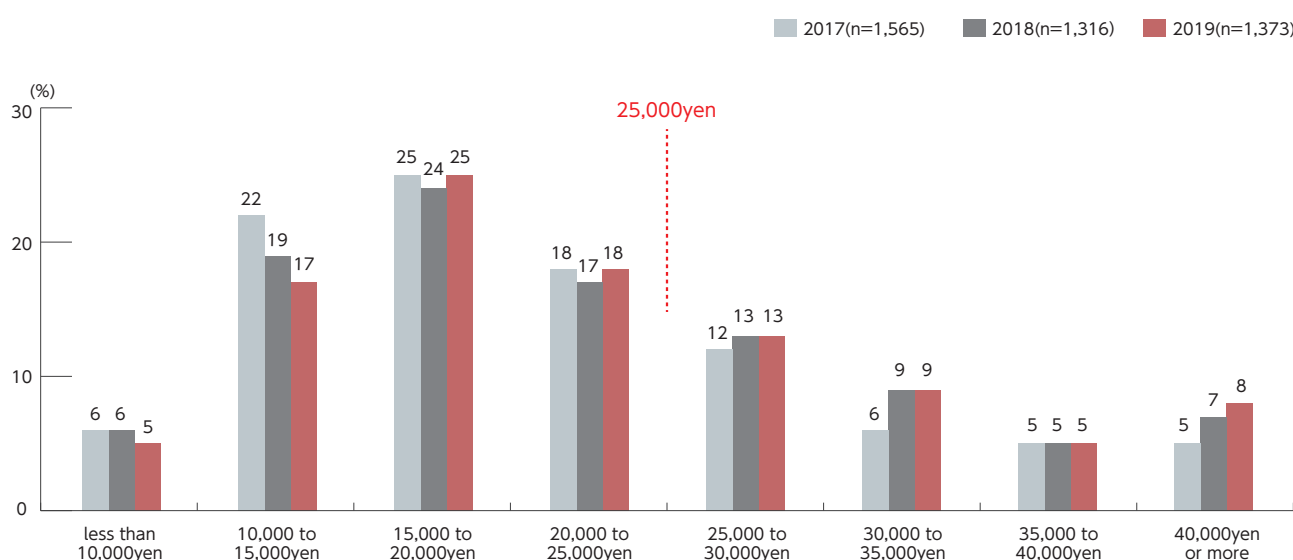
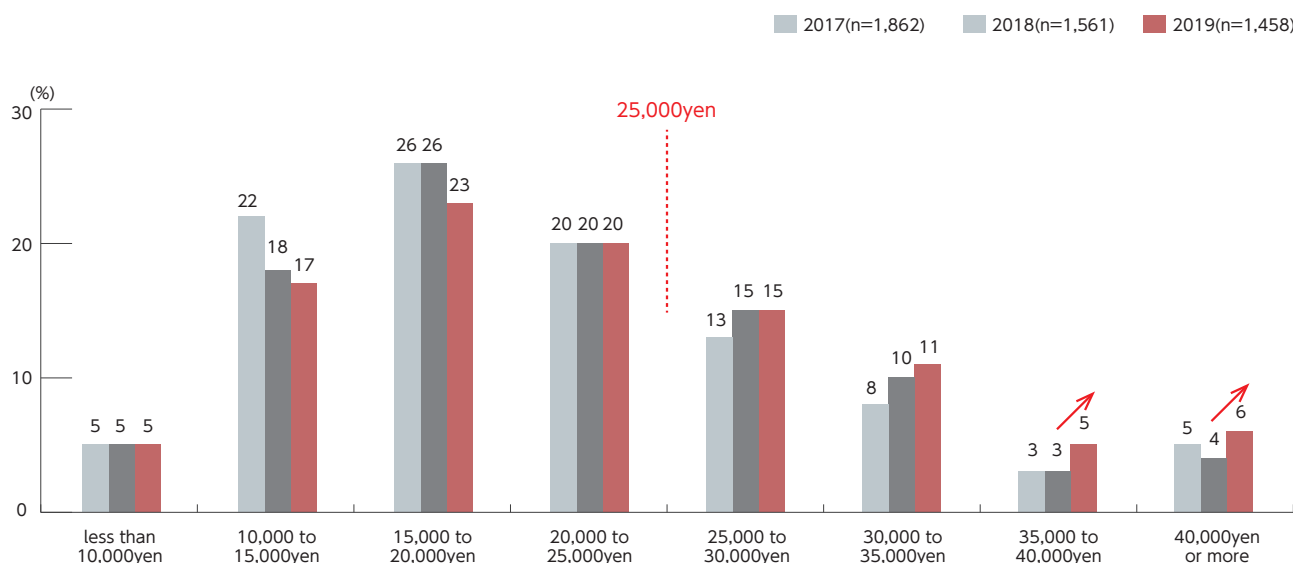


Figure 11: Reasonable Monthly Rent to Lease New Office Space (per tsubo, including communal service charges)



## 5 2019 Rent Revisions

- 24% of firms received a rent revision within the last year.
- The ratio of firms whose rent had increased as a result of their latest rent revision was 93%, the highest since the survey began.

When asked about rent revisions within the last year, 24% of firms responded "Have Had a Rent Revision" and 6% answered "Currently Under Negotiation" (Figure 12). Of the firms in these categories, 93% indicated that the revised rent was an increase, the highest proportion since the survey began in 2007 (Figure 13). As a result of current low vacancy rates favoring lessors, we believe that in principle rents will continue to rise.

Figure 12: Rent Revisions for the Past Year

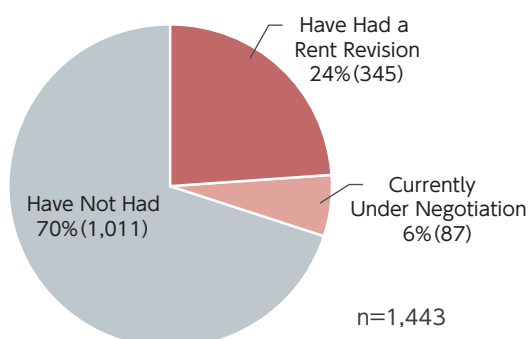
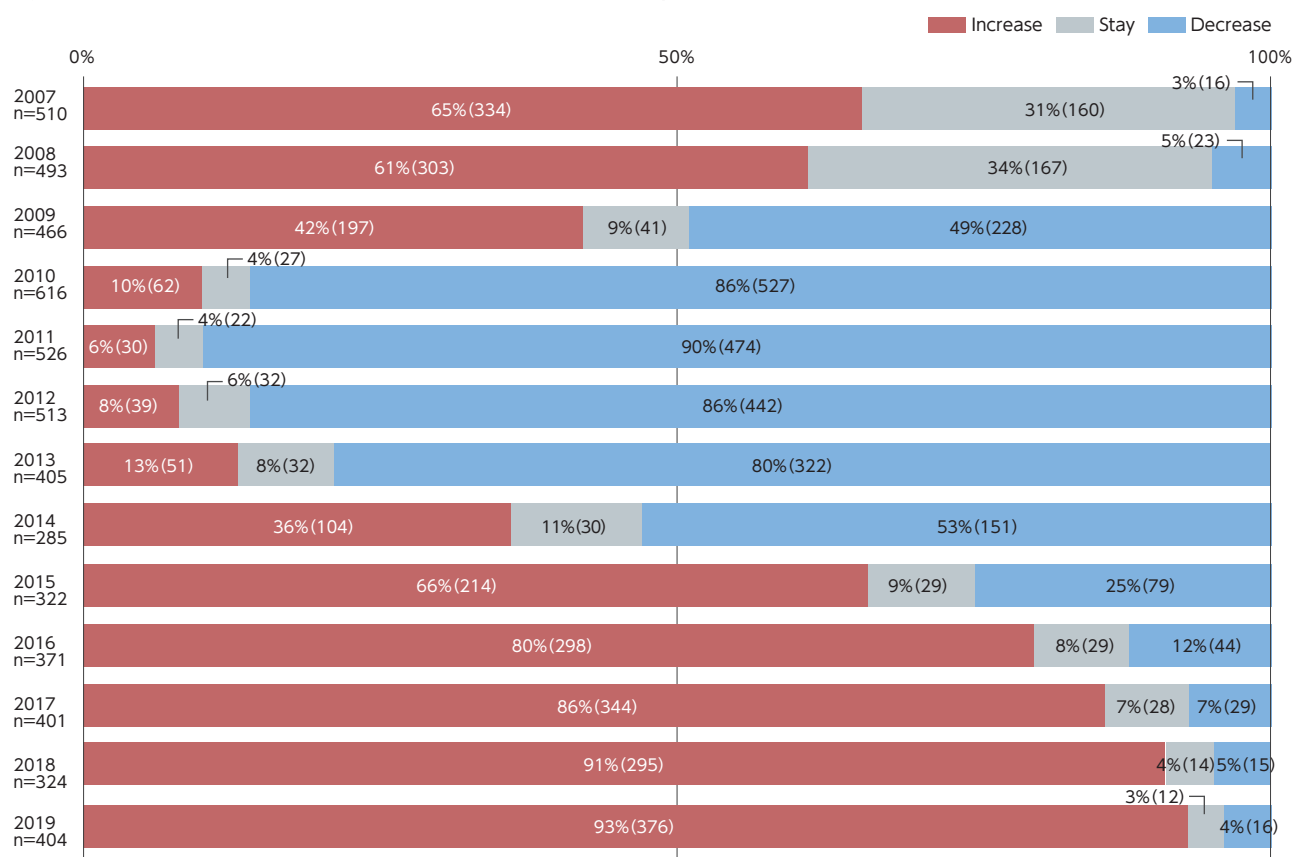


Figure 13: Increase/Decrease in Post-Revision Rent (or expected rent)



## 6 Number of Employees

- 43% of firms indicated plans to increase their number of employees.

When asked about the increase or decrease in employee numbers compared to the previous year, 43% of firms indicated they would be increasing numbers and 14% indicated they would be decreasing these (Figure 14). When asked to predict changes in employee numbers, 43% of firms predicted an increase and only 5% predicted a decrease (Figure 15). As such, we believe that employee numbers will continue to increase.

Figure 14: Changes in No. of Employees vs. Previous Year

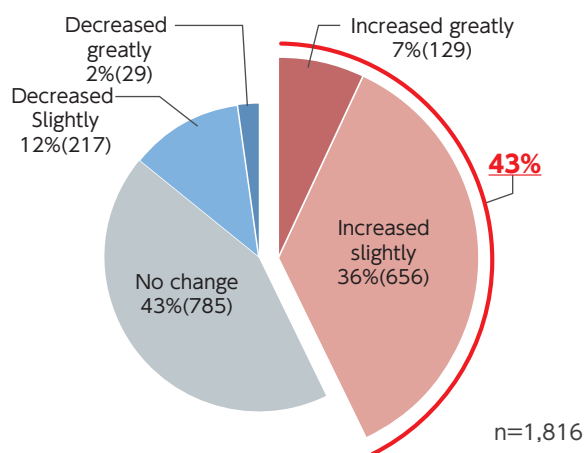
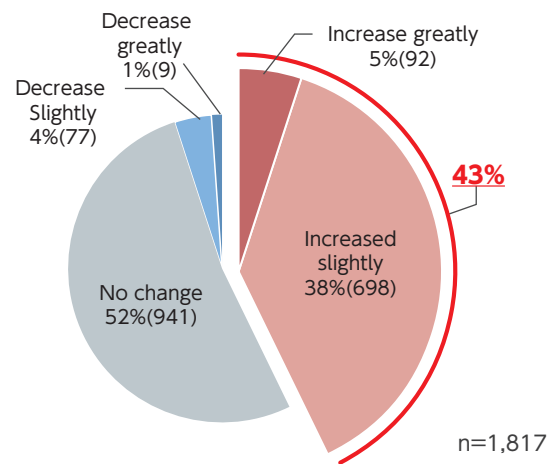


Figure 15: Predictions for Upcoming Number of Employees



## 7 Programs, activities and office environments, etc. relating to working styles

- Around 50% of firms replied that expenditure on office environment was a necessary investment and not simply a cost.
- The number of firms placing emphasis on the need for human resource development and diversity is on the rise.
- Around 60% of firms have a positive attitude towards activities aimed at new styles of working, such as flex-time programs and working from home.
- 25% of firms permit their employees to hold a second job or a side job; around 70% of firms indicated they have a relaxed attitude with regard to employees taking on second jobs or side jobs.

In recent years, more firms are indicating they consider expenditure on office environments as a necessary investment, not a cost. The ratio of firms who responded “investment” this year was around half (46%; see Figure 16). Also, the percentage of those indicating they were cutting costs by creating a more efficient office layout (39%) decreased, whereas the percentage of those who responded that they were “Strengthening internal communications” (41%), “Strengthening the development of human resources” (26%) and “Accommodating a diversified workforce” (20%) all increased (Figure 17). We can see that the creation of office environments that focus on employees by giving priority to enhancing diversity and by strengthening employee development is on an upward trend.

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

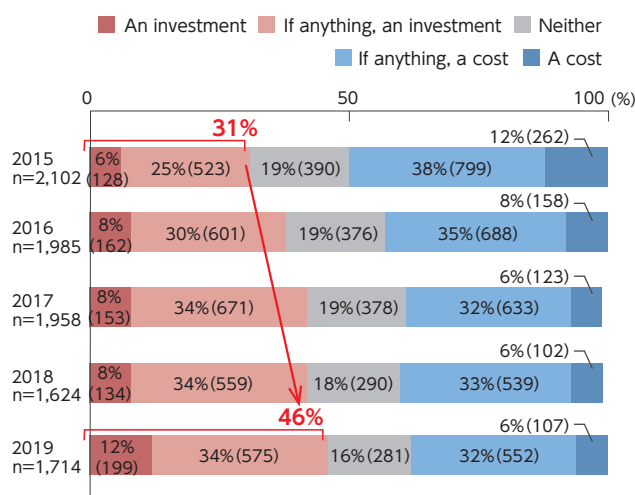
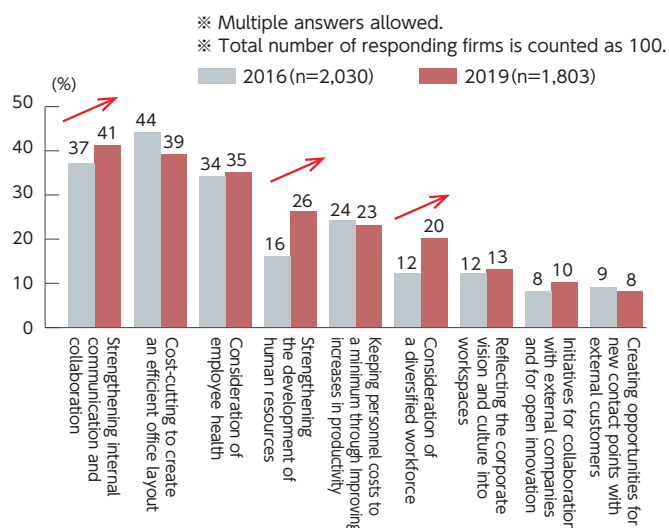
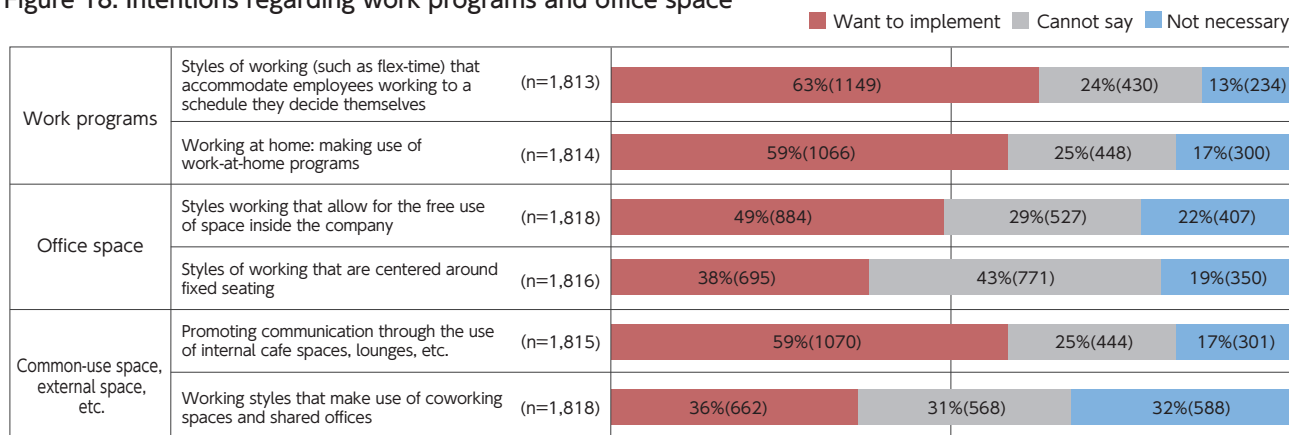


Figure 17: Issues Regarding the Creation of a Better Office Environment



With regard to intention of firms concerning their work programs and office space, the affirmative responses were as follows: “Flex-time programs” (63%), “Working from home” (59%), “Promoting communication by utilizing internal cafe spaces, etc.” (59%)(See Figure 18). Firms seem to have a positive attitude towards introducing programs related to new ways of working and enhancing their office environments.

Figure 18: Intentions regarding work programs and office space





Following the revision of the “Labor Standards Act” in January 2018, many companies have lifted their ban on second and side jobs, with more firms are now permitting employees to hold these. The increase in second and side jobs has the effect of promoting diversity in terms of working hours and locations, and may further accelerate the kinds of reforms in work programs and workspaces that are increasingly commonplace. Taking this into account, in the 2019 survey we asked firms about the current situation regarding second and side jobs and their policies regarding these. 25% of these firms stated they approved of their employees taking on second or side jobs (Figure 19).

Around one-tenth of firms (12%) were found to be positively recommending second or side jobs. Adding to this, when we add the responses from firms who said that second and side jobs were “acceptable, provided they do not interfere with their primary job” and those that indicated that “whatever employees do outside of their working hours is their own business,” almost 70% of the firms indicated an attitude of tolerance regarding second and side jobs (Figure 20). Considering how more diverse styles of working are being promoted in recent years, we believe that more and more firms will begin allowing their employees to take on second jobs and side jobs.

Figure 19: Current situation regarding the introduction of second and side jobs

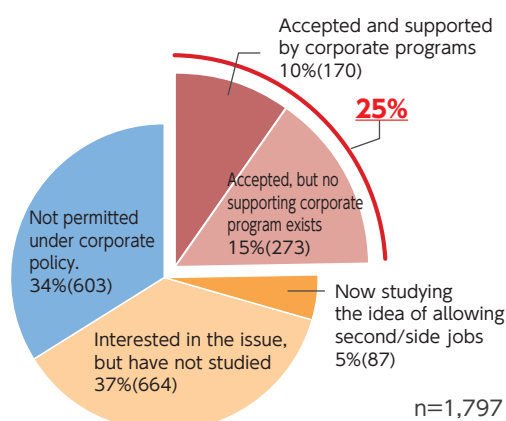
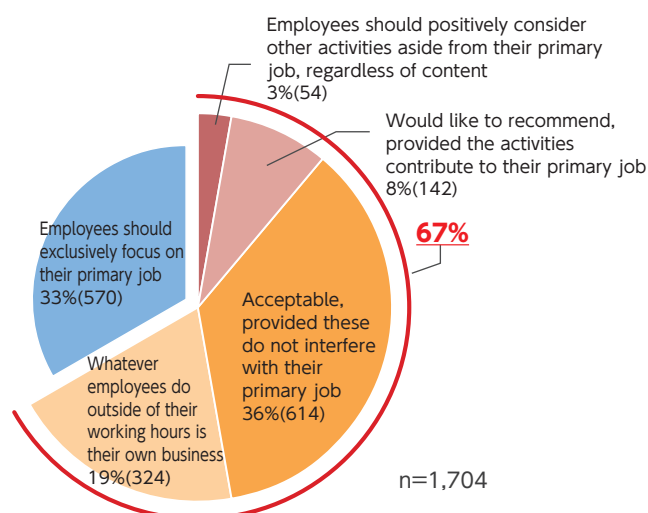


Figure 20: Policies regarding second and side jobs



## 8 Initiatives regarding environmental problems and other social issues

- Around 20% of firms replied that they are already implementing such initiatives or plan to do so.
- Around 50% of firms with at least 300 employees responded that they are already implementing these initiatives or plan to do so.

In recent years, the trend for firms to place emphasis on initiatives dealing with environmental and social issues is growing stronger, as evidenced by an increasing number of firms that have announced SDG (Sustainable Development Goal) initiatives or an expansion in investment in ESG (Environmental Social Governance) on the part of institutional investors. On the other hand, many firms find it difficult to take such initiatives on their own.

This is borne out by our latest survey results, which shows that just 22% of firms responded that they are already implementing or have specific plans to implement such initiatives in the future, whereas over 40% of firms responded that they want to take such initiatives, but have not yet done anything specific.

Out of firms with 300 or more employees, nearly 50% responded that they are “Already implementing” or “Have specific plans for implementing in the future,” and nearly 40% of firms indicated that they “Want to take initiatives, but have not done anything specific” (Figure 21). The top issues faced in terms of implementing these initiatives included “Not enough manpower” (44%), “Lack of understanding within the company” (29%), “Cost benefits are unclear” (25%), and “Don’t know how to begin” (21%) (Figure 22).

There is a significant possibility that more and more firms will emphasize environmental certification and progress in energy conservation activities as criteria for selecting office buildings and overall areas.

Figure 21: Progress of initiatives regarding environmental problems and other social issues

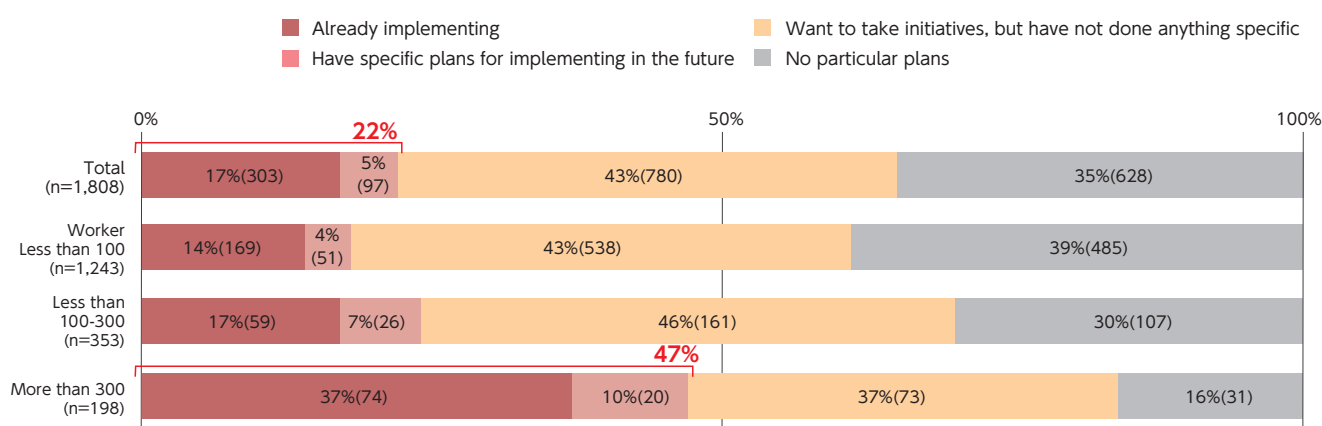


Figure 22: Issues faced with initiatives regarding environmental problems and other social issues

