

2020 Survey of Office Needs in Tokyo's 23 Wards

December 23, 2020

- Many firms are taking a wait-and-see stance regarding the implementation of changes in their head offices. 11% of firms have decided to make changes, and the figure rises to 26% if those considering changes are included.
- 24% of firms plan to lease a new office space, which is about average.
- 73% of firms have introduced "Working from Home," including around two-thirds for the first time as a response to COVID-19. Around 60% of firms expect the percentage of employees working in the office to be 80% or more in the post-COVID era.

Due to the ongoing uncertainties about when the pandemic will end and what the economic trends will be thereafter, during survey period from October–November 2020, which was well into the pandemic, only a small fraction of firms had made important business decisions, including about relocating/resizing their head offices. Instead, most firms took a wait-and-see stance.

While many firms are implementing major changes in workstyles, only 10% expect the percentage of employees working in the office will be less than 50% in the post-COVID era, whereas around 60% expect the percentage to be 80–100%. Meanwhile, as a result of experiences with working from home, many companies had gained a better understanding of the important roles offices play in terms of communication and idea creation. An increased percentage have introduced and/or installed workplace facilities such as "Open Spaces," "Lounges," and "Spaces for External Collaboration." Close attention needs to be paid to trends in workstyles and office use in the post-COVID era.

1. Plans to Lease New Office Space

- 24% of firms plan to lease new office space. Of these, 33% plan to expand, 25% plan no change and 42% plan to reduce.
- Around 50% of firms planning to lease a new office space intend to do so within 1–2 years.

2. Reasons for Plans to Lease New Office Space

- "Lower Rent/Lower-Priced Building" is the #1 reason for relocating, followed by "Better Location" and "Anti-seismic Design" in that order. "To Expand Business/To Accommodate an Increase in Employees," which was #1 last year, fell to #8.

3. Desired Areas for Planned Lease of New Office Space

- The Nihombashi area is drawing significant attention due to its increasing supply of new offices. The Toranomon and Shimbashi areas rose in the rankings due to their new rail stations and large-scale projects.

4. 2020 Rent Revisions

- 23% of firms received a rent revision within the last year.
- The ratio of firms who replied whose rent increased as a result of their rent revision was around 90%.

5. Workstyle or Workplace Changes due to COVID-19

- Concerning plans to implement changes in head offices, 11% have decided to do, and the figure rises to 26% including firms considering changes.
- 73% have introduced "Working from Home," including around two-thirds for the first time as a response to COVID-19. Compared to last year, an increased percentage of firms have introduced "Lounges," "Cafeterias," "Spaces for External Collaboration," etc.
- Around 80% expect to provide a personal desk in the office for at least 80% of all employees in the post-COVID era.

6. Initiatives Regarding SDGs

- Around three-fourths of firms replied that they are positive in regard to SDG initiatives, up from last year.
- Around 90% of firms with at least 300 employees responded that they are positive in regard to SDG initiatives.

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.

The 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 2020 survey, and we would like to share some of our findings and insights in the following report.

This latest survey was conducted during October 16–November 6, 2020. Invitations to respond were sent to 10,865 firms (excluding our tenants) with 1,727 responding, a response rate of 15.9%.

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

- 24% of firms plan to lease new office space. Of these, 33% plan to expand, 25% plan no change and 42% plan to reduce.
- Around 50% of firms planning to lease new office space intend to do so within 1-2 years.

Among the 24% expecting to lease new office space (Figure 1), those planning to reduce their office space increased from last year (Figure 2). 33% plan to expand, 25% plan no change and 42% plan to reduce, showing considerable diversity in terms of office space plans (Figure 3). With regard to the timing of leasing a new space, 36% responded that they would do so “within 1 year,” and 15% responded “within 2 years.” Thus, a majority of them plan to lease a new space within 1–2 years (Figure 4).

Figure 1: Future Plans to Lease New Office Space

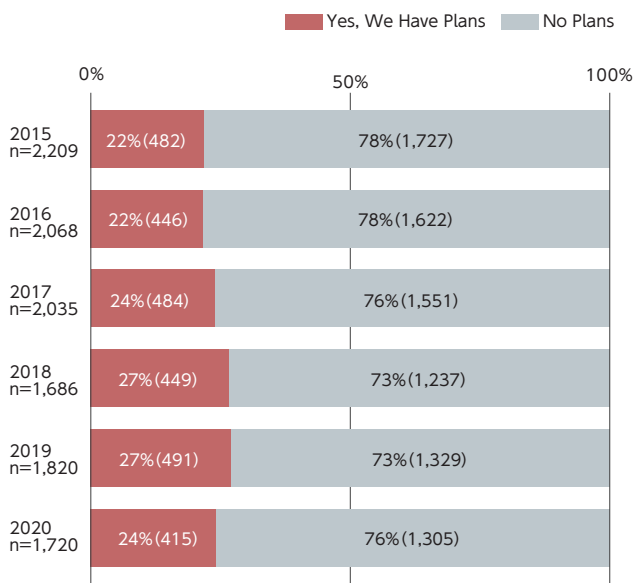


Figure 2: Plans for Expansion vs. Reduction of Space (over time)

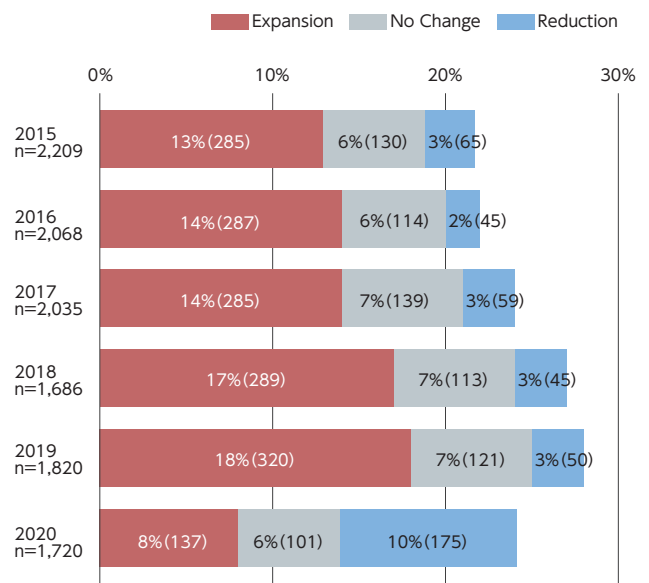


Figure 3: Plans for Expansion vs. Reduction of Space (single year)

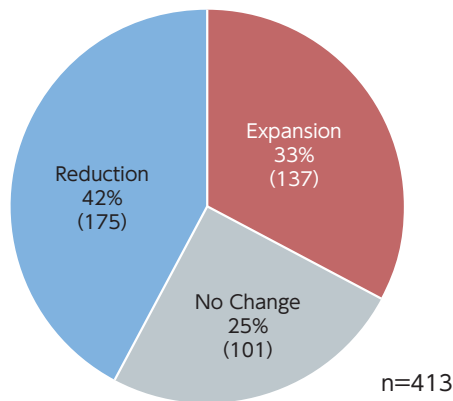
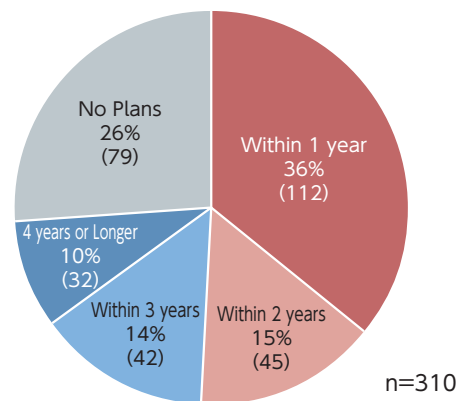


Figure 4: Timing of Planned Lease of New Office Space



2 Reasons for Planning to Lease New Office Space

● “Lower Rent/ Lower-Priced Building” is the #1 reason for relocating, followed by “Better Location” and “Anti-seismic Design” in that order. “To Expand Business/ To Accommodate an Increase in Employees,” which was #1 last year, fell to #8.

Among reasons to lease a new office space, “Lower Rent/ Lower-Priced Building” ranked #1, followed by “Better Location” and “Anti-seismic Design” in that order. “To Expand Business/ To Accommodate an Increase in Employees,” which was #1 last year, fell to #8. While there is a rising trend to relocate to lower-rent buildings due to uncertainties about the economic outlook and corporate earnings, many companies continued to cite “Better Location” as their reason. Rising awareness of BCP during the COVID-19 pandemic prompted more companies to focus on anti-seismic design, facility quality and security.

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

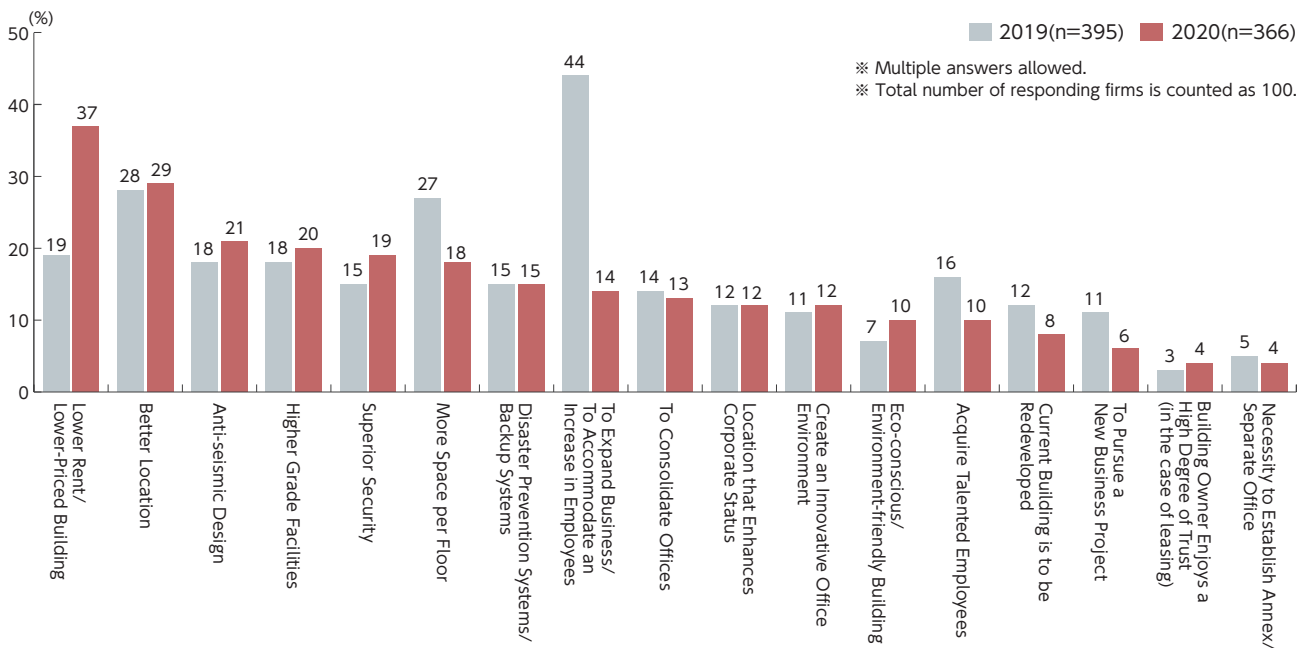
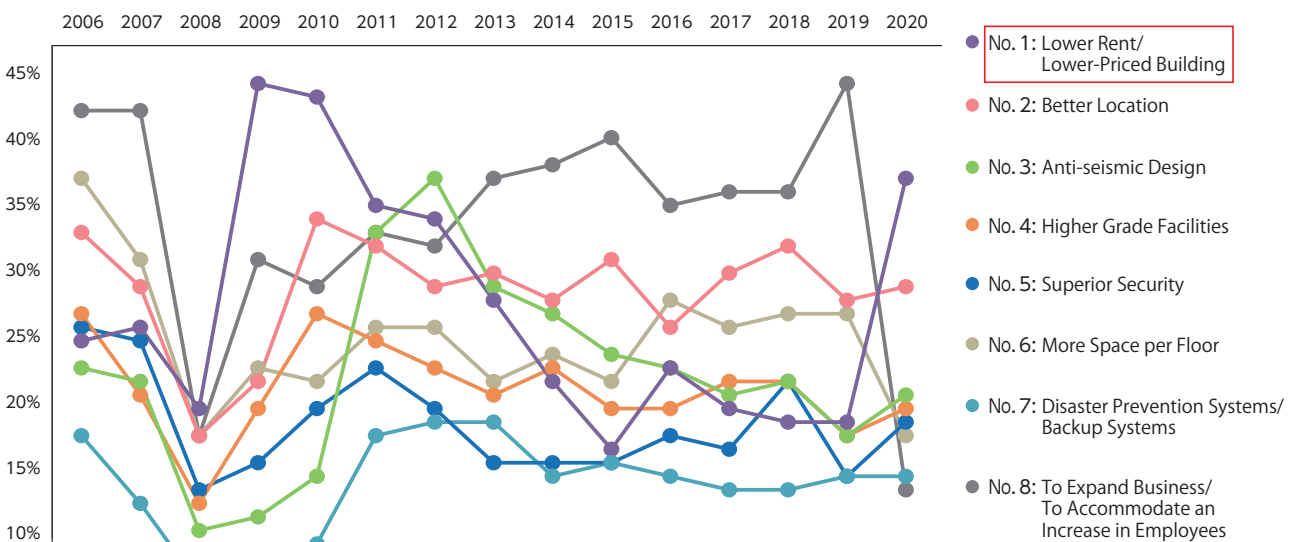


Figure 6: Reason for Plans to Lease New Office Space (changes in response rate over the past 15 years)



3 Desired Areas for Planned Lease of New Office Space

• The Nihombashi area is drawing significant attention due to its increasing supply of new offices. The Toranomon and Shimbashi area rose in the rankings due to their new rail stations and large-scale projects.

Firms planning to lease a new office space were asked to indicate their desired locations. Nihombashi (20%) ranked #1, followed by #2 Toranomon (15%) and #3 Shimbashi (14%), the latter two rising from #7 and #9, respectively last year. Toranomon and Shimbashi rose due to several large-scale projects, including Toranomon Hills Business Tower, the opening of Toranomon Hills Station on the Tokyo Metro Hibiya Line and the preliminary start of the Tokyo BRT bus service connecting Toranomon Hills, Shimbashi, Kachidoki and Harumi BRT Terminal (Figure 7 & 8).

The “2020 Survey of Large-Scale Office Building Market in Tokyo’s 23 Wards” by Mori Building revealed that in regard to 5.14 million m² of new large-scale office supply that is forecast in the 23 wards in 2020–2024, around 75% (3.84 million m²) is expected in seven areas: Toranomon, Marunouchi-Otemachi, Tamachi-Hamamatsucho, Shinagawa, Nihombashi-Yaesu-Kyobashi, Shibuya, and Akasaka-Roppongi (Figure 9). These seven areas roughly correspond to the most “Desired Areas for Planned Lease of New Office Space.”

In recent years, areas with concentrated office supply have tended to overlap the most “Desired Areas for Planned Lease of New Office Space.” Such areas are expected to offer improved transportation (new/upgraded stations and roads) and improved urban attractiveness (new high-function, multipurpose facilities), which will offer work, accommodation and leisure in convenient proximity. The trend was particularly conspicuous in Toranomon and Shimbashi in 2020.

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

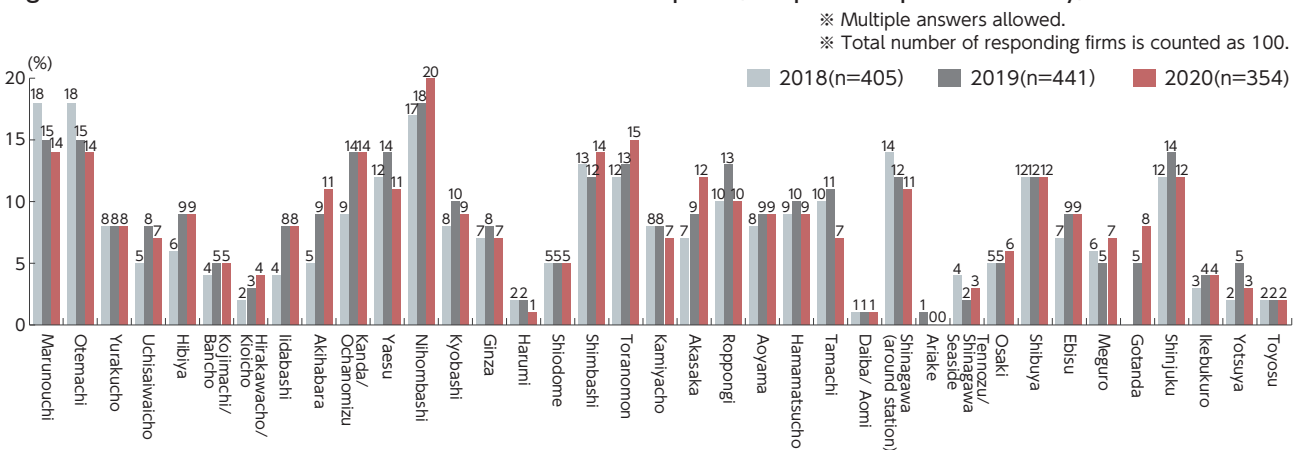
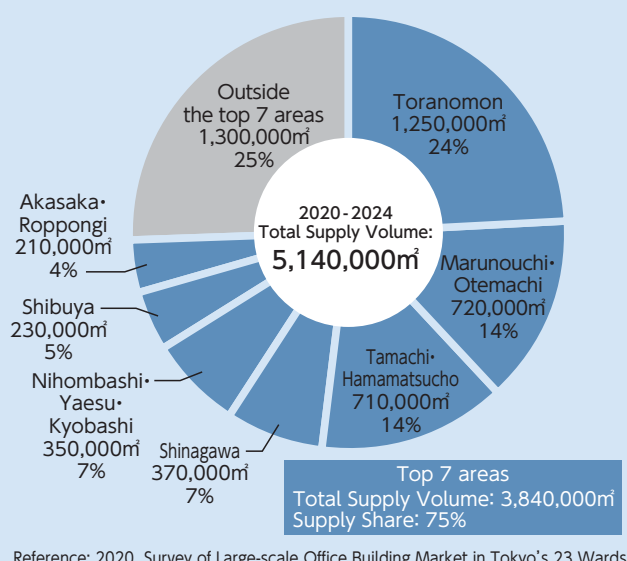


Figure 8: Top 10 Desired Areas for Planned Lease of New Office Space

※ 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 2020 – 2024



Reference: 2020 Survey of Large-scale Office Building Market in Tokyo's 23 Wards

4 2020 Rent Revisions

- 23% of firms received their rent revision within the last year.
- The ratio of firms whose rent had increased as a result of their latest rent revision was about 90%.

When asked about rent revisions within the last year, 23% of firms responded “Have Had a Rent Revision,” which was similar to an average year, and 5% answered “Currently Under Negotiation” (Figure 10). Of the firms in these categories, round 90% indicated that the revised rent was an increase (Figure 11).

Figure 10: Rent Revisions for the Past Year

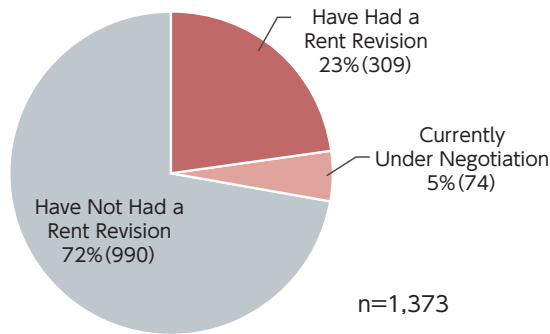
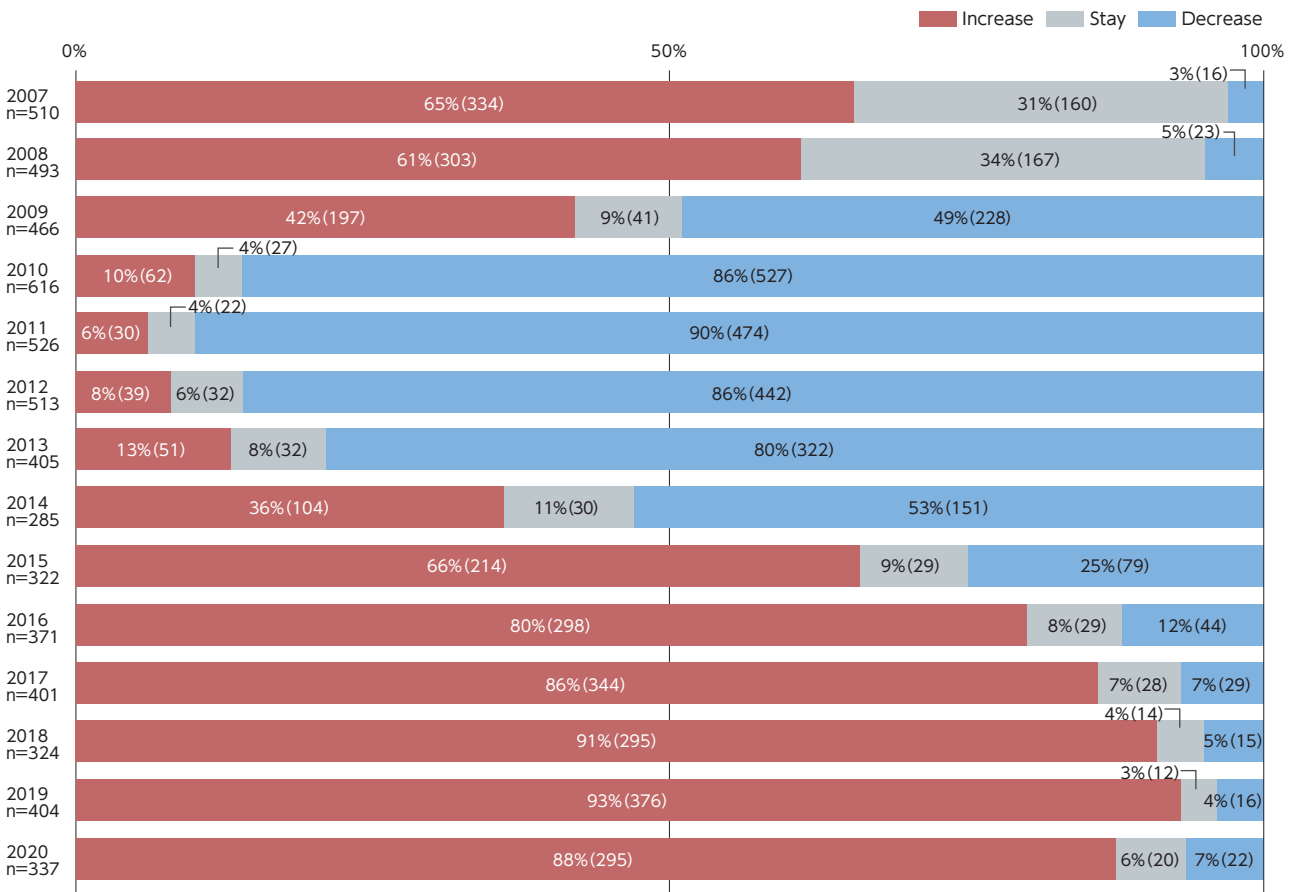


Figure 11: Increase/ Decrease in Post-Revision Rent (or expected rent)



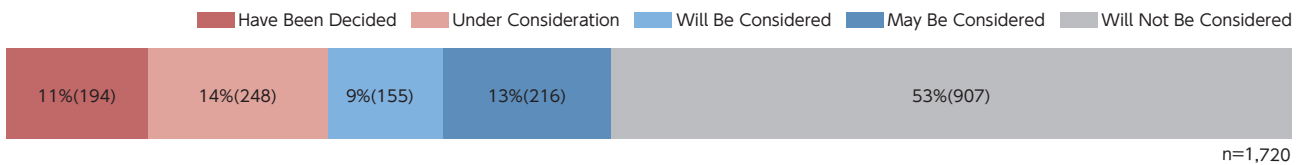
5 Changes in Workstyles or Workplaces during Pandemic

- Concerning plans to implement changes in head offices, 11% have decided to do, and the figure rises to 26% including firms considering changes.
- 73% have introduced "Working from Home," including around two-thirds for the first time as a response to COVID-19. Compared to last year, an increased percentage of firms have introduced "Lounges," "Cafeterias," "Spaces for External Collaboration," etc.
- Around 80% expect to provide a personal desk in the office for at least 80% of all employees in the post-COVID era.

Regarding the status of changes in head offices, 11% already have decided their changes, and the figure rises to 26% including firms under consideration. 53% are not considering any particular change (Figure 12). Only a few firms reported to be considering changes due to the economic slowdown and/or the rapid expansion of remote working during the pandemic. A majority of firms, however, have no such intention since the future course of the pandemic and economic trends remain uncertain. In the meantime, the challenges of remote working, such as lower productivity and reduced communication, are gradually being recognized, but many companies are still in a wait-and-see stance.

Plans to make changes in head offices could be altered once the economy starts to recover, so the pandemic, economic trends and resulting moves in the corporate sector must be closely monitored.

Figure 12: Status of Changes in Head Offices



In terms of introducing new workstyles and workplaces, firms that have adopting “Working from Home” jumped from 28% to 73%. Those using “Non-territorial Offices” have risen from 19% to 28% and the use of “Open Spaces” have increased from 41% to 51% (Figure 13).

64% introduced “Working from Home” for the first time as a response to COVID-19, 35% had introduced the system earlier, and 23% expanded the scope of acceptance due to COVID-19 (Figure 14).

Figure 13: Status of Workstyles and Workplaces

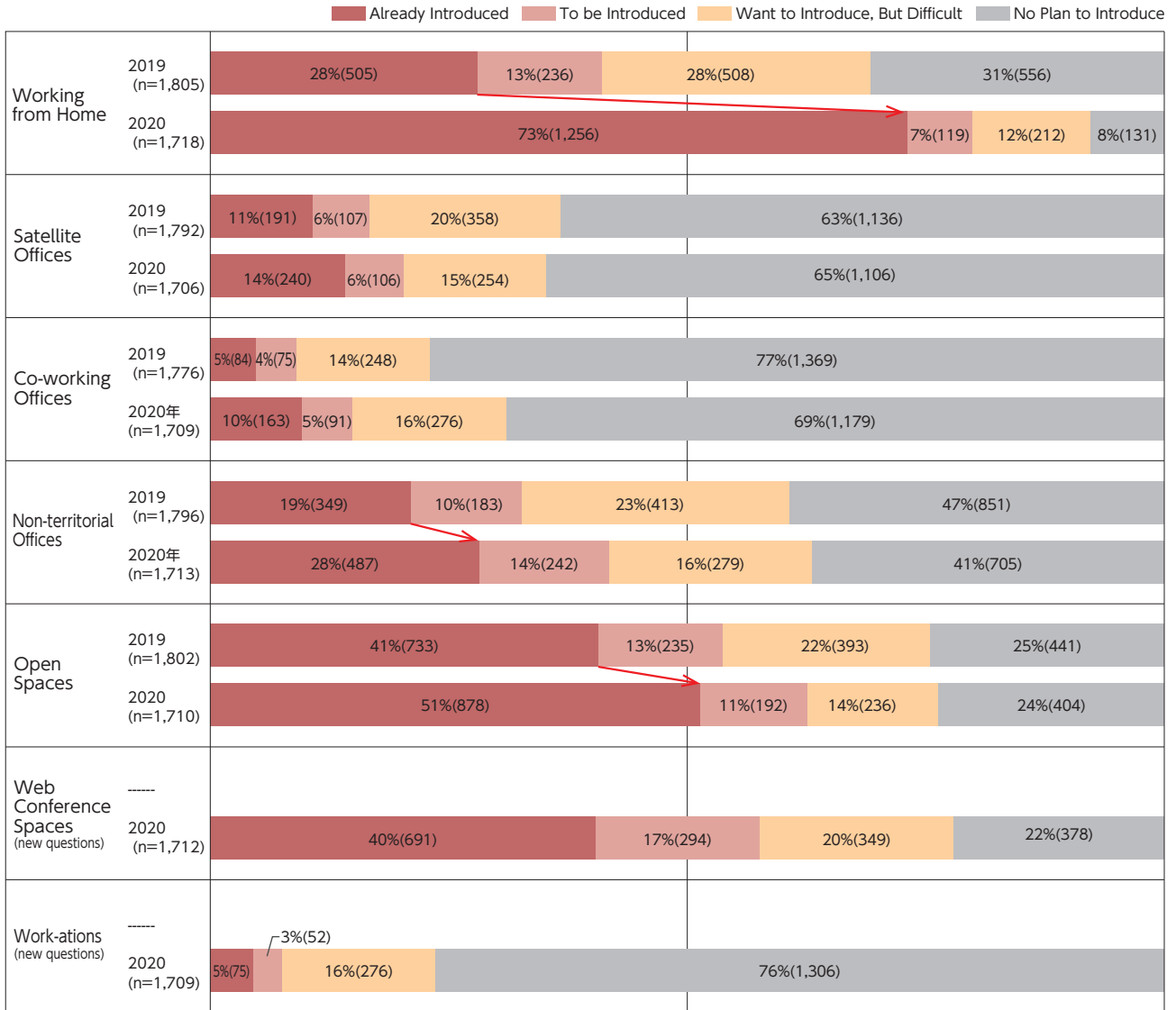
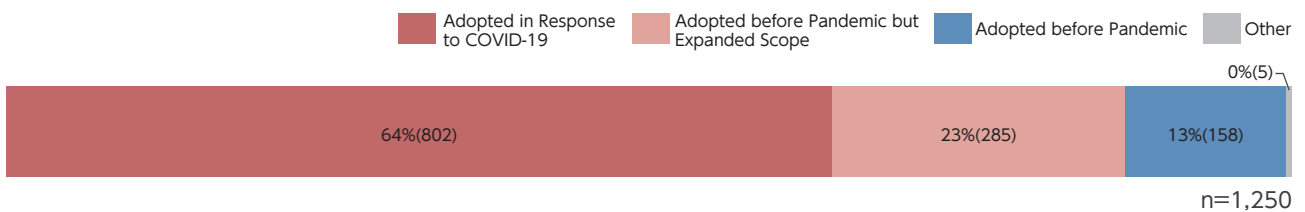


Figure 14: Timing of Working from Home Adoption



Firms that introduced or plan to introduce new office facilities have increased. Those offering “Lounges” rose from 44% to 50%, “Cafeterias” from 17% to 19%, and “Spaces for External Collaboration” from 7% to 14% (Figure 15). The survey has revealed a strong need for “Conference Rooms,” which were newly added to the survey this year. 33% either have installed or plan to install them. 42% of firms have at least 80% of their employees working at the office, and in the post-COVID era, this figure is expected to rise to 57% of firms. While less than 50% of employees are working at the office at 24% of firms, in the post-COVID era this figure is expected to fall to only 10% of firms (Figure 16). Around 80% expect to provide a personal desk in the office for at least 80% of all employees in the post-COVID era (Figure 17), but since commuting ratios will vary by firms, it is hard to produce a clear forecast.

Figure 15: Installation of New Office Facilities

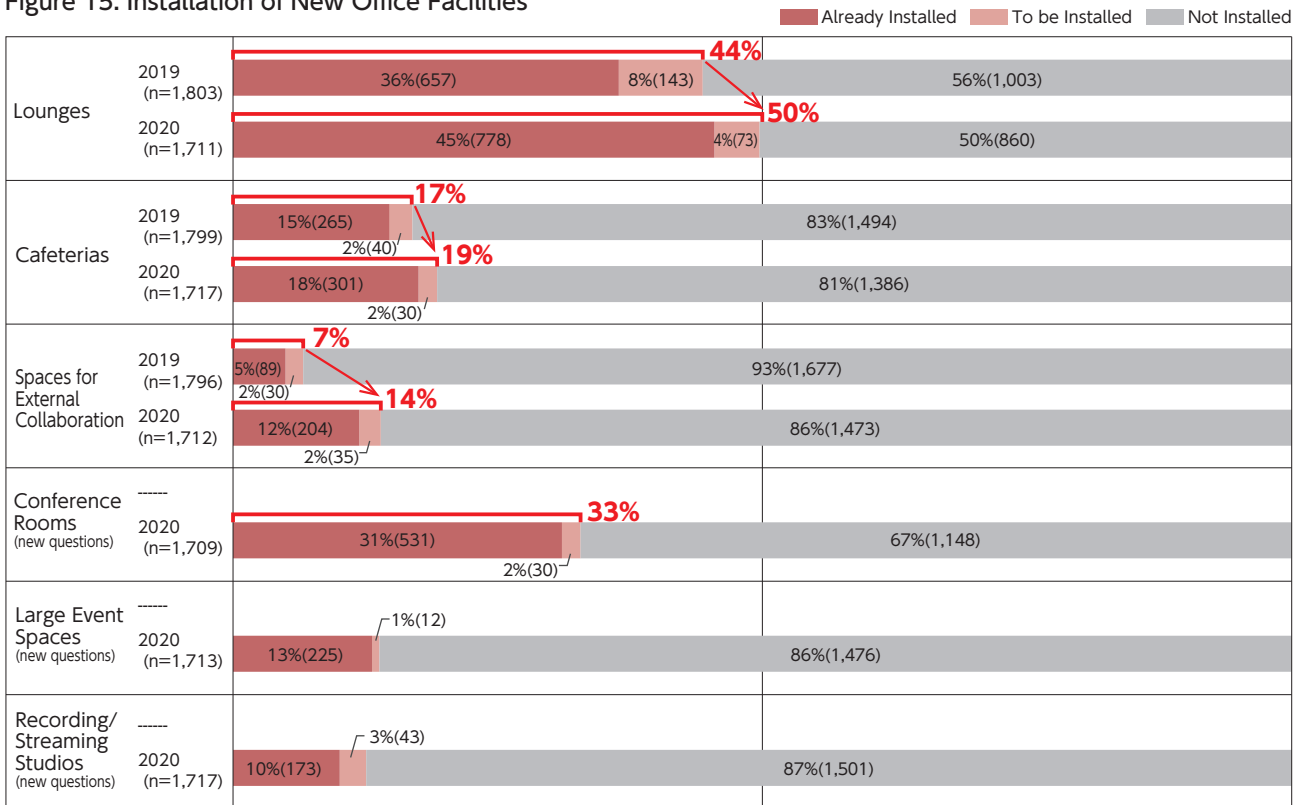


Figure 16: Employees Working in Offices Now and Post-COVID

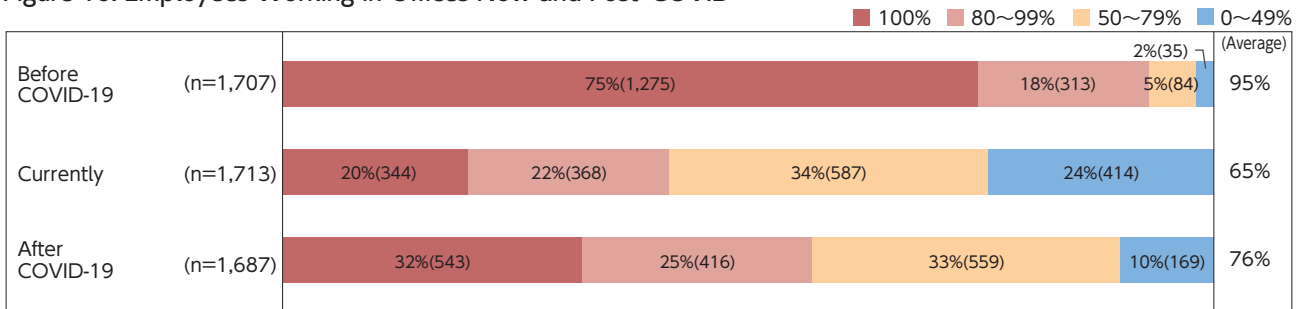
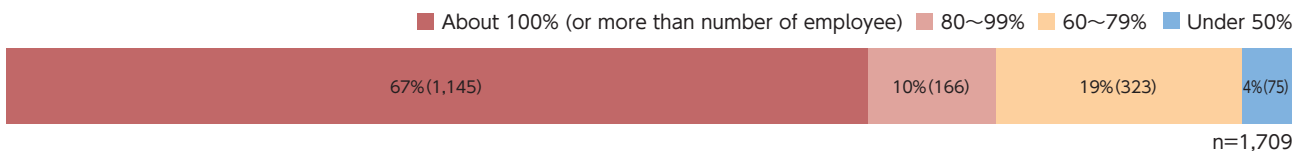


Figure 17: Expected Ratio of Personal Desks per Employee after COVID-19



6 Initiatives Regarding SDGs

- Around three-fourths of firms replied that they are positive in regard to SDG initiatives, up from last year.
- Around 90% of firms with at least 300 employees responded that they are positive in regard to SDG initiatives.

In recent years, companies have been increasingly focusing on SDG initiatives, as exemplified by more companies openly committing to such efforts and the rising adoption of ESG principles by institutional investors. The survey revealed that in regard to SDG initiatives, 73% of firms are “Under Way,” “Planning Concretely,” or “Desired, but No Action Yet.” The percentage rises to around 90% when considering companies with 300 or more employees (Figure 18).

Regarding implementation issues, 39% replied “Not Have Enough Manpower,” 29% replied “Costs/ Benefits Unclear,” 28% replied “Lack Internal Understanding,” and 21% replied “Don’t Know Where to Begin” (Figure 19).

With companies increasingly being expected to implement SDG initiatives, office selections are likely to put more focus on building features such as environmental certification for energy savings.

Figure 18: Implementation of SDG Initiatives

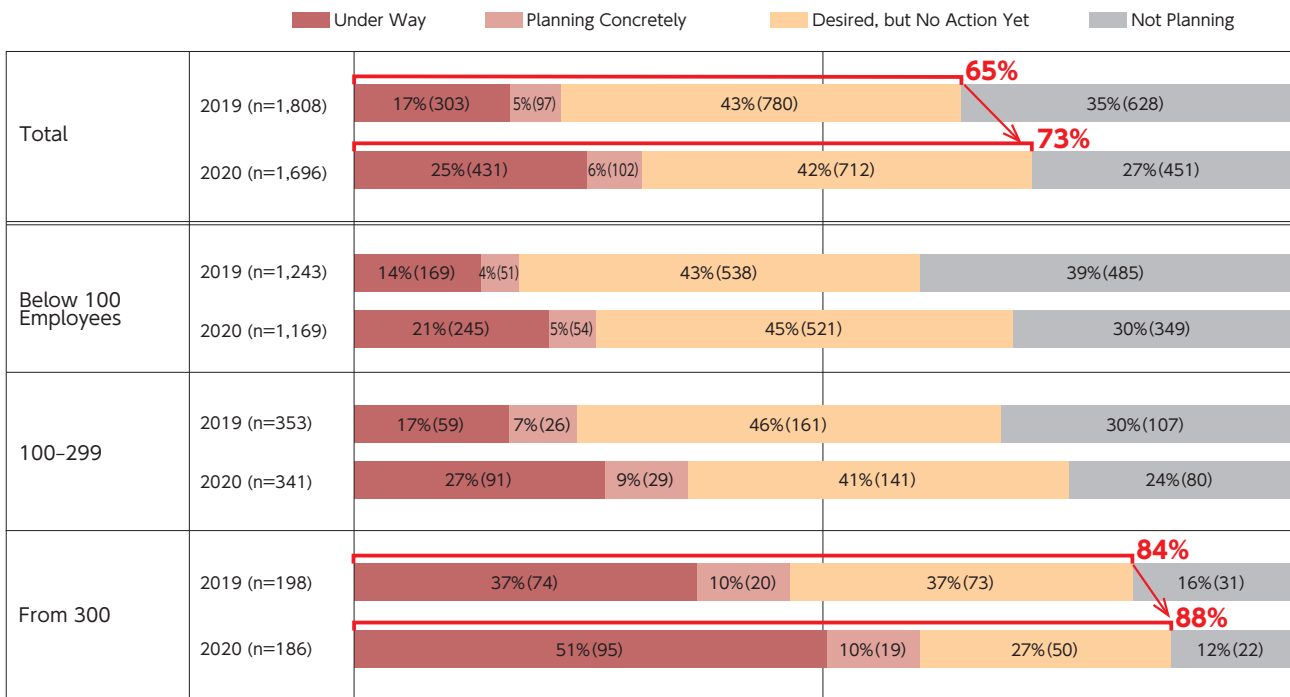


Figure 19: Issues Regarding SDG Initiatives

