MORI

2021 Survey of Office Needs in Tokyo's 23 Wards

December 23, 2021

■ **Increases in firms planning to lease new office space or expand existing space, and also changes in reasons for leasing new office space, indicate that corporate expectations shifted towards normalization of economic activities.**

■ **Maintaining office environments and improving office functions will continue with consideration for changing workstyles following the COVID pandemic.**

■ **There are strong demands for office buildings with facilities and services that support "promotion of external and internal communications," "employee health management," and "improvement of employee engagement," which are difficult to address within the context of remote work.**

1. Plans to lease new office space

- 26% of firms plan to lease new office space, increased by two percentage points from last year. Of these, 40% plan to expand, 25% plan no change and 35% plan to reduce, with those "plan to expand" surpassing those "plan to reduce."
- Over 50% of firms planning to lease new office spaces intend to do so within the next two years.

2. Reasons for plans to lease new office space

- The newly added choice "Workplace Changes due to New Workstyles." is the #1 reason for relocating, followed by "Lower-Rent/ Lower-Priced Building" and "Better-Location."
- While there was an increase in "establishing new departments, expanding business operations/personnel," a decrease in "wanting to move to a building with cheaper rent" indicated that corporate expectations increased regarding a shift towards normalized economic activities.

3. Desired areas for planned lease of new office space

- The major business areas of "Nihombashi," Otemachi," "Marunouchi," and "Toranomon," etc., where high percentages of companies are resuming business, remain popular.

4. Changes in rent in 2021

- 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 70%.

5. Employees coming into the office

- Compared to the previous survey, no major change was seen regarding expectations of workers coming into the office or the number of desks to be provided following COVID.
- "Ensuring social distance" was the #1 issue for employees returning to offices. This was followed by "implementation and expansion of IT tools," and "refurbishments and improvements to make office attractive to employees."

6. Issues in developing office environments and introducing new systems and facilities

- Regarding issues concerning the development of office environments, increases were seen in responses pointing to "improving employee engagement," "internal communication" and "improving employee skill development." More companies are grappling with issues that are difficult to address in the remote work context.
- An increasing number of companies also are introducing "open meeting spaces," "web meeting spaces," "concentration booths/ workspaces" and "non-territorial offices." Additionally, more companies are upgrading their offices and improving office functions for both in-office and remote workers, mindful of changing workstyles.

7. Demands for shared facilities and worker-oriented services in offices

- Strong demands were seen for shared facilities in office buildings that support internal and external communication, such as "cafeterias and lounges," "break rooms," "conference rooms," and "reception rooms for visiting clients," and facilities for improved office functionality, such as "online meeting booths" and "individual work/concentration booths."
- Strong demands also were seen for worker-oriented services related to food and beverages, such as services for "lunch," "cafe," "breakfast," and "restaurants for internal social gatherings" as well as health-related services for as "gyms" and "massages." In-office needs are growing for benefits related to shared facilities, employee communication and health management.

■ Survey Framework

Survey questionnaire forms were mailed to companies that are headquartered in the 23 wards and are ranked in the top 10,000 in capitalization.

○ Survey targets : 9,831 companies (excluding our tenants)
○ Reference Rate : 16.4%(1,611 firms)
○ Research Period : October 6～October 29, 2021

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1 Plans to Lease New Office Space

- 26% of firms plan to lease new office space, increased by two percentage points from last year. Of these, 40% plan to expand, 25% plan no change and 35% plan to reduce, with those "plan to expand" surpassing those "plan to reduce."
- Over 50% of firms planning to lease new office spaces intend to do so within the next two years.

The percentage of responses expecting to lease new office space increased by two percentage points from last year's survey to 26% (Figure 1). 10% of firms plan to expand, increased from last year (Figure 2). Among those planning to lease new office space, 40% plan to expand, 25% plan no change and 35% plan to reduce, with those "plan to expand" surpassing those "plan to reduce" (Figure 3). With regard to the timing of leasing a new space, 33% responded that they would do so "within one year" and 19% responded "within two years." Thus, a majority of them plan to lease a new space within two years (Figure 4).

Figure 1: Future Plans to Lease New Office Space

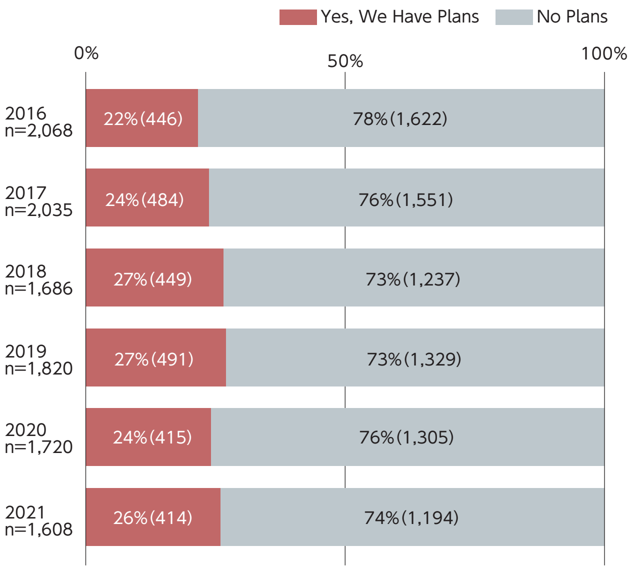


Figure 2: Plans for Expansion vs. Reduction of Space (over time)

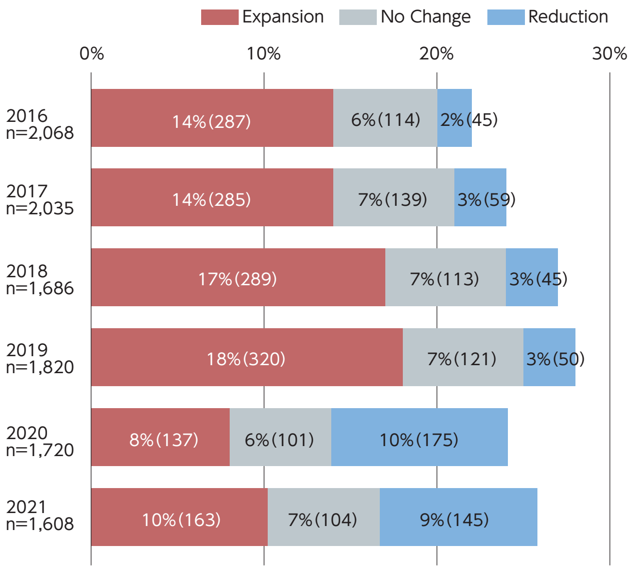


Figure 3: Plans for Expansion vs. Reduction of Space (single year)

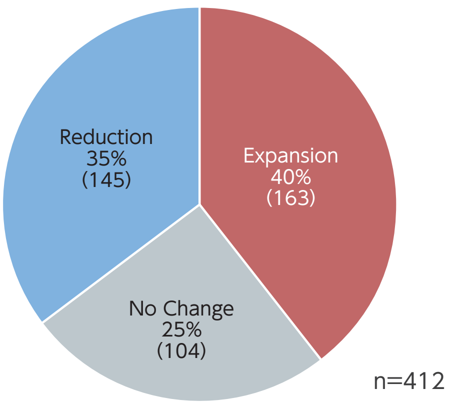
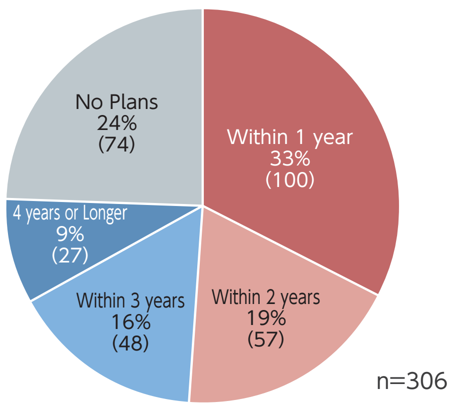


Figure 4: Timing of Planned Lease of New Office Space



2 Reasons for Planning to Lease New Office Space

- The newly added choice "Workplace Changes due to New Workstyles." is the #1 reason for relocating, followed by "Lower-Rent/Lower-Priced Building" and "Better-Location."
- While there was an increase in "establishing new departments, expanding business operations/personnel," a decrease in "wanting to move to a building with cheaper rent" indicated that corporate expectations increased regarding a shift towards normalized economic activities.

Among reasons to lease a new office space, "Workplace Changes due to New Workstyles," ranked #1, followed by "Lower-Rent/ Lower-Priced Building" and "Better-Location" in that order. While there was an increase (14%→16%) in "To Expand Business/ To Accommodate an Increase in Employees," those citing "Lower Rent/ Lower-Priced Building" as their reason decreased (37%→29%), which indicated that corporate expectations rose in regard to a shift towards normalized economic activities. An increase in the response "Acquire Talented Employees" (10%→13%) suggests that more firms are aware of the impact of their office environments on employee engagement.

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

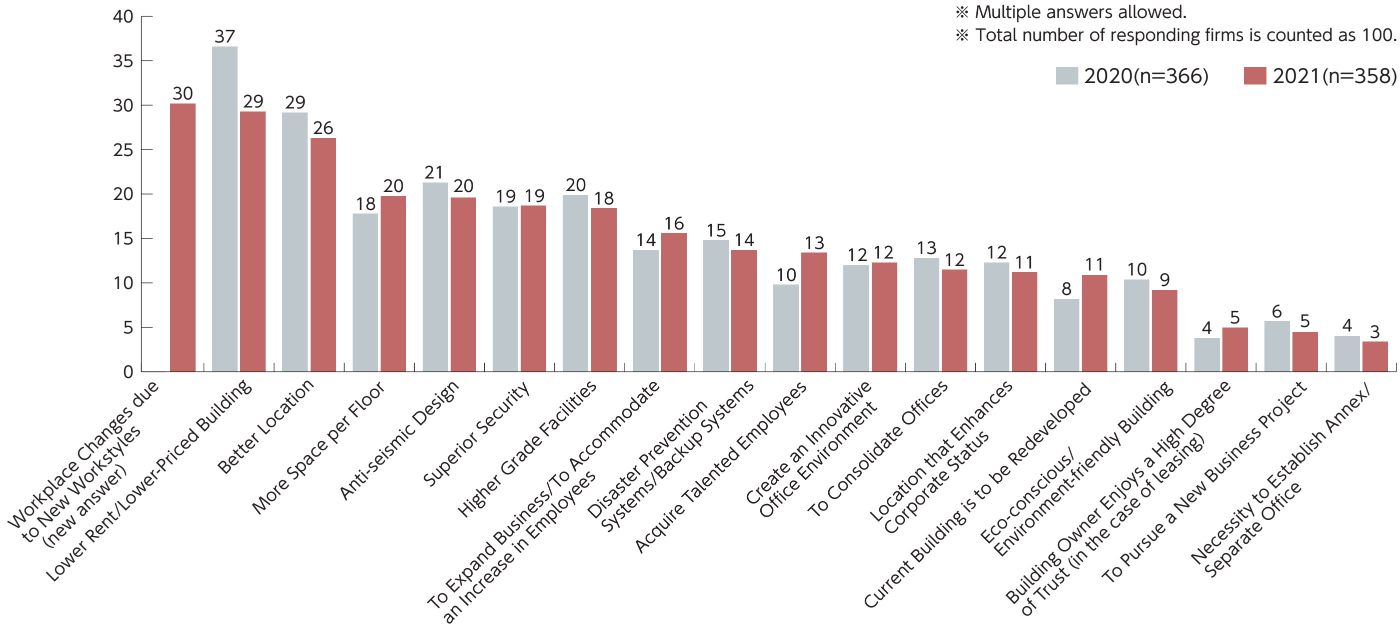
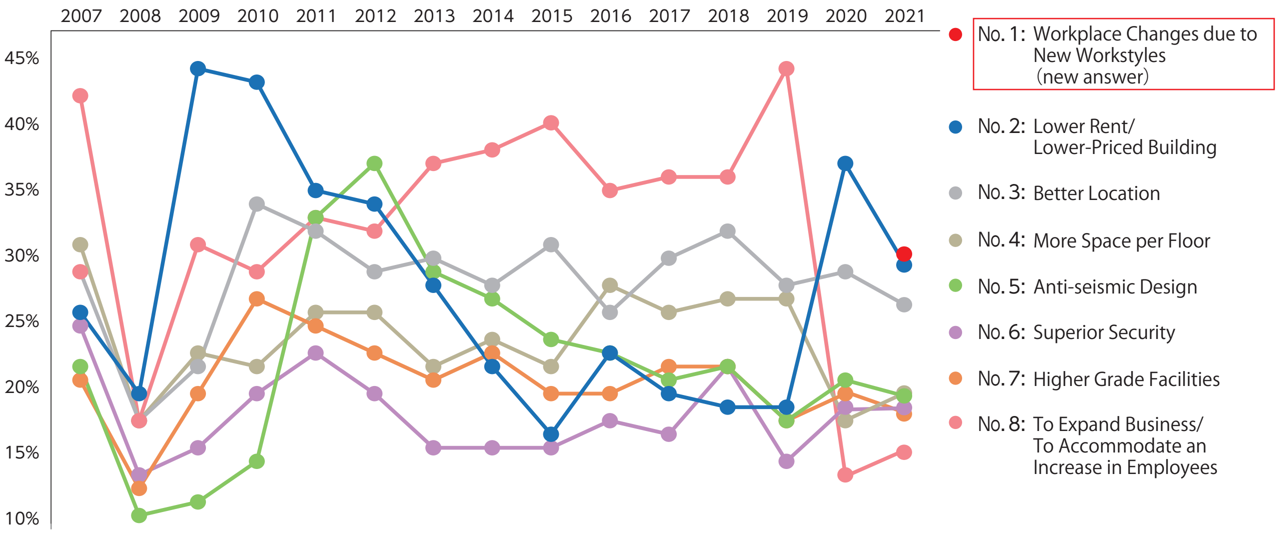


Figure 6: Reason for Plans to Lease New Office Space (changes in response rate over the past 15 years)



3 Desired Areas for Planned Lease of New Office Space

- **The major business areas of "Nihombashi," Otemachi," "Marunouchi," and "Toranomon," etc., where high percentages of firms are resuming business, remain popular.**

Regarding areas targeted by firms planning to lease new office space, responses over the last three years (2019 to 2021) have pointed to areas such as "Nihombashi" (19%), "Otemachi" (15%), "Marunouchi" (15%) and "Toranomon (13%)," where business is being implemented. These areas continue to be popular because of the expectaions to offer improved transportation (new/ upgraded stations and roads) and improved urban attractiveness (new high-function, multipurpose facilities) . The "2021 Survey of Large-Scale Office Building Market in Tokyo's 23 Wards" by Mori Building indicated that in regard to 4.68million m² of new-large-scale office supply that is forecast in the 23 wards in 2021-2025, around 75% (3.53million m²) is expected in seven areas: Toranomon, Nihombashi-Yaesu-Kyobashi, Tamachi-Hamamatsucho, Shinagawa, Akasaka-Roppongi, Marunouchi-Otemachi, and Shibuya (Figure 9). These seven areas roughly correspond to the most "Desired Areas for Planned Lease of New Office Space."

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

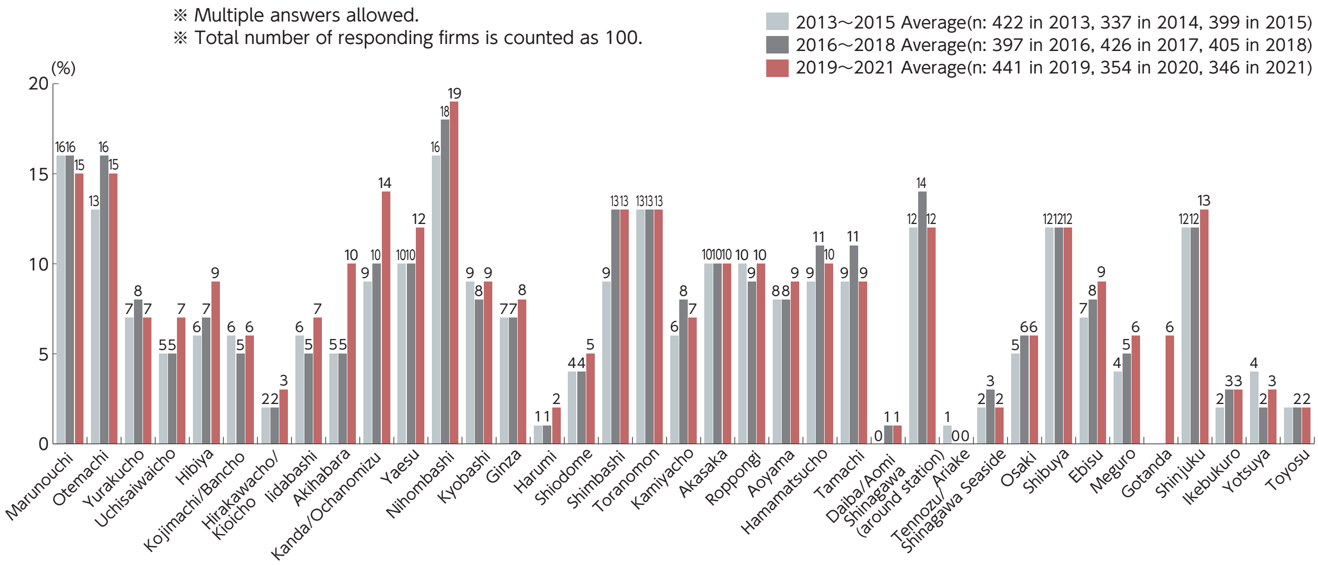


Figure 8: Top 10 Desired Areas for Planned Lease of New Office Space

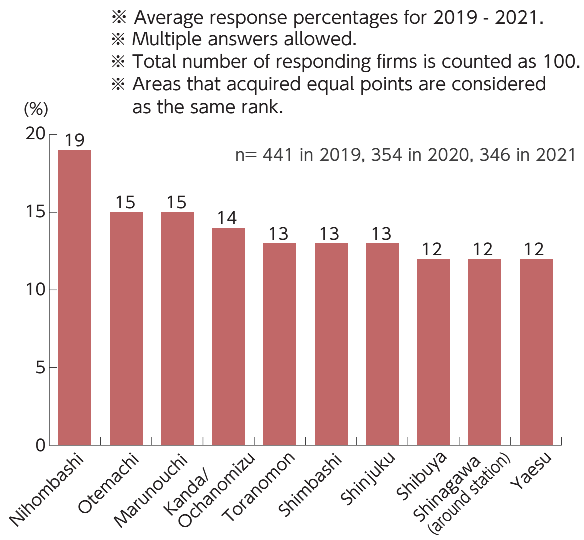
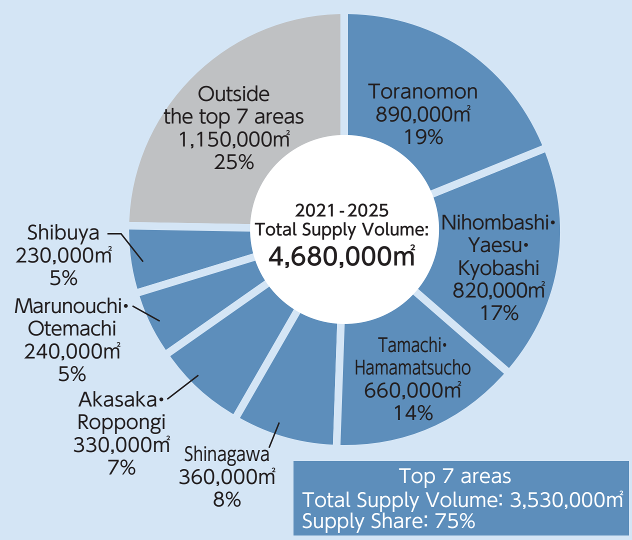


Figure 9: Supply Volume by Major Business Areas for the Years 2021 – 2025



Reference: 2021 Survey of Large-scale Office Building Market in Tokyo's 23 Wards

4 2021 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 70%

When asked about rent revisions within the last year, 19% of firms responded "Have Had a Rent Revision," which was similar to an average year, and 4% answered "Currently Under Negotiation" (Figure 10). Of the firms in these categories, around 70% indicated that their rent increased (Figure 11).

Figure 10: Rent Revisions for the Past Year

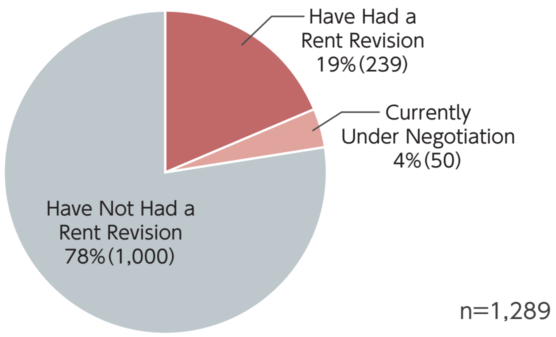
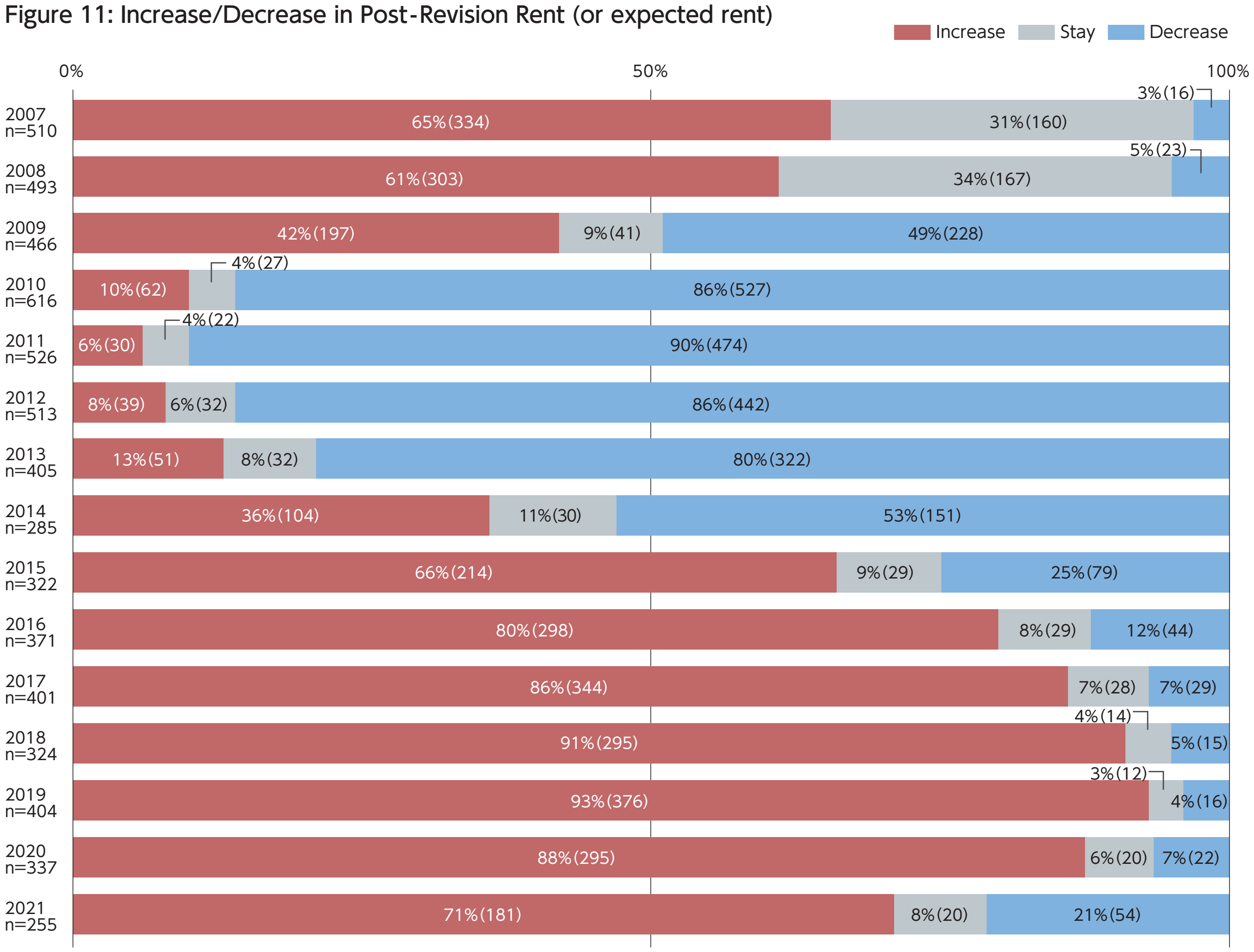


Figure 11: Increase/Decrease in Post-Revision Rent (or expected rent)



5 Employees Working in Offices

- Compared to the previous survey, no major change was seen regarding expectations of workers coming into the office or the number of desks to be provided following COVID.
- "Ensuring social distance" was the #1 issue for employees returning to offices. This was followed by "implementation and expansion of IT tools," and "refurbishments and improvements to make office attractive to employees."

When asked about the ratio of employees working in offices in Figure 12 and 13 , the response "80% or more" rose from 36% (at the time of the survey) to 56% (after COVID), whereas the response of "less than 50%" fell from 29% (at the time of this survey) to 12% (after COVID).
Regarding the number of personal desks per employees, roughly 80% of the firm anticipated to provide 80% or more with desks after COVID (Figure 14). Post-pandemic expectations regarding employees working in offices and the provision of desks were roughly the same as in the previous survey. Also, when asked about issues concerning employees returning to (or remaining in) the office, the top response was "Ensuring distance between employees" (42%), followed by "Implementation and expansion of IT tools for online communication" (39%) and "refurbishments and improvements to make office attractive to employees" (33%) (Figure 15).

Figure 12: Employees Working in Offices Now

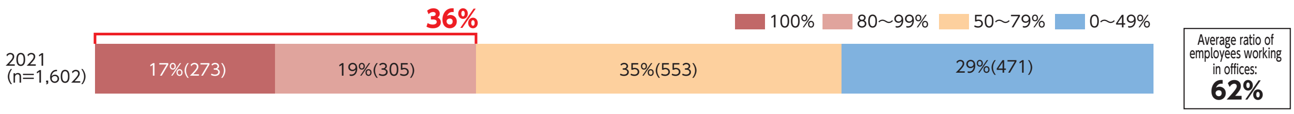


Figure 13: Expected Ratio of Employees Working in Offices after COVID (comparison with previous survey)

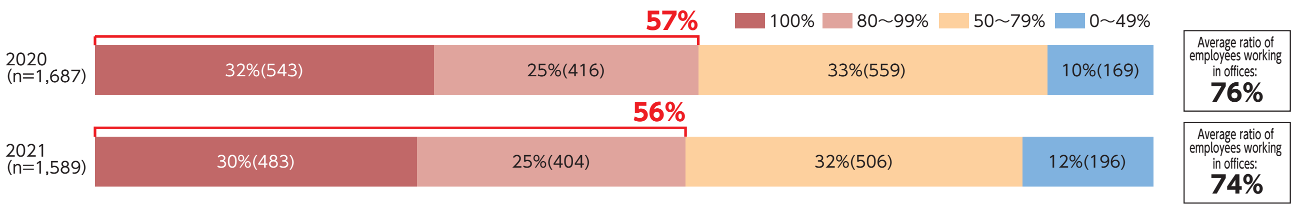


Figure 14: Expected Ratio of Personal Desks per Employee after COVID (comparison with previous survey)

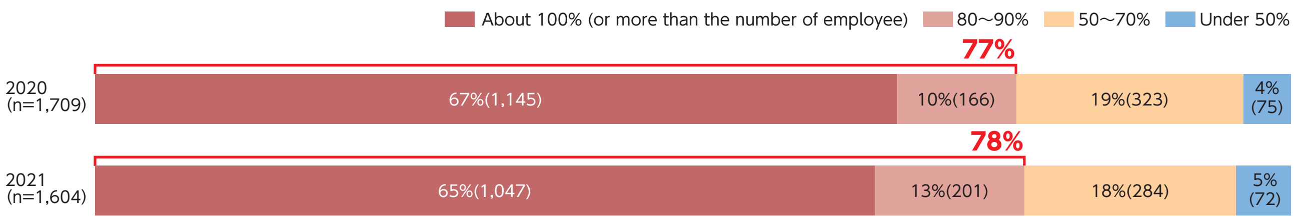
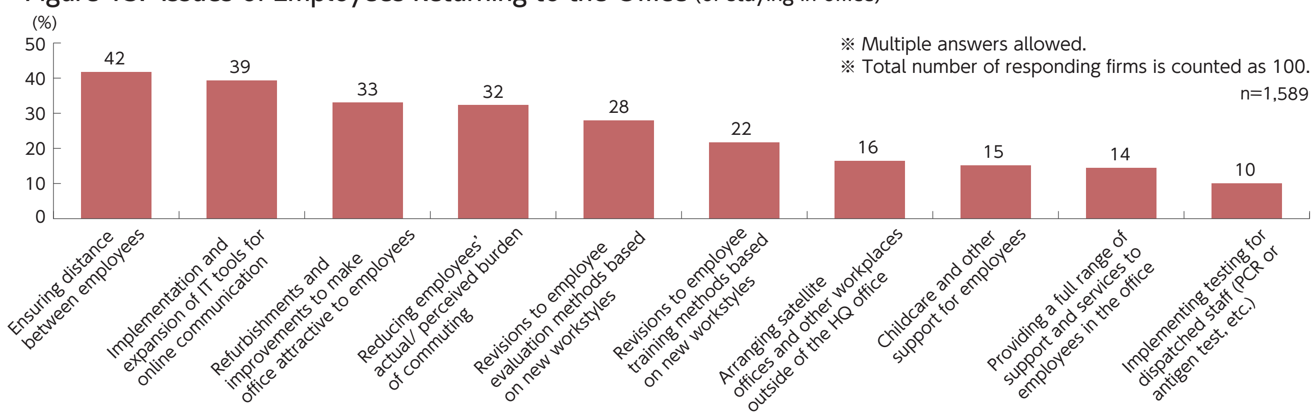


Figure 15: Issues of Employees Returning to the Office (or staying in office)

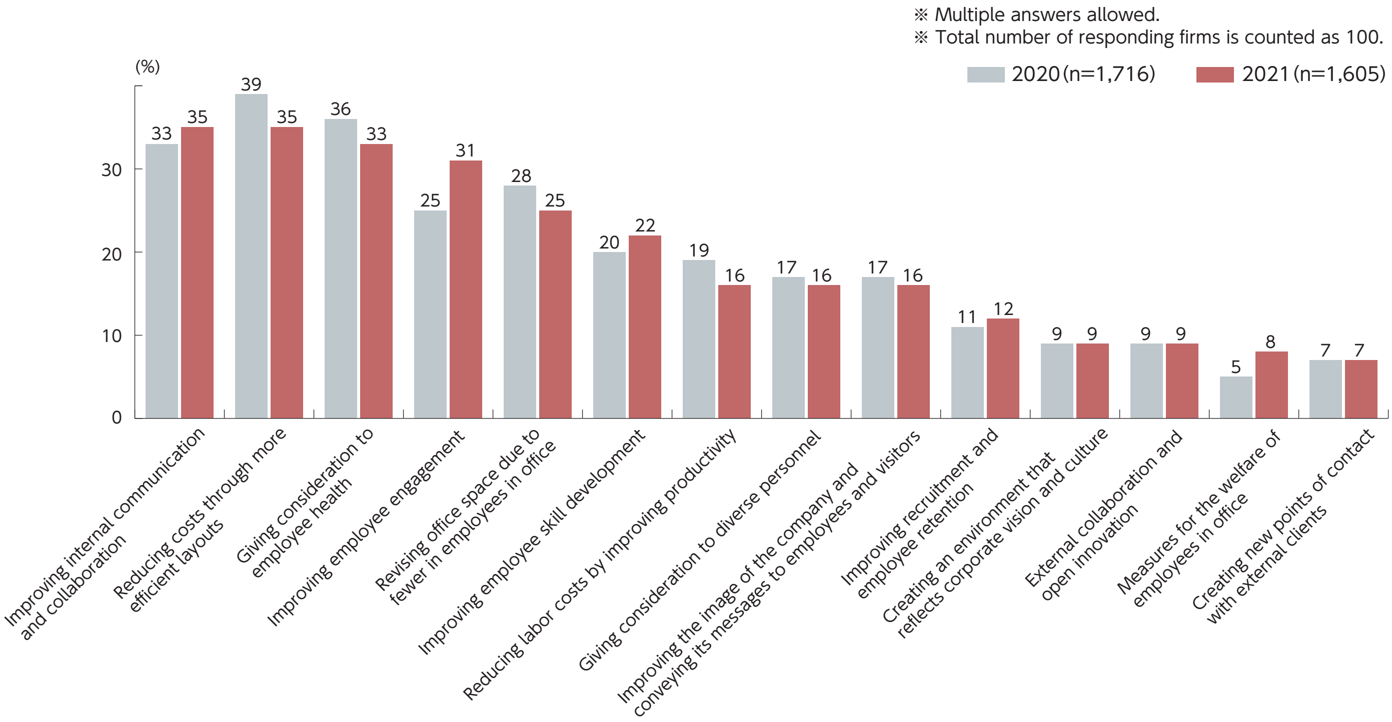


6 Issues in Developing Office Environments and Introducing New Systems and Facilities

- **Regarding issues concerning the development of office environments, increases were seen in responses pointing to "improving employee engagement," "internal communication" and "improving employee skill development." More companies are grappling with issues that are difficult to address in the remote work context.**
- **An increasing number of companies also are introducing "open meeting spaces," "web meeting spaces," "concentration booths/workspaces" and "non-territorial offices." Additionally, more companies are upgrading their offices and improving office functions for both in-office and remote workers, mindful of changing workstyles.**

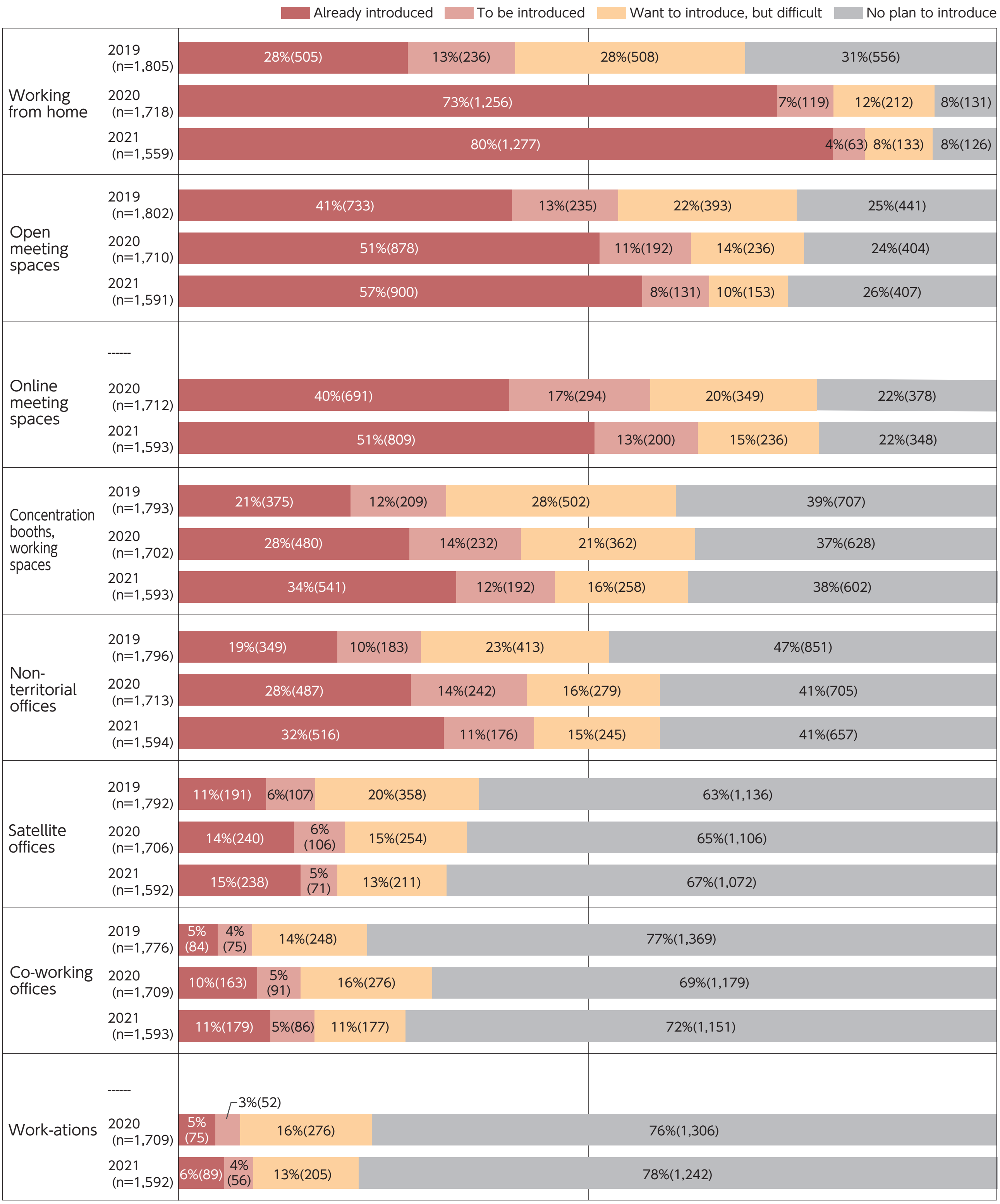
Regarding issues concerning office environment development, "improving employee engagement" rose considerably from the last survey (25%→31%). Also increasing were "improving internal communication and collaboration" (33%→35%) and "improving employee skill development" (20%→22%). More companies are grappling with office issues such as improving personnel communication/education and employee engagement, which are difficult to address within the context of remote work.
Decreases were seen in responses related to cost reduction, such as "reducing costs through more efficient layouts" (39%→35%), "reducing labor costs by improving productivity" (19%→16%) and "revising office space due to fewer employees in the office" (28%→25%). Companies have become more positive since the state of emergency declaration was lifted.

Figure 16: Issues for Office Environment Development (comparison to previous survey)



Regarding the introduction of new work methods and systems, increases were seen in "working from home" (80%), "open meeting spaces" (57%), "online meeting spaces" (51%), "concentration booths/work booths" (34%) and "non-territorial offices" (32%). Companies are upgrading their office environments and improving functions for both the office and remote workers, mindful of changing workstyles.

Figure 17: Introduction of Workstyles, Systems and Facilities

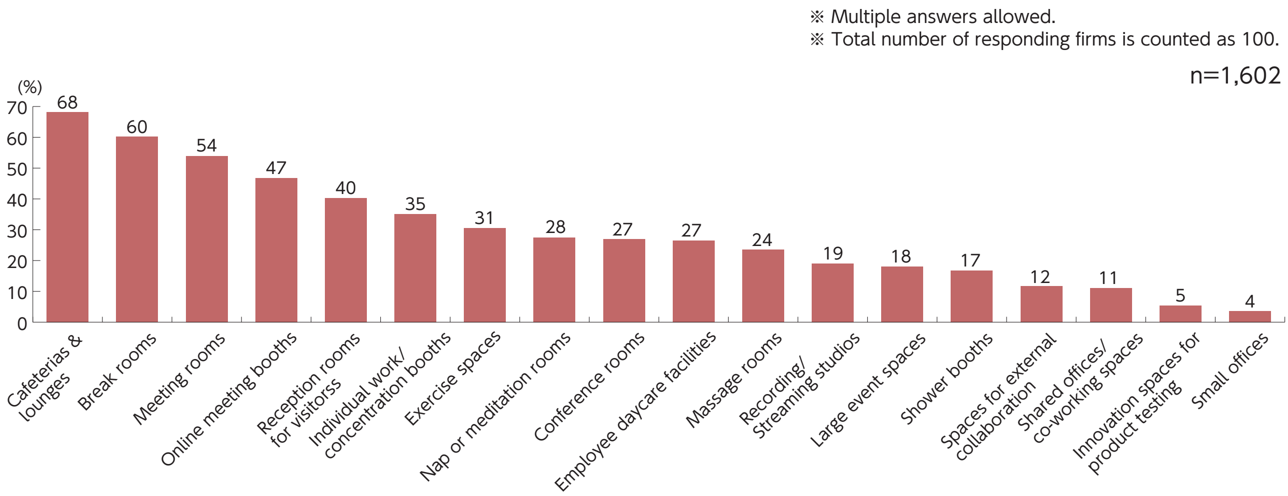


7 Demands for Shared Facilities and Worker-Oriented Services in Offices

- **Strong demands were seen for shared facilities in office buildings that support internal and external communication, such as "cafeterias and lounges," "break rooms," "conference rooms," and "reception rooms for visiting clients," and facilities for improved office functionality, such as "online meeting booths" and "individual work/ concentration booths."**
- **Strong demands also were seen for worker-oriented services related to food and beverages, such as services for "lunch," "cafe," "breakfast," and "restaurants for internal social gatherings" as well as health-related services for as "gyms" and "massages." In-office needs are growing for benefits related to shared facilities, employee communication and health management.**

Regarding employee demands for shared facilities in office buildings, the top response was "cafeterias and lounges," (68%), followed by "break rooms" (60%), "conference rooms" (54%) and "reception rooms for visitors" (40%). In addition to facilities supporting external and internal communication, many responses mentioned facilities for improved office functionality, such as "online meeting booths" (47%) and "individual work/concentration booths" (35%). Another popular response was the demand for health-related facilities, such as "exercise spaces" (31%).

Figure 18: Shared Facilities that Employees Expect in Office Buildings



Regarding expectations for worker-oriented services in office buildings, the top answers were food and beverage-related services such as "lunch" (63%), "cafés" (48%), "restaurants for internal social gatherings" (35%) and "breakfast" (32%). Also, many responses concerned benefits for health-related services, such as, "gyms" (40%) and "massages" (32%). Companies are increasingly being expected to provide shared facilities that support employee communication and health management.

Figure 19: Worker-Oriented Services Anticipated to be Used by Employees