

2008 Survey Results of Office Requirements in Shanghai

December 18, 2008

- During the last one year, the business performance of multinational firms in Shanghai has firmed up. Mid-term expansion is forecast for the next three years.
- Business in all categories are expected to continue to require additional employees and office space.
- As an office relocation option, the Lujiazui area is popular mainly among financial services, insurance firms, and non-manufacturing businesses.

Mori Building Co., Ltd. (Headquarters: Roppongi, Minato-ku, Tokyo , President and CEO: Minoru Mori) has conducted successive “Survey Results of Office Requirements in Shanghai” annually since 2004. This study is conducted in order to survey major foreign firms in Shanghai on the current state and prospects of business activities in Shanghai and office demand in future, and aims to grasp trends of those firms and demand trends in the office market. We have compiled this fifth survey which was conducted in October 2008 and hereby report the results.

<Framework of 2008 Office Requirements Survey in Shanghai>

- ☐ Research Period : October 4th ~ October 31st, 2008
- ☐ Research Sample : 3,728 multinational firms in Shanghai
Canada/USA
Austria/France/Germany/Italy/Switzerland/UK/Other EU Nations
Australia/Korea/Japan/Singapore
- ☐ Response : 448 companies (12.0%)

(Reference) **Framework of 2007 Office Requirements Survey in Shanghai**
3,679 multinational firms in Shanghai
662(18.0%) companies responded.

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1 Current state and forecast of business in Shanghai

- The majority of firms responded that business performance over the prior year has been "better than expected" or "as planned."
- Though there has been a downturn in most recent business performance, a mid-term expansion trend is forecasted.

In terms of business performance of foreign firms in Shanghai during the past year, 35% of responding firms answered "Beyond expectations" (Chart1). Though this represents a decrease from the 41% in 2007, companies responding "worse than expected" remained at the same 9% level as last year, an indication that the business performance of companies in Shanghai has taken an upturn.

Next, a look at the most recent quarter shows that "better than expected" was given by 22%, "as planned" by 61%, and "worse than expected" by 17%. While the ratio of firms answering "better than expected" decreased, and "worse than expected" increased from the past year, the major of firms responded "as planned" (Chart 1).

A breakdown by business category of business performance over the most recent quarter indicates an increase in "as planned" among all categories. Despite an increase in the response "worse than expected" among manufacturing and non-manufacturing firms, the same was given by a mere 5% (three

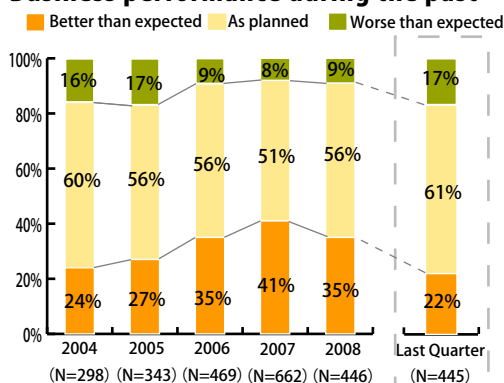
firms) in the financial services & insurance industry (Chart 2).

Companies responding that business performance in the most recent quarter was "worse than expected" were queried on their reasons for that. Dominant among the reasons given was "a sharp rise in the cost of raw materials" (45%), which was followed by "a sharp rise in the cost of labor" (36%) and "the revaluation of the yuan" (24%). Meanwhile, no more than 20% cited the impact of the "the subprime mortgage problem" (Chart 3).

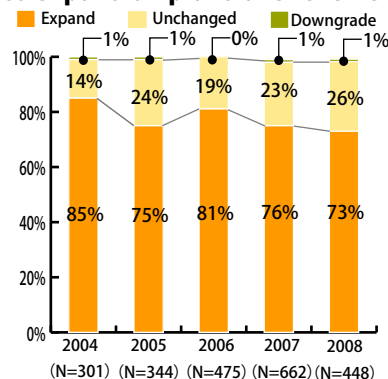
In regard to business prospects over the next three years, no sizeable changes are forecast in comparison with recent years (Chart 4). Although the financial services & insurance industry and manufacturing firms saw a decrease in the response "expand," 60-70% of these firms in each category still selected the response "expand" (Chart 5).

So, while on the one hand companies in Shanghai feel the effects of the economic situation on their own business performance, it is clear that the majority of them tend to anticipate a trend toward expansion of their business in the future.

**Chart 1
Business performance during the past**

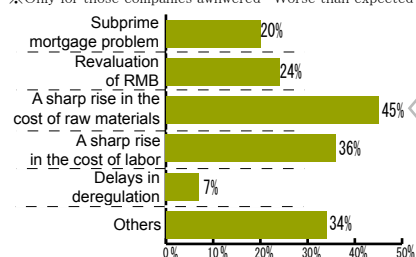


**Chart 4
Business expansion plans over the next three years**

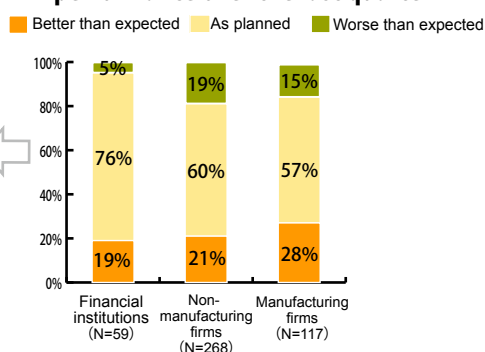


**Chart 3
Causes for downturns in business performance during the last quarter (multiple choice)**

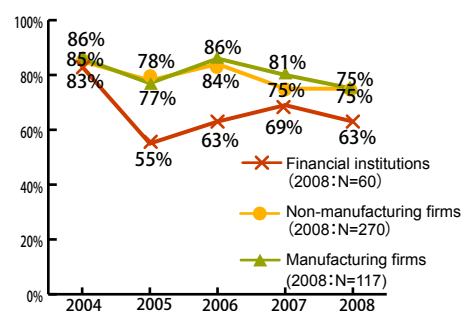
※Only for those companies answered "Worse than expected"



**Chart 2
Breakdown by business category of business performance over the last quarter**



**Chart 5
Breakdown by business category of companies responding that their business will expand**



2 Future prospects of Shanghai offices over the next three years

- Shanghai will be enjoying even greater importance as a management base city within Asia and Oceania.
- Companies are expected to require additional office space and employees in Shanghai in mid-term, over the next three years.

Companies currently in Shanghai gave as the city in which they base operations in Asia/Oceania (multiple choice) "Shanghai" (50%), "Tokyo" (27%), "Hong Kong" (17%), and "Singapore" (11%). Shanghai was thus cited most as the management base. On top of that, 69% of companies answered that they expected to have their management base in "Shanghai" three years into the future, an indication that the position of Shanghai offices will take on even greater importance in the future (Chart 6).

Next, on the subject of plans to increase/decrease employees and office space used in Shanghai, 61% of firms responded that they planned on increasing staff, while 51% answered that they intended on increasing the space used. Even a breakdown by business category shows that over half in all categories plan on staff increases and office space expansion over the next three years (Charts 7, 8).

Despite the financial crisis sparked by subprime loans spreads all over the world and the so-called "Lehman Shock" prior to this survey in September, the results of this survey suggest that most financial/insurance firms which operate in Shanghai have not observed any substantial deterioration in their most recent business performance and assumed that their business would likely expand and that they would thus require more human resources and larger office space. However, there are certain regulations imposed upon foreign companies in the Chinese financial market at this point and the results of this study also imply that their response is based on their hope that these regulations could be eased in some ways in the future. We thus need to keep our eyes on future trends here.

Chart 6
Cities in which firms in Shanghai have their Asia/Oceania management base (multiple choice)

※ If all choose the same option, that option will be 100%

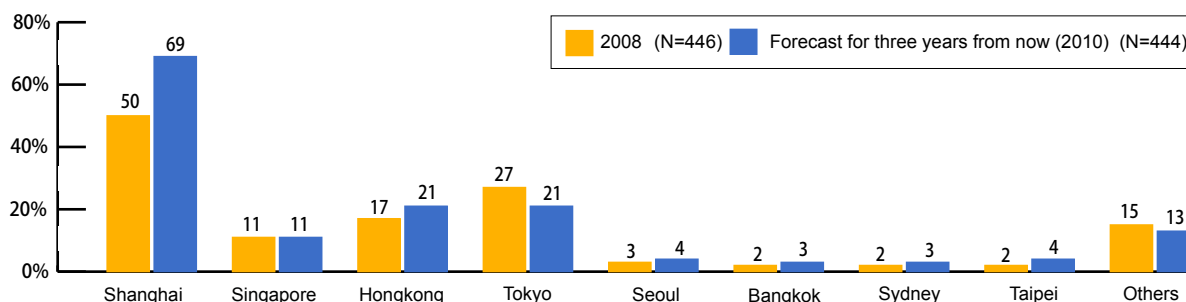


Chart 7
Staff increase/decrease plans for the Shanghai offices in the next three years

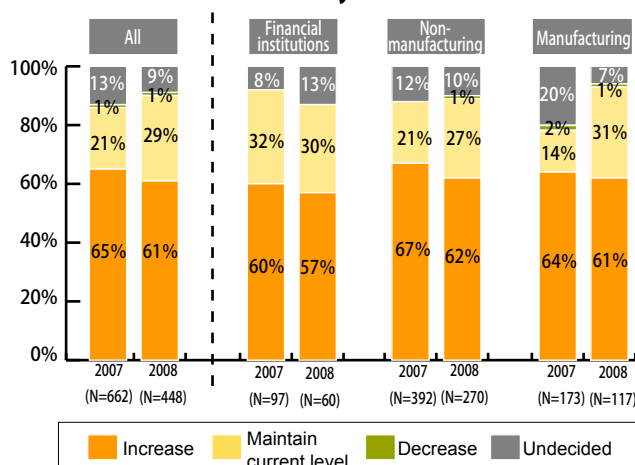
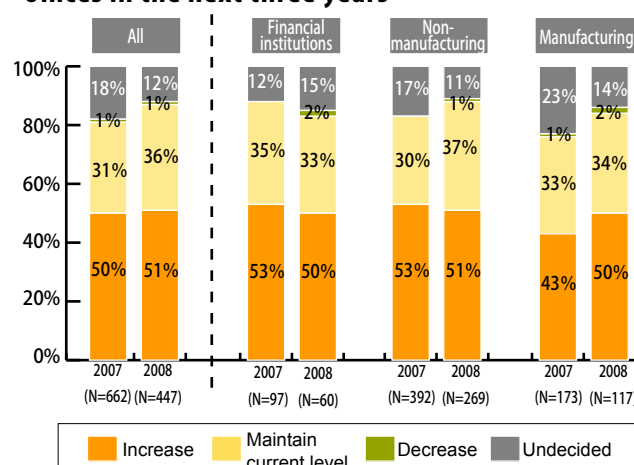


Chart 8
Plans for increased office space in Shanghai offices in the next three years



3 Future office relocation in central Shanghai: plans and reasons

- About half of the firms felt the need for office relocation.
- They sought office buildings on the basis of large size, favorable location, and sophisticated specs.

Of the firms responding, 16% answered that they were considering office relocations to central Shanghai within the next three years. Including firms that considered the need for this, about half of the companies felt the need for office relocation, a finding that more or less equals that of last year's survey (Chart 9).

<Reasons for office relocation>

Similar to last year's findings, the top three reasons for office relocations given were "to increase office space" (71% – the top reason), "for better building facilities" (44%), and "for better location/accessibility" (34%) (Chart 10). This indicates that there is strong demand for large, high-quality office buildings, regardless of the business category (Chart 11).

Chart 9
Office relocation plans over the next three years

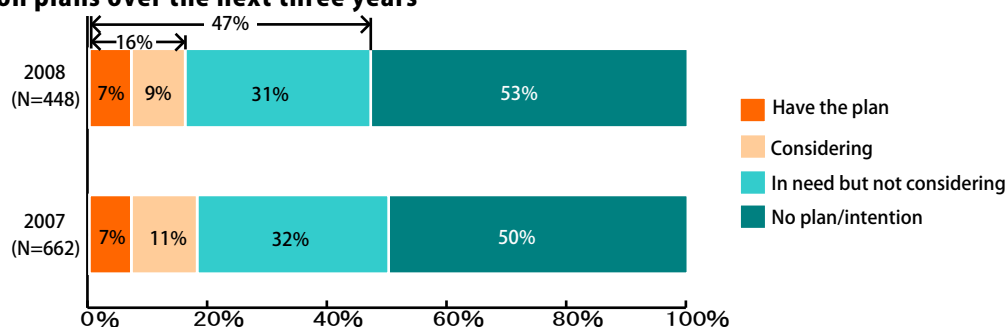


Chart 10
Reasons for office relocation (multiple choice)

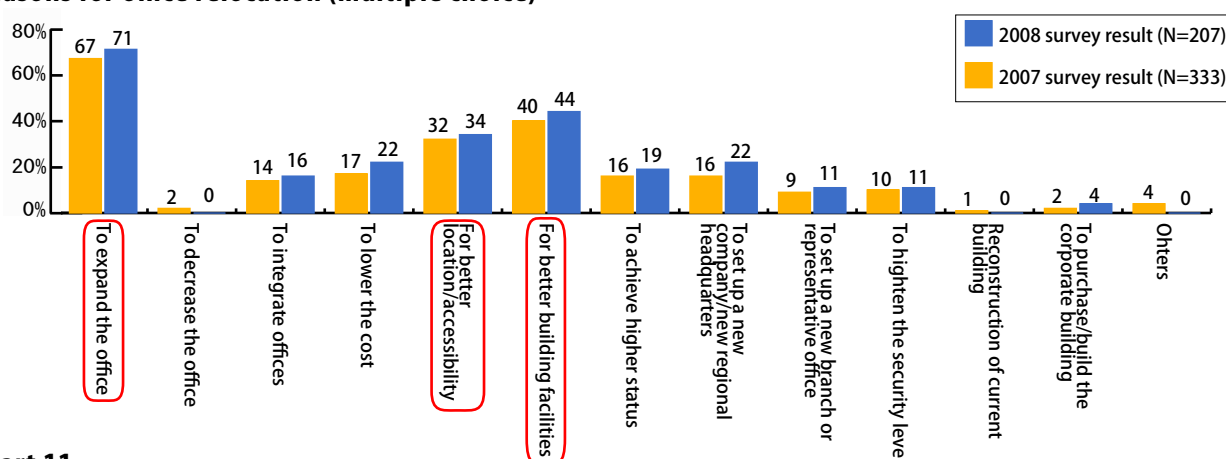


Chart 11
Breakdown by category of reasons for relocating offices (multiple choice)

| <div><div></div>0% - 9%</div> | <div><div></div>10% - 19%</div> | <div><div></div>20% - 29%</div> | <div><div></div>30% - 39%</div> | <div><div></div>40% - 49%</div> | <div><div></div>50% -</div> | | | | | | | | |
|-------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|------------------------------------|--------------------------------|--------------------------|--|---|--------------------------------|------------------------------------|---|--------|
| Industry | To increase the office | To decrease the office | To integrate offices | To lower the cost | For better location/ accessibility | For better building facilities | To achieve higher status | To set up a new company/ new regional headquarters | To set up a new branch or representative office | To heighten the security level | Reconstruction of current building | To purchase/ build the corporate building | Others |
| Financial institutions | 61% | 0% | 16% | 26% | 39% | 52% | 16% | 10% | 16% | 13% | 0% | 0% | 3% |
| Non-manufacturing | 71% | 0% | 15% | 19% | 34% | 45% | 21% | 20% | 12% | 10% | 0% | 4% | 0% |
| Manufacturing | 75% | 2% | 20% | 25% | 33% | 38% | 15% | 33% | 5% | 11% | 0% | 7% | 0% |

4 Popular area for office location

- The Lujiazui area received the highest level of interest as a destination for office relocation.
- “Image of the district,” “Concentration of financial institutions,” and “Quality of office buildings” are the appealing aspects of the Lujiazui area.

The most popular destination area for office relocation is the Lujiazui area (28%). This was followed by “Hongqiao development zone” (19%) and “Huai Hai Road area” (15%) (Chart 12).

A breakdown by business category shows that the Lujiazui area is most popular among the financial services & insurance industry and non-manufacturing businesses Lujiazui. In fact, over half of the firms in the financial services & insurance industry selected Lujiazui as their area of greatest interest (Chart 13).

<Evaluations of the Lujiazui area>

Given as the top three aspects that positively affect business in the Lujiazui area, which won the highest degree of support, were “image of the district (78%),” “concentration of financial institutions” (75%), and “quality of the office buildings” (68%). These are percentages that exceeded last year’s figures. In addition, the evaluation “Degree of concentration of firms/clients” was given by 8% more than last year.

In contrast, given as the negative elements were “rent” (67%), “facilities to support living” (38%), “pedestrian environment” (35%), and “cultural and recreational facilities” (20%) (Chart 14). Deteriorating perceptions of the pedestrian environment are probably due to the effects of infrastructural construction of late in the Lujiazui area: This was cited by 7% as working to the detriment of the area.

As was the case in last year’s survey, the business community continues to offer better evaluations of the Lujiazui business environment due to the high-quality office buildings and concentration of financial institutions. However, it also continues to hope that the appeal of the area can be enhanced by urban infrastructural improvements that improve deteriorating pedestrian space, etc. and an increase in the on-site office building facilities that comprehensively support a higher standard of office life.

Chart 12
Areas of interest as a relocation destination

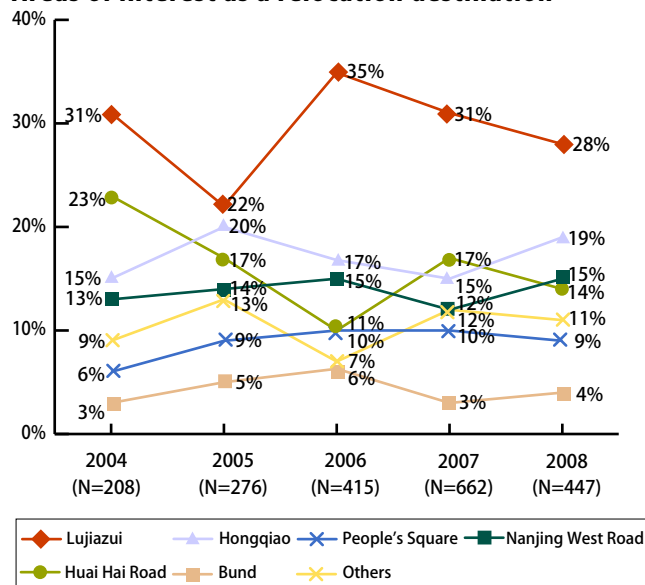
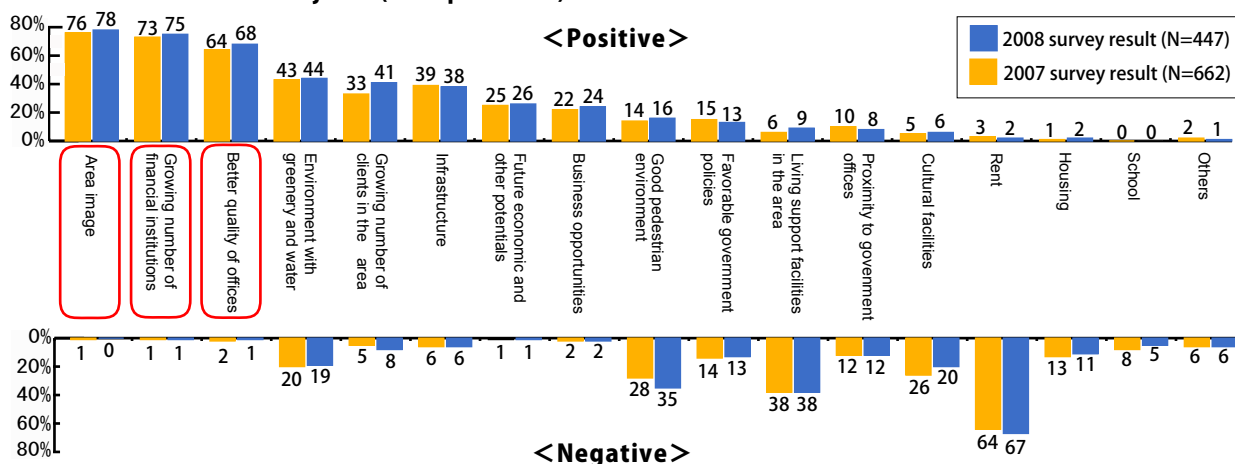


Chart 13
Breakdown by business category of the most interested area as office location

| Industry | Lujiazui | Hongqiao | Nanjing West Road | People's Square | Huai Hai Road | Bund | Others |
|------------------------|----------|----------|-------------------|-----------------|---------------|------|--------|
| Financial institutions | 52% | 7% | 15% | 8% | 13% | 3% | 2% |
| Non-manufacturing | 27% | 17% | 14% | 10% | 14% | 5% | 12% |
| Manufacturing | 18% | 28% | 16% | 8% | 14% | 3% | 14% |

0% - 9% 10% - 19% 20% - 29% 30% -

Chart 14
Business environment in Lujiazui (multiple choice)



Office area map of central Shanghai

