

Building Owner Survey 2015

Discover the mindset and challenges of the small-medium building owners

November 26, 2015

In April 2014, Xymax Real Estate Institute released a report "Office Stock Pyramid 2014"^{*1} in which we picked up the fact that the small and medium buildings have reached 90% of the entire buildings in Tokyo 23 Wards in terms of number of buildings and that such buildings are aging. This means that a large part of the buildings in Tokyo's office market will get old and see an increase of maintenance costs and owners will sooner or later decide to sell them or demolish them and construct a new building. However, there is almost no study focusing on the owners of these buildings, such as their age, number of buildings they have, their way of thinking and challenges they face.

For this study, we worked jointly with the laboratory of Professor Yukio Komatsu of the Department of Architecture at Waseda University^{*2} and conducted surveys and interviews with owners^{*3} who have buildings mainly in central Tokyo. The results are compiled and summarized in this report.

*1 Office Stock Pyramid 2014 https://www.xymax.co.jp/english/research/images/pdf/140417_News-release.pdf

*2 Laboratory of Professor Komatsu at Waseda University <http://www.waseda.jp/sem-ykom/komindex.html>

*3 For the surveyed owners, see the survey overview at the end of this report.

Key Findings from Research | 333 owners responded (298 valid respondents), 40 owners were interviewed

1. 90% of owners are over 50 years old. 60% have one or two properties

- About 90% of owners are over 50 years old. **(Figure 1)**
- Over 60% of owners have one or two tenanted properties **(Figure 2)**

2. More than 70% fear future of the business. Challenges differ depending on owner's age.

- Many owners said stable income is the attractive part of the landlord business. However, 70% said they fear the future of the business. **(Figures 6 & 7)**
- Young owners said lack of knowledge and difficulties of gathering information of legal changes are concerns. Senior owners concern about business succession and inheritance strategy **(Figure 8)**.

3. Majority of owners will continue to use the building.

- Over 60% of owners said they will continue to use the building either "as is" or after renovations **(Figure 13)**.
- Owners start considering new construction when the building becomes 30 years of age **(Figure 13)**.
- Only about 10% of owners of one or two properties consider new construction or disposal, lower than that of owners of three or more properties. **(Figure 14)**

4. Interviews revealed owners' features and challenges

- Features of owners by age group and by number of buildings. **(Figures 17 & 18)**
- Different backgrounds of challenges and of not being able to decide future plans.

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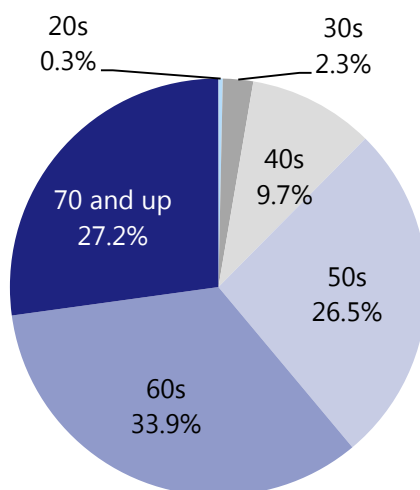
1. Profile of Building Owners

Below is the profile of 298 owners, either an individual person or a representative of the company.

1) Owner's Age

The building owners over 50 years old accounted for nearly 90%, with about 30% for each age group (50s, 60s and 70s). **(Figure 1)**

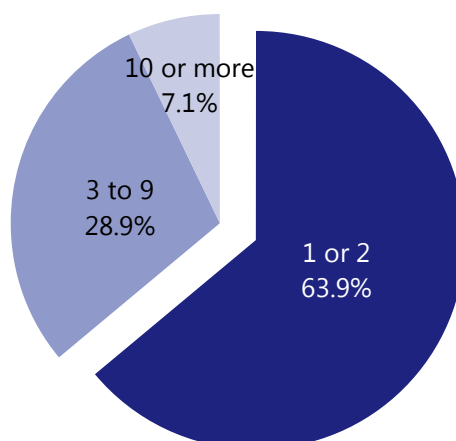
Figure 1: Owner's Age



2) Tenanted Properties in Possession (Commercial Building, House, Retail, Parking Lots, etc.)

Over 60 % of the owners have one or two properties, about 30% have three to nine properties and the remaining less than 10% have ten or more properties.* **(Figure 2)**

Figure 2: Tenanted Properties in Possession



* We divided the result into three groups (one or two / three to nine / ten and more) because each of the groups exhibits distinctive features. This division is applied from here on.

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3) Owner's Main Business / Income from Landlord Business

The main business of more than half of the owners is "Real Estate / Goods Rental Business" (**Figure 3**). The one-third of the owners said the income from the landlord business is over 90% of the total (**Figure 4**).

Figure 3: Owner's Main Business

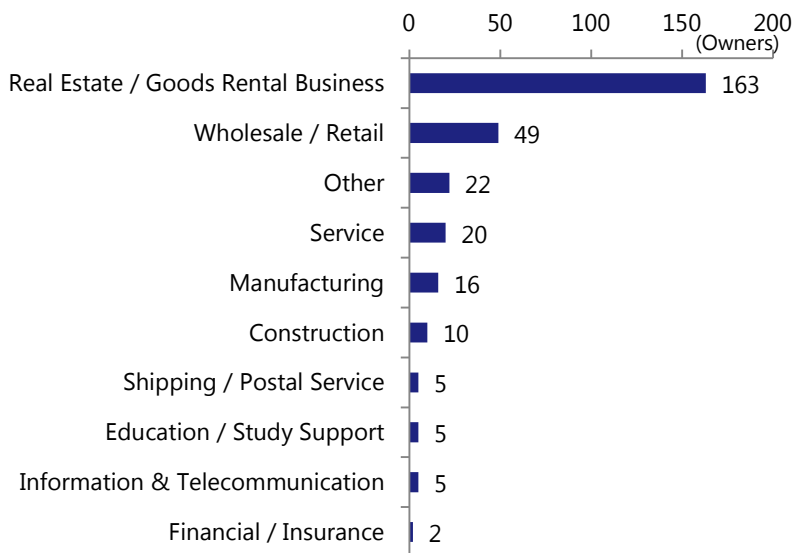
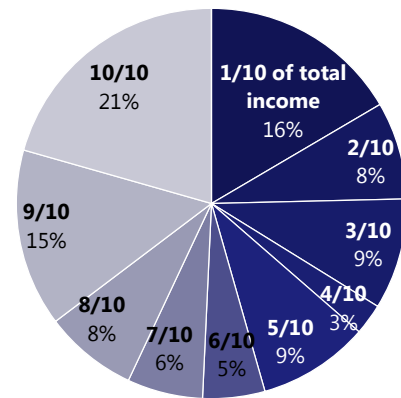


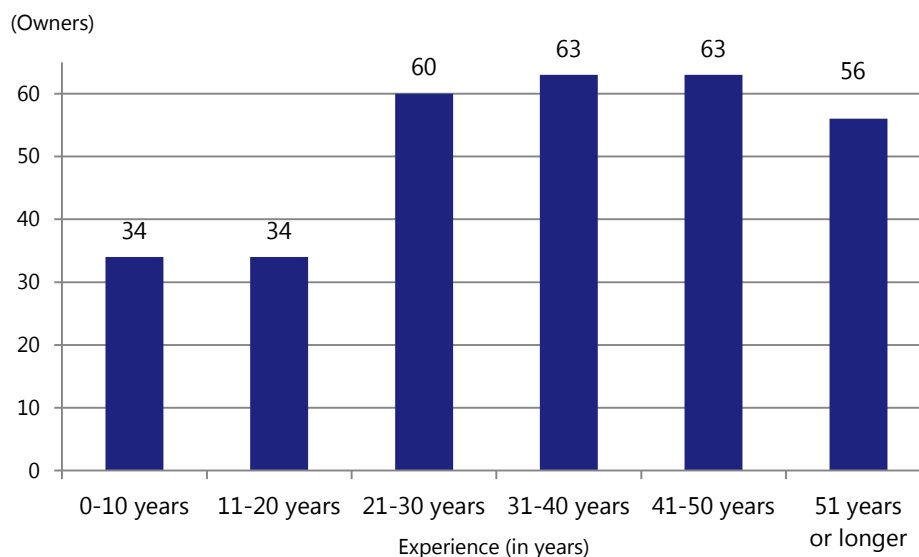
Figure 4: Share of Landlord Business



4) Experience of Landlord Business

The majority of the owners are doing the business for 21 years or longer (**Figure 5**).

Figure 5: Experience of Landlord Business



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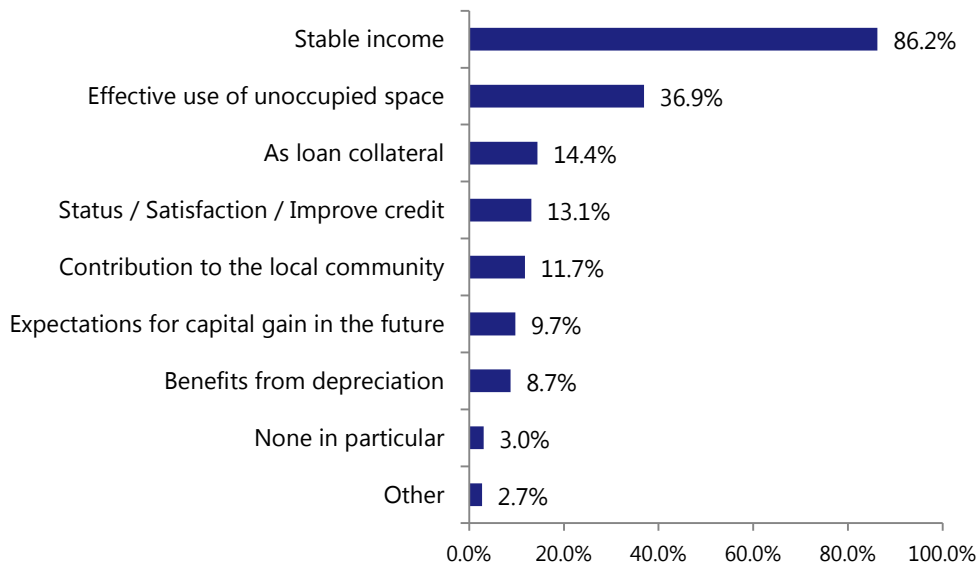
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2. Current Situations of Office Landlord Business

1) Attractiveness of Landlord Business (Multiple Answers)

More than 80% of the owners said stable income is the attractive part of the business, followed by 40% saying it is the effective use of a space not used by the owner's company (**Figure 6**).

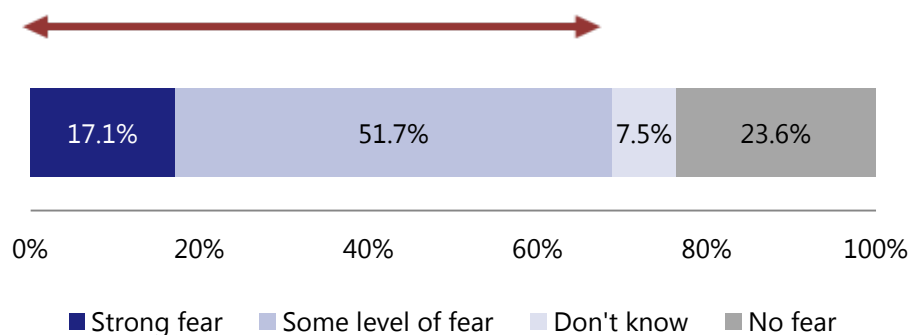
Figure 6: Attractiveness of Landlord Business (Multiple Answers)



2) Outlook of Landlord Business

About 70% of the owners said they have fears of some kinds (**Figure 7**). In the interviews, some owners mentioned that it is difficult to have a long-term business plan because of the market uncertainty caused by shrinking population and oversupply of buildings in addition to the concerns for the aged buildings that may decrease the rent and affect the profitability of the business.

Figure 7: Outlook of Landlord Business



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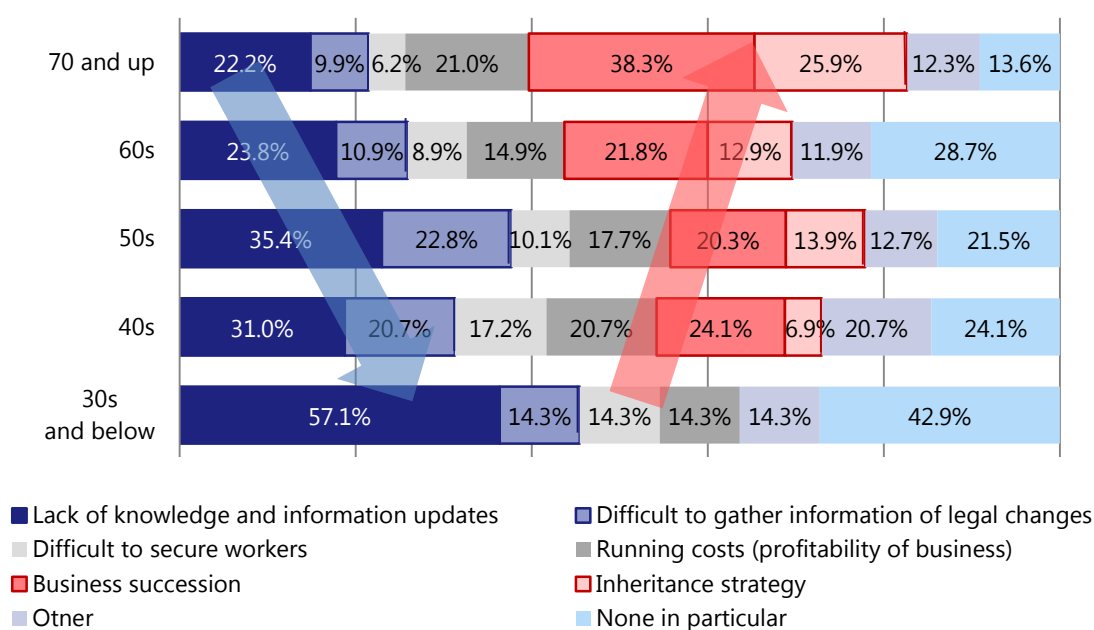
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3) Current Challenges in Landlord Business (Multiple Answers)

Young owners raised "Lack of knowledge and information updates" and "Difficult to gather information of legal changes" as their current challenges, whereas senior owners are more concerned on "Business succession" and "Inheritance strategy" (**Figure 8**). The interview revealed that young owners, many of who are second or third generation, are keen to gather information to fill the lack of experience, while senior owners are concerned about when to hand over the business to a son or a daughter, how to transfer the knowledge and technique of the business and about whether the son or the daughter has intention to do the business.

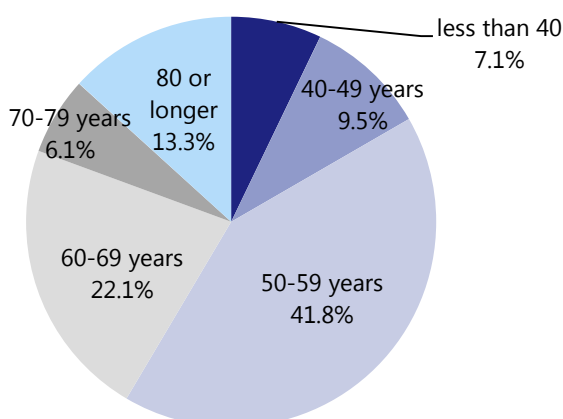
Figure 8: Current Challenges in Landlord Business by Owner's Age (Multiple Answers)



4) Physical Life Expectancy of Typical Buildings

When asked about a physical life expectancy of a typical building, 50 years was the most popular response. Over 80% of the respondents think the life expectancy is 50 years or longer (**Figure 9**).

Figure 9: Physical Life Expectancy of Typical Buildings



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3. Now & Future of Buildings Over 20 Years of Age

We divided the buildings into two groups: those over 20 years and those less than 20 years of age and asked the owners the same questions for the oldest building of each group. For the oldest building of the group of less than 20 years, the most popular response was "No concerns in particular". However, for the oldest building of the group of over 20 years, the owners responded with different opinions and aspects. In this section, we will focus on the oldest building of the group of over 20 years (295 owners were surveyed).

1) Age & Size of Building

About 70% of the owners said the oldest building they have is over 31 years of age (**Figure 10**). About 30% are less than 300 tsubo in size (**Figure 11**). 1 tsubo = 3.3 sqm

Figure 10: Building's Age (Oldest Building)

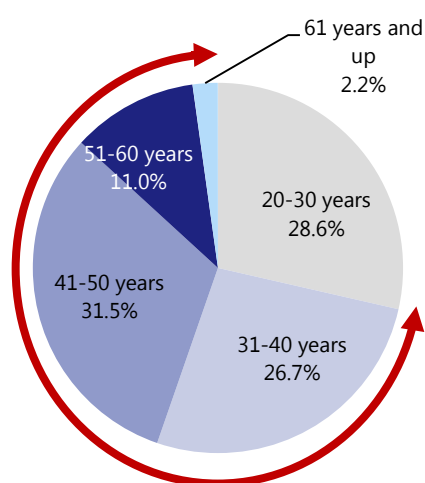
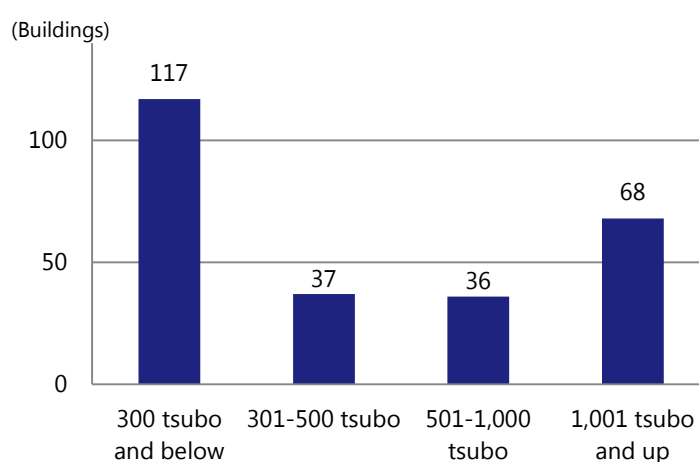


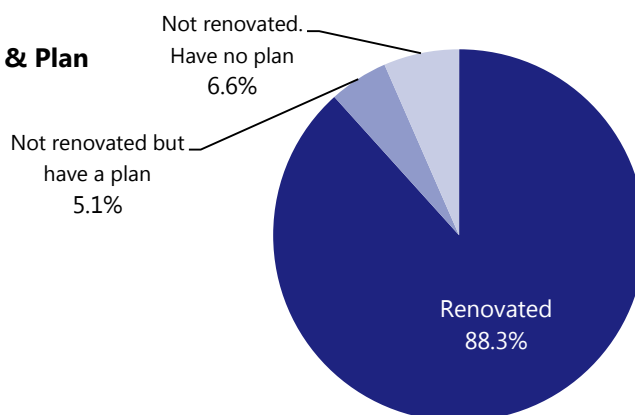
Figure 11: Gross Floor Area (Oldest Building)



2) Renovation History & Plan

Nearly 90% of the owners said they have completed major renovations (**Figure 12**). Many owners responded in our interview that they have completed improvements to maintain the function of the building such as replacing the air conditioning system, renovating the exterior walls or replacing the rooftop waterproofing. Some of them also have replaced the substation facilities and the water supply/drainage system. As renovations responding to tenants' needs, many owners have renovated the toilets and other water-related facilities. Not many of the owners, however, have renovated the entrance area which gives visitors a good impression if renovated. As energy-saving renovations, some owners used "green lease programs", which benefit both the owner and the tenant, to replace the old lights with LED lights. Some owners applied for subsidies for the renovations.

Figure 12: Renovation History & Plan



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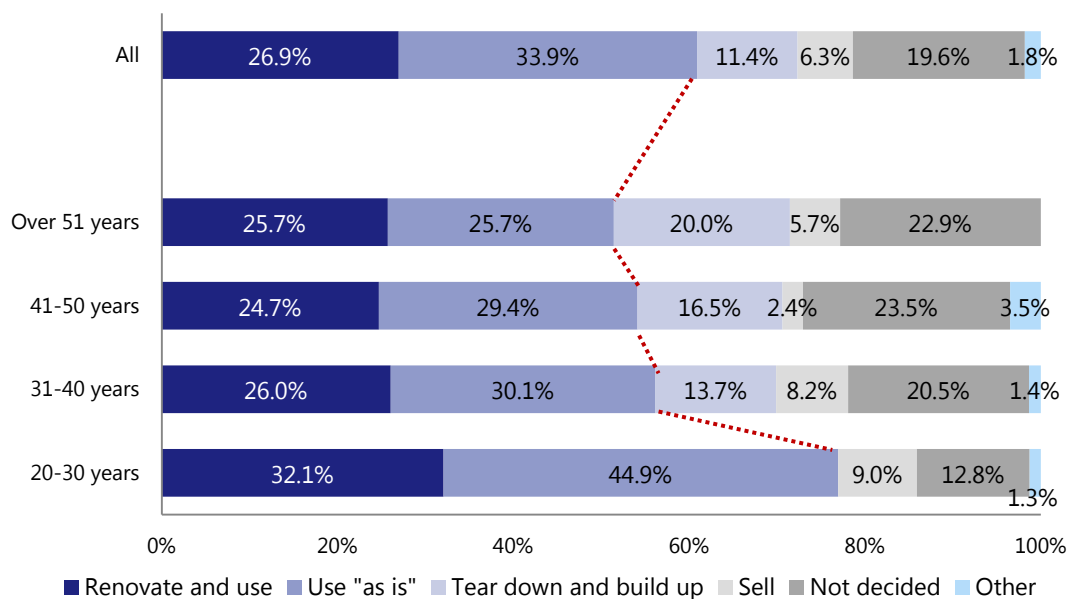
3) Future Plan

About future plans of the oldest building, over 60% of the owners said they will continue to use it either after renovations or "as is" (**Figure 13**).

By Building's Age

The owners start considering a demolition and new construction when the building is 30 years old. However, more than half of the owners said they plan to continue to use the over-31-year-old building either after renovations or "as is" (**Figure 13**).

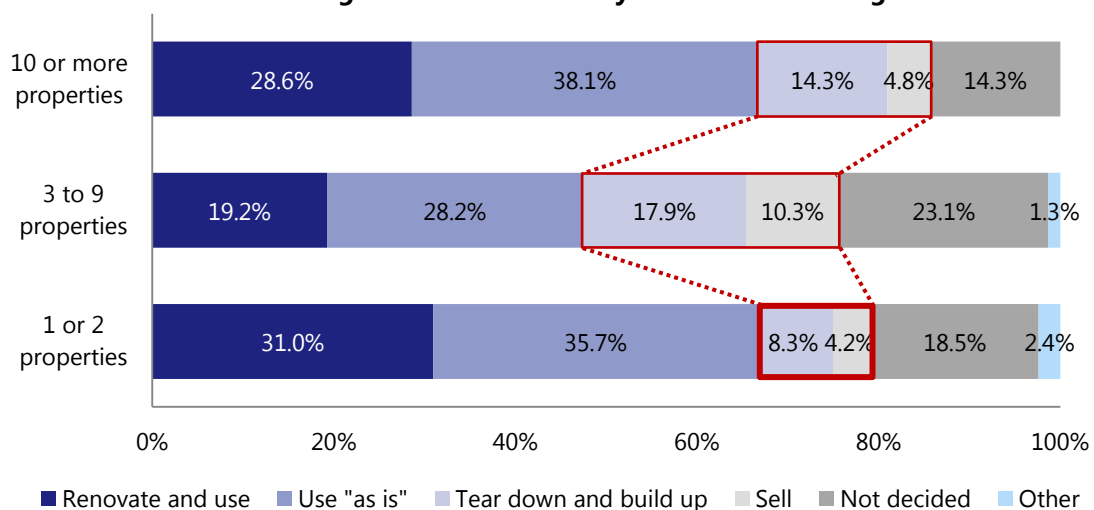
Figure 13: Future Plan by Building's Age



By Number of Buildings

Owners having one or two properties are less motivated in demolition and new construction and less motivated in selling the building "as is" (**Figure 14**).

Figure 14: Future Plan by Number of Buildings

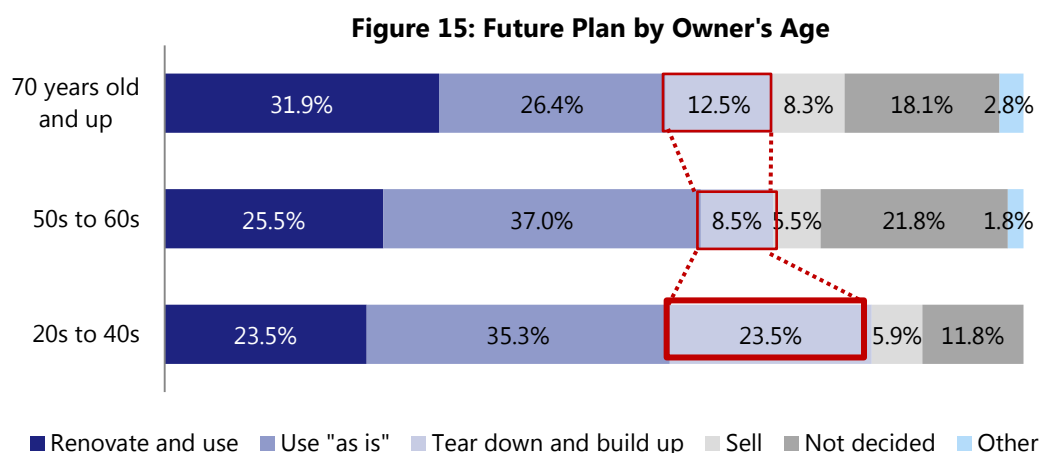


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By Owner's Age

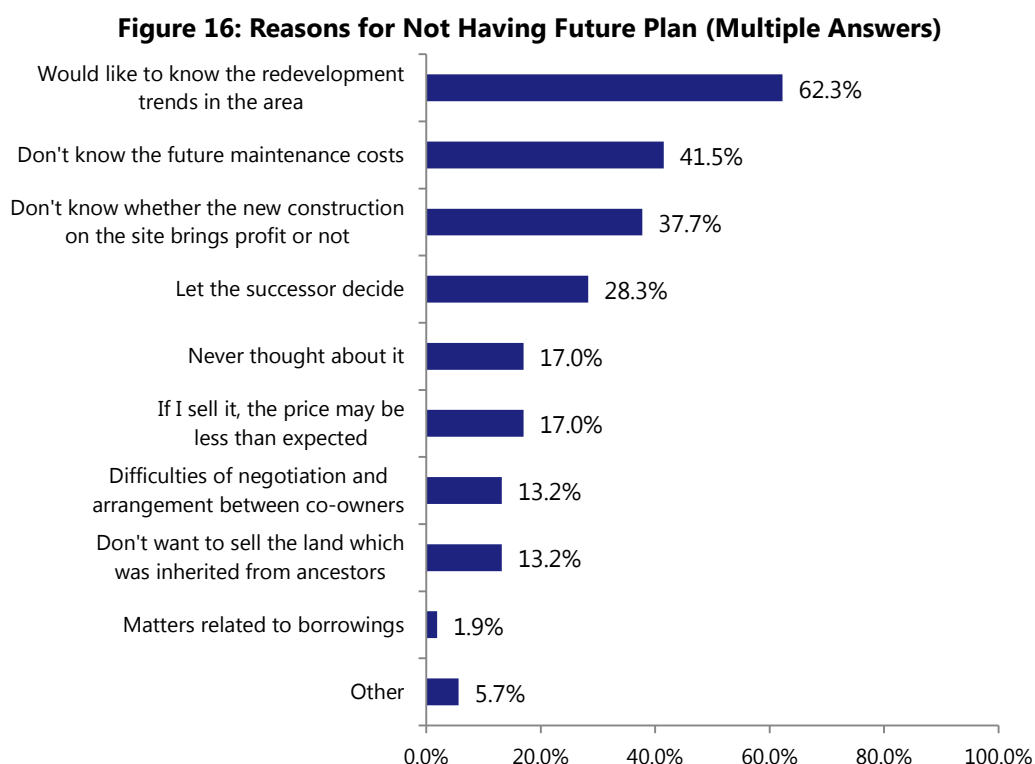
The owners in their 20s to 40s are more likely to have a plan to construct a new building than owners over 50 years old (**Figure 15**).



4) Reasons for Not Having Future Plan (Multiple Answers)

About 20% (53 owners) of the owners said they have not decided what to do with the building in the future. We asked them the reasons. Over 60% said they would like to know the redevelopment trends in the neighboring area before deciding their own plan, followed by about 40% saying because they do not know how much the maintenance costs will be in the future, another 40% saying they do not know whether demolition and new construction will be profitable, and about 30% saying they will let the successor to decide (**Figure 16**).

Regarding the new construction, our interviews found that some owners think they have no idea what the intended use of the new building should be and also they think negotiating with tenants require time and money.



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4. Specific Features of Owners from Interview

We had interviews with the owners based on the results of the survey and asked them about their attitude on actual landlord business. The owners reacted differently depending on their age and number of buildings they have. The interviews revealed a variety of backgrounds such as their current challenges and why they are not able to decide to do renovations or decide to go for a new construction.

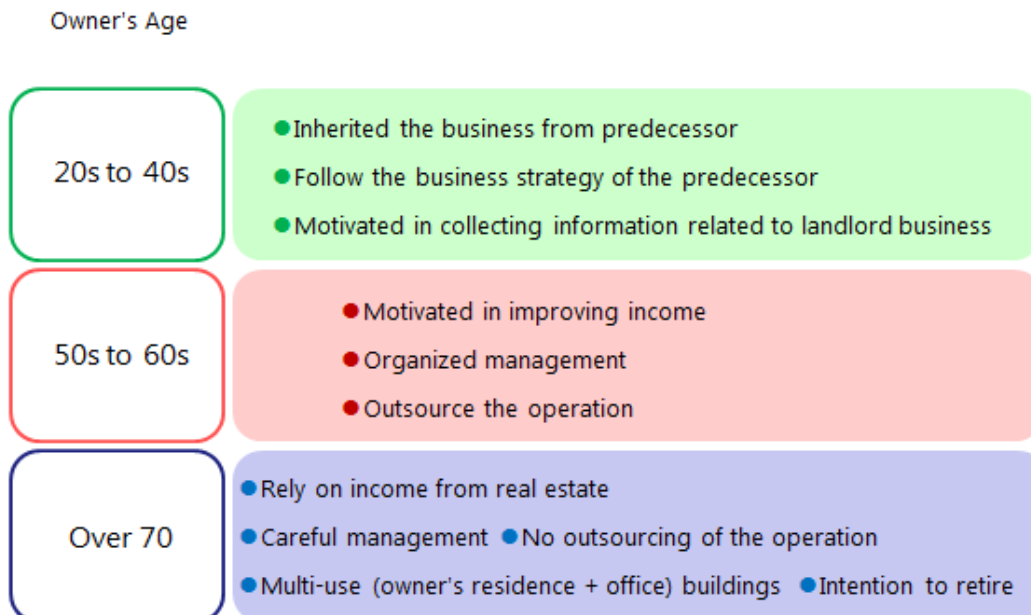
1) By Owner's Age (Figure 17)

The owners in their 20s to 40s have a short experience after having inherited the business. The interview found that they are actively collecting knowledge and information related to the real estate business while running the business based on the predecessor's strategy. Many of them have plans for future renovations.

The owners in their 50s and 60s have accumulated experience. The interview found that they are positive for renovations which will contribute to income growth, such as improving the appearance of the building to attract potential tenants. The owners in this group use outside professionals for operation, management, cleaning and other works relatively more often than owners in other groups.

Many of the owners over 70 years old do the landlord business as their main business. They provide careful and thorough management such as responding promptly to requests and complaints from tenants and regularly communicating with the tenants aiming to increase their satisfaction. This has contributed to the longer stay of the tenants. Our interviews found that owners in this group do not have a particular plan for renovations.

Figure 17: Specific Features of Owners by Age



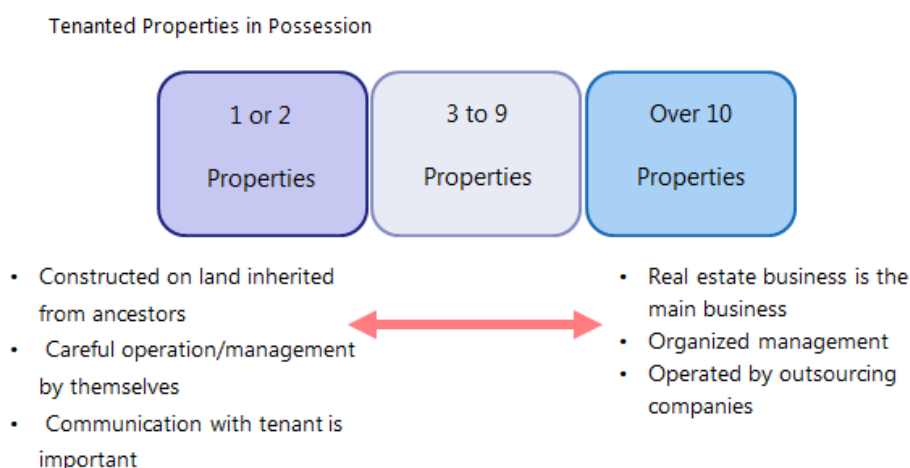
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2) By Number of Properties (Figure 18)

The more the number of buildings in possession, the more likely that the owner outsources some works to outside companies aiming to run the business functionally and effectively. The owners of fewer buildings tend to have inherited the property from their ancestors and may have a property that is used also as their own residence or office. These owners tend to operate the business by themselves and communicate closely with tenants.

Figure 18: Specific Features of Owners by Number of Properties



3) Challenges Facing Building Owners

Our surveys and interviews found that the owners of small and medium buildings think twice before deciding renovations or deciding a demolition and new construction. As reasons, they mentioned that a new construction does not make the building larger because of the floor-area ratio regulation, and also that they cannot estimate whether the construction or renovation project will pay or not due to the recent surge in construction costs. Some owners said they do not know how to negotiate with the tenants in relation with such project. Some noticeable comments include they have no idea what the intended use of the new building should be.

In particular, the owners over 70 years old with one or two properties tend to be unable to decide future plans because the rental income will be zero during the construction period and also because they have not yet started the actual preparations for the business succession.

Extracts of Comments from Building Owners

- Under the current law, only a smaller floor-area-ratio is allowed, so the new building will be smaller than the current building after a new construction. I cannot judge whether the current building should be torn down and replaced with a new one or should be sold "as is".
- If it is a residential building, additional floor-area ratio is possible in this zone, but no such addition for commercial buildings. I have no experience of the apartment business, so I will wait and see what my neighbors will do.

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- A new construction will not make the building larger. It is desirable that the demolition and new construction should be performed when the neighboring area is being redeveloped. My neighbors and I keep in touch with each other but we never talk about redevelopments. There will be no progress unless a leading developer or authority steps in and takes the lead.
- I joined a redevelopment project. I feel comfortable because the project association takes care of all the maintenance and management of the property.
- There is no way but to continue to use the building "as is".
- As the building gets older, more repairs and costs are necessary but the rent will eventually decrease. I cannot decide whether I should maintain the existing building or demolish it and construct a new one.
- I have no idea how to raise money for the renovations or for the new construction.
- I would like my building to have seismic enhancement but it is expensive. No subsidies from the government. I sometimes consider a new construction but cannot decide.
- I would like to replace the supply-drainage water pipe, but, since the building is old, the space for the new pipe will reduce the tenant space. I am unable to decide it.
- I do not know what the intended use of the building should be after a new construction; commercial building, residential building or hotel building? I will just wait and see for a while.
- A new construction is almost impossible because the building is now occupied by tenants. In the past, I asked a tenant to leave and negotiated. It was finally taken to the court and I spent an enormous amount of time and money.
- The building will be torn down and replaced with a new one but after all the tenants vacate the building. It will be probably something like more than 10 years.
- The law protects the tenant but not the owner. Even if there are fair reasons to replace the building with a new one, the owner must pay money to existing tenants if they want the tenants to leave. There is no consideration for financial situations of the owner, which is the obstacle in demolition and new construction. Therefore, I will just keep the existing building.
- I sold the building because my main business was not doing well. I thought about demolition and new construction, but I did not do that because it will not pay.
- I have no child, so no one to take over the landlord business.
- The demolition and new construction influences the inheritance. If I borrow money for it, my child is the one who has to repay the debt. That means I may leave my child some unwanted business and unwanted loan.
- The fixed asset tax is too high. All the earnings from the landlord business go to the payment of the tax and repairs of old buildings.
- I have a concern that the street may lose its brand value if there will be more buildings with not good appearance.
- Buildings in Japan seem to have a short life. We should consider a system that enables a long-term use and constructions with focus on future maintenance.

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Survey Overview

Period	July – October 2015
Surveyed Building Owners	Companies or individual owners holding buildings mainly in central seven wards in Tokyo (Chiyoda, Minato, Chuo, Shibuya, Shinjuku, Shinagawa and Toshima). 3,728 owners in total. (Institutional investors such as leading real estate companies, J-REITs and insurance companies are excluded.)
Responses	Survey: 333 owners (valid respondents: 298) Response rate: 8.9% Interview: Of the owners responded to the survey, 40 owners were interviewed.
Methods	Online survey and survey by post
Contents	<p>I. Landlord Business</p> <ul style="list-style-type: none"> • Type of ownership • Number and size of buildings <p>II. Office Landlord Business</p> <ul style="list-style-type: none"> • Owner's experience and management system • Attractiveness of landlord business (Upside) • Future outlook • Current problems <p>III. Buildings in Possession (buildings over 20 years and less than 20 years of age)</p> <ul style="list-style-type: none"> • Renovation history • Current problems • Future plan <p>IV. Anything you feel about the landlord business recently (open ended question)</p>

For questions on this report, please contact us.

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