Xymax Real Estate Institute
TOPIC REPORT

Considering the Future Workplace

What will change and what will not change after the Corona crisis

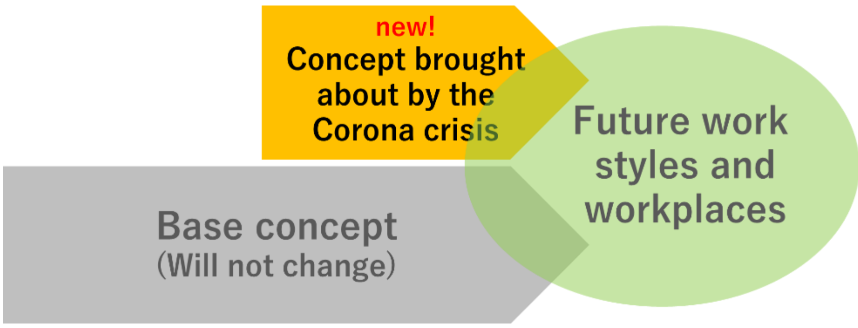
June 10, 2020

Introduction: The Objective of this Topic Report

The term "work style reforms" has become a common vocabulary among the Japanese people for quite a while. Originating from the time when the government proclaimed that it would promote work style reforms at the 4th National Conference for Promoting Dynamic Engagement of All Citizens in January 2016, many companies have been endeavoring in the reforms since the Related Acts to Promote Work Style Reform were enacted and enforced in 2018. The backdrop to this development is the situation of Japan, which is dubbed the "front-runner of global challenges." Japan is one of the most rapidly aging countries in the world, and companies are faced with the urgent need to recruit a diverse range of personnel in addition to the more traditional workforce. There are also mounting problems that must be solved through society-wide efforts, such as the lack of support for balancing employees' child/elderly care and work and Japan's labor productivity, which is remarkably low compared to other developed countries. The reform was a crucial solution to these circumstances and required fundamental structural changes in the way companies have their employees work.

The COVID-19 pandemic that broke out under such circumstances has forcibly promoted new work styles such as telework and played a role in accelerating some of the progress of the reform, which had been gradual. According to AFP, a total of more than 3.9 billion people in more than 90 countries in regions has been subject to stay-at-home orders and requests as of April, forcing may companies and workers to reconsider their work styles. As it has now been acknowledged that situations that cannot be addressed with conventional solutions may continue to happen in the future, work style reforms have entered a new phase, giving rise to the possibility that a paradigm shift might finally happen.

Meanwhile, Japan's structural issues mentioned earlier and the concept and values of work style reforms that have seen progress as a measure to tackle the issues will remain even after the Corona crisis has passed. The future will be sought based on the developments from the past, while incorporating new concepts and values that were brought about by the crisis.



This report aims to explore the situations before the Corona crisis (specifically until around the end of 2019) based on various studies in Japan and abroad as well as interviews with experts and present a starting point for future thoughts, in order to consider work styles and the workplace during the crisis (the current state where infection prevention is the rule) and after the crisis (a society after movement restrictions are lifted). In Chapter 1 we identify the changes that were apparent in the work styles and labor markets of the world and Japan, while in Chapter 2 we examine the changes that were apparent in the workplace with a focus on the flexible office markets of large cities. We hope that the report will provide hints for determining what will not change even after a state of emergency and for foreseeing the uncertain future.

1. Changes that were Apparent in Work Styles

1-1. The global trend—a focus on people and greater flexibility

In Chapter 1 we focus on the changes in work styles that will define the workplace. From a global perspective, there are two major trends: a focus on people and greater flexibility.

A focus on people refers to a trend in which companies focus not only on their own convenience but also on the comfort and motivation of workers and opt for work styles that meet the needs of individuals. This has led to an expansion of flexible work styles that not only involve flexible work hours and place but also members working on a project changing each time.

One of the backgrounds to this is the intensified competition between companies to acquire personnel. Job mobility is rising among the developed countries in Europe and the United States. For example, in 2018 an estimated 53 million people (34% of the entire workforce) in the United States, the global leader of the gig economy, engaged in gig work, with the global market size reaching an estimated 4.5 trillion dollars.*1 Unlike Japan, which has already entered an aging society combined with a shrinking population, in other countries around the world where the Millennials and Generation Z'ers*2 are beginning to account for a majority of the working population, recruiting high quality personnel of those generations has become a key concern that directly leads to companies' competitiveness.

The Millennials and Generation Z'ers, who were born in and after the 1980s, have high digital literacy and tend to value flexible work styles using ICT that are bound neither to place nor time, as well as a work-life balance. For example, a survey by Gallup of the U.S. *3 indicates that the Millennials have a larger percentage of people who change jobs for benefits compared to older generations such as the Baby Boomers and Generation X'ers.*2 The types of benefits they require include a "flexible working location where you can choose to work off-site," in addition to paid maternity leave and paid paternity leave. To attract workers of a generation that holds such values, companies are focusing on introducing more flexible work styles and providing a work environment that is attractive to workers as a means for recruiting and retaining personnel.

*1 Source: *GLOBAL GIG ECONOMY REACHES USD 4.5 TRILLION*. Staffing Industry Analysts, September 2019

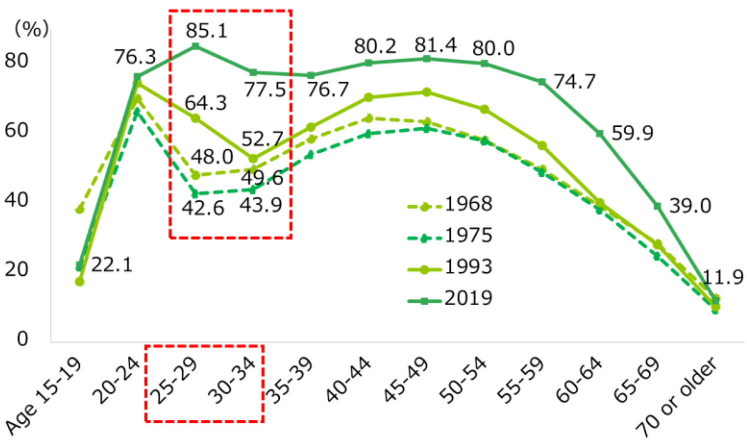
*2 In general, Generation X refers to the generation born between 1965 and around 1980, while Generation Z refers to the generation born in and after the late 1990s.

*3 Source: *State of the American Workplace*. Gallup, 2017

1-2. Characteristics of Japan—telework as a way to address the need for diversity

Japan is also seeing a spread of flexible work styles that respect individual workers, for the objective of recruiting human resources. However, the targets slightly differ from other countries where the focus is on the young generation. With an aging and diminishing population, it is urgently required in Japan to bring people who had not participated in labor into the workforce. Specifically, one of the focuses of Japan's work style reforms was to establish an environment that is friendly to female and elderly workers.

Figure 1: Women's Labor Participation Rate by Age



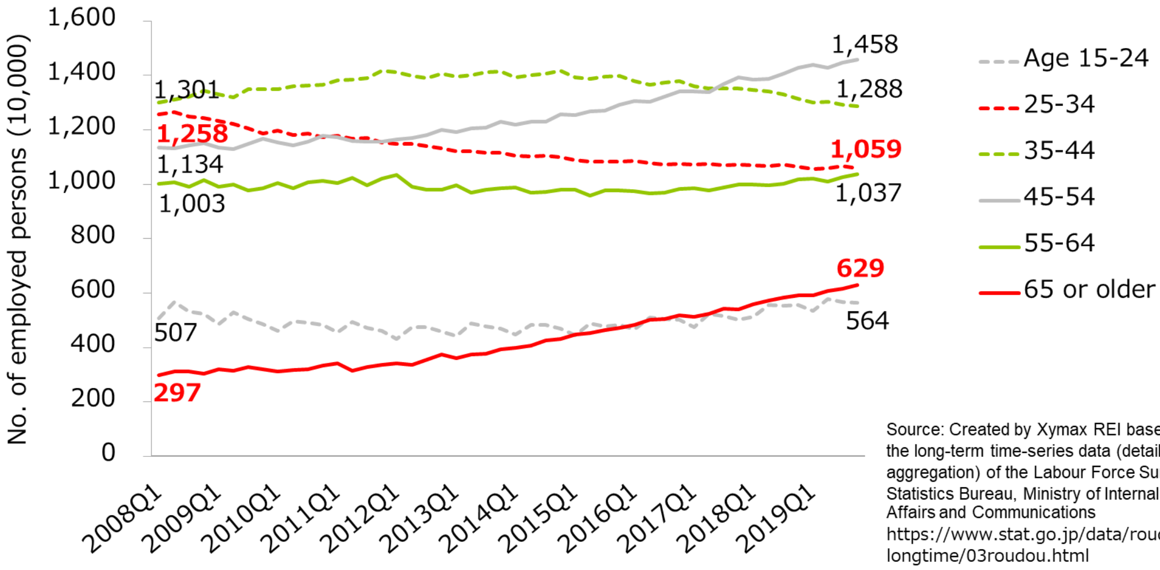
Source: Created by Xymax REI based on the long-term time-series data of the Labour Force Survey, Statistics Bureau, Ministry of Internal Affairs and Communications https://www.stat.go.jp/data/roudou/longtime/03roudou.html

A long-standing issue concerning women has been the so-called "M curve," which expresses the trend of women aged between 25 and 34 leaving their jobs for childbirth and childcare. Although the situation has improved significantly in recent years (**Figure 1**), women still tend to bear the majority of the burden of childcare, and it is yet a long way from improving the gender gap in terms of the ratio of managerial positions and wages.

In order to break the status quo in Japan, which ranked 121th among the 153 countries covered by the Gender Gap Index that was published by the World Economic Forum in December 2019, companies must provide an environment where their workers can balance work and childcare, simultaneously with the development of public infrastructure such as nurseries.

While the number of employed persons aged between 25 and 34, which correspond to the Millennials, has dropped over the last 10 years, the number of those aged 65 or above is rising steadily (**Figure 2**). In view of further aging and diminishing of the population, it is inevitable that the importance of the elderly will rise in the labor market, which points out the urgent need to create an environment where they can work at ease both mentally and physically.

Figure 2: Number of Employed Persons by Age



Source: Created by Xymax REI based on the long-term time-series data (detailed aggregation) of the Labour Force Survey, Statistics Bureau, Ministry of Internal Affairs and Communications https://www.stat.go.jp/data/roudou/longtime/03roudou.html

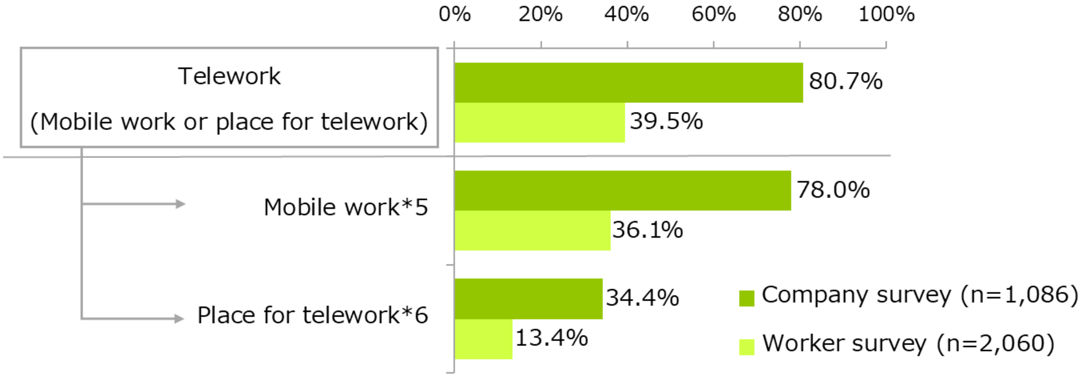
A system that has been attracting attention in the effort to create an environment friendly to such broad-ranging workers is telework. Fixed work locations, or more specifically, the need to commute long hours to an office in central Tokyo, has deprived people with restraints in time or physical strength of the opportunity to work. In this sense, telework had been a key work style reform initiative recommended by the government as well as administrative institutions. In particular, a rapid acceleration of its use by companies had been anticipated in 2020 as a way to alleviate traffic congestion during the Tokyo Olympics and Paralympics, which had originally been scheduled for the year.

However, at least before the outbreak of the COVID-19 pandemic, telework had been far from being fully utilized. According to a survey of companies and office workers carried out in October 2019 by Xymax Real Estate Institute (hereinafter, "Xymax REI"), although 80.7% of companies had introduced some kind of telework-related initiatives, only <u>39.5% of the workers replied that they teleworked</u> (**Figure 3**). Furthermore, only <u>34.4% of the companies provided a telework location other than their usual office</u>, such as flexible offices[*4] and the home, and <u>only 13.4% of the workers used such locations</u>. These results suggest that the workplace of Japanese companies was still largely fixed.

Although the COVID-19 pandemic is considered to have almost forcibly backed the introduction of telework at Japanese companies, we must watch carefully how the implementation rate will change after the crisis.

*4 Flexible office: In this report, "flexible office" is collectively refers to "workplace services provided by an operator mainly to corporate users under a usage agreement instead of a general lease agreement."

Figure 3: Telework Introduction Rate (Companies and Workers)



Source: *Relationship between Flexible Workstyles and Productivity* (released in December 2019). Xymax REI

*5 "System enabling workers to check emails and schedules anywhere with a smartphone, mobile PC, etc. (mobile work)," "system enabling workers to work outside the office in the same network environment as the office with a smartphone, mobile PC, etc. (mobile work)," and "providing employees with IT devices such as smartphones, mobile PCs and tablets to enable mobile work."

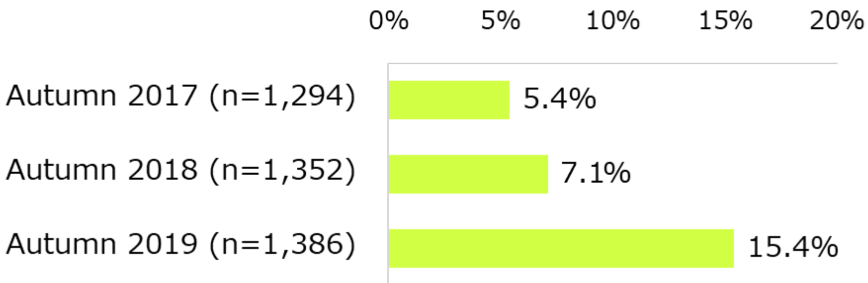
*6 "Work-from-home program," "serviced office or shared office provided by a specialized operator," and "satellite office or other similar facility owned or rented by own company."

Going forward, job mobility may rise in Japan, leading to diversity not only in work locations and time but also in terms of workers and forms of employment. Job mobility in Japan is lower than that in western countries. For example, although the percentage of freelancers of the total workforce in 2019 was only 16.4% in Japan (10.87 million people) compared to 35% in the United States (56.70 million people), the growth rate of the freelancer population over five years from 2015 was 119% in Japan, higher than 107% in the United States,*7 indicating that Japan is still in a growth phase.

*7 Source: *Freelancing Fact-finding Survey (2019)*. Lancers, Inc. The U.S. figures are based on *Freelancing in America*.

In addition, the ban on side businesses of workers working for a company was lifted in effect as the Ministry of Health, Labour and Welfare published the "Guidelines on the Promotion of Side Businesses" in January 2018. A survey of companies by Xymax REI shows that the percentage of companies that allowed side businesses by their employees was 15.4%, rising to as much as 22.4% when including companies that planned to allow side businesses. The percentage showed steady growth from previous years (**Figure 4**).

Figure 4: Companies' Tolerance of Side Business by Employees



Source: *Metropolitan Areas Office Demand Survey Autumn 2017-2019*. Xymax REI

As described, while work styles at Japanese companies are beginning to show signs of a shift from the previous static style, moving down the same path as western countries will not work since the background differs. It is becoming increasingly necessary to search for Japan's unique style of workplace that accommodates new work styles, as well as a workplace that encourages the progression of work styles.

2. Changes that were Apparent in the Workplace

2-1. Changes in the roles of the office for companies

In considering the future of the workplace, we would like to think about the changes in the roles of the office for companies. There are two factors behind the changes.

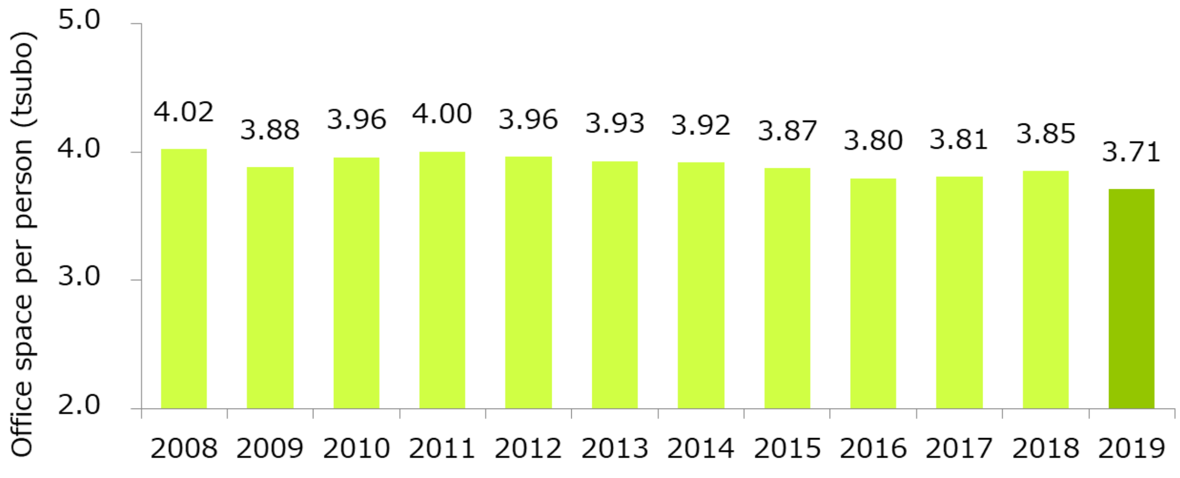
One is the change in the work itself and the organizations that reflect them. In an interview with Xymax REI, Jeremy Myerson, Director of WORKTECH Academy, pointed out that there is a mismatch between the work and the work environment as workplaces based on factory work still exist across the world even though office work has mostly shifted to knowledge work since the 2000s.[*8] Japan is no exception, with the island (face-to-face) type of office layout, which had long been the mainstream and is suited for a hierarchical organization where employees carry out paperwork and the manager supervises them, no longer suited for office work of today where a majority of companies are engaged in the tertiary industry. Offices of the tertiary industry must evolve from being simply a place for paperwork but to a place of intellectual creativity that generates value. Space design that addresses this need is required.

*8 https://soken.xymax.co.jp/hatarakikataoffice/viewpoint/column020.html

The other factor is work style diversification and flexibility. The designs of conventional offices were based on a work style in which "the same number of people gathered to work at the same place at the same time every day." Therefore, they only needed to meet the minimum needs, including enough space for the number of workers, electricity capacity, communication environment, and security. Naturally, the designs of offices became more or less uniform. However, the diversification and flexibility of work styles should lead to companies requiring a greater variety of roles in offices.

Thus, we focused on office space per person to look for signs of change in the way offices are being used. The trend of office space per person in the 23 wards of Tokyo (hereinafter, "Tokyo 23 Wards") (**Figure 5**) indicates a gradual declining trend until most recently in 2019. We believe that the background to this reduction of office space included an increase in the number of office users due to more active recruiting, the surge in rent in the Tokyo office market, and the low vacancy rate.

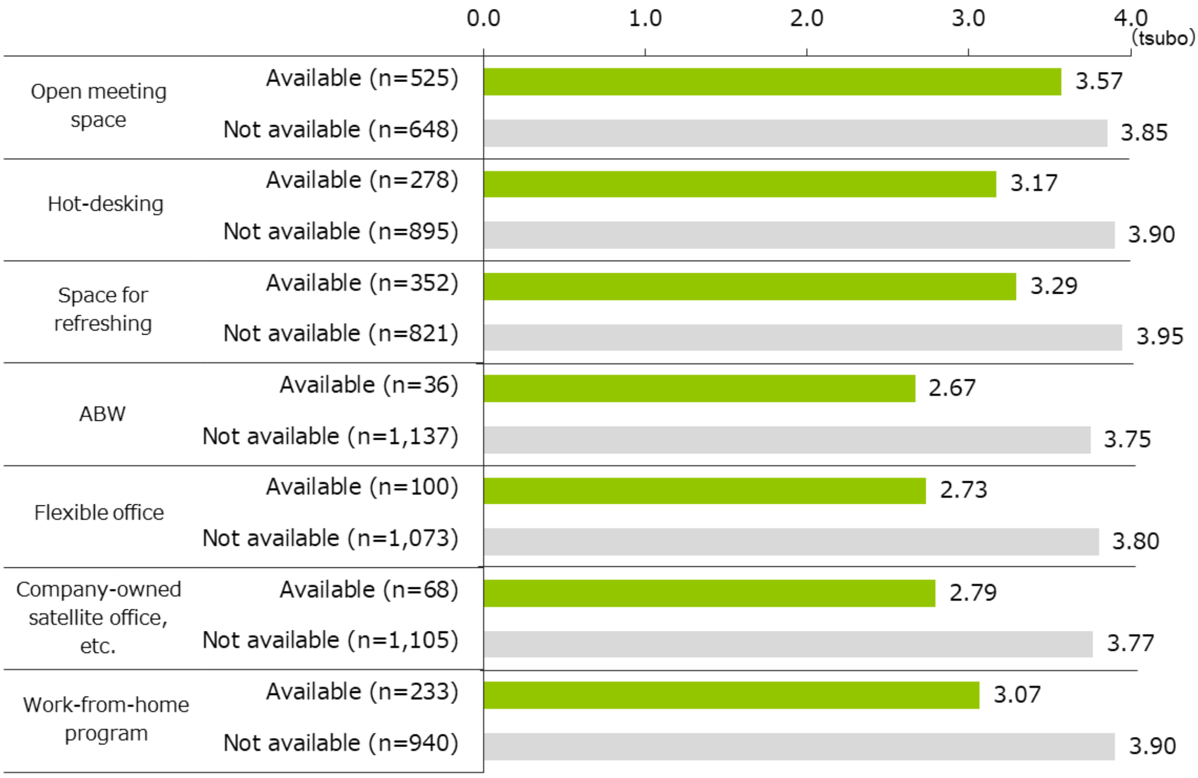
Figure 5: Office Space per Person (Median Value)



Source: *Metropolitan Areas Office Demand Survey Spring 2019*. Xymax REI

However, not all companies seem to be reducing their office size and the trend seems to have become more diverse depending on work styles and the way companies use their offices. **Figure 6** is the result of office space per person calculated by companies' availability of work style-related initiatives such as flexible office layouts and telework. In all of the initiatives, companies that have introduced such initiatives have smaller space per person than companies that have not introduced such initiatives. This leads us to believe that flexible work styles have resulted in greater efficiency in office space. Going forward, if work styles and companies' use of space within the office further diversify, the hitherto uniform standards for office demand--"number of users x space per person"—are likely to change.

Figure 6: Office Space per Person by Availability of Work Style-related Initiatives (Median Value)



Aggregation target: Companies with space per person of 1.5 tsubo or more and less than 15 tsubo (n=1,173)
Source: *Metropolitan Areas Office Demand Survey Spring 2019*. Xymax REI

As you can see, work style diversification and flexibility have led to greater efficiency in office space, but that is only as a consequence. As mentioned earlier, considering the fact that the roles of the office are shifting from simply being a place for work to being a place for value creation, it will be important for initiatives such as flexible office layouts and telework to aim for employees' comfort in work and greater productivity instead of seeking to reducing office space.

In contrast to the manufacturing industry, which has improved productivity by making "high volume, low cost" products through mechanization, technology innovations, and reductions of personnel and raw material costs, the key to the tertiary industry's productivity improvement will be to enhance intellectual productivity, including creativity by man and creating new ideas and businesses. As the future office will be an "intellectual production plant," it will be increasingly crucial for companies to recruit good human resources and create an environment where they can perform to the best of their abilities. This is why there is a rising need not only to provide a place for telework, which is especially drawing attention among the initiatives of work style reforms, but also to be aware of how to make the most of the conventional office where workers come together to work and provide a work environment that is effective both in and out of the office.

2-2. The rise of flexible offices as seen from a global perspective

As Japanese companies strive to establish workplaces both within and outside the office, the use of flexible offices is an effective option, and it is worth observing how its service market will grow in Japan. In view of this, we will examine the rapid rise of the flexible office market abroad and how such offices, which we expect will drive the Japanese market, have evolved. Although the impact of the COVID-19 pandemic on the flexible office market is unknown, it would be worthwhile to summarize the recent developments in order to forecast the post-crisis future of the market.

It is currently estimated that flexible offices account for 3–5% of the office stock of the world's major cities. The speed of growth is significant, with these offices expected to account for around 10% in five years' time.[*9] A forecast[*9] also expects that 20% of companies' office demand will shift to flexible offices in the near future, suggesting that increased use by companies have driven growth. There are several factors to the background to companies' increased use of flexible offices.

*9 Source: *The Global Flex Market – The top 18 markets for flexible workspace in 2019*. Instant. The figures are for 18 major cities in the world that were highlighted in the report.

First of all, companies' business cycles have shortened, placing greater importance on agility than before. In particular, the office lease period in western countries is generally 5–10 years, which had made it difficult for companies to swiftly address their needs for expanding or reducing their office size or relocating their office before their lease expires. This no longer suits the speed of business of recent years. Furthermore, job mobility has risen in western countries, most significantly in the United States, due to the spread of the gig economy and project-based work. It is natural for companies to want to avoid paying rent for offices they no longer need after a project team has been dissolved. This has led to companies' needs shifting from conventional fixed office contracts to the use of flexible offices.

In addition, rents in the world's more mature office markets are on a rising trend, with, for example, the rent of offices in midtown New York rising 10% over a year between the end of 2018 and the end of 2019.[*10] Thus, companies had felt a greater resistance toward expensive office rent. The adoption of a new IFRS (International Financial Reporting Standards) accounting standard for lease on January 1, 2019, which requires lease contracts to be recorded as assets, has also resulted in highlighting the advantage of flexible offices.

*10 Source: *Manhattan Midtown Office MarketView Q4 2019*. CBRE

Such factors have led to companies' rising need for flexible offices in western countries, as well as more diversified use and more advanced forms of such offices.

Central offices becoming flexible

A characteristic move of this trend is making head offices and other central offices flexible (outsourced). At traditional companies, head offices and other major offices were custom-made into a leased building or a building owned by the company, on the assumption that they will remain in the building for a long period of time. Flexible offices were considered as temporary or supplementary offices. This distinction has become blurred. The work that used to be the responsibility of a company's administration department, from processes prior to moving into an office such as selecting the property, interior design, construction management, and ordering furniture, to facility management after moving into the office, can now all be provided as a single service by a flexible space operator.

Eugene Lee, Chief Operating Officer of Knotel of the United States, points out the disadvantages of traditional lease contracts as the reason for these one-stop services to increase in the future. "In the United States, the traditional lease is five to ten years, and I think 70–80% of companies often need to move before the lease expires. If they're growing or they have shrunk, they need to separate their space and go find another space. That's an expensive process for them. Companies bear the trouble and cost to negotiate with property owners, call different people to get their office ready, and wait for months worrying about getting delayed. For many companies, the complex processes of traditional office contracts are not their specialty and I think it is a waste of time and energy."[*11]

*11 https://soken.xymax.co.jp/hatarakikataoffice/viewpoint/column036_en.html

Although such new needs had largely been driven by the recent high rent levels, it is likely that they will not be a one-off trend when we consider the acceleration of the speed of business and the progress of the gig economy. This trend may also blur the line between central offices and flexible offices, with the two eventually competing with each other. Olly Olsen, Co-Founder and Co-CEO of The Office Group, says, "If the level of service we provide in our space does not match that of client companies' head office, their employees will not want to come. What companies and users want is the flex space to match or outperform their head office. We can no longer remain competitive only by offering good access in terms of location. We are not just competing with other flex space operators but we're also competing with the traditional corporate executive offices."[*12]

*12 https://soken.xymax.co.jp/hatarakikataoffice/viewpoint/column037_en.html

Moving to second-tier cities and suburbs

Another trend is the gradual shift of the share of the flexible office market from global cities, which had hitherto driven the market, to second-tier cities.[*13] These are shifts to cities like Manchester or Bristol from London in the case of the United Kingdom, and to Seattle or Oakland from New York in the case of the United States. This reflects not only the rise in rent in global cities but also large companies' intentions to have an office in such areas to attract good human resources.

*13 Source: *The Global Flex Market – The top 18 markets for flexible workspace in 2019*. Instant

As we mentioned in Chapter 1, as the competition between companies over human resources intensifies in western countries, workers are starting to move out of global cities where rents have become expensive to second-tier cities and the suburbs. The "affordable housing problem," which refers to the situation where people cannot find houses for a reasonable price or rent due to a surge in house prices and rents, has become a common problem common in large cities in Europe and the United States. Amid this situation, companies are striving to recruit the Millennials, who tend to value work-life balance and wish to work close from home, by providing flexible space in the areas where they live and using it as relatively large offices.

For example, IBM opened a flexible space that can house several hundred people in Bristol and succeeded in attracting IT engineers living nearby.[*14] Bristol is a major city in the United Kingdom, about 2.5 hours away from London by car, and also a popular residential area. At this flex space, IBM called for IT engineers, who have become increasingly difficult to recruit each year, to participate in a project. Under the current circumstances where financial institutions and law firms compete with Amazon over human resources, opening an office in areas where quality personnel live has become an effective way of recruiting people. Also, since project-based hiring attracts a large number of part-time workers including freelancers and side business operators, flexible offices are a rational choice for companies in the sense that the number of people working in the office fluctuates.

*14 https://soken.xymax.co.jp/hatarakikataoffice/viewpoint/column035_en.html

Furthermore, it is likely that there will be an acceleration in the trend of diversifying the workplaces geographically after the crisis due to a rise in awareness of BCP. Going forward, a new market might be created as property owners, investors, and flexible space operators provide many flexible spaces in second-tier cities to meet the demands.

Accommodating "super flexible work" needs

Of course, such corporate needs and workers' work style needs are two sides of the same coin. A fixed, over-concentrated work style where people commute every day to the company's central office in a large city is becoming a thing of the past, and it is becoming common for today's workers to control where and when they work. For example, this will be to concentrate meetings and other work that requires people to congregate in the middle of the week, work at home or a nearby flexible office on Mondays and Fridays and enjoy the weekend to the full. A workplace close from home that can be used at the worker's discretion is becoming a requisite in the trend of autonomously controlling work and life.

Services catering to such "super flexible" work styles have also emerged. An example is the "Corporate Passport" of the U.K.'s Instant Group. This service allows users to drop in and use any office around the world provided by more than 20 flexible space operators, including The Instant Group, regardless of the brand. The service is being used by businesspersons who travel around the world such as sales representatives of global companies, indicating that workplaces are beginning to turn into a service platform.

Integrating the values of "serviced offices" and "co-working offices"

As companies' use of flexible offices increase, the market size has expanded, and the functions of such offices are being enhanced in markets outside Japan. Jeremy Myerson classifies the current flexible workspaces into the "traditional serviced office" and the "co-working movement," and analyzes that corporate users are requiring more sophisticated services that combine the values of the two.[*12]

The "traditional serviced office" mentioned here refers to an office where each company is provided with its own dedicated space as well as features such as fully staffed reception and the ability to register as a company at the address. While values such as support, customization, and hospitality were offered, this type of office had not considered community development. Meanwhile, Myerson points out that the "co-working movement," which can be represented by WeWork in recent years, tended to focus on values such as community development, an attractive atmosphere, and engagement, and was not necessarily adequate in functionality, confidentiality, and convenience for companies to use.

While it used to be a choice between the two, corporate users in recent years had started to look for a mixture of the values of the two types. It had been believed that, in order to address the rising demand from companies, flexible space operators will seek to integrate the two types while trying to strike the right balance between the value provided by traditional serviced offices and that generated by co-working, thus expanding the range of values offered by flexible space and acquiring new users. However, the Corona crisis has become a hindrance to the co-working style where an unspecified number of people gather to work, and has already led to some changes in the conventional trend. If the impact of the crisis extends to the future, the co-working workspace market may become more selective.

The new values that will be required in the future include wellness-related values, with healthy food and drink services and flow designs that encourage users to take the stairs or walk already starting to be provided in the central offices of companies in Europe and the United States. In view of the trend mentioned earlier in "Central offices becoming flexible", it is possible that these levels of values will be required and provided not only in cental offices but also in flexible offices.

2-3. The uniqueness of Tokyo's flexible office market

Thus far, we have discussed the rise and evolution of flexible offices across the globe. However, as mentioned earlier the situation differs in Japan in the face of an aging and diminishing population. From here we will examine the uniqueness of the flexible office market in Tokyo and Japan.

First, we will look at how Japanese companies have positioned flexible offices.

Japanese companies have traditionally been hierarchical where the general work style was one that was fixed, in which everyone congregated at the same office at the same time every day so that companies could manage their employees. During the bubble economy in the late 1980s, the use of suburban satellite offices gained attention from the perspective of reducing payment of the soaring rent and alleviating over-concentration in central Tokyo. However, the use of such offices failed to spread due to the lack of personnel management systems and the necessary hardware at companies and exacerbated by the burst of the bubble economy. Since the late 2000s, the progress of ICT has enabled companies to develop an environment for telework, and the growing momentum toward work style reforms since around 2016 has resulted in a rapid spread of telework among companies.

The flexible office market in Tokyo, which stemmed from the suburban satellite offices during the bubble economy period and the entry of foreign serviced office operators in the 1990s, has expanded and diversified in style over the last 30 years, reflecting changes in the office market (**Figure 7**).

Figure 7: History of Diversification of Flexible Offices in Tokyo

Period	Type	Overview	General work style	Office market
Since late 1980s	**Initial satellite office**	Companies start opening offices in the suburbs where rent is low to reduce office costs. Office types included those renting out each section of an office to multiple companies but failed to spread due to the burst of the bubble and work styles not adapting.	・Hierarchical organization ・Fixed work hours	Surging rent (bubble economy)
Since 1990	**Serviced office**	A rental office equipped with furniture/fixtures and phone lines. Can immediately move in with no initial investment. Offers optional services such as fully staffed reception, secretarial work, and meeting rooms.		Rent declining due to burst of bubble
Since 2000	**Incubation space**	Companies (IT, finance, pharma, etc.) opened these spaces for co-creation with outside parties and innovation, and offered to startups and entrepreneurs.	Around 2007: Progress of ICT	Rent rising from 2005, plummeting in 2008 due to financial crisis
Since 2010	**Co-working space**	Mainly used by one-person businesses and startups. Centered around common spaces, most services focus on encouraging exchange between users.		Office rent bottomed out in 2012
Since 2016	**Shared satellite office for corporations (central Tokyo)**	A network of workspaces mainly located in convenient locations in central Tokyo, assuming use by sales representatives of SMEs and large companies as a "touchdown" office.	Telework spreads to ordinary companies on the back of momentum in work style reforms	Supply and demand tight due to strong demand for offices on the back of companies' active recruiting
	Shared satellite office for corporations (suburb)	Suburban offices that accommodate telework and address the need for working close to home. Corporate use is spreading mainly among large companies due to work style reforms.		

Created by Xymax REI

Furthermore, the total floor area and number of offices have surged since 2016 on the back of demand from companies that make efforts in work style reforms,*15 while the growth rate of the average monthly usage spending per desk ranked number one in the world in 2018 at 19%,*16 which shows that supply and demand had been growing steadily and continued growth had been expected.

*15 According to Xymax REI's *Flexible Office Market Survey 2020* (released in January 2020), 327 (approximately 70%) of the 445 flexible office spaces in Tokyo 23 Wards (including offices scheduled for opening by 2020; only those whose launch year is known) opened in or after 2016.

*16 Source: *The Global Flex Market – The top 18 markets for flexible workspace in 2019*. Instant

There are two distinct factors that support the growth of the flexible office market in Tokyo. They are the greater diversity in human resources and the magnitude of the underlying office market.

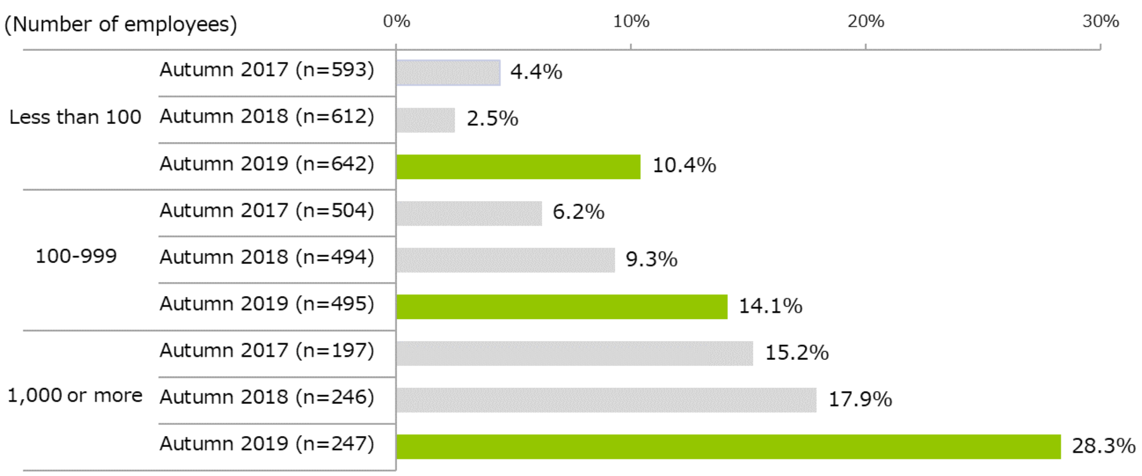
Telework as a way to address diversity

As we have repeatedly mentioned in this report, in the face of an aging and diminishing population, Japan must encourage a greater variety of people who had not been part of the workforce to work, including the elderly, those engaged in child-rearing or elderly care, foreigners, people with disabilities, and people under medical treatment. Telework is being promoted as the first step for companies, since it can alleviate the burden of commuting and helps balance work and private life. Flexible offices in Tokyo are in demand to accommodate such needs.

The use among large firms is growing in particular, with the latest study indicating that around 30% of companies employing 1,000 people or more use flexible offices (**Figure 8**). Apart from their main offices, the need of companies to use flexible offices as a way to accommodate telework is believed to be the driver of the market, which is different from other countries and unique to Japan.

It goes without saying that an environment that is friendly to workers with time and health restrictions is a good environment for all workers. With the shrinking and aging of the population expected to progress but by no means improve, the importance of telework is rising in Japan as a way for companies to recruit and retain human resources. Demand for flexible workspace is expected to increase as a solution for raising the productivity of workers during telework.

Figure 8: Usage Rate of Flexible Offices by Company Size



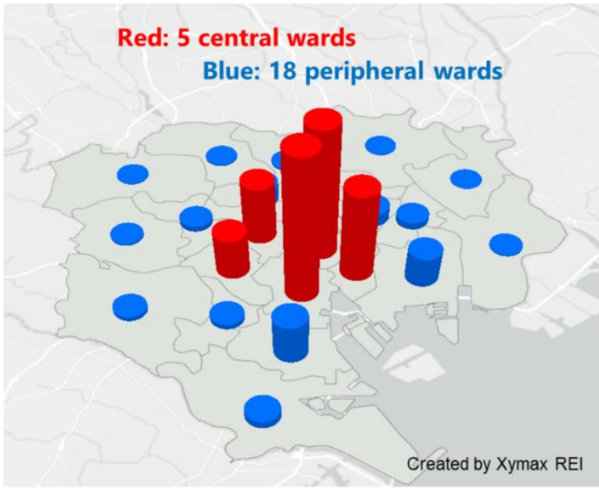
Source: *Metropolitan Areas Office Demand Survey Autumn 2019*. Xymax REI

Tokyo's office market—one of the largest in the world in both area and concentration

Companies' need for a means to accommodate telework is related to the vast size of Tokyo's office market. Tokyo is said to be the world's largest office market and has a larger geographic area (23 wards) than other major markets. This has resulted in long commuting distances from the suburbs, placing a large burden on commuters. At the same time, traveling within each office district during the daytime takes a long time. Therefore, telework offices will be required to cover many locations.

Another characteristic of Tokyo is the high concentration in the city center. **Figure 9** plots the total office rentable area of each of the Tokyo 23 Wards. It shows that offices are concentrated in the five central wards (Chuo, Chiyoda, Minato, Shinjuku, Shibuya wards) in red, most significantly in the three wards of Chuo, Chiyoda, and Minato.

Figure 9: Rentable Area of Offices in Tokyo 23 Wards (as of end of 2020)



Future development plans are also concentrated in the central wards, resulting in an over-concentration of office supply and activities to attract companies in central Tokyo. However, with greater diversity of the workforce expected in the future, it will be difficult to maintain the traditional work style where everyone commutes to an office in central Tokyo every day. According to a survey by Xymax REI, workers with a longer commute feel more stress and workers commuting 45 minutes or longer feel that they enjoy working every day less than other workers.[*17] These results suggest that it is increasingly necessary to provide a workplace in the suburbs to reduce commute time.

While 86.7% of the flexible offices in Tokyo 23 Wards are concentrated in the five central wards,[*18] around 90% of the workers commuting within Tokyo 23 Wards live in the 18 peripheral wards,[*19] which reveals that there are not enough flexible offices in the suburbs, including the 18 peripheral wards, to meet telework needs to bring the workplace and home closer to each other. If there are more flexible workspaces in the suburbs or the provinces, they will not only alleviate the commuting burden of workers working in Tokyo but also have positive implications in recruiting, as companies in Tokyo will be able to recruit human resources living in the provinces.

Future expansion of the market is anticipated.

*17 Source: *Effect of Commuting Stress on the Working People's Satisfaction* (released in June 2019), *The Effectiveness of Setting Up a Workplace Other than in Central Tokyo* (released in October 2019). Xymax REI

*18 Source: *Flexible Office Market Survey 2020* (released in January 2020). Xymax REI

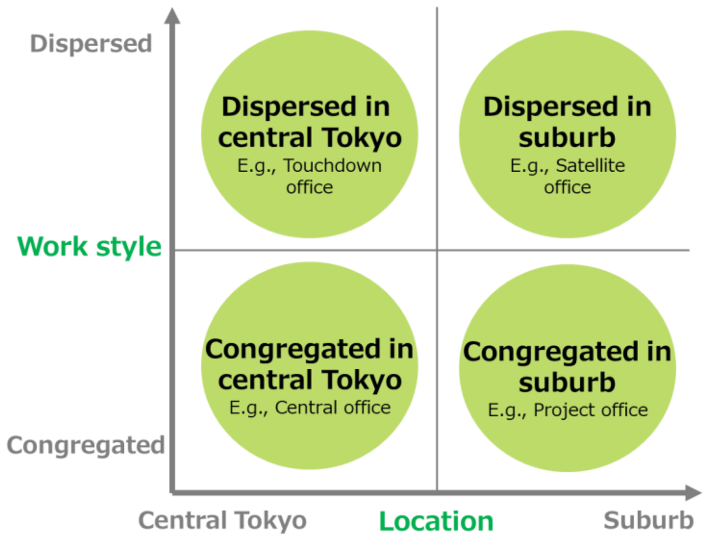
*19 Calculated by Xymax REI, based on *Flexible Office Market Survey 2020* (released in January 2020) by Xymax REI and the *6th Person Trip Survey (2018)* by the Tokyo Metropolitan Area Traffic Planning Association

2-4. ABW: Including the elements of an "office where workers congregate" and a "telework office"

Meanwhile, people congregating at one place to work is the source of growth of a company. This trend has become stronger today as the proportion of knowledge work increases. Therefore, no matter how much telework spreads in the future, central offices where workers congregate are likely to remain. In addition, while the importance of outside workplaces that bring the workplace and home closer, the value of central Tokyo where investment in updating urban functions is concentrated will not drop, as a wide range of advanced amenities not found in the suburbs exist in the there.

Amid such circumstances, companies' workplace needs will no longer be a choice from the two, such as either central Tokyo or the suburbs, or an office where people congregate or a telework office, but will become more strategic, a combination of necessary elements from a diverse range of options. Currently, workplace options are gradually increasing as the needs for working in the suburbs and for dispersed workplaces in central Tokyo have become apparent, while previously only the needs for congregating in central Tokyo were evident (**Figure 10**). The trouble and cost burden of companies to provide workplaces that address these needs by themselves through ownership or lease will drive the demand for using flexible office services.

Figure 10: Increasing Workplace Options



Created by Xymax REI

Acceleration of Activity Based Working (ABW)

The concept of a work style in which workers autonomously select their workplace according to their work or circumstance from among such wide varieties of options provided by the company is called Activity Based Working (ABW) and has been gaining attention as an approach that enhances workers' performance. Iolanda Meehan of Dutch firm Veldhoen + Company, the company that gave birth to the ABW concept, says, "Today's office workers who are engaged in knowledge work do on average around 10 activities per week. It is necessary to provide spaces that suit each activity. It doesn't make sense to try to do all of those activities at one desk."*20

*20 https://soken.xymax.co.jp/hatarakikataoffice/viewpoint/column023.html

As her statement points out, for ABW to function it requires not only options of locations (e.g. the head office in central Tokyo or a satellite office in the suburbs) but also a diverse range of layout options within each office, an environment where workers can choose the most appropriate workplace from the different options, and empowering individuals.

<PICKUP> The Effectiveness of Providing Diverse Workplace Options

In order to examine the effectiveness of providing workers with a diverse range of workplace options within and outside the office, we analyzed the degree of impact of the following three workplace options—working from home, working at a telework location other than home, and working in an office with a flexible layout*21—on the following two matters (objective variables)—workers' satisfaction in their work style and whether they feel an improvement in productivity.*22 Please note that the analyzed data are data before the COVID-19 pandemic.

*21 Flexible layout: Hot desks, group hot desks, open meeting space, space for refreshing, ABW, canteen, cafe space, etc.

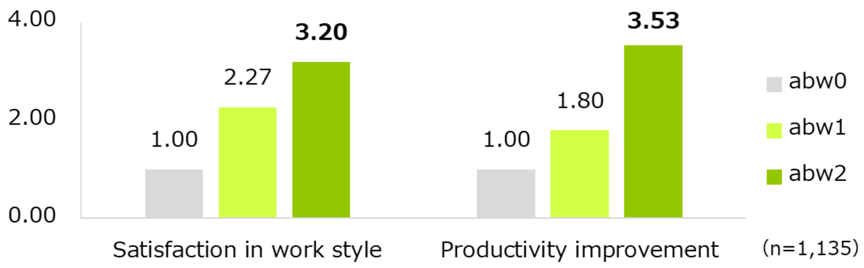
*22 Target data from: *Greater Tokyo Office Worker Survey 2019*, carried out in October 2019

Figure 11 shows how the availability of the above three workplace options affects the objective variable in comparison with when none of the options are available ("abw0"). "Abw1" indicates that one of the three options is available and "abw2" signifies that two or three of the options are available. Figures with an asterisk mean that the result is statistically significant, with a figure (odds ratio) of more than 1 indicating a higher probability of feeling satisfaction or improved productivity, and a figure of less than 1 pointing to a smaller probability. In this result, the odds ratio was greater than 1 in both abw1 and 2, with the ratio for abw2 being greater than abw1. This indicates that the more workplace options are available, the more likely workers will feel satisfaction or improved productivity. The chart below the table also shows the effectiveness of the availability of two or more workplace options.

Figure 11: Effectiveness of the Availability of a Diverse Range of Workplace Options (Office Worker Survey)

		Objective variable	
		Satisfaction in work style: Satisfied / somewhat satisfied	Productivity improvement: Feel
Independent variable	**abw1**	**2.27 *****	**1.80 *****
	abw2	**3.20 *****	**3.53 *****
	Gender*23	1.11	0.69 *
	Age*23	1.36 **	0.86
	Annual income*23	1.13	1.43 **
	No. of employees of company*23	0.76 **	0.71 **

*p<0.1; **p<0.05; ***p<0.01 (n=1,135)



*23 Since this method only examines the impact of each independent variable by removing the impact of other independent variables, each odds ratio can be considered to have been removed the impact of elements such as the workers' gender, age, annual income, and number of employees at their affiliated company.

This result suggests that, to improve workers' satisfaction and productivity it is more effective to provide a wide range of workplace options either within or outside the office than focusing on a single initiative such as a work-from-home program or office layout. While the current work style reforms are focused on the use of telework, it would be preferable to provide a wide variety of spaces that provide appropriate support to the diverse range of work even within traditional workplaces such as the head office, instead of the old-fashioned office layout of fixed desks.

The current momentum in hotdesking and telework can be partially attributed to the continued rise of office rent in the last several years as companies try to reduce office costs. However, companies should consider embracing these initiatives for the purpose of achieving goals beyond the improvement of office space efficiency, such as greater employee satisfaction and productivity.

Going forward, intangible features such as comfort and layout variety should be considered not only for head offices and other offices where workers congregate but also for supplementary workplaces that serve as telework locations. The jury is still out as to how much headway flexible work will make at Japanese companies, but there is no doubt that more workplace options will be offered to workers than now. When that happens, it will be necessary to motivate workers to choose to use flexible offices more proactively than just for the reason of being close to home.

4. Summary

We have thus far focused on the pre-Corona crisis days to examine the situation surrounding the workplace. Japan is seeing a rise in the trend of offering diverse and flexible work styles to respect the work environment and work-life balance of diverse individuals against a backdrop of the common issue of recruiting personnel amid an aging and diminishing population. This trend is not seen as one-off but is believed to remain as an issue that Japanese companies must face or the basic direction that Japanese companies should take after the Corona crisis has abated.

At the same time, the crisis is likely to bring about new concepts and values and be a trigger for further activating discussions on companies' workplace. For example, with regard to the trend of functions required of the workplace becoming diversified and complex, which we mentioned earlier in this report, the complexity may be accelerated as extraordinary needs such as "working from home without going outside" and "working without coming into contact with others" have risen even for a short term. Irreversible changes in values such as enhanced hygienic concepts and the avoidance of closed spaces, crowded places and close-contact settings should also impact future directions.

An area that is already showing signs of change is telework. A company survey conducted by the Tokyo Municipal Government in April[*24] revealed that 62.7% of the respondent companies had introduced telework (2.6 times the percentage in the survey carried out in March) on the back of record-high pressure toward companies to introduce work-from-home programs due to recommendations by the central government. Xymax REI also conducted a company survey after the state of emergency declaration was lifted, in which the introduction rate of work-from-home programs, which was 21.8% in the October 2019 survey, is expected to rise. Xymax REI also carried out interviews with companies on work styles during the Corona crisis between late April and May, and plans to release a separate report on the survey results and interviews.

*24: *Emergency Survey on Telework Introduction Rate*. Tokyo Metropolitan Government (released in May 2020)

Not a few companies view these almost forced changes as an opportunity for reform. In the company interviews mentioned earlier, we gained positive episodes and comments such as, "Our employees appreciate our acceleration of the start of using our corporate housings as satellite offices, which we had planned as a way to alleviate traffic congestion during the 2020 Tokyo Olympic Games" and "We hope to use the reservation system introduced in the head office work space as a means of preventing infection to analyze office utilization rates and formulate office strategies." A manufacturer said the difference in responses between employees working in the office and those working in plants helped the company to contemplate work style reforms for employees at plants. The person in charge voiced his urgency, saying, "Unless we develop and establish programs and an environment, everything will return to the former state when the sense of crisis subsides."

Companies making sincere efforts in telework are starting to reconsider the roles and positioning of the traditional office where employees gather. Moves such as reducing office space based on the assumption of utilizing telework, expanding office space per person in consideration of social distancing and returning from hotdesking to fixed desks based on new hygienic concepts have partially manifested themselves, with the impact on the use of office and on demand possibly appearing in full scale after the Corona crisis.

The workplace affects the minds of the people who work there, defines their workstyles, and influences their performance as a result. It is a managerial issue that deserves greater emphasis in corporate activities. In recent years, the importance and complexity of workplace strategies had increased, as workplaces were required to offer new values such as social issue solving and sustainability, in addition to companies' productivity and profit improvement. Furthermore, the experience of the Corona crisis is likely to trigger many companies to make efforts in redefining the roles of the office and in issues such as optimizing the balance between the main office and telework. Since the best solution varies between companies, it is necessary for each company to continue updating the optimum solution by thinking in view of their nature and priorities and repeating the process of trial and error.

Going forward, there will continue to be opportunities that force work styles to be reconsidered due to natural disasters and diseases. Work and the act of working itself may also undergo drastic changes due to events that are hard to foresee like the digitalization of work and the workplace, especially the expansion of AI (artificial intelligence). The importance of workplace strategies for companies is expected to rise further in order for companies to address the times of change that cannot be dealt with by thinking with the mindset of the past. Xymax REI will watch the changes closely with the aim of presenting a guideline for formulating strategies to many companies.

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