

# NEWS & RELEASE

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## Companies are grouped into four types based on how they choose office space to rent.

*What are the important criteria at the beginning and at the end of the office choosing process?*

Xymax Real Estate Institute regularly conducts survey with office tenants in buildings managed by Xymax Group on various topics including how they chose their office.

This research report is based on the data obtained from the survey. We have analyzed the important criteria for when companies start considering an office space to rent and when they finally decide which office space to take. Below is the summary of the outcome.

Companies generally occupy an office space for an average of ten years; therefore it may be difficult for companies without a relocation team to accumulate how-to and knowledge in choosing an office space. This research report may be referred to by companies as a reference for efficient relocation, and also provides hint for building owners in making their office preferred to by future tenants. The clustering analysis in this analysis was jointly-conducted with the laboratory of Dr. Naoki Katoh, Professor at Graduate School of Engineering, Kyoto University.

### Key Findings

- ◆ **Important criteria for office space vary by stage of office choosing process.**
  - **Earthquake resistance is now a must criteria.**
  - **“Area” “Office Size” and “Rent” are important criteria at the beginning. Final criteria are varied with some criteria more focusing on the impressive features.**
- ◆ **We collaborated with the laboratory of Dr. Naoki Katoh at Kyoto University and grouped the companies into four types based on their criteria for office space.**

### Outline of Analysis

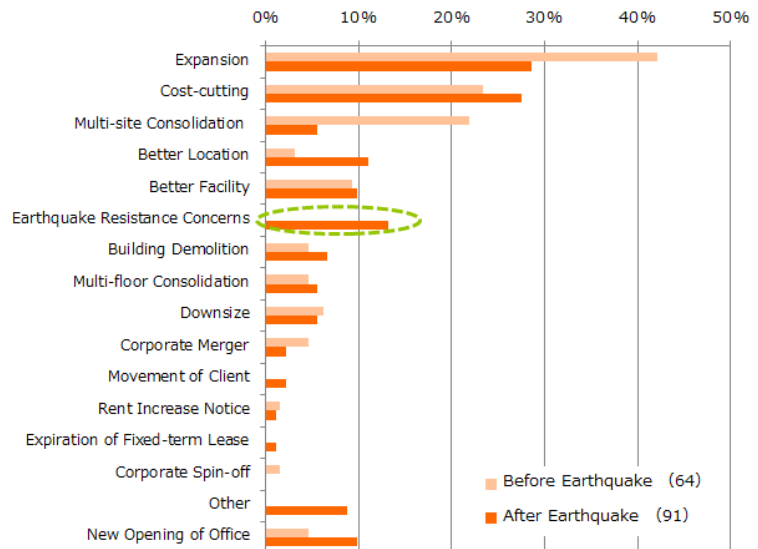
Survey Period	August 2010 – December 2013
Subject Companies	155 companies signed new lease for office space in buildings managed by Xymax Group.
Subject Area	Greater Tokyo (mainly Tokyo 23 Wards)
Type of Survey	Face-to-face interview
Survey Topics	<ul style="list-style-type: none"> <li>• Reasons and background of relocation</li> <li>• Conditions and problems of office before the relocation</li> <li>• How did the company find the office space</li> <li>• Important criteria at the beginning (“Initial Criteria”). Important criteria for making final decision (“Final Criteria”). Number of candidate office spaces. Number of spaces visited. Duration from the start of considering relocation to the final decision making. Whether used internet or not during the office choosing process. Route of broker. Obstacles during the office choosing process.</li> <li>• Number of office workers. Experience of relocation. Other topics.</li> </ul>
Analysis	Clustering by Ward’s method  <b>Clustering:</b> The task of grouping a set of data or cluster based on similarity or non-similarity <b>Ward’s method:</b> One of the methods applied in hierarchical clustering. The distance between clusters is defined based on the within-cluster variance when clusters merge. Mergers start from a pair of clusters with minimum distance.

## Important criteria for office space varies by stage

### ➤ Earthquake resistance is now a must criteria

Reasons for relocation before and after the March 2011 earthquake are shown in Figure 1. The graph indicates an increased number of companies have relocated due to concerns over earthquake resistance after the earthquake. A high degree of attention from tenants regarding earthquake resistance of office buildings is also clear from our other research, Office Disaster Prevention Survey 2013\*, in which over 90 percent of companies replied that ground stability and earthquake resistance of buildings are important when choosing office. But even so, the relocation survey interview in this research revealed that earthquake resistance is rarely included in the criteria for office space (see Figure 2 and Figure 3). This is probably because earthquake resistance is now, although needless to say, a must criteria for office buildings, and it is no longer something tenants decide whether it is important or not.

Figure 1: Reasons for Relocation (Multiple Answers)

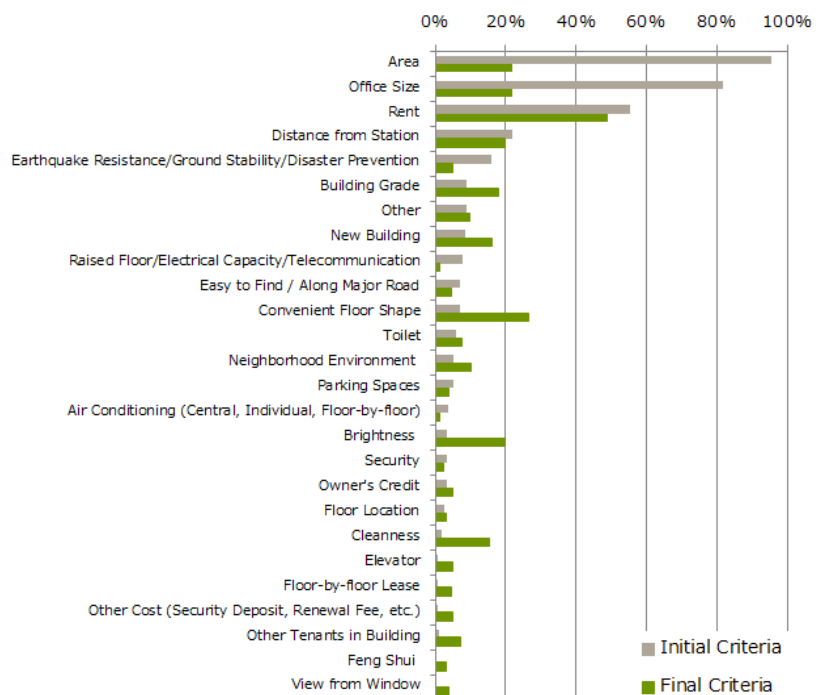


\* Press Release October 11, 2013 <http://www.xymax.co.jp/english/research/release/131011.html>

### ➤ Area, Office Size and Rent are important at first, but impressive features are more appreciated in final decision making.

We interviewed with companies about their important criteria at the beginning of the office choosing process (Initial Criteria) and also the important criteria in making final decision (Final Criteria) and summarized the results in Figure 2. The list covers a wide range of criteria, but the three most important criteria at the beginning are clear: Area, Office Size, and Rent, as companies generally decide to some extent of these three before requesting brokers to find candidates. On the other hand, major Final Criteria other than Rent include Convenient Floor Shape, Brightness, Cleanliness and more, indicating that tenants actually visit the candidate office sites, and impression from the site visits is important in finalizing their choice.

Figure 2: Criteria for Office Space (Multiple Answers)



## Companies are grouped into four groups based on criteria for office space

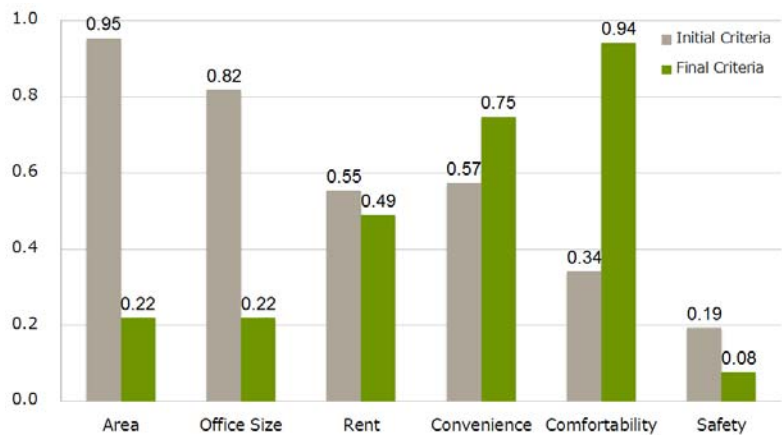
- **As a first step, criteria are classified into six categories: Area, Office Size, Rent, Convenience, Comfortability or Safety**

Criteria other than the three most important factors (Area, Office Size, and Rent) are classified into “Convenience”, “Comfortability” or “Safety”, and summarized again based on Initial/Final Criteria as shown in Figure 3. The figure indicates an increase of Comfortability at the final stage.

### Classification Details

Classification	Criteria
Comfortability	Building Grade, New Building, Brightness, Cleanness, Toilet, Air Conditioning Type, Floor-by-floor Lease, Other Tenants in Building, View from Window
Convenience	Distance from Station, Easy to Find / Along Major Road, Neighborhood Environment, Convenient Floor Shape Raised Floor / Electrical Capacity / Telecommunications, Floor Location, Parking Spaces
Safety	Earthquake Resistance / Ground Stability / Disaster Prevention, Security

Figure 3: Initial Criteria & Final Criteria by Six Categories

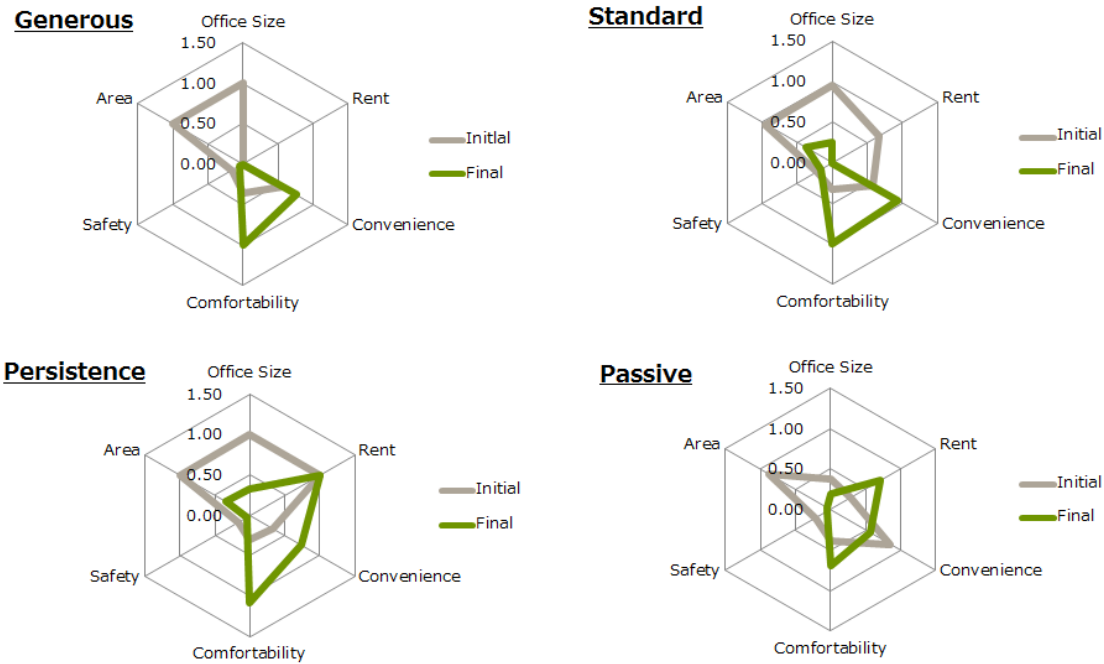


Note: On the right chart, the numbers for Area, Office Size, and Rent are the ratio of number of companies. Convenience, Comfortability and Safety are the ratio of total number of answers/number of companies.

- **Companies are grouped into four types based on the six classified criteria by using clustering method.**

Based on the classified criteria in Figure 3, we have conducted clustering with the laboratory of Dr. Naoki Katoh, Professor at Graduate School of Engineering, Kyoto University to group the companies into four types: “Generous”, “Standard”, “Persistence”, or “Passive”. Figure 4 explains the difference between Initial and Final Criteria for each type.

Figure 4



➤ **Characteristics of each type**

Now we look into the details of each type including their criteria for office, reasons for relocation, use of office, and other characteristics. See Figure 5.

**Generous Type:** Rent is not an important criteria initially as well as finally. Many companies in this type relocated to expand office size (positive reason). Their client companies often visit the office. Conveniently located buildings such as buildings near the station are preferred.

**Standard Type:** At first, companies in this type put priority on the size of office space and rent, but at last they choose office based on comfortability and convenience, which is a standard way of choosing office. Such companies relocate for positive reasons including expansion, better location, and earthquake resistance concerns. Branch offices or sales representative office of large and old companies tend to fall into this type.

**Persistence Type:** Rent is important both initially and finally, but comfortability is also important when finalizing the choice. Reasons for relocation are a mix of positive and negative factors from expansion to better facility and cost-cutting. Small- and medium-size companies with office-based workers tend to fall into this type. The number of site visits before deciding the office is also the highest of all the four types.

**Passive Type:** Have a short list of criteria at both initial and final stages. Companies in this type relocate for somewhat negative reasons such as cost-cutting or consolidation of multi-site offices. Workers consist mainly of sales representatives who are often away from office to visit clients. Rent is the top priority; therefore offices slightly away from the station are acceptable as long as the rent is affordable.

No distinct tendency between the four types regarding the type of business of tenants or size of office building was observed.

Figure 5

Type	Criteria for Office	Reasons for Relocation	Use of Office	Notes (Other Characteristics)
<b>Generous</b> 16% of total (n = 25)	<b>Initial:</b> Area, Office Size  <b>Final:</b> Convenience, Comfortability  Rent is not very important at any stages of the choosing process	Many cases of expansion  Positive reasons	Visitors from outside	<b>Tenant's Business:</b> Mixed  <b>Building:</b> Average Gross Floor Area (GFA) is 3,034 tsubo Average of 3 minutes' walk from the nearest station. (Building near the station)  <b>Contract:</b> Expansion from previous office. Rent per tsubo has decreased.  •Highest average rent per tsubo among all the four types
<b>Standard</b> 27% of total (n = 42)	<b>Initial:</b> Area, Office Size, Rent  <b>Final:</b> Convenience, Comfortability	Expansion Better location Earthquake resistance concerns  Tend to have positive reasons	Mix of visitors from outside, office-based workers, sales representative office	<b>Tenant's Business:</b> Slightly larger number of wholesalers  <b>Building:</b> Average GFA is 3,390 tsubo Average of 3.5 minutes' walk from the nearest station  <b>Contract:</b> Expansion from previous office. Rent per tsubo has either increased or decreased  •Large companies •Most are non-head office.
<b>Persistence</b> 30% of total (n = 46)	<b>Initial:</b> Area, Office Size, Rent  <b>Final:</b> Comfortability, Rent  Have a long list of criteria.	Mix of cost-cutting, expansion, and better facility	Office-based workers	<b>Tenant's Business:</b> Information technology companies and academy/research, etc.  <b>Building:</b> Average GFA is 3,255 tsubo. Average of 4.1 minutes' walk from the nearest station  <b>Contract:</b> Expansion from previous office. Rent per tsubo has decreased.  •Small- or medium-size companies •Lowest average rent per tsubo among all the four types. •Many site visits to candidate offices
<b>Passive</b> 27% of total (n = 42)	<b>Initial:</b> Area, Convenience  <b>Final:</b> Comfortability, Rent	Cost-cutting Multi-site consolidation  Tend to have negative reasons	Sales representative office	<b>Tenant's Business:</b> Mixed  <b>Building:</b> Average GFA is 3,341 tsubo Average of 4.5 minutes' walk from the nearest station. (Building somewhat away from the station)  <b>Contract:</b> Downsizing from previous office. Rent per tsubo has decreased

Note: This survey is based on the relocation data of 155 companies. Please understand that the grouping may not apply depending on the conditions of each company or office market changes in the future.

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## Conclusion

This research grouped companies into types based on their priority when choosing office and then analyzed the characteristics of each type. Companies considering relocation can use this analysis as a reference to clarify their priority. Building owners can use this analysis as a hint to improve variable factors such as comfortability and convenience of their office building or enhance approach to prospective tenants by understanding their behavior quickly.

Xymax Real Estate Institute will continue to study how prospective tenants choose their office space from a variety of standpoints and provide useful information to both companies and building owners.