Xymax Real Estate Institute

RESEARCH REPORT

Metropolitan Areas Office Demand Survey 2016 Demand Trends

Office demand is changing. Capture the trends.

January 12, 2017

Keeping workers and improving productivity are urgent matters facing companies in Japan; labor shortage from the aging population and decline in working-age population is a nationwide problem. More companies are starting to allow employees to be flexible on where and when they work. This trend will impact the office space demand. For example, not only the required size of office but also the preferred location and the way of using the office space will be different in the future.

Xymax Real Estate Institute started a regular survey on the use of office space and ways of how people work. Based on the survey, we examine the impact of the trends on office space demand. The study of demand trends from our first survey is covered in this report.

Summary of Survey Results: Demand Trends

1. Office Space Demand Change October 2015 – September 2016 (Page 2 – Page 7)

   Demand is strong. "Increase" and "expand" exceeded "decrease" and "downsize".

   Number of workers: Increased (36%) Decreased (13%)

   Size of office: Expanded (9%) Downsized (3%) **Figure 1**

   - Similar result for rent per tsubo (incl. CAM): Increased (13%) Decreased (4%)
   - Variance between increase/expand and decrease/downsize in office size and rent was different by industry and by location.
   - Some companies still think their office is not large enough (33%).

2. Use of Office Now / How the Use Has Changed (Page 8 – Page 11)

   Companies are beginning to allow alternative workspaces such as hot-desking office, home of employees, mobile-work office, etc.

   Use of Office and Alternative Workspaces Available Now

   - Refresh spaces (22%) • Hot-desking office (18%)
   - Branch offices equipped the same as the main office (23.8%)
   - Work-from-home program (15.7%) • Mobile-work office (4.4%) **Figures 10, 12**

   Year-on-Year Changes

   - Meeting rooms and personal desk areas were often expanded in new layout.
   - Other than the layout change, work-from-home programs topped the list of changes.

   Figures 11, 13

3. Outlook (2-3 years) – Office Space Demand in Near Future (Page 12 – Page 13)

   Demand will remain strong. "Increase and "expand" exceeded "decrease and "downsize".

   Number of workers: Increase (38%) Decrease (3%)

   Size of office: Expand (20%) Downsize (4%) **Figure 14**

TOPICS: Expand Office into Areas Outside Tokyo (Page 14 – Page 15)

Of the companies with office in Tokyo, 16% said they are interested in having office somewhere else. **Figure 16**

1. Office Space Demand Change October 2015 – September 2016

1-1. Office Workers, Size and Rent

- ✓ More companies had an increase in number of office workers (36%) than a decrease (13%).
- ✓ More companies had an expansion of office size (9%) than a downsizing (3%).
- ✓ More companies had an increase in rent per tsubo (incl. CAM) (13%) than a decrease (4%).

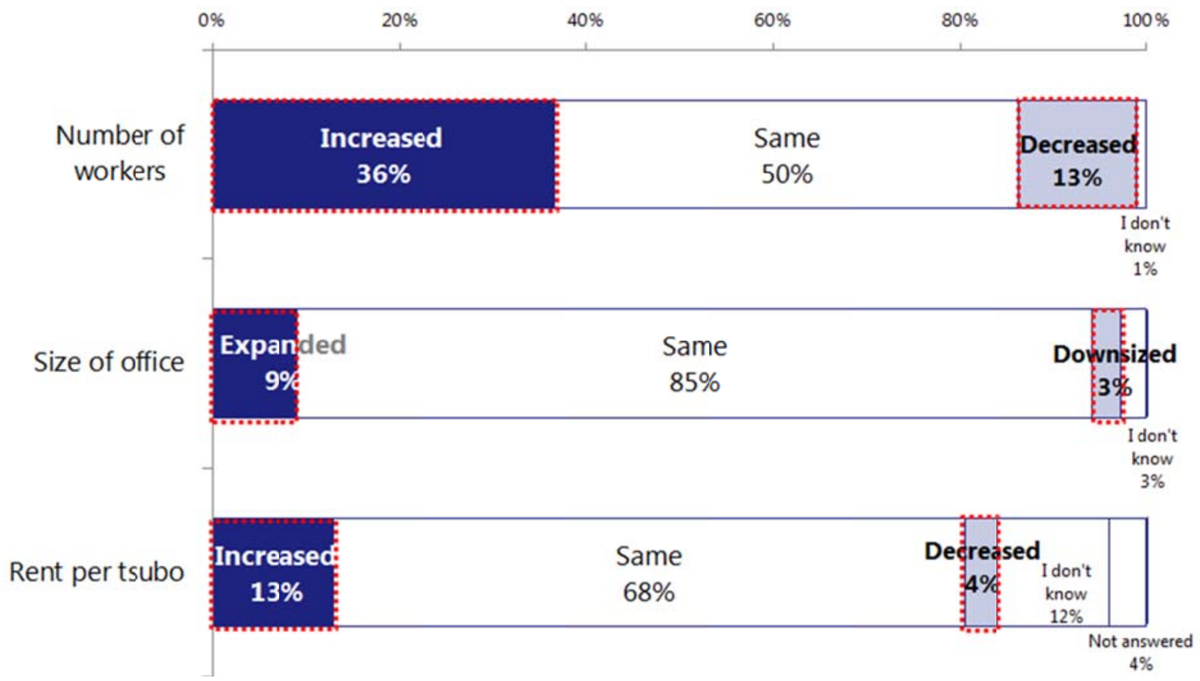
Figure 1 shows the changes in number of office workers, size of office space and office rent per tsubo including CAM charge over the year starting October 2015 and ending September 2016.

The number of people working at office has a great impact on office demand. The companies with increased headcount exceeded the companies with decreased headcount by 23 points. Likewise in the size of office space, the companies with expansion exceeded the companies with downsizing by 6 points. In the rent per tsubo, the companies with increase exceeded the companies with decrease by 9 points.

This tells us that the demand for office space is strong and such demand has led to limited availability in the metropolitan areas. Another finding here is that some companies added workers without expanding the office. If you compare the companies with increased headcount and the companies with office expansion, the latter is smaller.

Figure 1: Office Space Year-on-Year Change

(Single answer) (n=1,124)



1-2. Size of Office Space (Details)

- ✓ When expanded, "in the same building" (49%) exceeded "relocation" (30%) and "sub-office" (11%). The most popular purpose was "hired more workers and office became too small" (62%).
- ✓ When downsized, "relocation" (56%) exceeded "in the same building" (28%). The most popular purpose given by nearly half of the respondents was "cost saving" (44%).

In office expansion, the companies that expanded in the same building exceeded the companies that relocated to other building **(Figure 2)**. In office downsizing, however, the companies that relocated to other building exceeded the companies that downsized in the same building **(Figure 3)**.

As purposes for expansion, "hired more workers and office became too small" (62%) topped, followed by "enhance recruiting and hire more" (36%) and "need more meeting rooms" (34%) **(Figure 4)**. As purposes for downsizing, "cost saving" (44%) topped the ranking **(Figure 5)**.

Figure 2: Type of Office Expansion
(Multiple answers) (n=103)

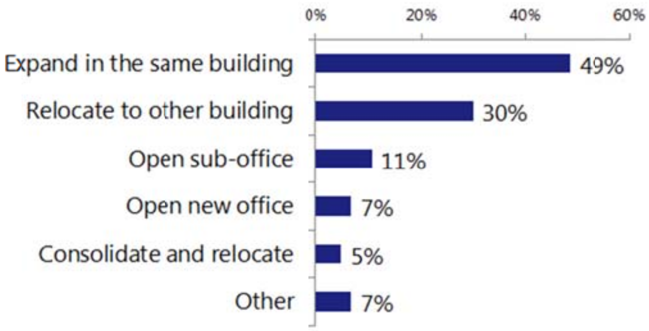


Figure 3: Type of Office Downsizing
(Multiple answers) (n=36)

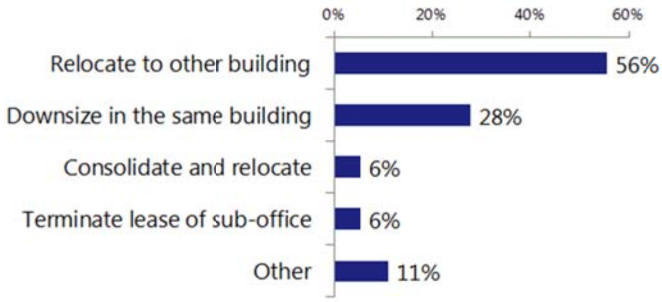
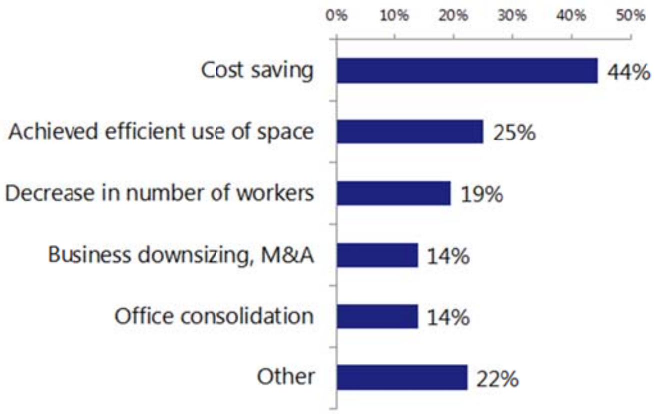


Figure 4: Purpose for Office Expansion
(Multiple answers) (n=103)

Figure 5: Purpose of Office Downsizing
(Multiple answers) (n=36)



1-2. Size of Office Space (Details)

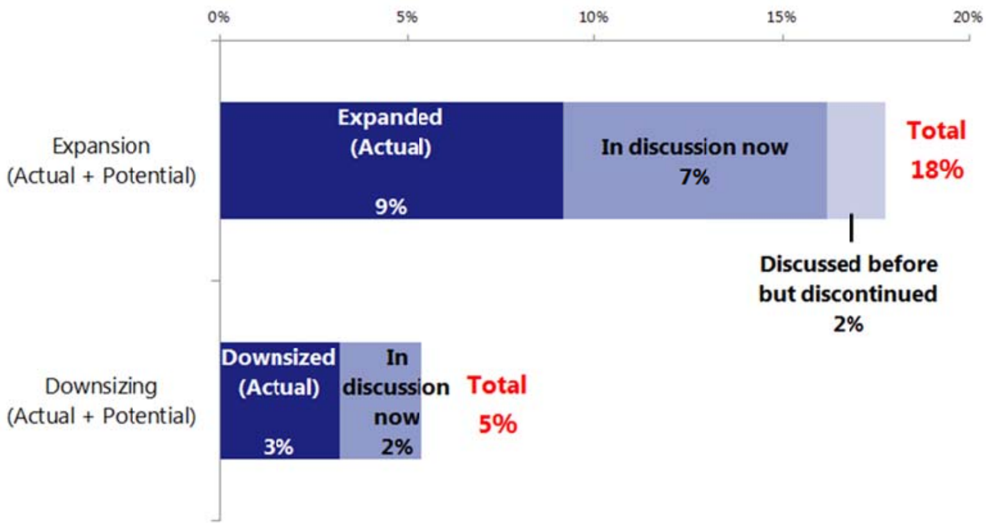
- ✓ Some companies did not expand or downsize their office but had an intention to do so.

Of the companies with no office size change over the year, 9% said they are either discussing the expansion plan now or having discussed it before but it was not achieved. If such potential expansions are combined with the actual expansions, the percentage goes up to 18%.

The survey also discovered that 2% of the companies are discussing the office downsizing plan now. If such potential downsizings are combined with the actual downsizings, the percentage will be 5% **(Figure 6)**.

Figure 6: Size of Office Space Year-on Year Change (Actual + Potential)

(Single answer) (n=1,124)



1-3. Office Rent per Tsubo including CAM Charge (Details)

- ✓ Rent per tsubo increased for 36% of the companies that had expanded the office. Similarly, rent per tsubo increased for 22% of the companies that had downsized the office.
- ✓ Rent per tsubo also increased for 10% of the companies that had no office space expansion or downsizing.

1 tsubo = approx. 3.3 sqm

Of the companies with office expansion, those with increase in rent per tsubo including CAM charge (hereinafter the "rent per tsubo") exceeded those with decrease by 23 points.

Of the companies with office downsizing, those with decrease in rent per tsubo exceeded those with increase by 22 points.

The increase in rent per tsubo was also found in companies that did not expand or downsize the office. The companies with increase in rent per tsubo exceeded those with decrease by 9 points **(Figure 7)**.

Figure 7: Change in Size of Office Space and Rent per Tsubo

PICK UP

The analysis by type of industry and by location of office shows that the variance between increase or expansion and decrease or downsize in office size and rent per tsubo resulted differently for each.

Figure 8 is a chart of two types of diffusion index (DI) based on the year-on-year changes. Office Size DI was calculated by subtracting the percentage of companies that downsized the office from the percentage of companies that expanded the office. Rent DI was calculated by subtracting the percentage of companies that had a decrease in rent per tsubo from the percentage of companies that had an increase in rent per tsubo.

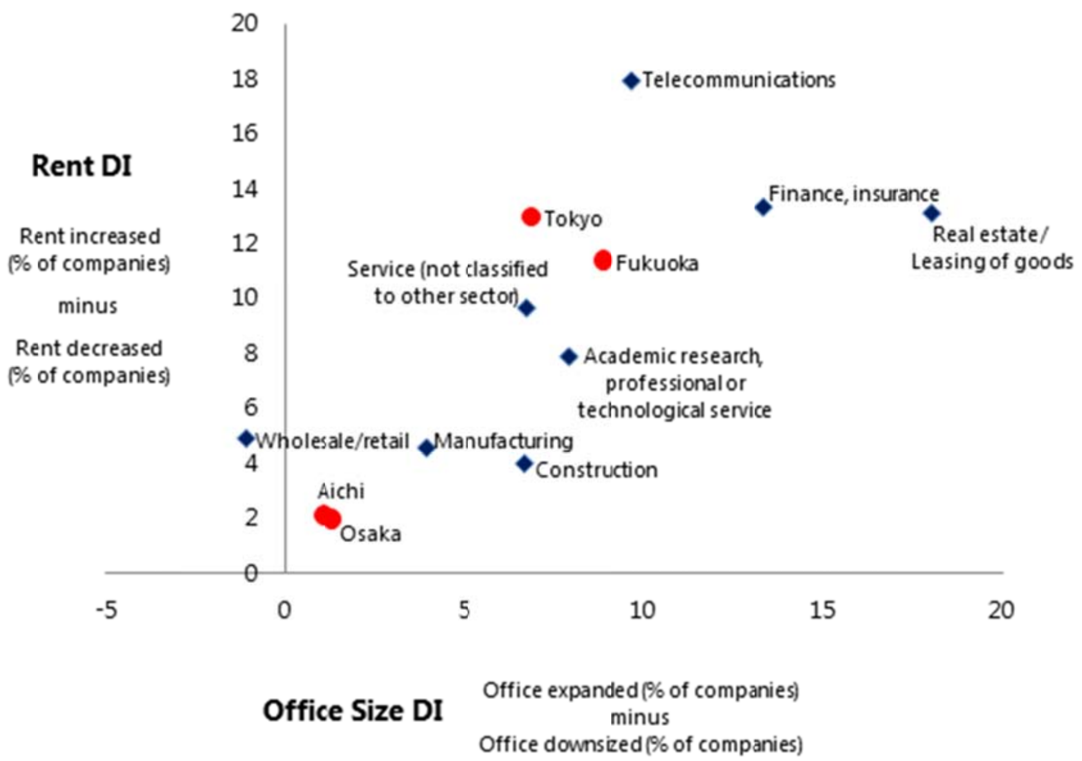
By Type of Industry

High percentages of companies in telecommunication, finance/insurance, and real estate and lease of goods industries had both office expansion and increase in rent per tsubo. However, the percentages were relatively low in the manufacturing and wholesale/retail industries.

By Location of Office

High percentages of companies with office in Tokyo or Fukuoka prefectures had both office expansion and increase in rent per tsubo. The percentages were relatively low in Osaka and Aichi prefectures.

Figure 8: Office Size DI and Rent DI (Year-on-Year Changes)



1-4. Appropriate Office Size / Economic Sentiment

- ✓ Current office is not large enough (33%).
- ✓ Current economy is "good" or "somewhat good" (30%) versus "poor" or "somewhat poor" (24%) compared to before.

We asked the companies whether their current office is large enough. Their replies were "too small" or "somewhat small" (33%) and "too large" or "somewhat large" (13%). Some companies still think the size of their office is not right **(Figure 9).**

Companies' economic sentiment can also influence the office demand. Some companies think the current economy is "good" or "somewhat good" (30%) compared to before, exceeding those who think it is "poor" or "somewhat poor" (24%) **(Figure 9)**.

Figure 9: Appropriate Office Size / Economic Sentiment

(Single answer) (n=1,124)

2. Use of Office Now / How the Use Has Changed

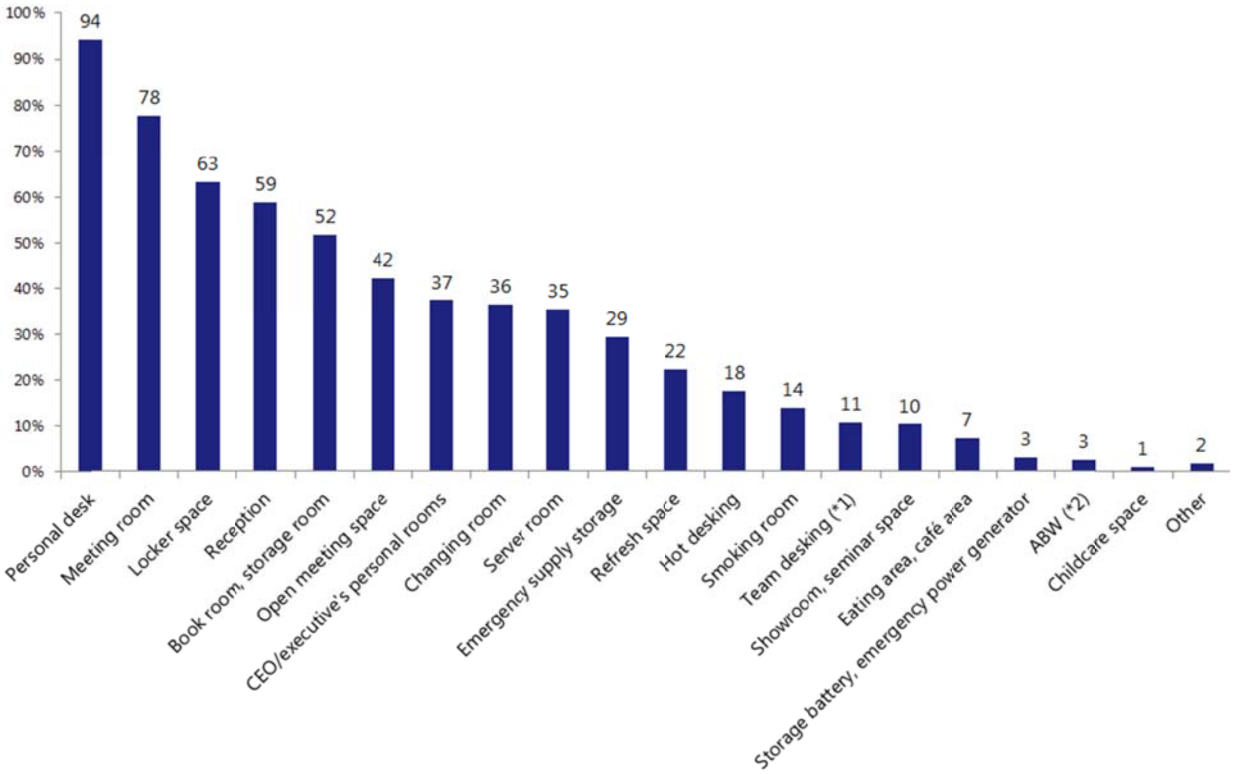
2-1. Layout of Current Office

- ✓ There are refresh spaces, hot-desking areas and other variety of areas aiming to achieve a comfortable and efficient work environment.
- ✓ In new layout, meeting room was set up as new or expanded by highest percentage of companies, followed by personal desk area, refresh space, open meeting space and hot-desking area.
  In the list of areas downsized or removed, smoking room and personal desk came on the top.
- ✓ Layout Change DI (subtracting the downsizing or removal from the new or expansion) was above 0 for meeting room, personal desk area and refresh space, and below 0 for smoking room.

As mentioned earlier in 1-1, only some 10% of the companies expanded or downsized their office over the year which means the size of office did not change at 90% of the offices. Even so, changes are found elsewhere. How to use office space has started to change. Layout change and allowing alternative workspaces to employees, corresponding to different ways of working, are some examples. There is high chance that this trend will impact the office space demand. This change is also covered in our survey.

We asked the companies whether they have following areas in their current office. Personal desk areas are at 94% of the companies, the highest among all, followed by meeting room at 78%. The survey result shows that companies have different types of areas such as refresh space (22%) and hot desking area, which is where workers can use any of the desks in the area (18%) **(Figure 10)**.

Figure 10: Current Office – Do you have these areas? (Multiple answers) (n=1,124)



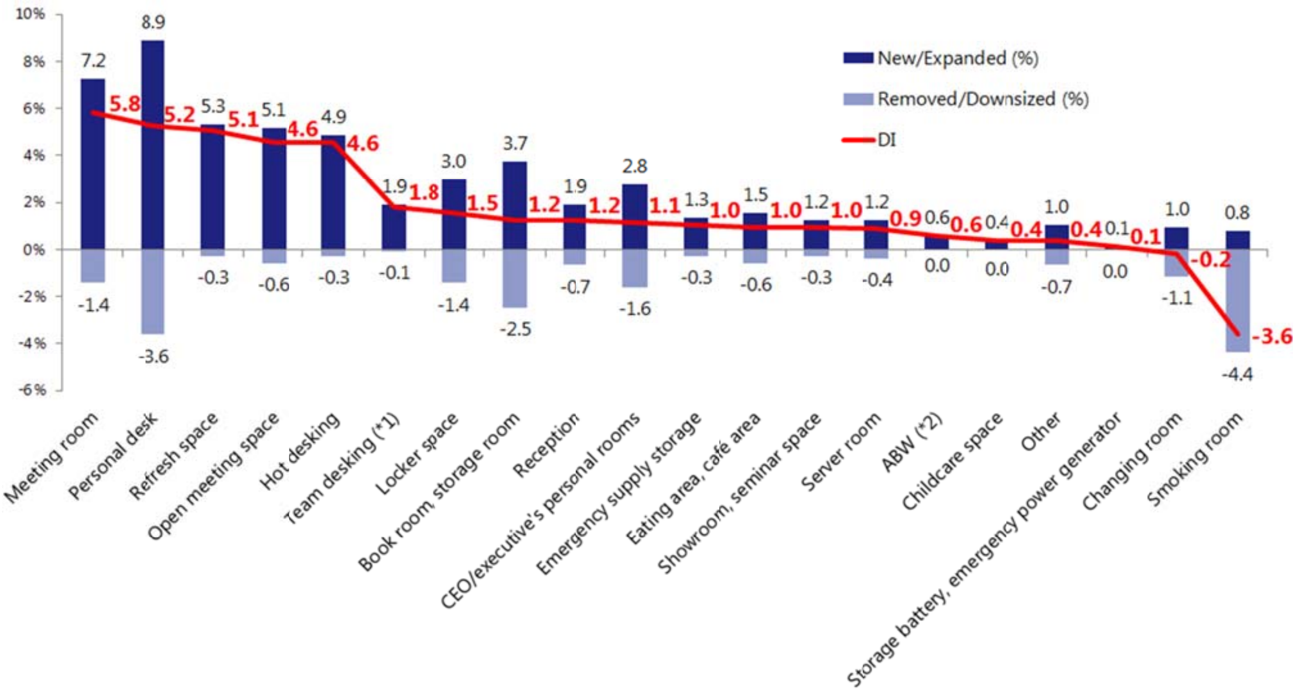
We asked the companies which of the areas they have expanded or have downsized over the past year and compared the variance between new/expansion and removal/downsizing. **Figure 11** shows the diffusion index (DI) which was calculated by subtracting the percentage of companies that downsized or removed the area from the percentage of companies that expanded the area or set up as new one.

Meeting room had the highest DI at 5.8, indicating that the companies very much need meeting rooms in their office. Personal desk area topped the areas expanded or set up as new at 8.9% but it was also one of the areas removed or downsized at 3.6%, compressing the DI to 5.2. The DI of refresh space, open meeting space and hot desking area were also above 0, indicating that the use of office changed not only because of the change in number of workers but also because of the change in the way people work.

The DI of smoking room was below 0, meaning it is more removed or downsized than expanded or set up new.

Figure 11: Office Layout Change DI

(Multiple answers) (n=1,049)



2-2. Workspaces Other than Main Office

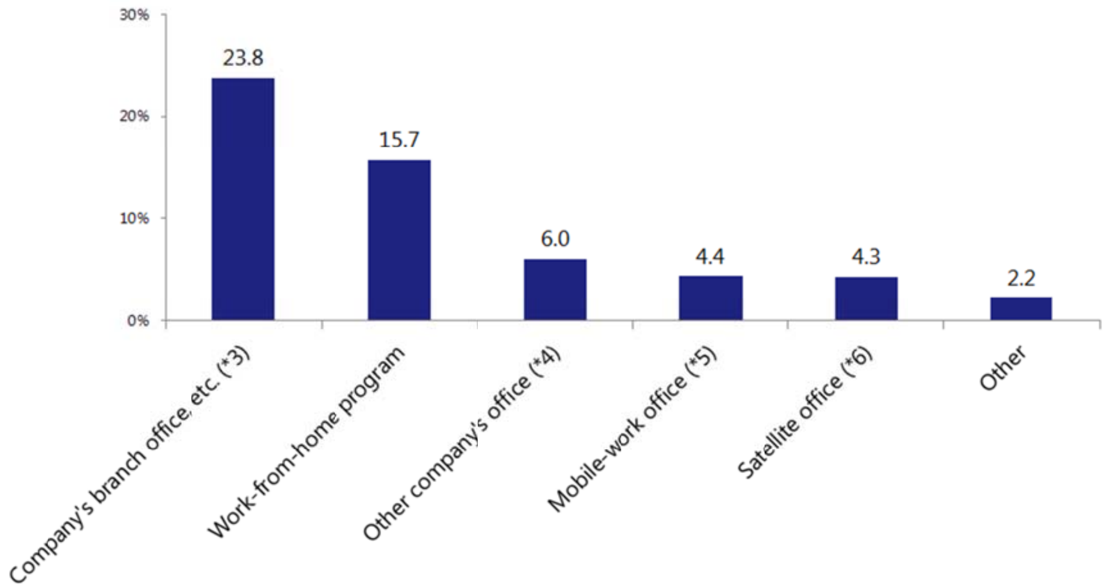
- ✓ Companies are starting to allow employees to use alternative workspaces such as setting up "work-from-home program" or "mobile-work office".
- ✓ Alternative Workspace DI (subtracting those reduced or discontinued the use of alternative workspace from those expanded or set up new one) shows that "work from home" was the most popular alternative workspace, followed by "branch office" and "mobile-work office".

  All the Alternative Workspace DI was above 0. This means, there were more new/expansions than reduction/discontinuations.

We asked the companies whether the following alternative workspaces are made available by the companies for the employees. They responded that the employees can work at branch offices equipped with an environment equivalent to that of the main office (23.8%). They also said employees can work from home (15.7%) and they allow employees to use mobile-work office (4.4%) **(Figure 12)**.

Figure 12: Alternative Workspaces Made Available by Company

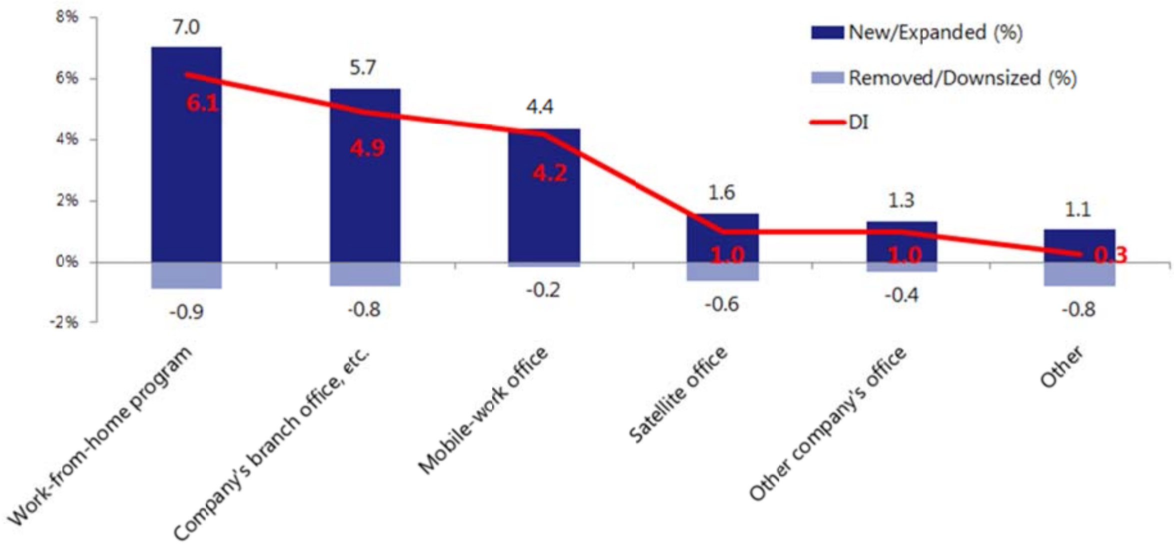
(Multiple answers) (n=1,124)



We asked the companies how they changed the use of alternative workspaces over the past year. New or expansion of work-from-home program topped the changes and its DI was 6.1, followed by allowing employees to work at branch offices with an environment equivalent to that of main office and allowing employees to use mobile-work office **(Figure 13)**.

Figure 13: Alternative Workspace DI (Year-on-Year Change)

(Multiple answers) (n=1,124)



3. Outlook (2-3 years) – Office Space Demand in Near Future

- ✓ Increase in number of office workers is expected at 38% of the companies while decrease is expected at only 3% of the companies. Growth in number of office workers is expected.
- ✓ Expansion of office is expected at 20% of the companies while downsizing is expected at 4% of the companies. Strong demand for office space is expected to continue.

We asked the companies about the number of office workers at their office in two to three years' time. The increase in the number was expected at 38% of the companies, higher than those who responded that the number will decrease (3%) **(Figure 14)**.

Likewise, the companies that intend to expand their office (20%) exceeded the companies that intend to downsize the office (4%). It indicates that companies' motivation to expand the office will remain strong in line with the increase in number of their office workers **(Figure 14)**.

Figure 14: Number of Office Workers and Size of Office in Near Future (Intention)

(Single answer) (n=1,124)

PICK UP

Figure 15 is a chart of two types of diffusion index (DI); the one is based on year-on-year change while the other is based on intention in the near future. Both were calculated by subtracting the downsizing from the expansion.

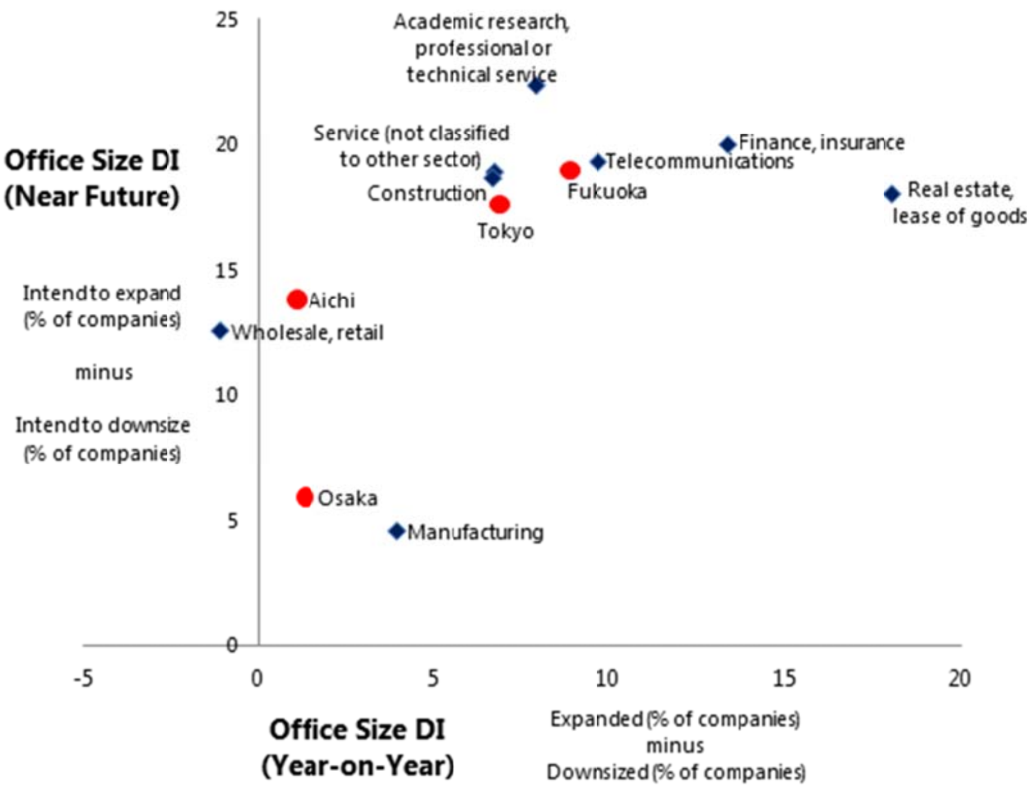
By Type of Industry

Regardless of industry, companies have strong intention to expand the size of office. In particular, demand for office space in the past and near future was strong in real estate and lease of goods industry, finance and insurance industry, telecommunication industry and academic research and professional or technical services industry. In contrast, manufacturing companies showed relatively weak demand both in the past and near future.

By Location of Office

Tokyo and Fukuoka prefectures saw relatively strong demand for office space in the past and near future. The demand for office space in Aichi was weak in the past but the intention to expand was strong. In Osaka, the demand in the past and intention were both weak.

Figure 15: Office Size DI (Year-on-Year Change) and Office Size DI (Intention in Near Future)



TOPICS: Expand Office into Areas Outside Tokyo

Under the nation's regional revitalization policy, the Japanese government is trying to end Tokyo's over-concentration by encouraging private-sector companies and governmental offices to move to regional areas. We asked the companies what they think about having an office in areas other than Tokyo.

- ✓ Of the companies, 16% are very much interested or somewhat interested in having an office in areas other than Tokyo (such as relocating the main office, having a satellite office there, etc.).
- ✓ By industry, "service (those not classified to other sector)" was the top, followed by "telecommunication".
- ✓ Companies are interested because they can hire local workers, office occupancy cost (rent, etc.) is more affordable, and it is for the regional business expansion.

The companies with office in Tokyo were asked about possibility of having an office in areas outside of Tokyo. Those who said they are very much interested or somewhat interested in made up 16% of all **(Figure 16)**.

By industry, the service industry (those not included in other sector) came on the top, followed by telecommunication industry. The wholesale and retail industry and manufacturing industry shared the third place **(Figure 17)**.

Figure 16: Are You Interested in Having an Office Outside Tokyo?

(Single answer) (n=670)

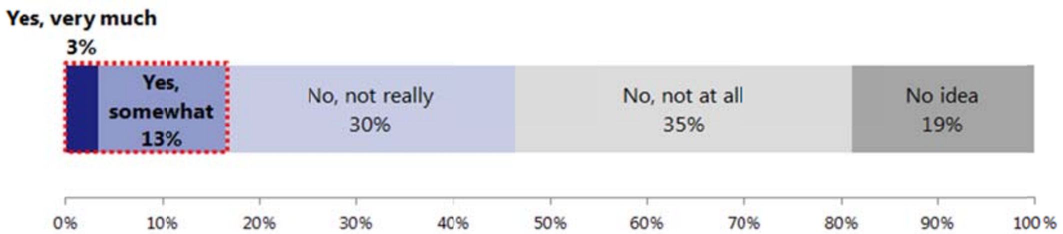
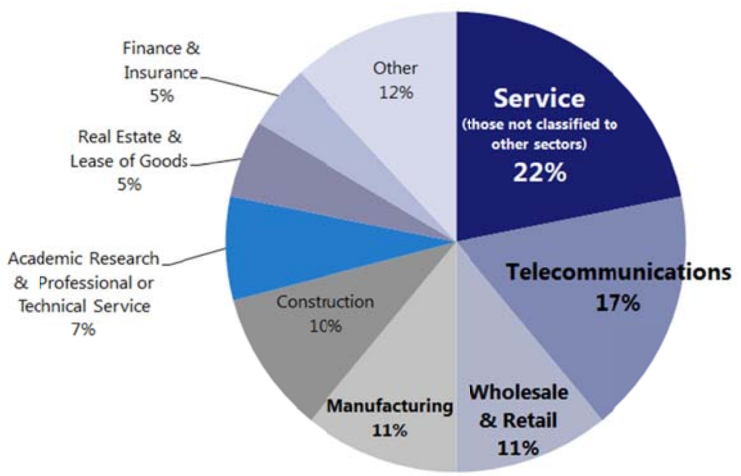


Figure 17: Industry of Companies Interested in Having an Office in Areas Outside Tokyo

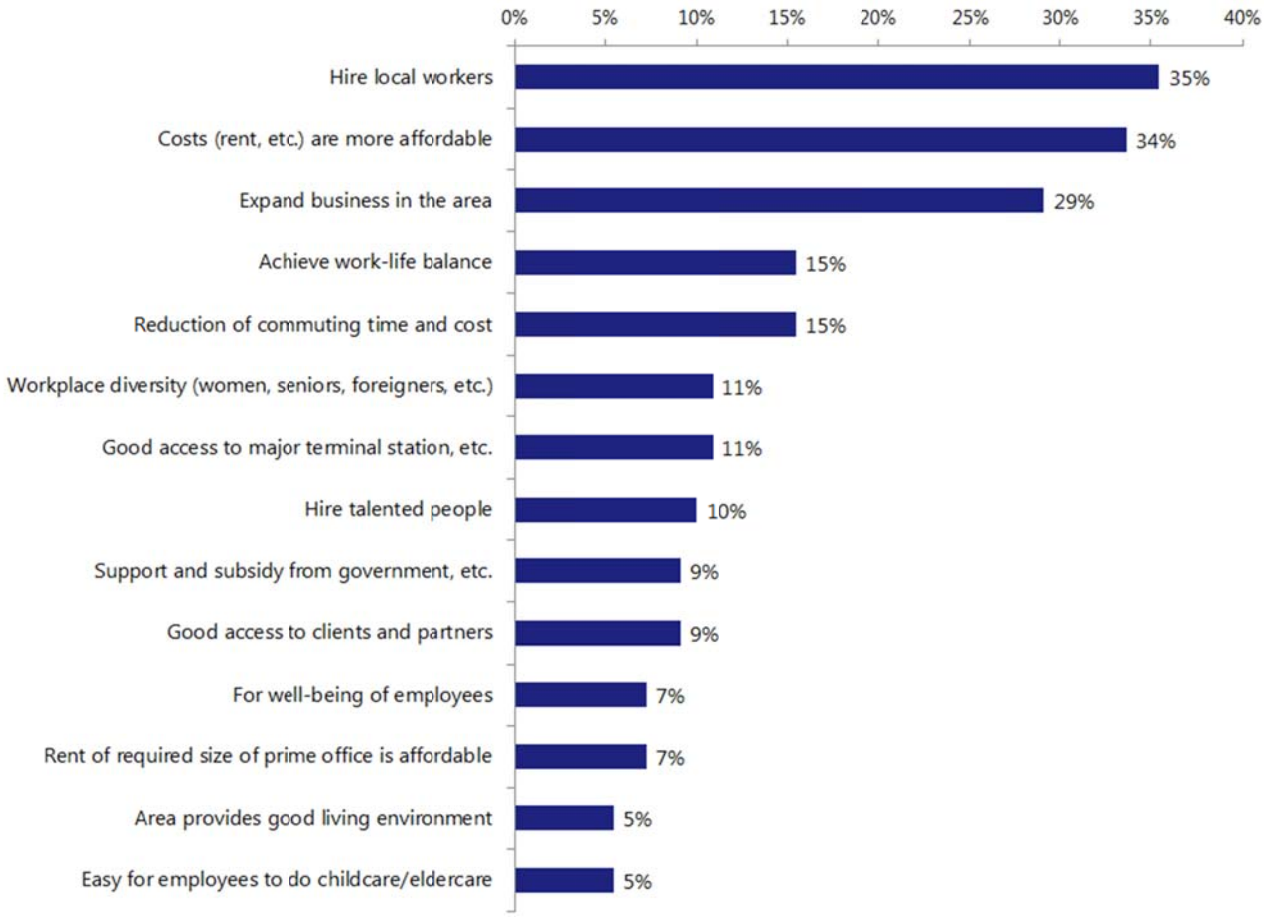
(Single answer) (n=110)



As reasons why they are interested in having an office outside of Tokyo (such as relocating the main office or set up a satellite office, etc.), 35% said because they want to hire local workers, 34% said because of the affordable office occupancy cost (rent etc.), and 29% said because they are going to expand the business into that area **(Figure 18)**.

Figure 18: Why Are You Interested in Having an Office in Areas Outside of Tokyo?

(Multiple answers) (n=110)



We asked such companies which areas are you interested in. Kanagawa prefecture (21%) was the most popular choice by respondents, followed by Fukuoka (12%) and Chiba (12%) **(Figure 19)**. Fukuoka took the second place in the list mostly dominated by prefectures near Tokyo.

Figure 19: When having an office in areas outside Tokyo, which areas do you have in mind?

(Multiple answers) (n=110)

1	Kanagawa	21%
2	Fukuoka	12%
2	Chiba	12%
4	Saitama	11%
5	Hokkaido	10%
6	Osaka	8%
6	Miyagi	8%

8	Okinawa	6%
8	Aichi	6%
8	Shizuoka	6%
8	Yamanashi	6%

Survey Overview

Timing	October 2016
Target Respondents	3,252 companies • Companies that are tenants of office buildings managed by Xymax Group • Client companies of XYMAX INFONISTA Corporation
Effective Responses	1,124 companies Response rate: 35%
Geographical Coverage	Prefectures in Japan (Tokyo, Osaka, Aichi, Fukuoka, Kanagawa, Saitama, Chiba and others)
Distribution	Either by email or questionnaire sheet
Topics Covered in Survey	**Demand Trends** Company Profile ・ Industry, place of headquarters, number of employees, year of incorporation About the office ・ Location, nearest station, leased area, number of office workers, rent per tsubo How the office is used, how the use has changed ・ Layout of office, how it has changed (new or expanded the area; downsized or closed the area) ・ Use of workspaces other than main office, how the use has changed (new or expanded workspace; downsized or closed the workspace) Office space demand change October 2015 – September 2016 ・ Number of office workers ・ Size of office, details of the change, purpose, relocated to which area ・ Rent per tsubo ・ Appropriate size or not, economic sentiment Outlook of office space demand ・ Number of office workers in near future ・ Intention to expand/downsize the office, reasons, to which area Interest in Having Regional Offices ・ Degree of interest, which area, reasons ・ Reasons if not interested. What might make you interested?

(*1) Team desking: Desk areas designated for use by department or by team. The members can use any of the desks within the area.
(*2) ABW (Activity Based Working): Booths to concentrate on solo work, a space to collaborate with team members, or other spaces within the office dedicated for a particular work
(*3) Company's branch office, etc.: Branch offices or similar kinds of the company. The company provides an environment equivalent to that of the main office
(*4) Other company's office: Offices of other companies such as affiliated companies, client or partner companies where employees are allowed to use
(*5) Mobile-work office: Offices near terminal stations in a city center where employees use for a short period of time. Such offices are equipped with environment equivalent to that of the main office. The examples of this type of office include the serviced office and shared office operated by other companies.
(*6) Satellite office: Offices in regional or local areas where employees work for long hours. Such offices are equipped with environment equivalent to that of the main office. This type of office can be those set up by the company or set up and operated by other companies.

This report is a summary of "demand trends" from our survey on "demand trends" and "way of working and office". Another report featuring the "way of working and office" will be released later.

4. Profile of Respondent Companies (Upper row: % Lower row: number)

Industry

Service (those not classified to other sector)	Wholesale / Retail	Manufacturing	Telecommunications	Academic research / Professional or technical service	Construction
21%	16%	14%	13%	7%	7%
238	183	153	145	76	75

Real estate / Leasing of goods	Financial / Insurance	Unclassified	Medical / Welfare	Transportation / Postal service	Education / Learning support
5%	4%	3%	2%	2%	2%
61	45	39	22	21	19

Multi-service business	Daily life services / Entertainment	Civil service (excl. those classified to other sectors)	Accommodation / Food & beverage	Electricity, Gas, Heat, Water	Mining / Quarry / Gravel extraction
1%	1%	1%	1%	1%	0%
13	10	7	7	7	2

Agriculture / Forestry	All
0%	100%
1	1,124

Number of Employees

10 and below	11-50	51-100	101-300	301-500	501-1,000	1,001+	All
14%	24%	10%	19%	7%	9%	16%	100%
161	273	118	212	77	105	178	1,124

Type of Office

Head office	Branch office	Sales office	Sub-office	Satellite office	Call center	Computer room	Other	All
58%	27%	10%	2%	0%	0%	0%	2%	100%
650	300	118	18	4	3	3	28	1,124

Location of Office (Prefecture)

Tokyo	Osaka	Aichi	Fukuoka	Kanagawa	Saitama	Chiba	Other	All
60%	14%	8%	7%	7%	3%	1%	0%	100%
670	152	94	79	77	34	13	5	1,124

Size of Office under Lease Contract in tsubo (1 tsubo = 3.3 sqm)

30 and below	Up to 50	Up to 100	Up to 200	200 and above	Not answered	All
18%	15%	22%	17%	23%	5%	100%
203	174	243	188	259	57	1,124

Graphs contained in this report:
- The sum of the rates may not be 100% in some cases because the rates are rounded to the second decimal place. The sum of the rates of multiple answers is not 100%.
- In Figures 4, 18 and 19, only the top items are shown.

For questions on this report, please contact us.

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