

# Metropolitan Areas Office Demand Survey 2017 — Demand Trends

Demand for office space is changing. Capture the trends.

August 2, 2017

Employing different types of workers and improving productivity are urgent matters facing companies in Japan; the lack of labor from working-age population decline is a nationwide problem. More companies are starting to allow employees to be flexible on where and when to work. This trend will impact the office space demand. For example, the required size of office, the preferred location and the way of using the office space may be different in the future.

Xymax Real Estate Institute started a survey on a regular basis in 2016 on how companies are using office spaces and how people work. The purpose of the survey is to study the impact of such trends on office space demand. This issue covers the results of our second survey.

Reference: "Metropolitan Areas Office Demand Survey 2016 – Demand Trends", released on January 12, 2017  
[https://soken.xymax.co.jp/2017/01/12/1701-office\\_demand\\_survey\\_2016/](https://soken.xymax.co.jp/2017/01/12/1701-office_demand_survey_2016/) (available only in Japanese)

## Summary of Survey Results

### 1. Office Space Demand Change April 2016 – March 2017 (Page 2 – Page 7)

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

**Number of office workers: Increased (37.6%) Decreased (12.9%)**

**Size of office space: Expanded (7.9%) Downsized (2.0%)**

**Figure 1**

- Similar result for rent per tsubo (incl. CAM): Increased (14%) Decreased (2.6%)
- Office expansion and rent increase were prominent in telecommunication industries and companies having office in Tokyo 23 Wards.
- Still, 31.6% of the companies think their current office is not large enough.

### 2. Alternative Workspaces Are Becoming More Available (Page 8 – Page 10)

**Telework spaces are available at 30% of the companies.**

**More companies are allowing employees to use alternative workspaces: Work-from-home program (12.6%), satellite office, serviced office, etc.**

**Figures 10, 11**

- Larger companies have high tendency of having satellite office while work-from-home programs are also becoming popular at small companies employing up to 99 workers.
- Offices in Tokyo 23 Wards are more active in promoting telework than other metropolitan areas.

### 3. Outlook – Office Space Demand (Page 11 – Page 15)

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

**Number of office workers in near future: Increase (34.3%) Decrease (4.8%)**

**Size of office space in near future: Expand (17.2%) Downsize (3.8%)**

**Figure 15**

### 4. What Companies Expect from Large Volume of New Completions Starting in 2018 (Page 16 – Page 17)

**"More opportunities to lease spaces under preferable terms" said 45.2% of the companies in Greater Tokyo. There is a possibility of active office relocations starting in the next fiscal year.**

**Figure 23**

# 1. Office Space Demand Change April 2016 – March 2017

## 1-1. Number of Office Workers, Size of Office and Rent per Tsubo (Incl. CAM Charge)

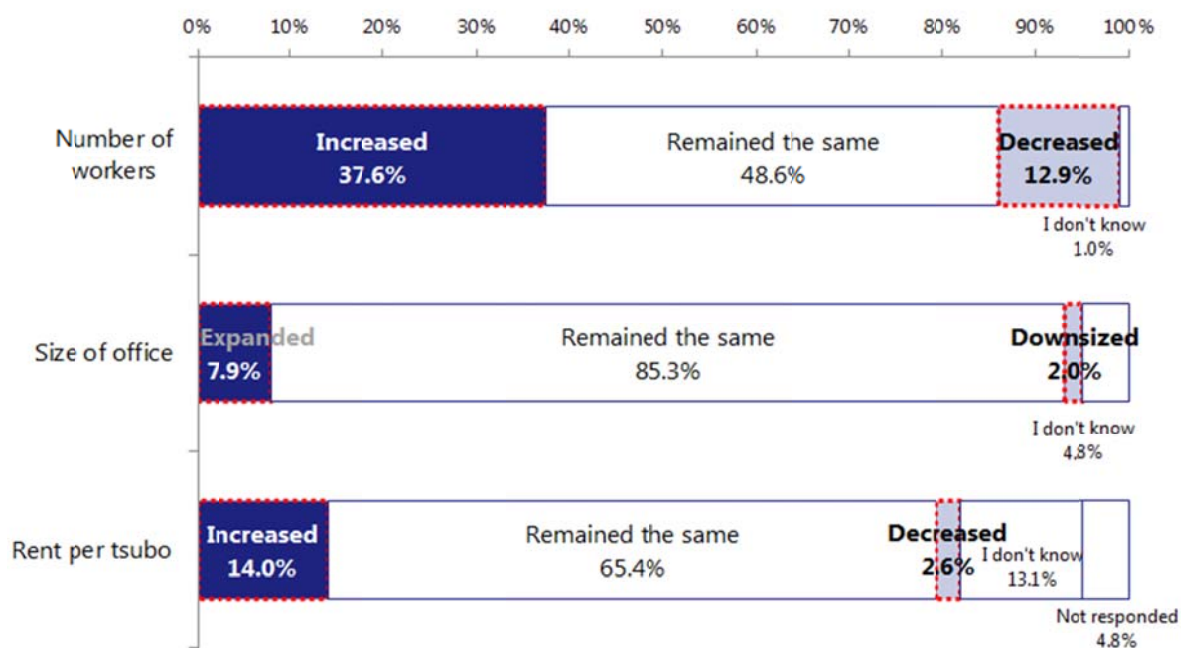
- ✓ Of the companies, 37.6% said that the number of office workers at their company has increased. This is larger than 12.9% of the companies that said the number has decreased.
- ✓ Of the companies, 7.9% said that they have expanded their office. This is larger than 2.0% of the companies that said they have downsized their office.
- ✓ Of the companies, 14.0% said that their rent per tsubo has increased.

The changes in the number of office workers, size of office space and rent per tsubo including CAM charge over the year starting April 2016 and ending March 2017 are shown in **Figure 1**.

The number of office workers has a great impact on office demand. The companies that had an increase in the number of workers far exceeded the companies that had a decrease in the number by 24.7 points. Similarly, the companies that expanded (or decided to expand) the office exceeded the companies that downsized the office by 5.9 points. The companies that had an increase in rent per tsubo exceeded the companies that had a decrease in rent per tsubo by 11.4 points.

This trend may be one of the factors of the growing office space demand and limited availabilities in the metropolitan areas. The survey also indicates that some companies added workers without expanding their office space because the number of companies that expanded the office space was smaller than the number of companies that had an increase in the number of office workers. Such situation was also observed in the survey in 2016.

**Figure 1: Changes in Office Space April 2016 – March 2017**



(Single answer, n=1,073)

### Metropolitan Areas Office Demand Survey 2017 — Demand Trends

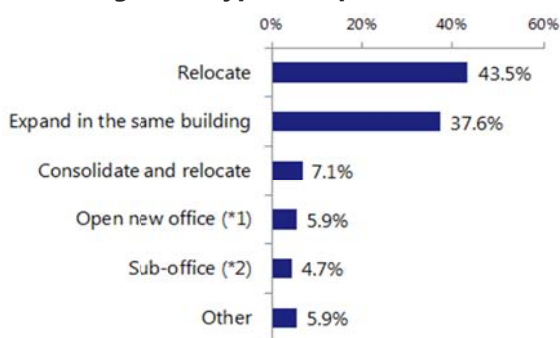
1-2. Change in Size of Office (Details)

- ✓ Top two expansion types were "relocation" (43.5%) and "expansion in the same building" (37.6%). The most popular purpose was "added workers and office became too small" (64.7%).
- ✓ In the type of downsizing, "relocation" (38.1%) exceeded "downsize in the same building" (33.3%). The most popular purpose was "to cut the cost of office" (61.9%).

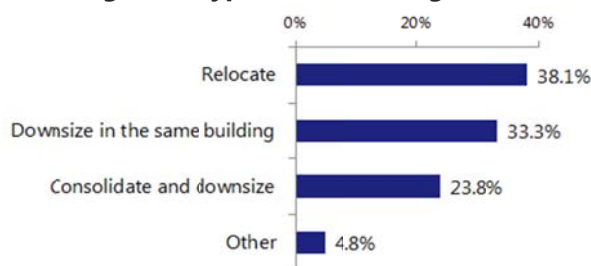
Companies that expanded their office were more likely to have relocated to other place than expanded in the same building (**Figure 2**). Likewise, companies that downsized their office were more likely to have relocated than downsized in the same building (**Figure 3**). The office space market is tight. Some companies may have given up their initial plan to expand in the same building due to lack of availability. Other companies may have decided to relocate because their landlord wanted a rent increase when renewing the existing lease.

The purposes of expansion show that companies are positive in keeping employees; "added workers and office became too small" (64.7%) and "enhance recruiting and hire more" (42.4%) topped the rank. "To make the office more comfortable" (32.9%) moved one rank up from the fourth place in the previous year, indicating that companies are more interested than before in how the office environment influences workers (**Figure 4**). In the downsizing purposes, "to cut the cost of office" (61.9%) took the first place again (**Figure 5**).

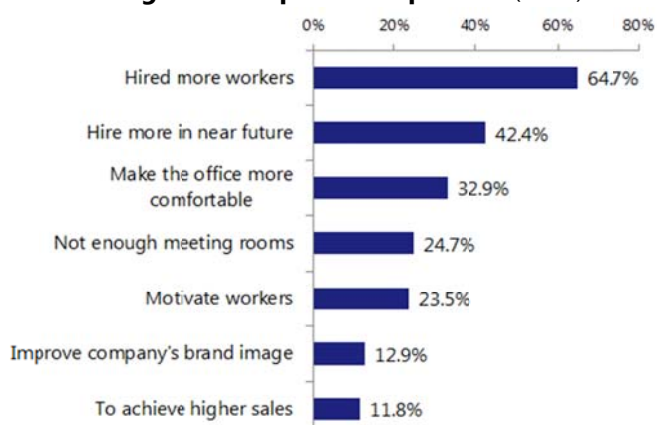
**Figure 2: Type of Expansion (n=85)**



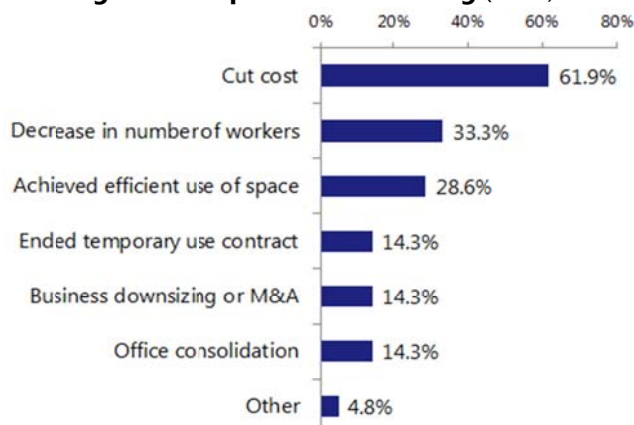
**Figure 3: Type of Downsizing (n=21)**



**Figure 4: Purpose of Expansion (n=85)**



**Figure 5: Purpose of Downsizing (n=21)**



(Figures 2 to 5: Multiple answers)

(\*1) Open new office: It means, in this report, to open a new office in the same building where the company was.

(\*2) Sub-office: A separate office of the headquarters or other main office. A sub-office is located close to the main office and it handles part of the functions of the main office.

**Metropolitan Areas Office Demand Survey 2017 — Demand Trends**

1-2. Change in Size of Office (Details)

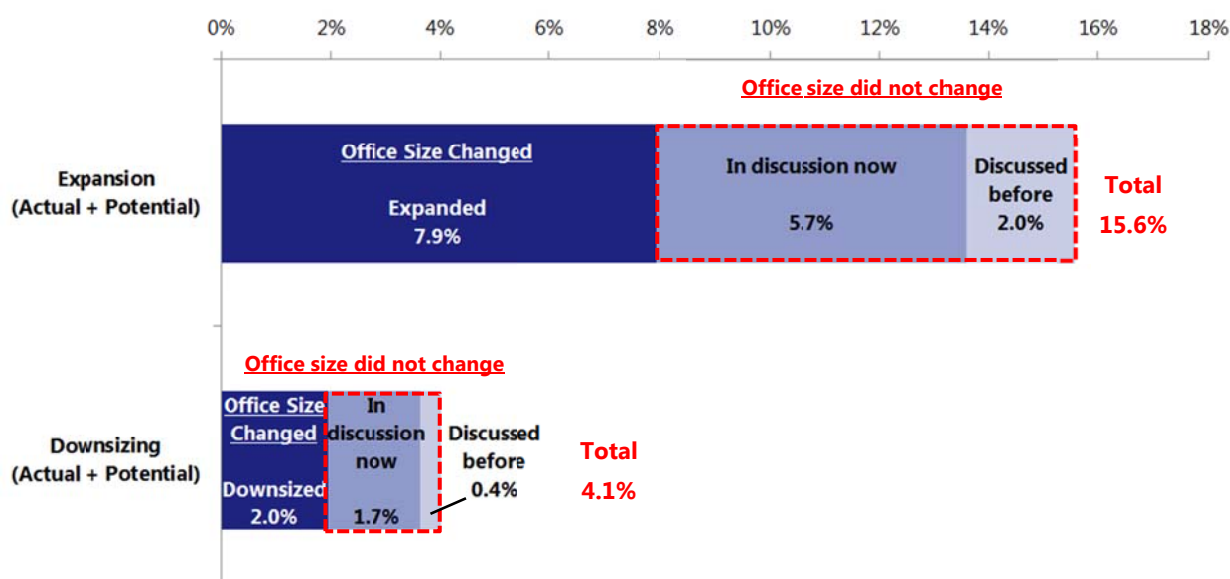
- ✓ Some companies did not expand or downsize their office but had an intention to do so. Of the companies, 7.7% said the office expansion plan is either now under discussion or was discussed before but discontinued or stopped.

Of the companies that had no office size change in the past 12 months, 7.7% are either discussing the expansion plan now or having discussed it in the past but decided to discontinue or stop the plan. This means that there was a potential for office expansion. If such potential expansions are combined with actual expansions, the percentage of the companies goes up to 15.6% (Figure 6).

The office downsizing plan is discussed by 1.7% of the companies now and was discussed but declined by 0.4%. If such potential downsizings are combined with actual downsizings, the percentage of the companies will be 4.1% (Figure 6).

A similar situation was observed in the survey in 2016 too; there was a potential for some companies to change the size of office.

**Figure 6: Change in Size of Office Over the Year (Actual + Potential)**



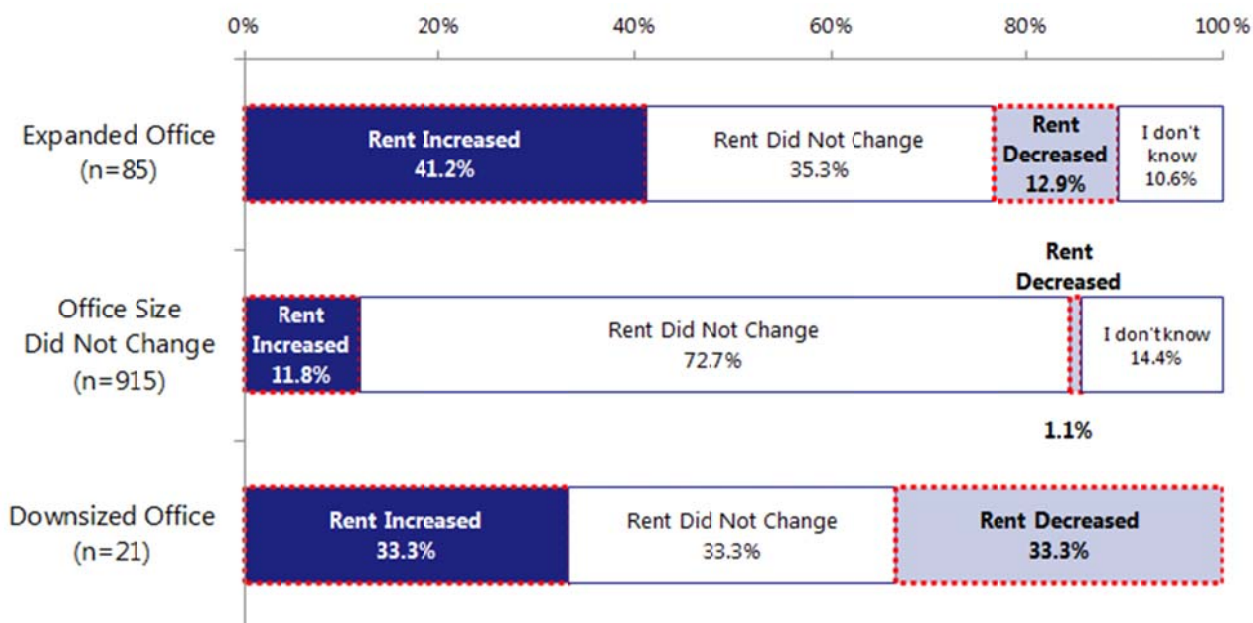
(Single answer, n=1,073)

1-3. Change in Rent per Tsubo (Details)

- ✓ Of the companies that expanded the office, 41.2% had an increase in rent per tsubo. Of the companies that downsized the office, 33.3% had an increase in rent per tsubo.
- ✓ The rent per tsubo also increased for 11.8% of the companies that had no change in size of office.

Of the companies that have expanded the office, the companies that had a rent increase exceeded both the companies that had a rent decrease and the companies that had no change in rent. Similarly, of the companies that had no change in size of office, the companies that had a rent increase exceeded the companies that had a rent decrease by 10.7 points (**Figure 7**). These trends were also observed in the survey in 2016, indicating that, while the vacancy rates are constantly on the low level, the rents are increasing not only in newly-signed lease but also in existing lease.

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



(Single answer)

**PICK UP**

**Change in Size of Office and Rent per tsubo by Company Type**

The analysis by type of companies (size of companies, industries and location of the office) showed different result in the office expansion/downsizing and rent increase/decrease trends.

**Figure 8** shows the two types of diffusion index (DI) in one chart based on the changes in the year starting April 2016 and ending March 2017: Office Size DI, which was calculated by subtracting the percentage of companies that downsized the office from the percentage of companies that expanded the office; and the Rent DI, which was calculated by subtracting the percentage of companies that had a decrease in rent from the percentage of companies that had an increase in rent.

▲ **By Size of Company (Number of Employees)**

The differences were small, indicating that office demand is growing regardless of the size of companies.

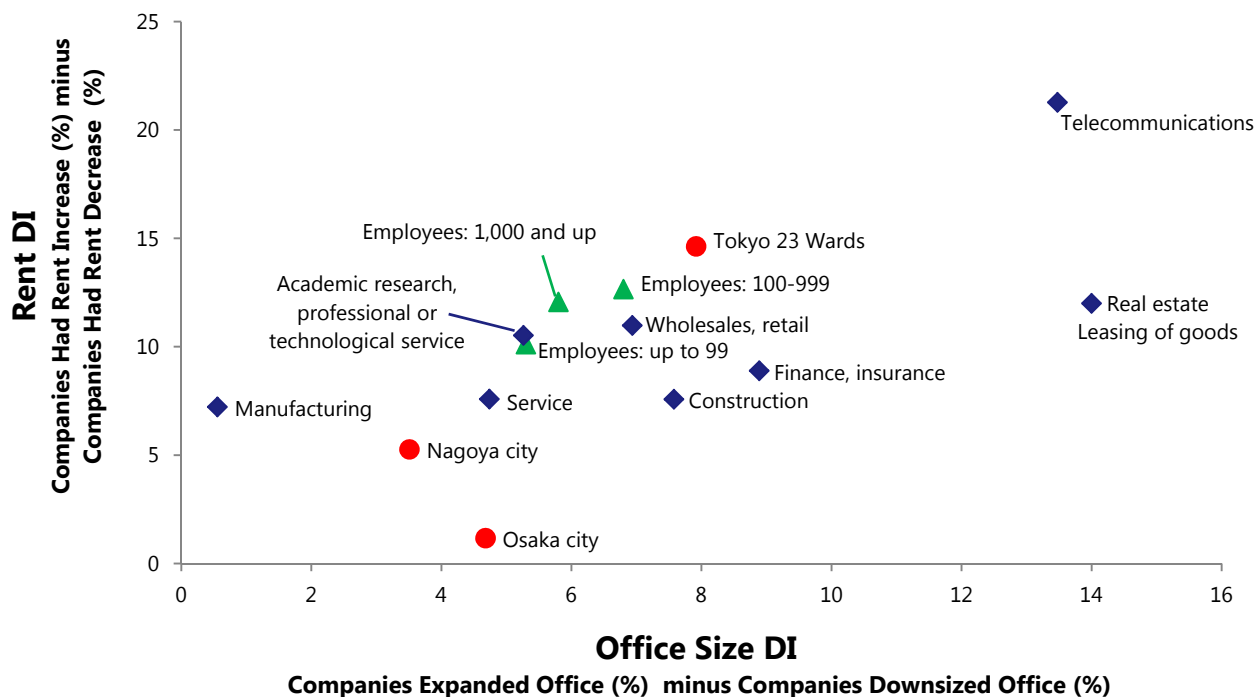
◆ **By Industry**

In telecommunication and real estate and lease of goods industries, the DI for office expansion and increase in rent were both high. Both were relatively low for manufacturing and service industries. Financial and insurance industries had high DI in the survey in 2016 but the DI had somewhat slowed this year.

● **By Location of Office**

The DI for office expansion and increase in rent were both high in Tokyo 23 Wards while they were relatively low in Osaka and Nagoya cities.

**Figure 8: Office Size DI and Rent DI (both are the changes in the past)**



- 1-4. Appropriate Office Size / Economic Sentiment
- ✓ Of the companies, 31.6% think their current office is not large enough.
  - ✓ Of the companies, 31.8% think the current economy is, compared to before, "good" or "somewhat good" while 18.8% think it is "poor" or "somewhat poor".

We asked the respondents about the size of their current office. Of them, 31.6% said the office is "too small" or "somewhat small". This is larger than the percentage of companies that said the office is "too large" or "somewhat large" (16.8%). This can be looked as there is a potential demand for office expansion. **(Figure 9)**

Companies' economic sentiment can also influence the demand for office space. More than 30% of the companies said the current economy is "good" or "somewhat good" compared to before, exceeding 18.8% of the companies that said it is "poor" or "somewhat poor" **(Figure 9)**.

The survey results for the appropriate office size and economic sentiment were the same as the survey in 2016; indicating that a stable office space demand is likely to continue.

**Figure 9: Appropriate Office Size / Economic Sentiment**



(Single answer, n=1,073)

## 2. Alternative Workspaces Are Becoming More Available

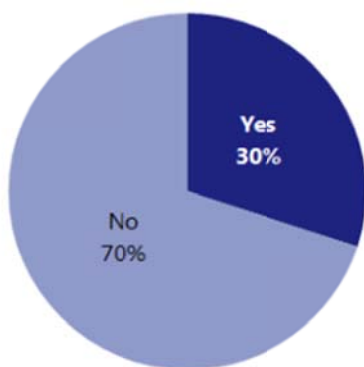
### 2-1. Approach to Promote Telework <sup>(\*1)</sup>

- ✓ Of the companies, 30% said they allow employees to work at some sort of telework spaces.
- ✓ "Work-from-home programs" are the most popular telework (12.6%).  
 "Satellite office or other similar facility owned or leased by company <sup>(\*2)</sup>" and "serviced office, shared office, or other similar facility <sup>(\*3)</sup>" are more available than a year ago.

To understand how companies are promoting telework, we asked companies whether they have workspaces or programs for employees to do telework other than the regular offices like headquarters, branch offices, sales offices and sub-offices.

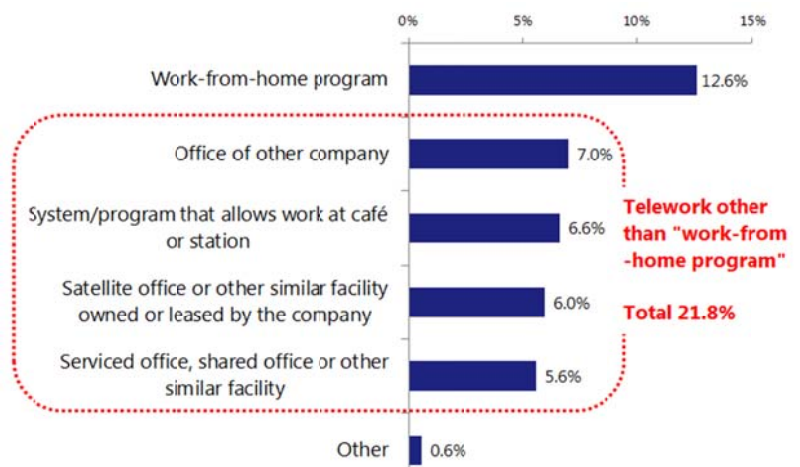
Of the respondents, 70% said that they have nothing of that kind while some sort of telework is available at the remaining 30% (**Figure 10**). The most popular telework type given by 12.6% of the companies was "work-from-home programs". Compared to the survey in 2016, "satellite office or other similar facility owned or leased by companies <sup>(\*2)</sup>" (6.0%) and "serviced office, shared office or other similar facility managed by office service providers <sup>(\*3)</sup>" (5.6%) increased by 1-2 points each, making the combined telework other than "working-from-home programs" to 21.8% (**Figure 11**). These results illustrate that alternative workspaces are slowly becoming more available responding to the recent boom in changing the way we work.

**Figure 10:**  
Does the company allow employees to do some sort of telework?



(Single answer, n=1,073)

**Figure 11: What are such telework spaces?**



(Multiple answers, n=1,073)

(\*1) Telework: Flexible way of working, regardless of time and place, made possible by using information and communication technology (ICT).

(\*2) Satellite office: An office equipped the same as main office. The location is decided considering the commuting and traveling convenience of the employees. It is most likely located near train stations or outskirts of the city.

(\*3) In this report, whether the charge of using the space is paid monthly or hourly does not matter.



Their initiatives varied depending on the size of the company and where the office is located.

By company size, the large companies are more likely to have "satellite office or other similar facility owned or leased by the company" and "serviced office, shared office, or other similar facility managed by office service providers". However, "work-from-home programs" are also becoming more available at smaller companies employing up to 99 employees (10.9%). Having satellite offices is costly but a work-from-home program is easier (it can be done by setting rules) and may suit the best for smaller companies with quick decision making culture (Figure 12).

By office location, of all the three major metropolitan areas in Japan, Tokyo 23 Wards was the top in all the telework types, showing that there is a gap between regions in pursuing telework (Figure 13).

Figure 12: Telework Spaces – By Company Size

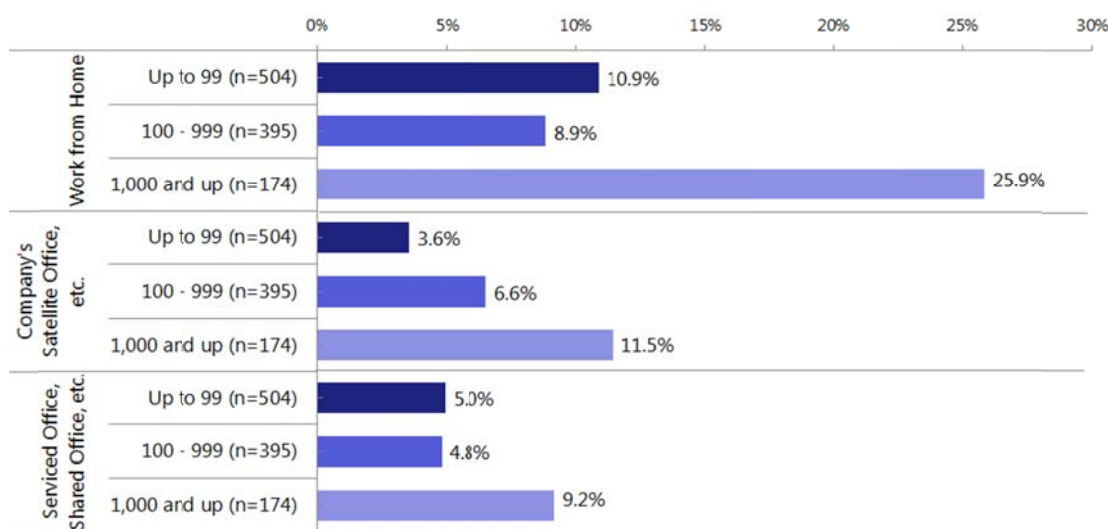
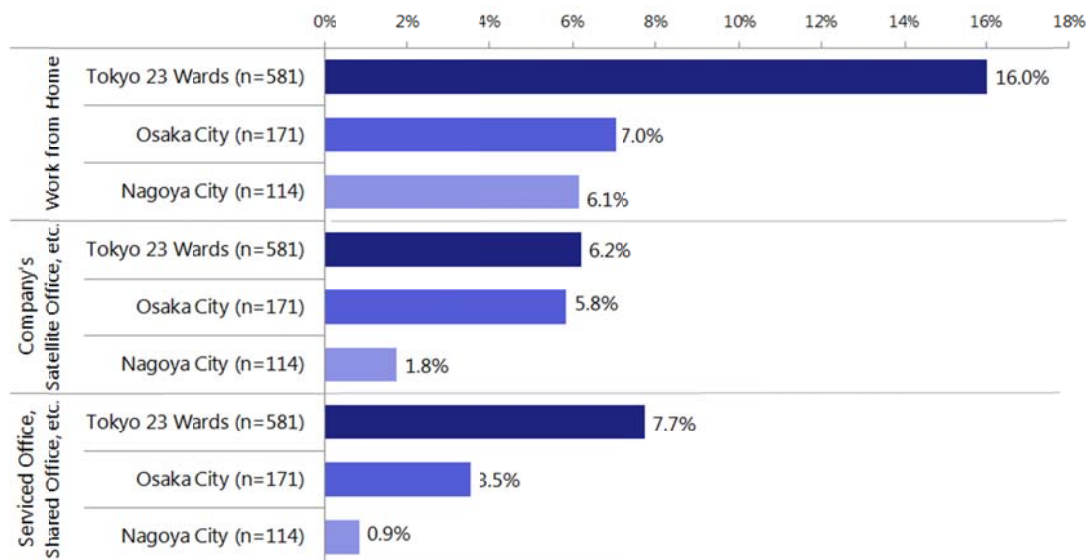


Figure 13: Telework Spaces – By Office Location

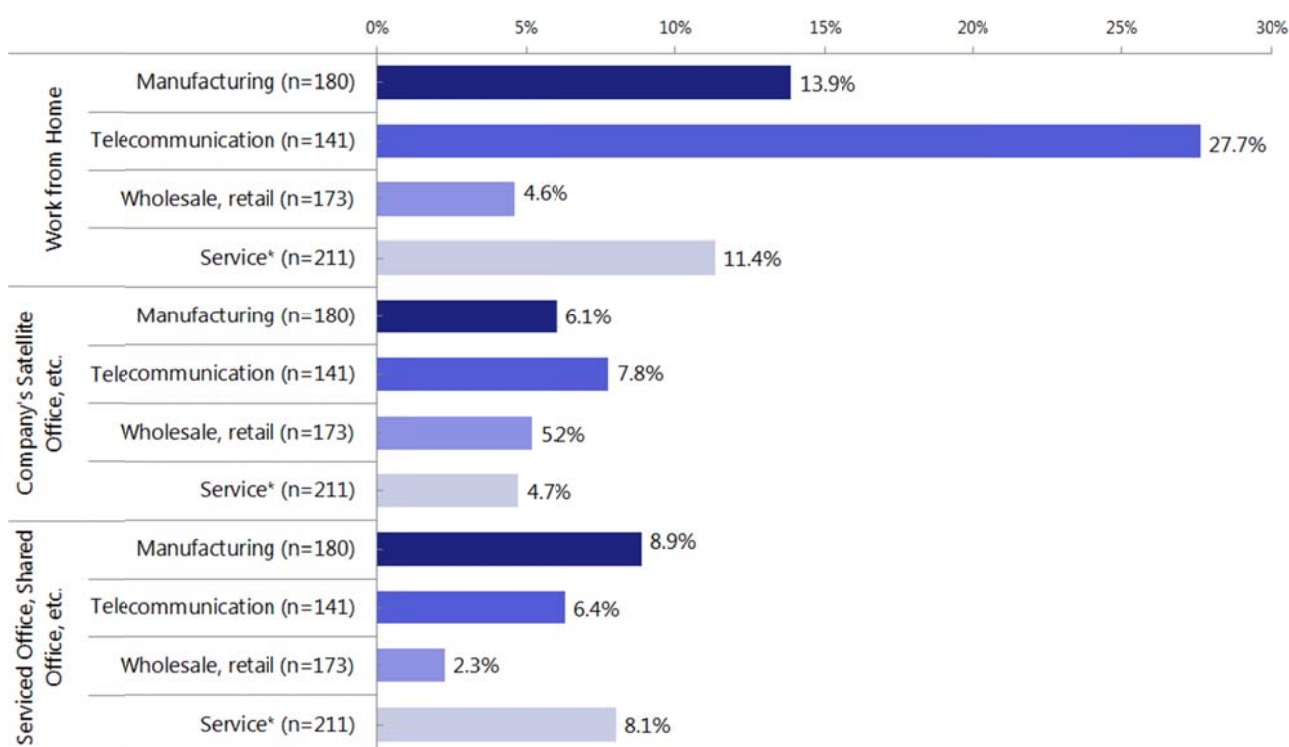


(Figures 12, 13: Multiple answers, extract)

By industry, telecommunication companies showed relatively high percentage in all the three telework spaces with a particularly high percentage in "work-from-home program" at 27.7%. Manufacturing companies were the highest among all the industry types in the use of "serviced office, shared office and similar kinds" at 8.9%. This is probably because manufacturing companies hire many sales representatives who are frequently out of office and also because such companies are likely to be big companies with money to spend (**Figure 14**).

Compared to the survey in 2016, particularly large increases in telework availability were observed in service companies and manufacturing companies: "Satellite office or other similar facility owned or leased by the company" by 2.6 points and 1.5 points, respectively; and "serviced offices, shared offices, or other similar facility managed by office service providers" by 4.7 points and 3.7 points, respectively.

**Figure 14: Telework Spaces – By Industry**



\*Service (those not classified to other sector)

(Multiple answers, extract)

### 3. Outlook – Office Space Demand

#### 3-1. Outlook – Number of Office Workers and Size of Office

- ✓ Of the companies, 34.3% said they will hire more, far exceeding 4.8% of the companies that the number of employees will decrease.
- ✓ Similarly, 17.2% of the companies said they intend to expand the office, exceeding 3.8% of the companies that said they intend to downsize the office. This indicates that the strong demand for office space will continue.

We asked the companies about how the number of office workers at their current office will be in one or two years' time. Of the companies, 34.3% said the number will increase, considerably above 4.8% of the companies that said the number will decrease. The companies were also asked about how the size of the office will be in two or three years' time. Of them, 17.2% said they intend to expand the office, exceeding 3.8% of the companies that said they intend to downsize it. Based on these results, which were similar to the survey in 2016, the strong demand for office is expected to continue (**Figure 15**).

**Figure 15: Number of Office Workers and Size of Office in Near Future (Intention)**



(Single answer, n=1,073)

Of the companies that intend to expand the office, approximately 60% said the type of expansion is "expansion in the same building" (Figure 16). As mentioned, however, in 1-2. Change in Size of Office (Details) (Page 3), many companies had to relocate to other place when expanding their office. Even if companies wish to expand at their current building, it is probably not possible now.

The purpose of intention to expand was the same as those of companies that had already expanded the office: "hired more workers and the office became too small" (58.4%) was the top, followed by "enhance recruiting and hire more" (49.7%) and "make the office more comfortable" (38.4%) (Figure 18).

Figure 16: Intention to Expand by Type (n=185)

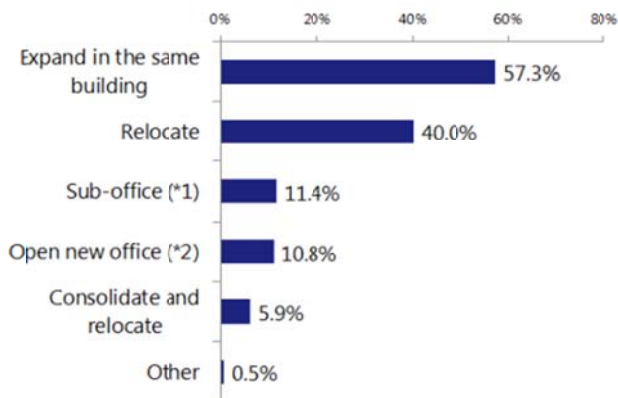


Figure 17: Intention to Downsize by Type (n=41)

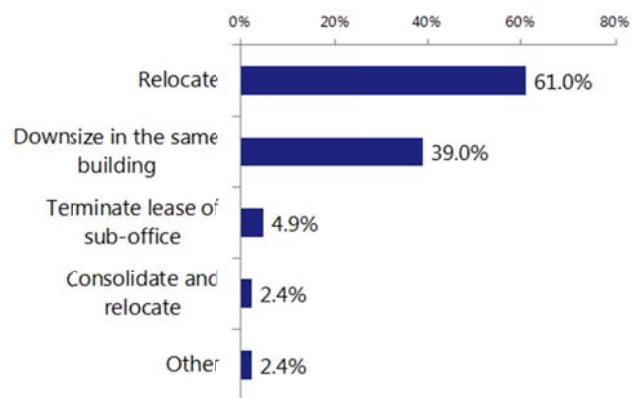


Figure 18: Purpose of Intention to Expand (n=185)

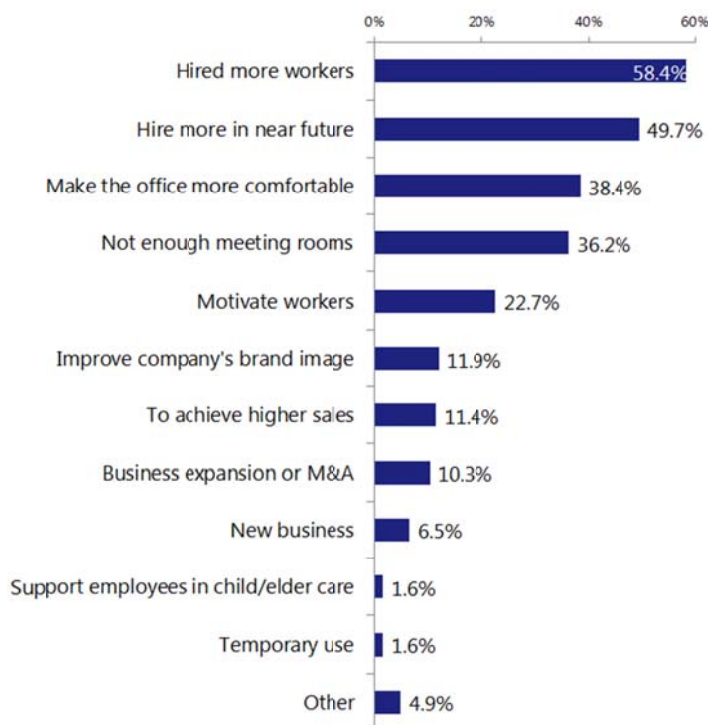
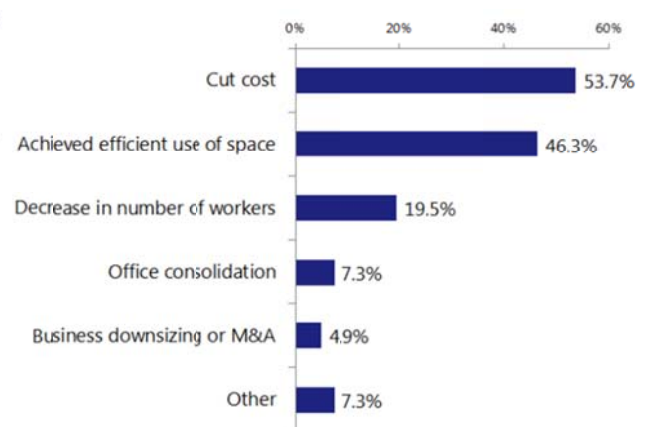


Figure 19: Purpose of Intention to Downsize (n=41)



(Figures 16-19: Multiple answers)

(\*1) Sub-office: A separate office of the headquarters or other main office. A sub-office is located close to the main office and it handles part of the functions of the main office.

(\*2) Open new office: It means, in this report, to open a new office in the same building where the company was.

**PICK UP**

**Size of Office by Company Type – Change in the Past and Near Future**

**Figure 20** shows the Office Size Diffusion Index (DI) in the past (subtracting the percentage of companies that downsized the office in the fiscal year starting April 2016 from the percentage of companies that expanded the office) and the Office Size DI in the near future (subtracting the percentage of companies that intend to expand the office from the percentage of companies that intend to downsize the office).

**▲ By Size of Company (Number of Employees)**

The companies employing 1,000 or more have weaker intention to expand the office in the near future than the companies employing up to 999.

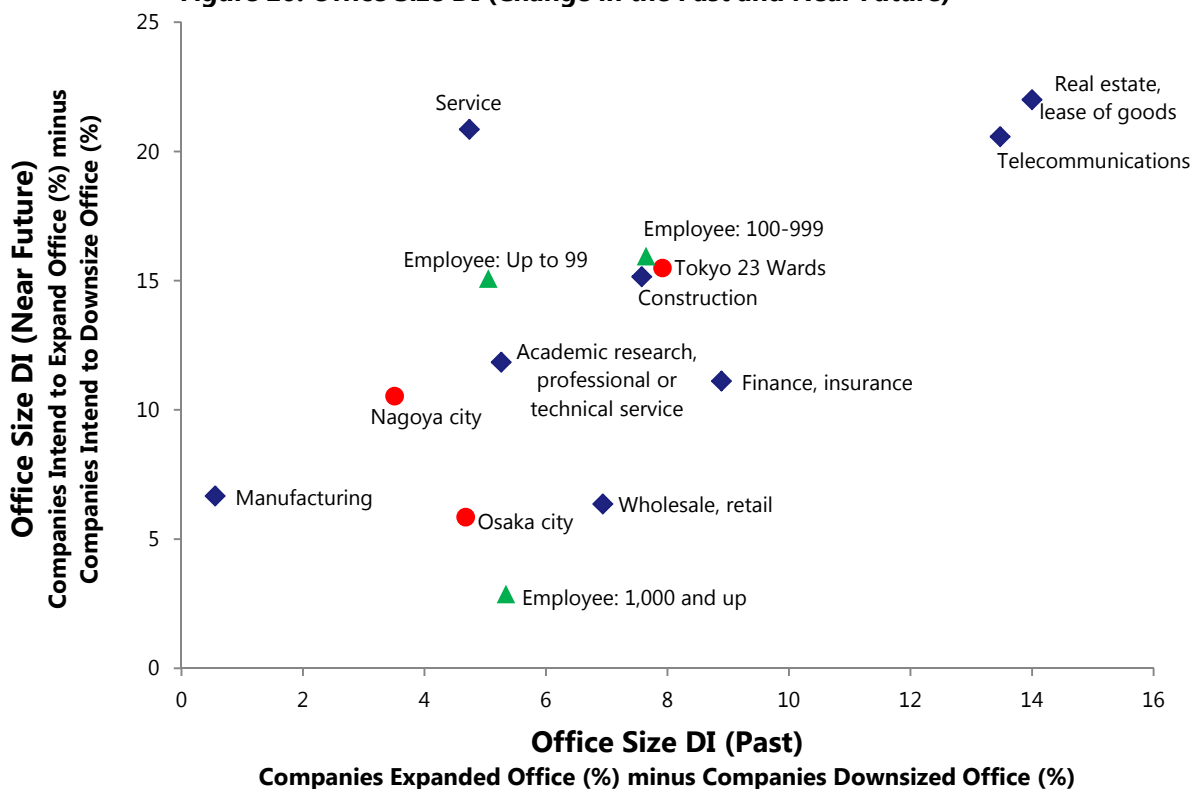
**◆ By Industry**

Real estate and lease of goods companies and telecommunication companies showed strong demand for office space both in the past and in the near future. Service companies' office expansion is moving only slowly but their intention to expand is strong. Manufacturing companies, however, showed relatively weak interest in office expansion both in the past as well as in the near future.

**● By Location of Office**

The companies in Tokyo 23 Wards showed relatively strong demand for office space in the past as well as in the near future. However, in Osaka city, the demand was relatively weak in the past and will remain so in the near future too.

**Figure 20: Office Size DI (Change in the Past and Near Future)**

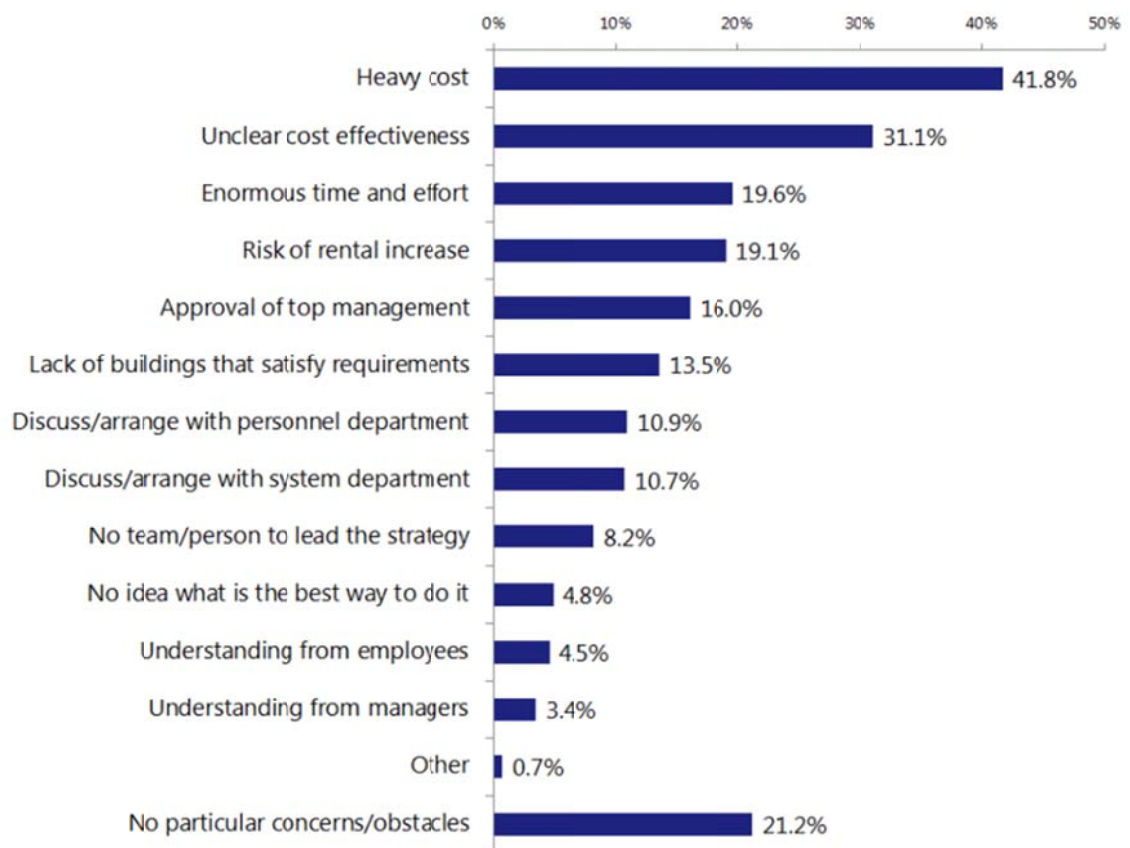


3-2. Concerns and Obstacles in Implementing Office Strategy

- ✓ Cost-related concerns and obstacles such as "heavy cost" (41.8%) and "unclear cost effectiveness" (31.1%) ranked high on the list.

Regarding the concerns or obstacles in implementing office strategy, more than 40% of the companies said they feel the cost is heavy, which was also the most popular response in the survey in 2016 (32%). The cost related concerns and obstacles dominated the top places: "unclear cost effectiveness" at the second place; and "risk of rental increase" at the fourth place (**Figure 21**).

**Figure 21: What are the concerns or obstacles in implementing the office strategy?**



(Multiple answers, n=1,073)

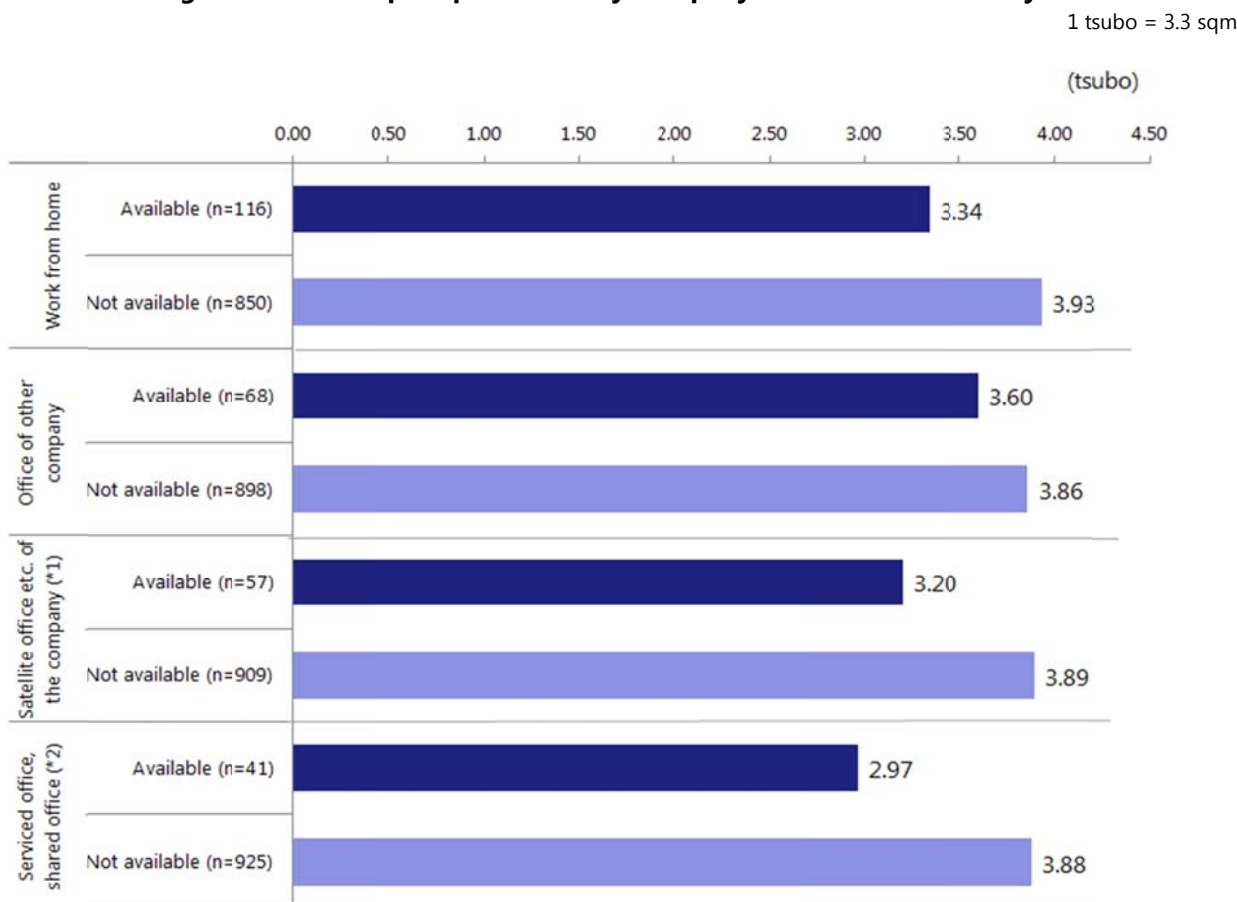
**PICK UP**

**Office Space per Person by Company's Telework Availability**

The size of office space per person of companies that allow employees to do telework was different from that of the companies that do not allow telework (**Figure 22**).

In all the four major teleworks, the companies allowing employees to do telework have a smaller office space per person than the companies not allowing telework. It is probably because the former companies achieved an efficient use of office space since the telework enabled employees to work at different places.

**Figure 22: Office Space per Person by Company's Telework Availability**



(\*1) Satellite office: An office equipped the same as main office. The location is decided considering the commuting and traveling convenience of the employees. It is most likely located near train stations or outskirts of the city.

(\*2) In this report, whether the charge of using the space is paid monthly or hourly does not matter.

## 4. Topics: What Companies Expect from Large Volume of New Completions Starting in 2018

Many large office buildings will be completed one after another starting in 2018 in central Tokyo\*. Today, the market suffers low vacancy rate and limited availability. How Greater-Tokyo companies see the new completions in the pipeline. The companies gave their opinions on how the office market will be from FY2018 on and revealed their office strategy for FY2017.

\*Reference: TOKYO 23 WARDS | Supply of New Office Space 2017 & Office Stock Pyramid 2017" December 26, 2016  
[https://www.xymax.co.jp/english/research/images/pdf/20161226\\_2.pdf](https://www.xymax.co.jp/english/research/images/pdf/20161226_2.pdf)

- ✓ Of the companies that have office in Tokyo, Kanagawa, Saitama or Chiba, 45.2% said the new completions are likely to provide them with more opportunities to lease buildings under preferable lease terms and conditions.
- ✓ As their office strategy for FY2017, 14.0% said they will just wait for now; they are likely to plan the office relocation or expansion in FY2018 or later.

Of the companies having office in Greater Tokyo, 45.2% said, as the personal opinion of the respondents, that the new supply will give them more opportunities to lease buildings under preferable lease terms. The percentage was almost equal to that of those who said there will be probably no impact (45.8%) (**Figure 23**).

When asked about their office strategy for FY2017 (the fiscal year ending March 2018), 14.0% said they will wait until FY2018 to plan the relocation or expansion while 10.6% said they have already started the planning (**Figure 24**). Companies are willing to expand their offices but since there are limited availabilities now, they have no way but to wait. The new completions will not only increase the number of new available spaces but also add spaces formerly occupied by companies that decided to relocate to new buildings. If the formerly-occupied spaces can be leased under preferable terms and conditions, more companies may decide to relocate.

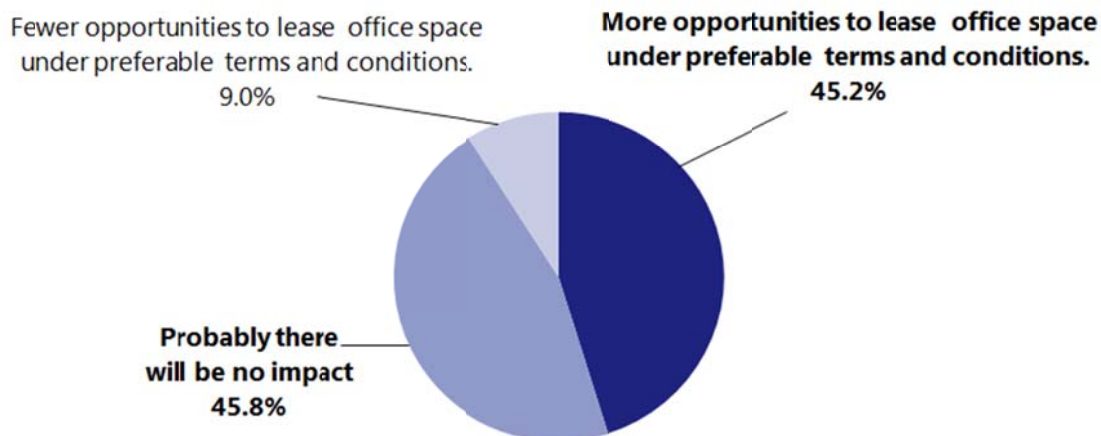
On the other hand, there are concerns on whether the demand continues to grow in line with the expanding new supply.

For example, **Figure 20** shows that large companies employing 1,000 or more have weak intention to expand in the near future compared to other companies. However, if they notice new completions of large-floor buildings, some companies may think about consolidating their separate offices. Such office consolidations of large companies may lead to achieving the efficient use of office space.

Another factor that may impact the demand is the size of office space per person which is becoming smaller as alternative workspaces are becoming more available (**Figure 22**). If work-from-home programs and third place offices will be more available in the future, the office spaces within the headquarters or other traditional offices may become smaller because employees can work at different spaces. It is important to pay attention to new ways of work and other social issues that can impact the office space demand.

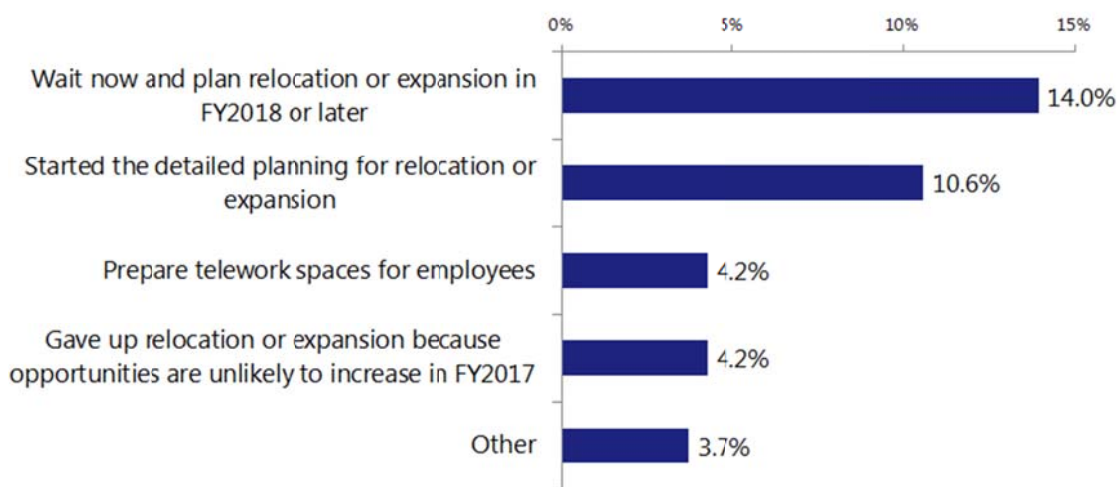


**Figure 23: Impact of New Completions in Greater Tokyo**



(Single answer, n=708)  
 (Respondents: companies having office in Tokyo, Kanagawa, Saitama and Chiba)

**Figure 24: Companies' Office Strategy for FY2017 (Year Ending March 2018)**



(Multiple answers, n=708)  
 (Respondents: companies having office in Tokyo, Kanagawa, Saitama and Chiba)

**Survey Overview**

<b>Timing</b>	June 2017
<b>Target Respondents</b>	3,267 companies <ul style="list-style-type: none"> <li>• Companies that are tenants of office buildings managed by Xymax Group</li> <li>• Client companies of XYMAX INFONISTA Corporation</li> </ul>
<b>Effective Responses</b>	1,073 companies    Response rate: 33%
<b>Geographical Coverage</b>	Prefectures in Japan (Tokyo, Osaka, Aichi, Fukuoka, Kanagawa, Saitama, Chiba and others)
<b>Distribution</b>	Either by email or questionnaire sheet
<b>Topics Covered in Survey</b>	<p>Current office</p> <ul style="list-style-type: none"> <li>• Location, contracted area, number of office workers, appropriate size or not, rent per tsubo</li> </ul> <p>How the office is used, how the use has changed (April 2016 – March 2017)</p> <ul style="list-style-type: none"> <li>• How is the office layout, how it has changed</li> <li>• Where office workers work, how it has changed</li> </ul> <p>Office space demand change (April 2016 – March 2017)</p> <ul style="list-style-type: none"> <li>• Change in number of office workers</li> <li>• Change in size of office, what types of change, what are the reasons</li> <li>• Change in rent per tsubo</li> </ul> <p>Outlook of office space demand</p> <ul style="list-style-type: none"> <li>• Economic sentiment</li> <li>• Number of office workers</li> <li>• Intention to expand/downsize, what types of expansion/downsizing, what are the reasons</li> <li>• Future office strategy, what are important, what are the concerns and obstacles</li> </ul> <p>Large volume of new completions starting in 2018</p> <ul style="list-style-type: none"> <li>• Projection of possible impact on office market</li> <li>• Companies' office strategy for FY2017</li> </ul> <p>Profile of company</p> <ul style="list-style-type: none"> <li>• Industry, place of headquarters, number of employees, year of incorporation</li> </ul> <p>Profile of respondents</p> <ul style="list-style-type: none"> <li>• Division, position, age</li> </ul>

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

**Industry**

Service (those not classified to other sector)	Manufacturing	Wholesale / Retail	Telecommunications	Academic research / Professional or technical service	Construction
19.7%	16.8%	16.1%	13.1%	7.1%	6.2%
211	180	173	141	76	66

Real estate / Leasing of goods	Financial / Insurance	Unclassified	Transportation / Postal service	Medical / Welfare	Education / Learning support
4.7%	4.2%	2.4%	2.1%	1.6%	1.6%
50	45	26	23	17	17

Multi-service business	Accommodation / Food & beverage service	Daily life services / Entertainment	Electricity, Gas, Heat, Water	Civil service (except for those classified to other sectors)	Mining / Quarry / Gravel extraction
1.5%	0.8%	0.8%	0.7%	0.6%	0.1%
16	9	9	7	6	1

**Number of Employees**

Up to 99	100 – 999	1,000 and above
47.0%	36.8%	16.2%
504	395	174

**Type of Office**

Head Office	Branch Office	Sales Office	Satellite Office	Call Center	Other
56.5%	28.3%	11.4%	1.8%	0.7%	1.4%
606	304	122	19	7	15

**Location of Office**

Tokyo 23 Wards	Osaka City	Nagoya City	Fukuoka City	Other
54.1%	15.9%	10.6%	7.3%	12.0%
581	171	114	78	129

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

Up to 30 tsubo	Up to 50 tsubo	Up to 100 tsubo	Up to 200 tsubo	Over 200 tsubo	Not answered
17.6%	16.1%	23.2%	17.1%	21.8%	4.2%
189	173	249	183	234	45

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.
- In Figure 4, only the top items responded by many are listed.

**For questions on this report, please contact us.**

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