

## Building Owner Survey 2017

Challenges in creating high quality building stock and expectations of small-medium building owners

October 25, 2017

Following the first survey in 2015, Xymax Real Estate Institute (hereinafter, Xymax REI) conducted a questionnaire survey of owners of small and medium-sized buildings in partnership with the laboratory of Professor Yukio Komatsu of the Department of Architecture at Waseda University.\*1\*2

In this second survey, we expanded the coverage from central Tokyo to include Osaka city and conducted questionnaire surveys and interviews on the current state of the building lease business, outlook, and intentions to continue the business. This report is a summary of the results.

\*1 Laboratory of Professor Yukio Komatsu, Department of Architecture, Waseda University <http://www.waseda.jp/sem-ykom/>

\*2 Building Owner Survey 2015 <https://www.xymax.co.jp/english/research/images/pdf/20151126.pdf>

### Key Findings

#### 1. Profile of building owners (business managers)

- **Age:** Aged 60 or older among more than 60% of building owners; **No. of properties owned:** One or two properties among approximately 70% of building owners.
- **Share of the building lease business:** More than 70% of total sales among around half of building owners; **Experience of business:** More than 30 years among 60% of building owners.

#### 2. The current building lease business

- Nearly 90% of business operators place **importance** on “responding to tenants’ requests,” “preparing medium and long-term repair plan,” and “refurbishment or renovation of building,” with a large percentage of them **implementing** such actions.
- On the other hand, although operators consider “repairing existing non-conforming buildings” and “antiseismic measures” to be important, not a lot of them have carried them out.

#### 3. The future building lease business

- **Short-term (around three years) outlook:** Optimistic views were 43%, exceeding pessimistic views (15%). **Medium- to long-term (five to ten years) outlook:** 38% were pessimistic, exceeding optimism (18%).
- Owners in Tokyo were more optimistic both short-term and medium/long-term than those in Osaka, and had fewer pessimistic views.
- Top **concerns** in the future building lease business: Matters related to “income/expenditure,” followed by matters concerning “management” and “operation.”

#### 4. Challenges and hopes for the building lease business

- **Challenges in owning buildings:** “Tax burden,” “difficulty in addressing environmental changes (surrounding/social needs),” “difficulty in utilizing subsidies”
- **Challenges in rebuilding the building:** Lack of economic benefit, such as “the building size remains the same or becomes smaller due to the floor-area ratio,” “time and cost for relocating tenants will be large and cannot be foreseen.”
- **Hopes:** “Alleviation of tax burden,” “support measures for rebuilding or large-scale renovations”

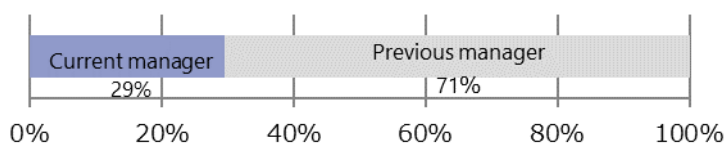
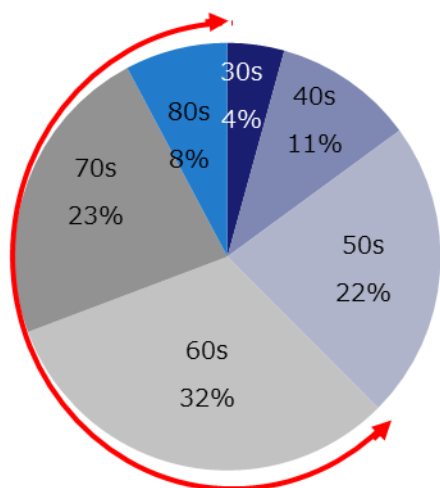
### Building Owner Survey 2017

# 1. Profile of Building Lease Business Operators (Building Owners)

## Building owners (business managers)

More than 60% of building owners are aged 60 or older (**Figure 1**). In addition, 70% of the business managers succeeded the business from the previous manager (**Figure 2**).

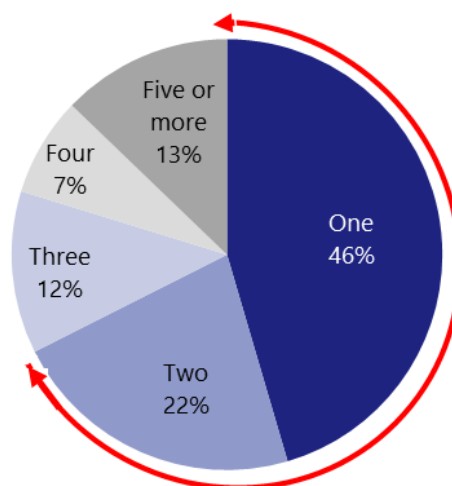
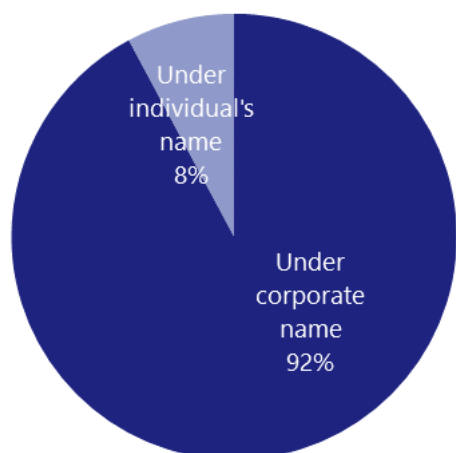
**Figure 1: Age of Owners (n=488)**     **Figure 2: Manager who Started the Building Lease Business (n=489)**



## Buildings in possession

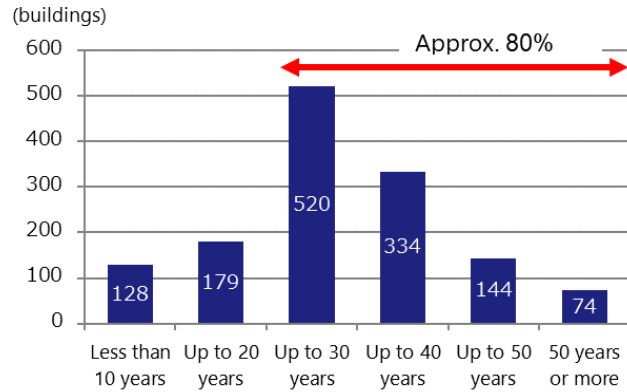
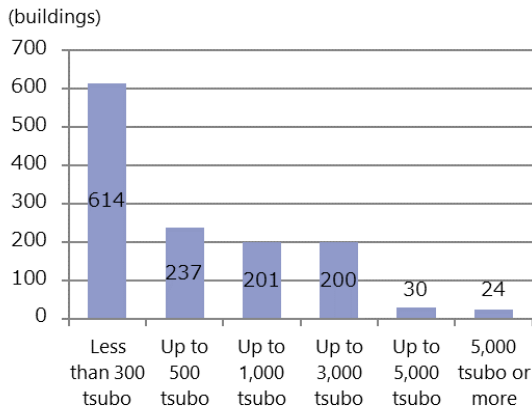
More than 90% of the ownership of leased buildings are under a corporate name, with less than 10% under an individual's name (**Figure 3**). The interviews revealed that individual owners felt a huge tax burden during ownership and upon inheritance. Around 70% of operators own one or two buildings in total (**Figure 4**).

**Figure 3: Principal Ownership of Leased Building (n=485)**     **Figure 4: Total no. of Buildings in Possession (n=484)**



Most of the buildings in possession are small and medium-sized buildings of less than 3,000 tsubo (1 tsubo = 3.3 sqm) (**Figure 5**). Around 80% of owners possess buildings aged 20 years or older (**Figure 6**).

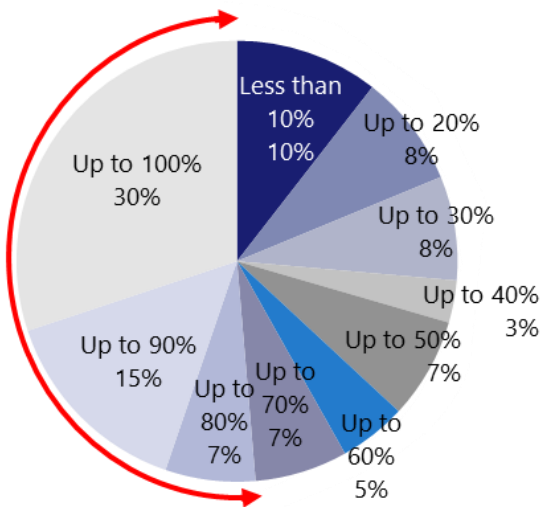
**Figure 5: Distribution of Size of Building in Possession**    **Figure 6: Distribution of Age of Building in Possession**



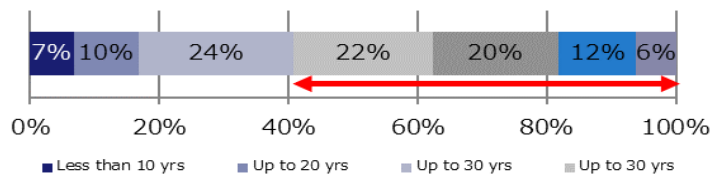
### Sales and experience of building lease business

Sales of the building lease business account for more than 70% of total sales among half of the owners (**Figure 7**). 60% of operators have been engaged in the building lease business for more than 30 years (**Figure 8**).

**Figure 7: Share of Building Lease Business to Total Sales (n=485)**

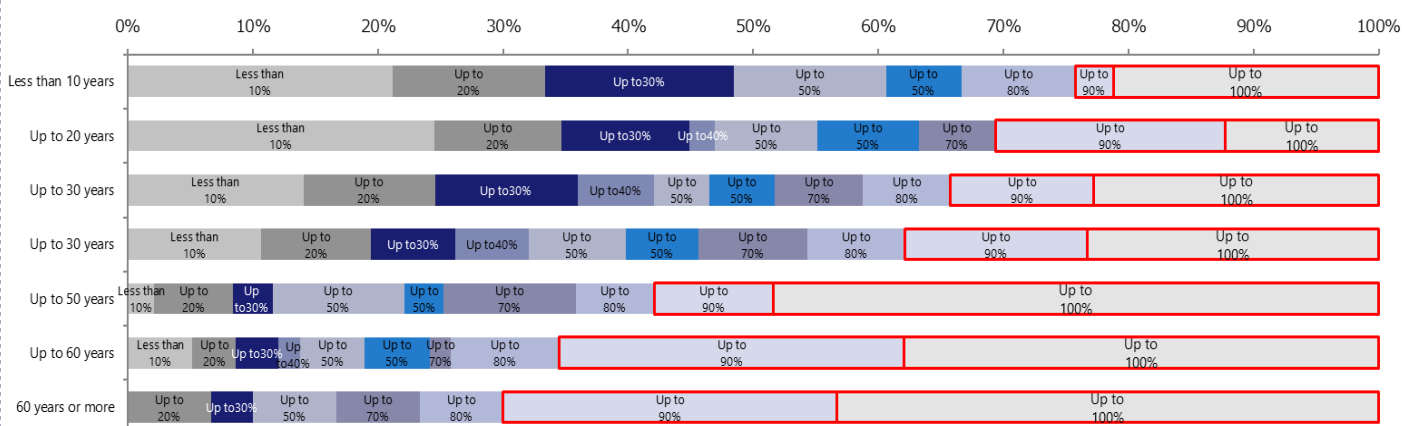


**Figure 8: Experience in Building Lease Business (n=486)**



In terms of the share of the building lease business to total sales by business experience, the longer the owners' experience was, the more full-time they were engaged in the business (**Figure 9**). This indicates that owners who started the building lease business to secure stable income from other than their main business or to make efficient use of unoccupied floor area shifted to the building lease business due to various changes in the environment.

**Figure 9: Share of the Building Lease Business to Total Sales (by Business Experience; n=482)**

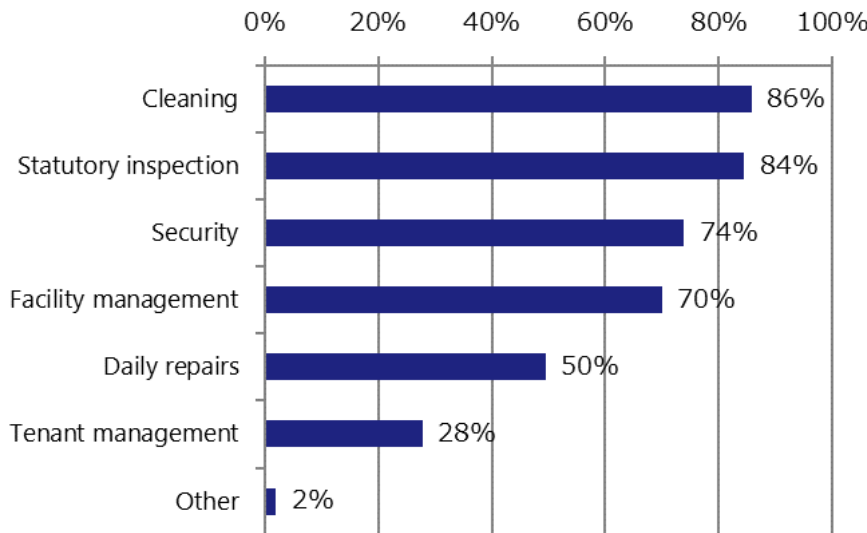


## 2. The Current Building Lease Business

### Outsourcing of daily management operations

Daily routine management operations such as cleaning, statutory inspection, and security are outsourced at a high rate, while irregular operations that require communication with tenants such as daily repairs and tenant management are outsourced at a smaller rate (Figure 10).

**Figure 10: Outsourced Daily Management Operations (Multiple Answers; n=492)**

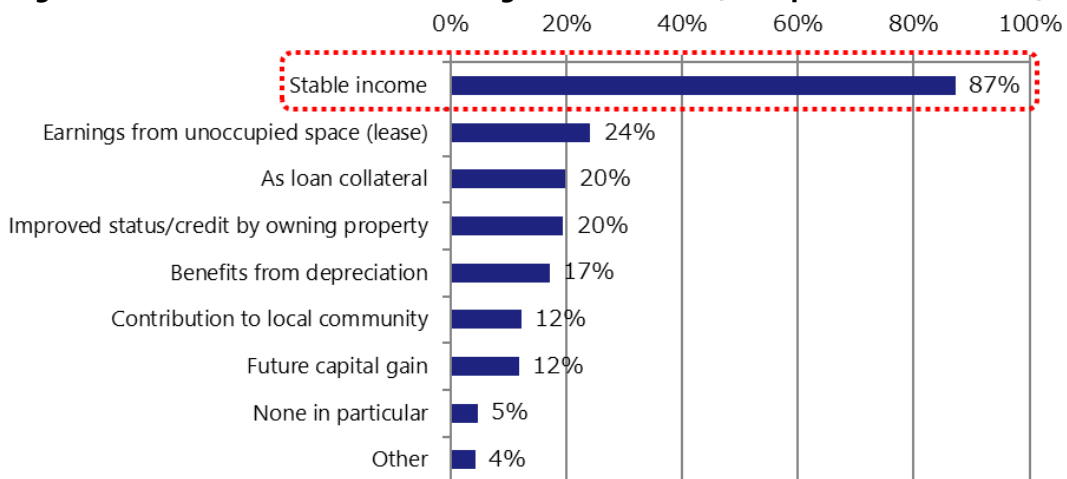


### Attractiveness of the building lease business

As in the 2015 survey, a large majority of owners replied that the attractiveness of the building lease business was stable income (Figure 11). The interviews revealed that one of the most common reasons was because funds could be secured easily since monthly rent income was received in the previous month, making it easy for owners to prepare annual income and expenditure plans.

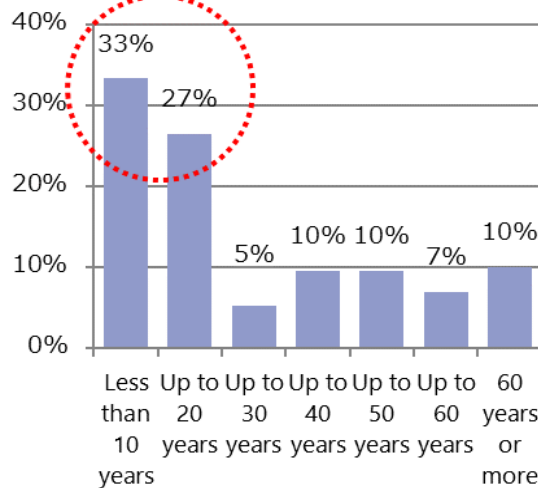
“Contribution to the local community,” which is not directly related to earnings, included cooperation in notifications by the police and tax offices using digital signage, as well as coordinating neighborhood associations.

**Figure 11: Attractiveness of the Building Lease Business (Multiple Answers; n=492)**



When we look at owners who replied “future capital gain” as an attractiveness of the building business in terms of business experience, owners with experience of less than 20 years had high expectations toward future capital gain, indicating that their business policy is based on the possibility of a future sale (Figure 12).

**Figure 12: Future Capital Gain as an Attractiveness (by Business Experience; n=56)**

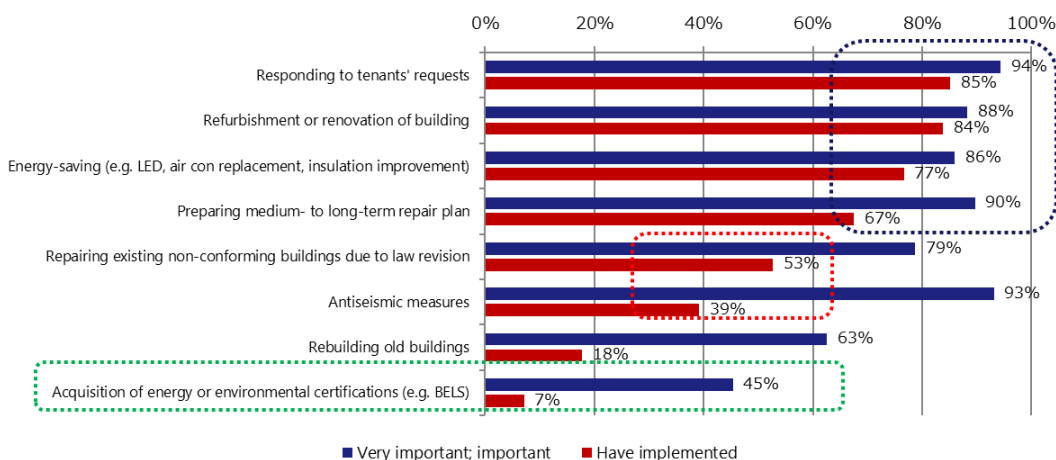


### Important matters in the building lease business and whether they have been implemented

We asked building owners what they considered “very important,” “important,” and “not necessary,” and whether they had implemented them. “Responding to tenants’ requests,” “refurbishment or renovation of building,” “energy-saving measures,” and “preparing medium- to long-term repair plan” were considered “very important” or “important,” and were carried out at a high rate. Meanwhile, although owners placed importance on “repairing existing non-conforming buildings due to law revision” and “antiseismic measures,” not a lot of them carried them out.

Furthermore, while nearly half replied that “acquisition of energy or environmental certifications (e.g. BELS)” was important, only a little less than 10% of them had carried it out (Figure 13).

**Figure 13: Important Matters in the Building Lease Business and Whether They have been Implemented (n=492)**

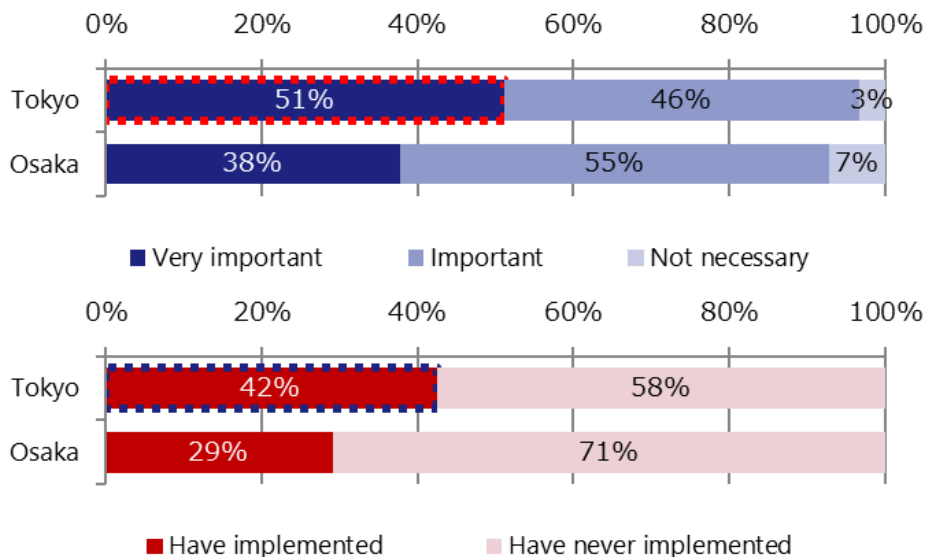


\*The percentage of “have implemented” excludes operators who do not own relevant buildings.

### Building Owner Survey 2017

The results by region (Tokyo and Osaka) were the same in most items except for “antiseismic measures,” which showed a regional difference where building owners in Tokyo considered them “very important” and had implemented them more than those in Osaka (**Figure 14**).

**Figure 14: Importance and Implementation of Antiseismic Measures (By Region)**



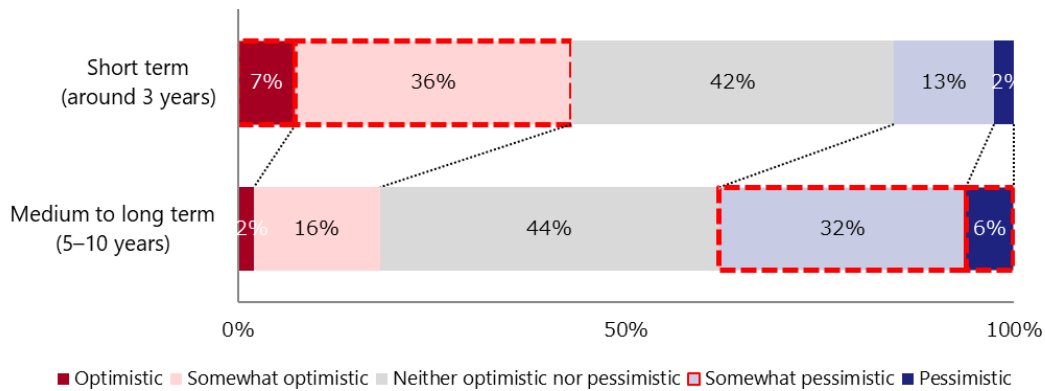
\* The percentage of “have implemented” excludes operators who do not own relevant buildings.

### 3. The Future Building Lease Business

#### Outlook

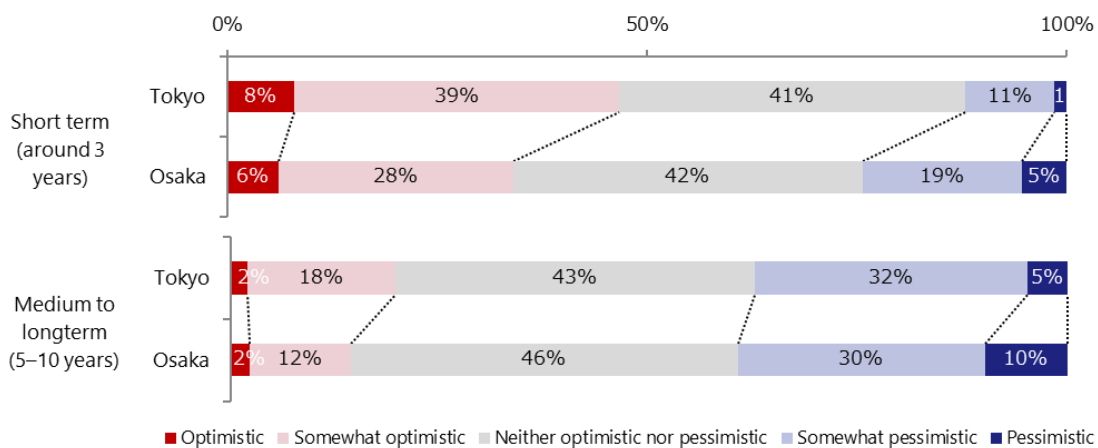
As for the outlook of the building lease business, the percentage of **optimistic views for the short term (around three years)** (43%) exceeded pessimistic views (15%). On the contrary, the percentage of **pessimistic views for the medium to long term (five to ten years)** (38%) exceeded optimistic views (18%) (Figure 15).

Figure 15: Outlook of the Business (n=486)



By region, owners in Tokyo had a more optimistic view both for the short term and medium/long term than those in Osaka, and fewer pessimistic views (Figure 16).

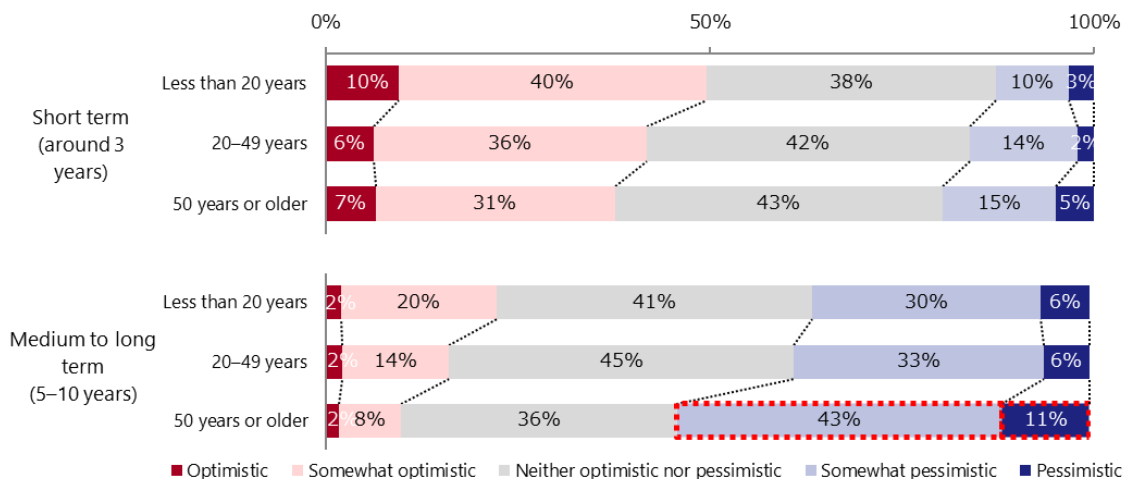
Figure 16: Outlook of the Business (By Region; n=351 (Tokyo), 132 (Osaka))





By age of the building in possession, business operators who own buildings aged 50 years or older were especially pessimistic for the medium to long term (Figure 17).

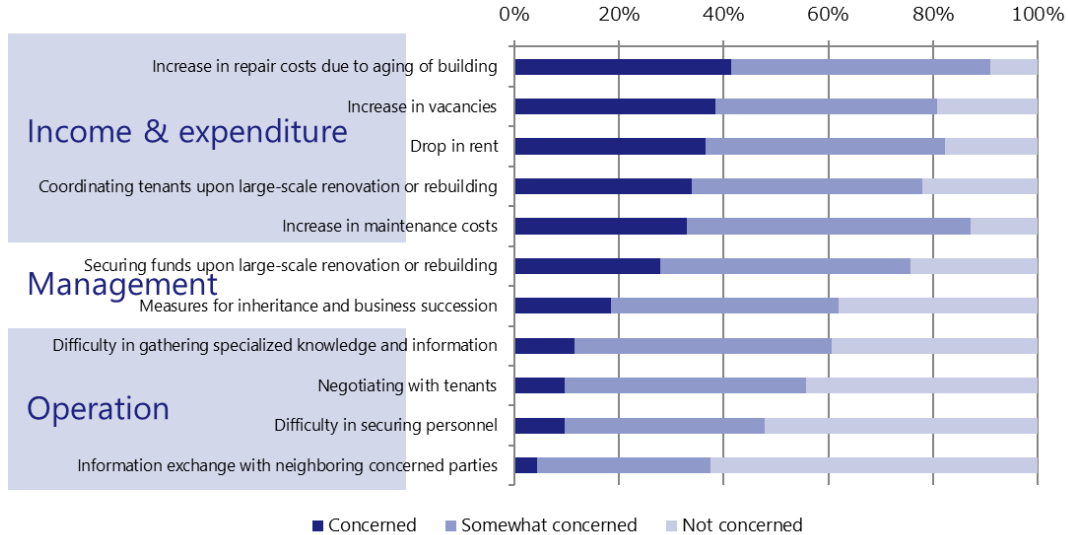
**Figure 17: Outlook of the Business**  
**(By Building Age; n=348 (less than 20 years), 416 (20–50 years), 61 (50 years or older))**



### Concerns in the future business

Top concerns in the future building lease business were matters related to **income and expenditure**, such as increases in repair costs and vacancies and a drop in rent, followed by **management** matters, including the securing of funds, inheritance, and business succession, and **operational** matters such as information gathering and negotiating with tenants (Figure 18).

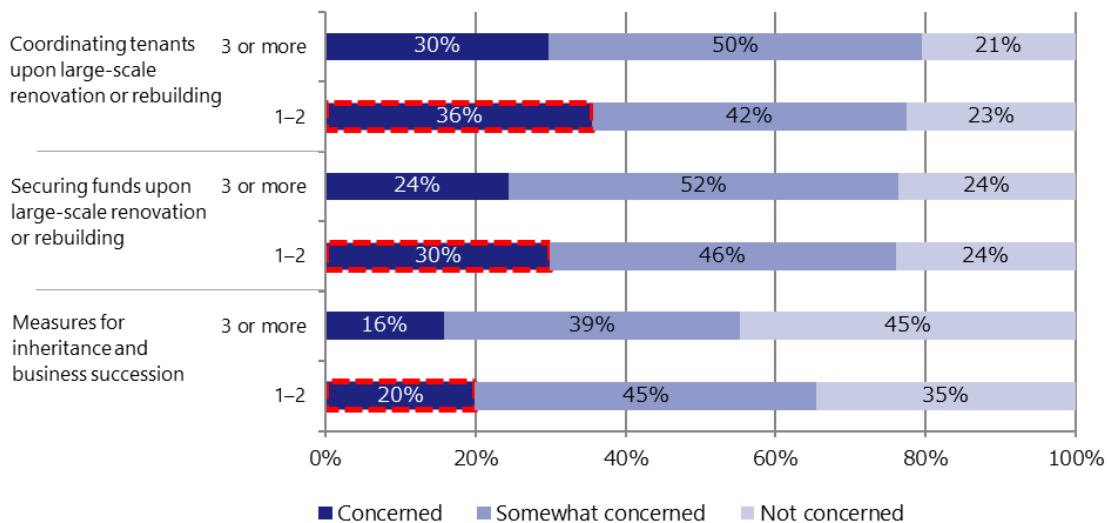
**Figure 18: Concerns in the Future Building Lease Business (n=492)**



By the number of buildings in possession, operators who owned one or two properties were more concerned than those who owned three properties or more in negotiating with tenants and securing funds upon large-scale renovation or rebuilding. One of the reasons mentioned was that it was difficult to have tenants move to another building the owner possessed, resulting in a decrease in income during construction work.

Such operators were also more concerned in inheritance and business succession than those who owned three properties or more (Figure 19).

**Figure 19: Concerns in the Future Building Business (By No. of Buildings in Possession; n=327 (1-2), 157 (3 or more))**

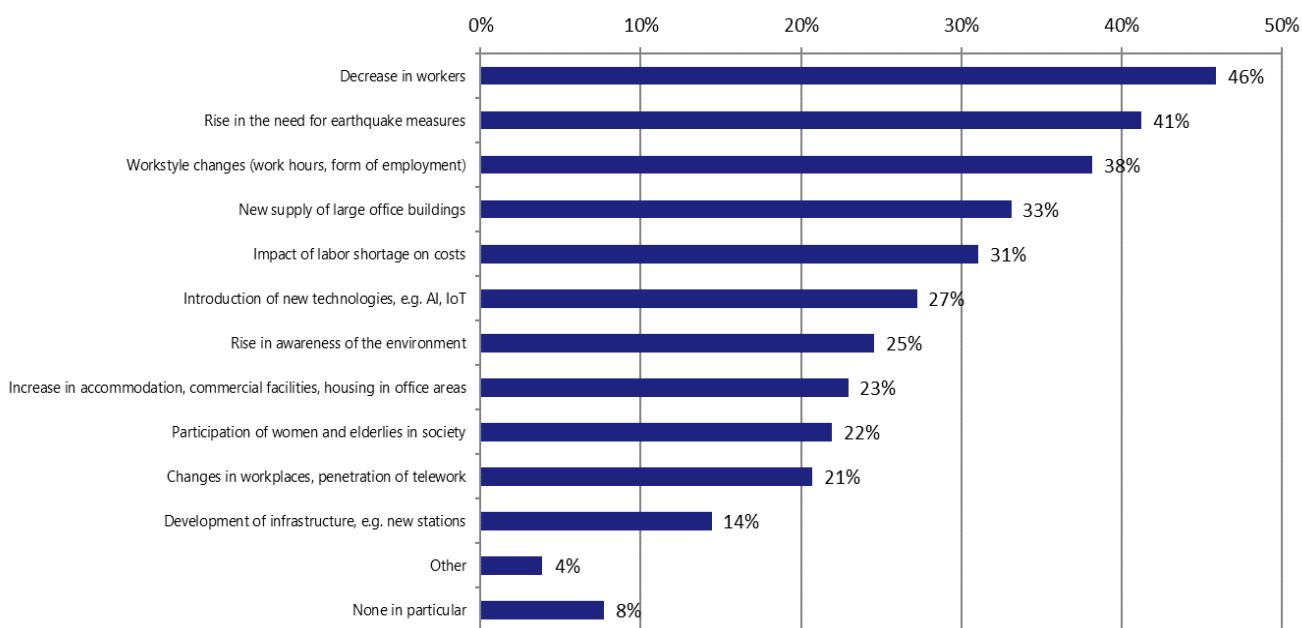


### Interest in future changes in society

Asked about the changes in society that are thought to have an impact on the future building lease business, the top replies of building owners were the “decrease in workers,” “rise in the need for earthquake measures” and “workstyle changes (work hours, form of employment),” in this order (Figure 20).

Replies that showed a large difference in percentage between Tokyo and Osaka included the “rise in the need for earthquake measures” and “new supply of large office buildings,” which was larger in Tokyo than in Osaka, and “increase in accommodation, commercial facilities, housing in office areas,” which was larger in Osaka than in Tokyo.

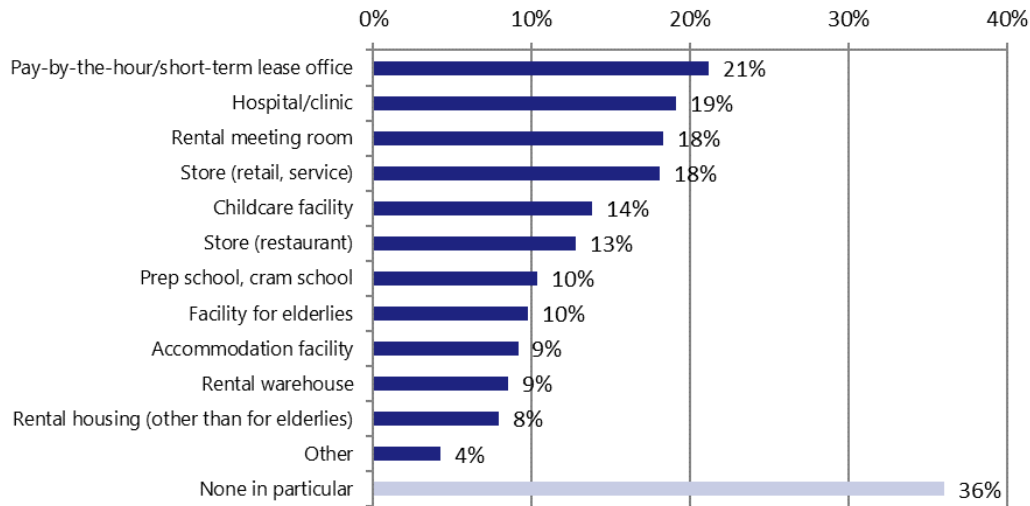
**Figure 20: Interest in Future Changes in Society (Multiple Answers; n=492)**



### Non-office usages that owners are interested in toward the future

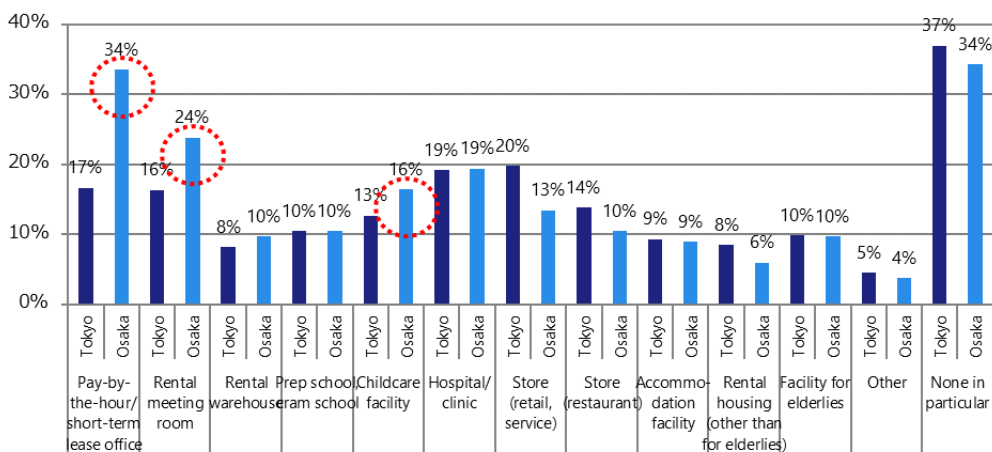
The top non-office usages that building owners were interested in toward the future were “pay-by-the-hour/short-term lease office,” “hospital/clinic,” “rental meeting room,” and “store (retail, service),” in this order (Figure 21).

**Figure 21: Non-office Usages that Owners are Interested in toward the Future (Multiple Answers; n=492)**



By region, interest in “pay-by-the-hour/short-term lease office,” “rental meeting room,” and “childcare facility” was larger in Osaka than in Tokyo. The results of interviews indicated high interest toward new usages to resolve vacancies (Figure 22).

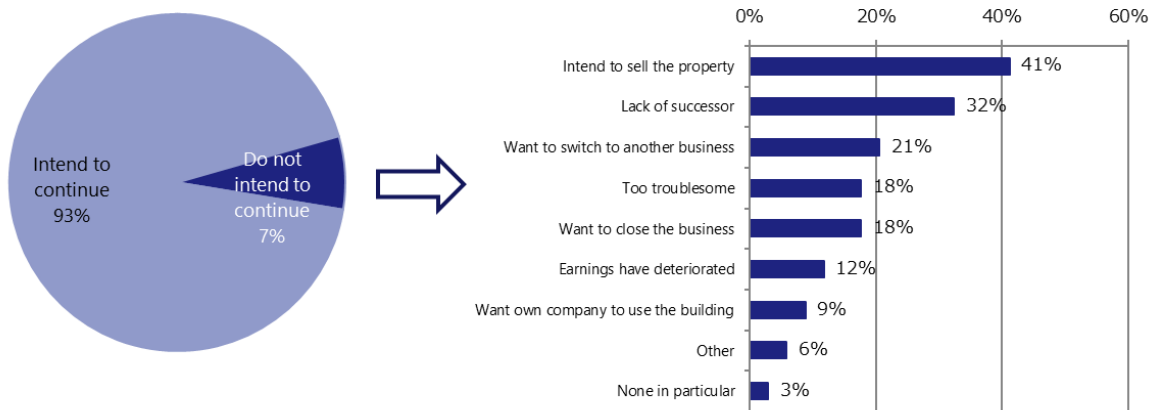
**Figure 22: Non-office Usages that Owners are Interested in toward the Future (By Region; n=354 (Tokyo), 134 (Osaka))**



### Future intentions for the building lease business

A large majority (93%) of building owners replied that they intended to continue the building lease business. Reasons for not continuing the business included “intend to sell the property” and “lack of successor” (Figure 23).

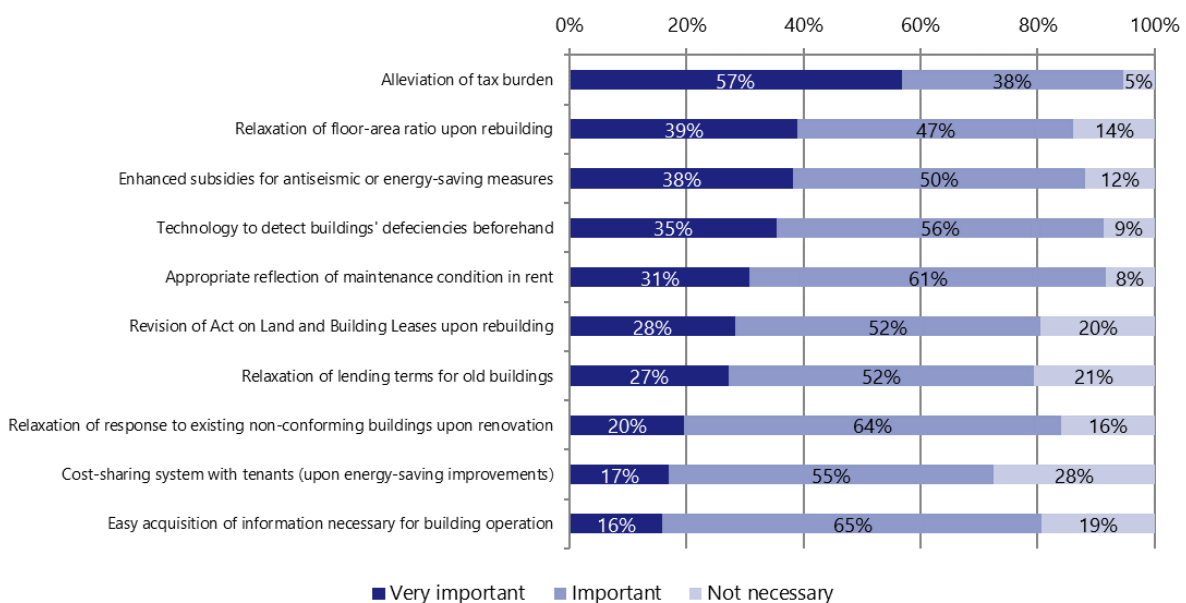
**Figure 23: Intention to Continue the Building Lease Business and Reasons for Not Continuing (n=486)**



### Hopes for the building lease business

As for what building owners hoped for upon continuing the building lease business, “alleviation of tax burden” gained the most votes as being “very important” (57%), followed by “relaxation of floor-area ratio upon rebuilding” and “enhanced subsidies for antiseismic or energy-saving measures” (Figure 24).

**Figure 24: Hopes for the Building Lease Business (n=492)**



We interviewed owners for the specific details of their hopes upon continuing the building lease business. The following is a summary of the popular replies of the challenges, classified into “during possession” and “upon rebuilding,” and what owners hoped for in overcoming such challenges (Figure 25).

**Figure 25: Main Challenges in the Building Lease Business and Hopes in Overcoming Them (Interview Results)**

Challenges		Details (excerpt)
During possession	Tax burden	<ul style="list-style-type: none"> <li>• Tax (especially property tax on land) increases even if rent income does not.</li> <li>• Tax increases when carrying out large-scale renovations/refurbishment to maintain/improve the building’s competitiveness.</li> <li>• There is no other choice but to continue due to the large capital gain on transfer tax if the land is sold, since the book value of land is small.</li> <li>• When receiving shares of the company that owns the property from parents, the shares cannot be sold since they are unlisted, but capital gain on transfer tax is imposed (there is only expenditure).</li> </ul>
	Difficulty in responding to environmental changes	<ul style="list-style-type: none"> <li>• Responding to new legislation incurs construction work costs.</li> <li>• Construction work for antiseismic measures cannot be carried out or may incur huge costs while tenants still occupy the building.</li> <li>• Costs are incurred for having tenants relocate (sales compensation for stores may also be large). There will be a drop in income during the vacant period if the tenants leave.</li> <li>• No significant rise in rent can be expected even if measures are taken.</li> </ul>
	Difficulty in utilizing subsidies	<ul style="list-style-type: none"> <li>• Application procedures are complicated and the required application documents are enormous, making it difficult to prepare.</li> <li>• The time between the announcement of subsidy and the application deadline is too short and not enough for preparations.</li> <li>• The coverage of the subsidy is limited (e.g. location, type of construction work).</li> <li>• The period from the application to the completion of construction work is determined, which may be missed if tenants occupy the building.</li> </ul>
Upon rebuilding	Few economic benefits	<ul style="list-style-type: none"> <li>• The new, rebuilt building may be the same size as the current building or smaller due to the floor-area ratio.</li> <li>• The relocation of tenants requires time and cost, which cannot be foreseen.</li> </ul>



<b>What owners hope for to overcome the challenges</b>	<ul style="list-style-type: none"> <li>• Review of the tax system to reflect the management (earnings) situation of the building business</li> <li>• Granting incentives (e.g. subsidy, tax reduction) to building owners when carrying out construction work to respond to the request of the times such as antiseismic or energy-saving measures</li> <li>• Establishing rules on the relocation of tenants upon renovation or rebuilding (e.g. setting certain guidelines, reviewing the former Act on Land and Building Leases)</li> <li>• Review of the subsidy system to suit the actual situation of the building business (e.g. application procedures, construction period, coverage) etc.</li> </ul>
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\*Details of the interviews are included at the end of the report as reference material.

## 4. Summary

The questionnaire survey and interviews revealed the actual state and challenges of building lease business operators and their thoughts on the business in the future.

The flow of people and the conventional office location environment are going through drastic changes due to new supply of large-scale buildings, an increase in housing due to the return to city centers, and increases in accommodation and commercial facilities following the increase in foreign tourists. Many building owners (business managers) are elderly, owning only one or two buildings, most of which are aged 30 years or older. More than 90% of such building owners intend to continue the business while having a pessimistic outlook for the medium to long term as well as various concerns.

Many buildings are subject to consideration of large-scale renovation or rebuilding. However, building lease business operators had hesitated to carry them out due to the challenges indicated in **Figure 25**. To overcome such challenges, operators voiced their hopes toward a review of systems and policies based on the actual state of the building lease business.

The smooth renovation and rebuilding of buildings are essential for the maintenance and creation of high-quality building stock and the development of cities. Xymax REI intends to continue its research and publish useful information toward the creation of high-quality building stock.

## ■ Reference Material ■

### Comments obtained from the interviews

The following are comments obtained from the interviews of this survey, as reference material for the future management and operation of the building lease business.

#### <Renovation and rebuilding for antiseismic measures>

- We started negotiating with tenants on vacating the building one year before planning the rebuilding. We paid full compensation for relocation, so as to purchase time, which enabled smooth rebuilding.
- We carried out the rebuilding by systematically switching tenant contracts to fixed-term rental contracts.
- I want to rebuild the property since it is old, but I think the cost of having tenants move out will cost more than rebuilding. I cannot estimate the cost, which prevents me from rebuilding even if I wanted to.
- The Act on Land and Building Leases is too strict on rebuilding. Even the construction work that must be carried out to ensure safety of the building is often disadvantageous to the owner.
- Carrying out construction work while tenants still occupy the building will cause them trouble so the work will have to be done at night, which will lead to a longer construction period and greater cost. If all tenants vacated the building at the same time it would facilitate the construction work, but I am concerned about the lack of income during that period and cannot go ahead. Also, compensation for store tenants will be large.
- If the building was rebuilt, the floor size will be smaller than now. I am hesitating since the rent will not increase significantly even if I rebuilt the property.
- I don't feel there is an advantage to rebuilding the building since the relaxation of the floor-area ratio is not applied to small and medium-sized buildings.
- I think old buildings should be replaced with new buildings since the streets would look better. However, I cannot do that since there is no economic benefit.
- The Act on Land and Building Leases should be revised in order to avoid trouble.
- I wish for an appropriate (across-the-board) standard for tenant removal. I hope there will be a ceiling to tenant removal costs upon renovation or rebuilding. I was once asked for 300 months' worth of rent.
- Even if the current standards have been met, the owner will still be held responsible for any accidents caused by damage to the building or a disaster. I want clarification on the extent of standards that would exempt the owner from owner liability.
- Relaxation of loans and development of a system to vitalize the city or buildings are necessary.

#### <Tax>

- Property tax and urban planning tax are not proportionate to rent. Rent does not rise with the age of the building. However, land prices rise, leading to an increase in property tax and urban planning tax.
- Renovations to improve services for tenants or for their continued tenancy lead to higher property tax. Rent will not rise because of renovations in today's situations.



- When I combined two buildings into one, the appraisal was based on the road-side section, which is higher in value, and led to a rise in property tax.
- Capital gain will be large if I sold the land since the book value of the land is small. There is no other choice than staying here.
- I will consider selling when I quit this business, but capital gain on transfer tax will be large.
- My parents own the shares of the company that owns the building and have been transferring the shares. Since the shares are unlisted I cannot sell them and receive cash, but I still must pay capital gain on transfer tax.
- I cannot protect my assets since the tax burden upon business succession and inheritance is large.
- The tax burden is huge since the building is under an individual's name. I am considering switching the ownership of the building to a corporate name.
- If there are benefits such reduction or exemption from property tax for introducing seismic enhancement or energy-saving equipment, perhaps more building owners will introduce such measures.
- I wish taxation is more in line with the current usages.

#### <Changes in the surrounding environment>

- The office location's recognition rose due to changes in the surrounding environment. Rents of large buildings may drop due to over-supply of large buildings, which may affect small and medium-sized buildings too. (Tokyo)
- Mass supply of large buildings would lead to excessive space, which would result in smaller blocks for rent in large buildings, especially old and inconveniently located buildings, and a drop in rent. (Tokyo)
- It is hard to fill vacancies even if the building is in front of a railway station. It will be difficult for individual properties to survive unless we make community-wide efforts to create an image for the town. (Tokyo)
- Mass supply will change the flow of people. People will increase. It is important to change in accordance with the surroundings, such as the increase in tourists. Community-wide efforts are important. (Osaka)
- Hotels increased. Offices are stable, but hotels are prone to fluctuation. The scarcity of offices increased due to the shift from offices to condominiums and hotels. (Osaka)
- The nursery school waiting list problem and childcare facilities will increase. The ward office approached my building for possible use as a childcare facility. Due to lack of inspection certificates I could not change the usage of the building. My building is old and not barrier-free. Hospitals and clinics will be difficult. Residential areas or station-front areas are not being developed. I think the office building business will become difficult. (Tokyo)
- I hope urban renovation will proceed. I also wish for underground power lines. (Tokyo)

#### <Subsidies>

- I want to use subsidy if possible for seismic enhancement and energy-saving measures, but there are many restrictions. I hope for consideration from the users' perspective. For example, the construction

period, scope, and application procedures are complicated. Also, the time between the announcement and application is short and sometimes not enough.

- There are tenants in the building when you consider seismic enhancement. Such construction work cannot be carried out unless the entire building is vacant. Even if the work is carried out after all the tenants have left, I cannot foresee how long it will take for all tenants to leave. The removal of all tenants is also a concern in terms of income during the construction work. Therefore, I chose to carry out the construction work while tenants occupy the building, and gave up on applying for a subsidy.
- The ward makes it a condition for granting subsidy to new tenants that the applying company resides in a building within the ward, but it takes two to three months for the ward to give approval. Although it is desirable for the street to be revitalized by having new companies, there will be no rent income until approval of the ward is granted. If the ward does not approve, then I will have to find another tenant. Building owners will avoid such new tenants and prefer companies that can move in immediately.
- I received subsidy for replacing air conditioners, but the preparation of application documents was hard work. I had to prepare documents that amounted to about 30 centimeters thick.
- I applied for energy-saving subsidy but was turned down. Perhaps they don't accept small buildings.
- I hope the application and approval systems of subsidies suit the actual situation of the business.

#### <Responding to tenants>

- I have set up a tenants' meeting (membership) and hold new year's gatherings.
- I place emphasis on communication.
- I keep a reasonable distance from the tenants. I visit them once a week or every 10 days. I have a system in place to respond swiftly if anything happens.
- I place importance on communication and provide a bulletin board, friendly gatherings, and rest space.
- I make efforts in reinforcing lunch meetings, fire drills, and BCP.
- I mostly have the guarantee company respond to tenants (from night-time responses to daily repairs and equipment replacements).

#### <Building business, others>

- I am interested in co-working spaces. Childcare facilities are also good since the building is conveniently located near the station. I hope to differentiate with facilities that tenants want to create but cannot.
- I cannot compete with major developers. I think old and small/medium buildings will be sold around the time the elderly owners retire.
- I don't set the rent high since I want my tenants to stay long, for 10 or 20 years.
- The strengths of large buildings and smaller buildings are different. The brokerage business may shrink due to the development of IT.
- Over-supply of large buildings will have an impact on old and small buildings.
- There are fewer vacancies but rents have not risen. I purchased buildings in front of stations where stores

can be opened or in good locations to reduce the risk of a drop in asset value.

- What’s important for the building business is how to highlight the building’s characteristics.
- The important thing is to provide a place to work. It is small and medium buildings that can differentiate. I am interested in incubation offices.
- Perhaps fewer people will work in buildings in the future due to the drop in population and telework.
- I will only do offices. Housing is difficult. I will focus on city centers. Offices are like factories for IT companies. Rent is raw material. I think offices will be required in cities. Since young people start businesses, there will always be demand for small and medium-sized buildings.
- Although I don’t have concerns in vacancies or rent since I purchase buildings with a focus on city center locations, I cannot say for sure considering the drop in demand.

## Survey Overview

Period	June – September 2017
Coverage	A total of 4,950 companies extracted from Tokyo Shoko Research (TSR)’s data [Net sales] Tokyo 23 Wards (sales of 50 million–3,000 million): 3,635 companies Osaka city (sales of 30 million–3,000 million): 1,315 companies [Industry] Companies whose “principal” or “secondary” business (thus registered) is office lease
No. of valid responses	Questionnaire: 492 companies; 9.9% response rate (354 companies in Tokyo, 134 in Osaka city, 4 unknown) Interview: 32 companies (24 in Tokyo, 8 in Osaka)
Method	Questionnaire survey by post or online, and interview
Survey details	I. Respondent company Age of manager; business experience; share of sales of lease business; number, age, area of buildings in possession, etc. II. Current office building lease business Outsourced operations; attractiveness of the building business; important matters in the business and their implementation status, etc. III. Future office building lease business Outlook (short-term, medium and long-term); concerns in the building business; social situations interested in; usage interested in; intention to continue business; expectations and requests in the building business, etc.

\*The figures indicated in the charts contained in this report are rounded to the first decimal place and therefore may not add up to 100%.

### Contact for inquiries concerning this report

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