

Building Owner Survey 2018

A survey of small and medium-sized building owners in government-designated cities

October 25, 2018

In partnership with the laboratory of Professor Yukio Komatsu of the Department of Architecture at Waseda University,^{*1} Xymax Real Estate Institute (hereinafter, "Xymax REI") has conducted questionnaire surveys of owners of small and medium-sized buildings who leased out their buildings in Tokyo 23 Wards and Osaka city in 2017 and in Tokyo 23 Wards in 2015.^{*2}

In this third survey, we conducted a questionnaire survey and interviews on the current state of the building lease business, its outlook, and its future direction with building owners in 19 government-designated cities excluding Osaka. This report is a summary of the results.

Hereinafter, this report will be referred to as "Government-designated Cities (2018)" and the survey in 2017 as "Tokyo & Osaka (2017)."

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

*2 "Building Owner Survey 2015", "Building Owner Survey 2017": https://www.xymax.co.jp/english/news_research/?type=research

Key Findings

1. Profile of building owners

- **Age:** More than 60% of the business managers are aged 60 or older; **No. of properties owned:** 70% of the building owners own one or two properties.

2. The current building lease business

- To more than 80% of owners, the **attractiveness** of the building lease business is stable income.
- Of the various measures in the building lease business, a large percentage of owners place **importance** on and **implement** "responding to tenants' requests" and "refurbishment or renovation of building." While they place **importance** on "preparing a medium- to long-term repair plan" and "renovating existing non-conforming buildings," not a lot of them **implement** them.

3. The future building lease business

- **Short-term (around three years) outlook:** 40% are optimistic, exceeding pessimistic views of 17%. **Medium- to long-term (five to ten years) outlook:** 36% are pessimistic, exceeding optimistic views of 23%.
- **Interest in future changes in society:** "Decreases in the population and the number of workers" accounted for 73%, far exceeding other items.

4. Building owners who are conscious of planned maintenance

- Building owners with a medium- to long-term repair plan implement all measures such as "refurbishment or renovation of building" and "responding to tenants' requests" at a greater rate than building owners without a repair plan and are more optimistic about the outlook.

5. Efforts made in order to be chosen by tenants

- Examples of efforts to overcome challenges and concerns in the future building business were obtained from the interviews.

1. Profile of Building Owners

Business managers

More than 60% of the managers of the building lease business are aged 60 or older (**Figure 1**). In addition, approximately 60% of the managers succeeded the business from the previous manager (**Figure 2**). This result is roughly the same as in Tokyo & Osaka (2017).

Figure 1: Age of Managers (n=556)

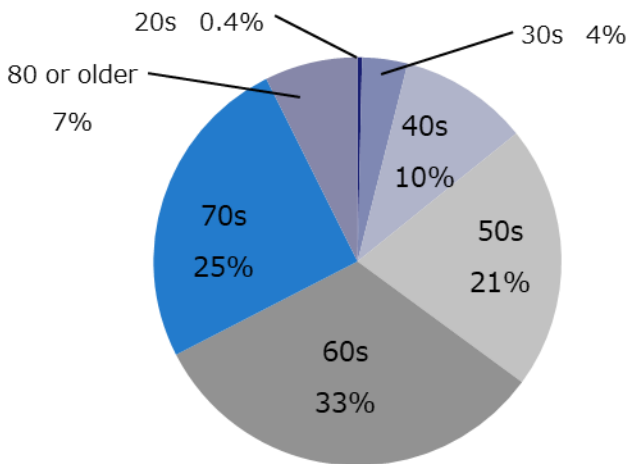
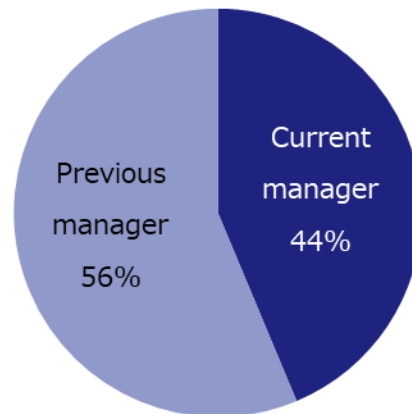


Figure 2: Manager who Started the Building Lease Business (n=554)



Buildings in possession

90% of ownership of leased buildings are under a corporate name, while 10% are under an individual's name (**Figure 3**). 70% of all business operators own one or two buildings in total (**Figure 4**). This result is roughly the same as in Tokyo & Osaka (2017).

Figure 3: Principal Ownership of Leased Building (n=550)

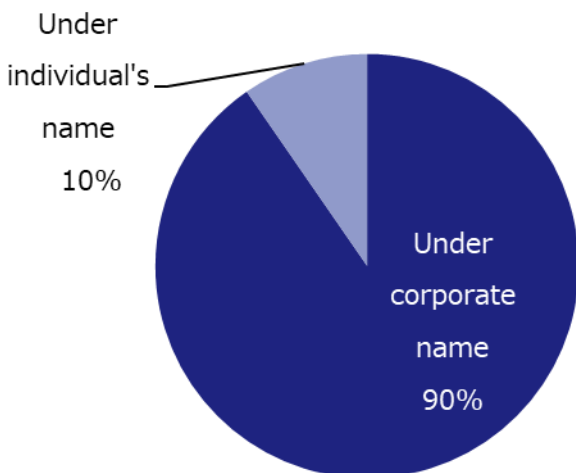
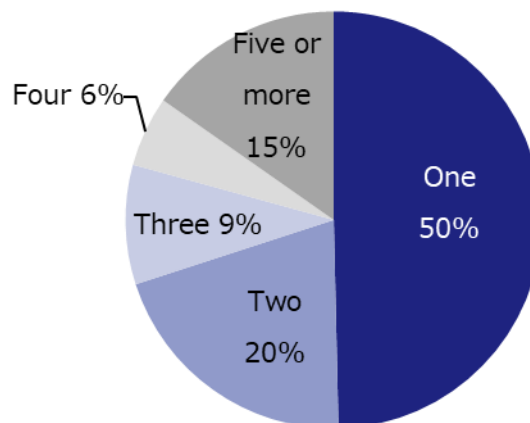


Figure 4: Total no. of Buildings in Possession (n=550)



Most of the buildings owned are small and medium-sized buildings of less than 3,000 tsubo (1 tsubo = 3.3 sqm), with around half of the buildings being less than 300 tsubo (**Figure 5**). Around 70% of the buildings are aged 20 years or older (**Figure 6**). These results are roughly the same as in Tokyo & Osaka (2017).

Figure 5: Distribution of Size of Building in Possession

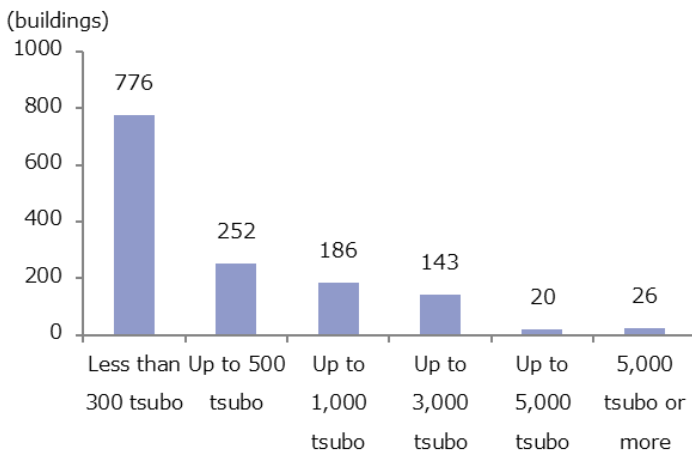
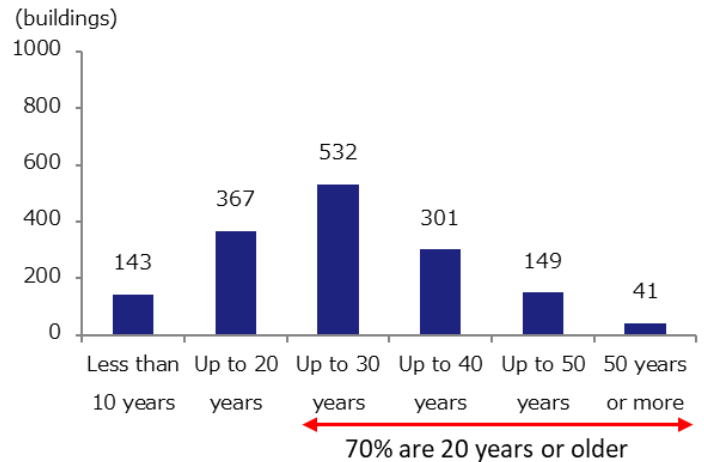


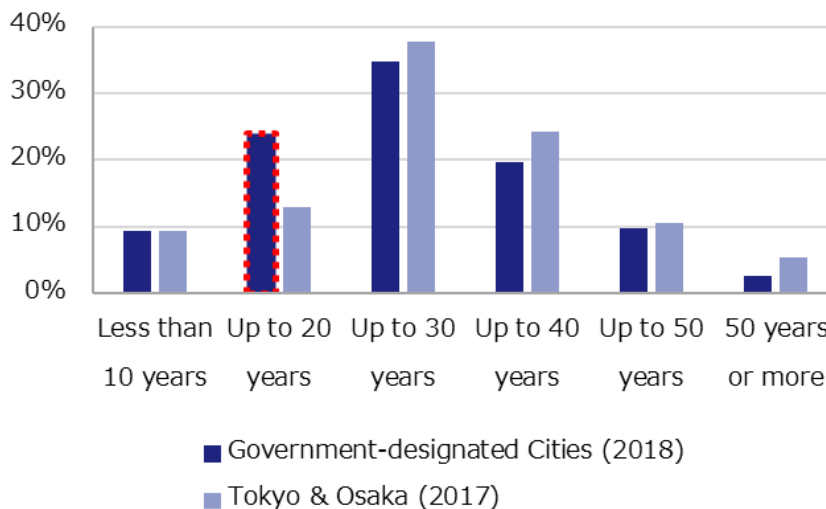
Figure 6: Distribution of Age of Building in Possession



Topic: Comparison with Tokyo & Osaka (2017) ①

In comparison with Tokyo & Osaka (2017), the percentage of buildings aged 20 years or less in Government-designated Cities (2018) was higher by more than 10 points (**Figure 7**). We believe this is because the drop in supply following the burst of the bubble economy was not as large in government-designated cities as was in Tokyo and Osaka.

Figure 7: Percentage of Buildings in Possession by Building Age Government-designated Cities (2018) and Tokyo & Osaka (2017)



Sales and experience of the building lease business

Sales of the building lease business account for more than 70% of sales of the entire business among approximately 40% of operators (**Figure 8**). The building lease business is less the principle business than in Tokyo & Osaka (2017). Furthermore, around 50% of operators have been engaged in the business for 30 years or more (**Figure 9**).

Figure 8: Share of the Building Lease Business to Total Sales (n=544)

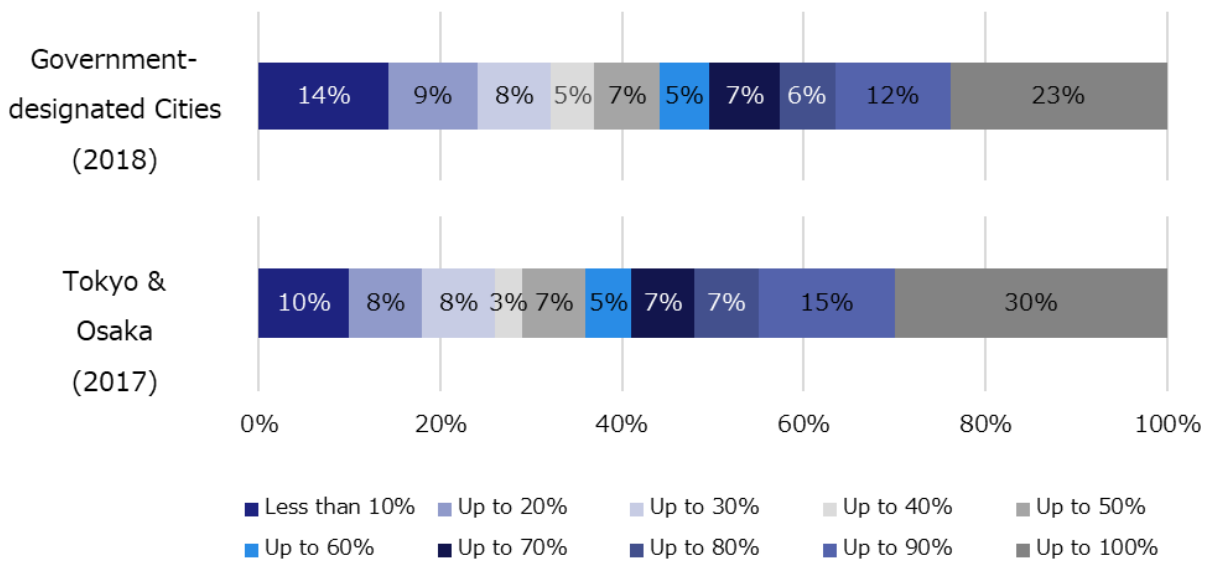
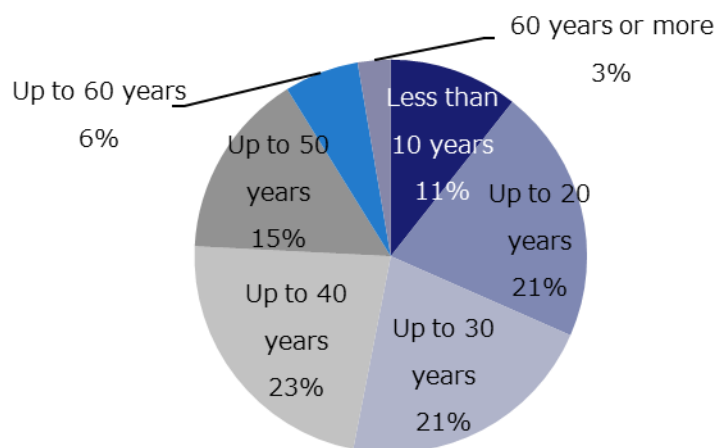


Figure 9: Experience in the Building Lease Business (n=554)

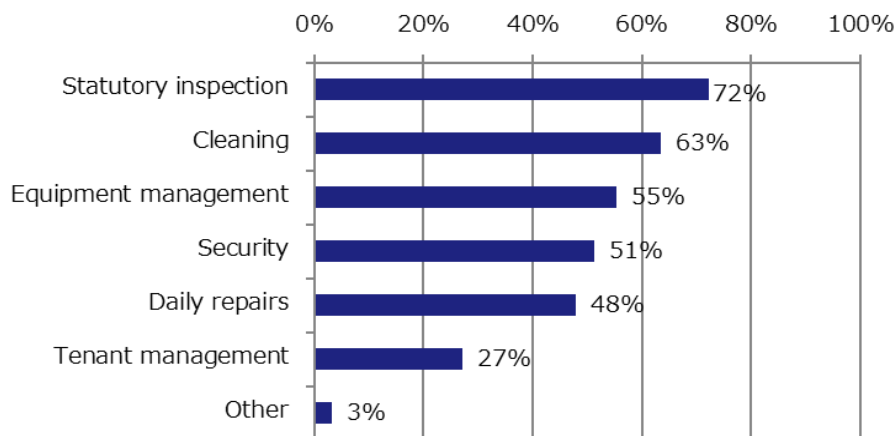


2. The Current Building Lease Business

Outsourcing of daily management operations

Daily routine management operations such as statutory inspection, cleaning, equipment management, and security are outsourced at a high rate, while irregular operations that require communication with tenants such as tenant management are outsourced at a lower rate (**Figure 10**). Compared to Tokyo & Osaka (2017), the percentages of tenant management and daily repairs were roughly the same, while the those of the top four routine operations were lower.

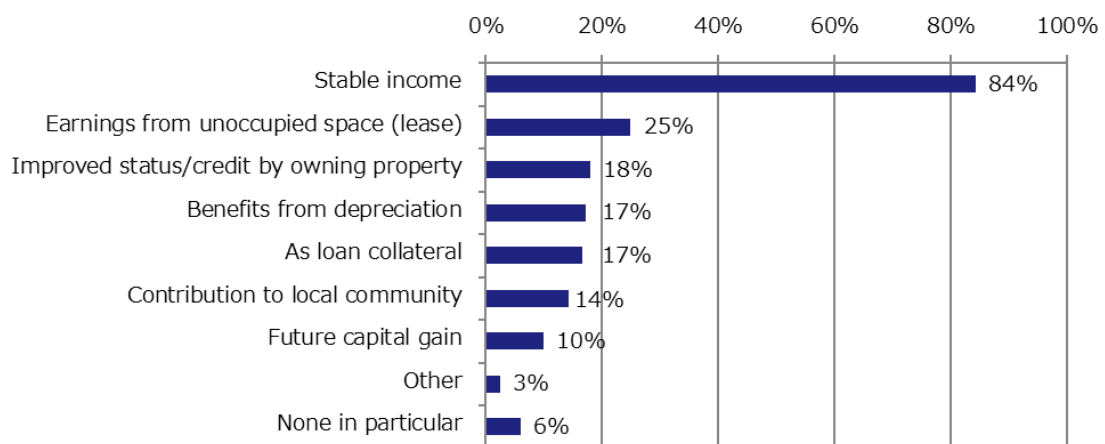
Figure 10: Outsourced Daily Management Operations (Multiple Answers; n=543)



Attractiveness of the building lease business

A large majority of building owners replied that the attractiveness of the building lease business was stable income, followed by items related to earnings and management (**Figure 11**). This result is roughly the same as in Tokyo & Osaka (2017). "Contribution to the local community," an item not directly related to earnings, partly represents owners who participate in communities that coordinate multiple neighborhood associations or in town development committees, showing how owners are making efforts not only in individual buildings but also in vitalizing the surrounding areas.

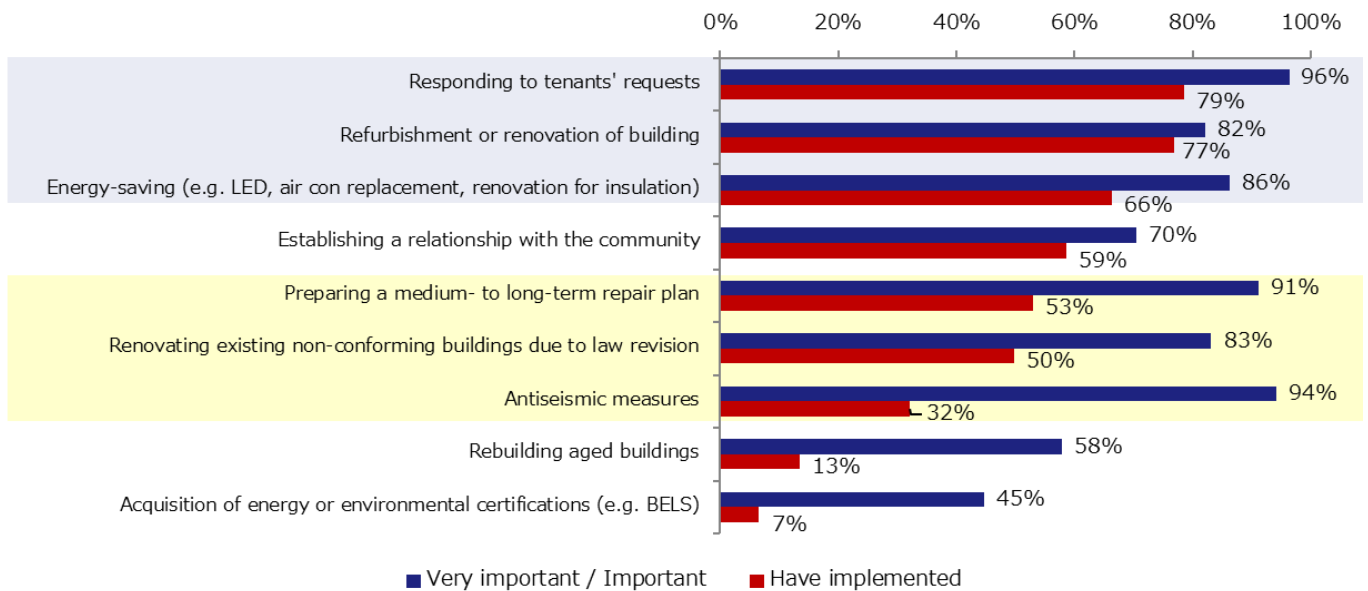
Figure 11: Attractiveness of the Building Lease Business (Multiple Answers; n=553)



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

We asked building owners to rate measures as “very important,” “important,” or “not necessary,” and whether they had implemented them. “Responding to tenants’ requests,” “refurbishment or renovation of building,” and “energy-saving measures” were considered highly important (a large percentage of “very important” or “important” replies) and were carried out at a high rate. Meanwhile, although owners placed importance on “preparing a medium- to long-term repair plan,” “renovating existing non-conforming buildings due to law revision” and “antiseismic measures,” not a lot of them implemented them (**Figure 12**). This result is roughly the same as in Tokyo & Osaka (2017). In the interviews, we found that some owners were reluctant to implement “renovating existing non-conforming buildings due to law revision” and “antiseismic measures” from a cost efficiency perspective since such measures require a large amount of investment.

Figure 12: Important Matters in the Building Lease Business and Whether They Have Been Implemented (n=553)

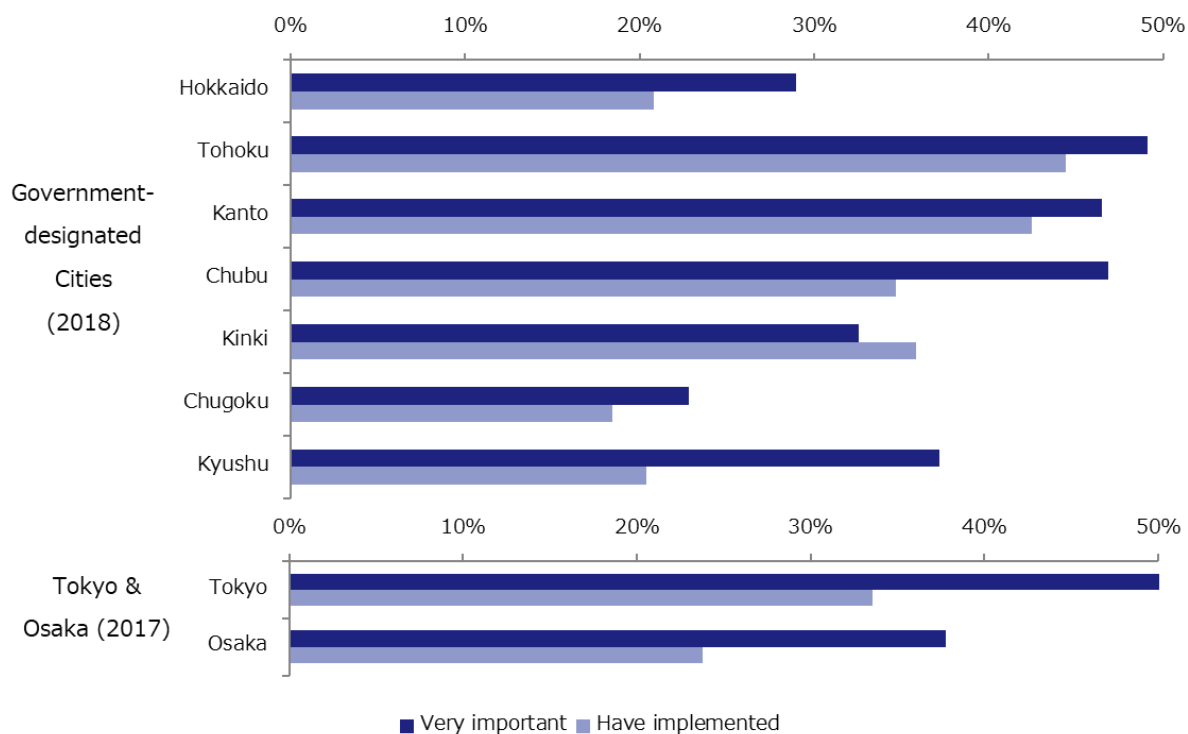


*The percentage of “have implemented” replies excludes operators without relevant buildings.

Topic: Regional comparison ①

Looking at the percentages of owners who rated antiseismic measures as very important and who had implemented the measures by region, the implementation ratio was higher in the Tohoku, Kanto, Chubu, and Kinki regions, where a certain amount of time required to take measures has passed since past earthquakes (**Figure 13**).

Figure 13: Importance and Implementation of Antiseismic Measures (By Region)



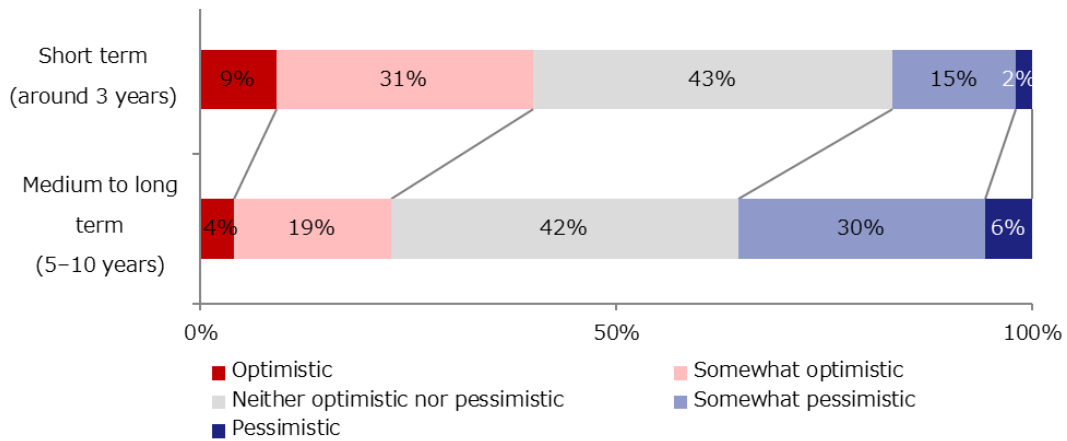
*The percentage of "have implemented" replies excludes operators without relevant buildings.
 *The Kanto region excludes Tokyo; the Kinki region excludes Osaka city (the same applies hereafter).
 *The questionnaire was carried out before the 2018 Hokkaido Eastern Iburi Earthquake (September 2018).

3. The Future Building Lease Business

Outlook

As for the outlook of the building lease business, the percentage of **optimistic views** (the sum of “optimistic” and “somewhat optimistic” replies) **in the short term (around three years)** (40%) exceeded pessimistic views (the sum of “pessimistic” and “somewhat pessimistic” replies) (17%). On the contrary, the percentage of **pessimistic views in the medium to long term (five to ten years)** (36%) exceeded optimistic views (23%) (Figure 14).

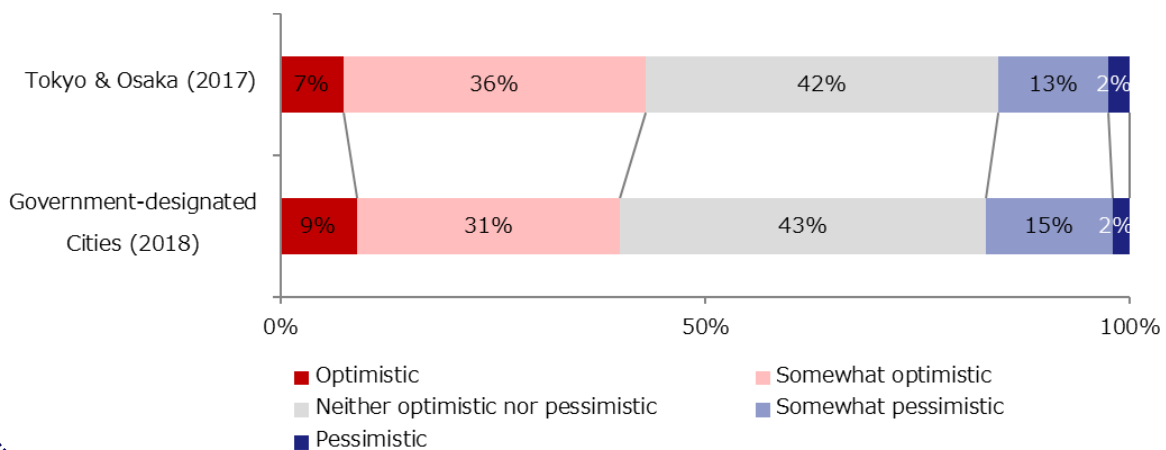
Figure 14: Outlook of the Business
(Short-term: n=548; Medium- to Long-term: n=546)



Topic: Comparison with Tokyo & Osaka (2017) ②

The office market is believed to have improved from last year on the back of a drop in vacancy rates on a nationwide scale; however, a comparison of the short-term outlook with Tokyo & Osaka (2017) indicates that in Government-designated Cities (2018) there are less optimistic views and more pessimistic views (Figure 15).

Figure 15: Short-term Outlook (vs Tokyo & Osaka (2017))



Topic: Regional comparison ②

By region, there were more optimistic views than pessimistic views in the short-term outlook in all regions (Figure 16). However, pessimistic views increased in the medium- to long-term outlook, overwhelming optimistic views. In the Tohoku region, more than half were pessimistic (Figure 17).

Figure 16: Short-term Outlook (By Region)

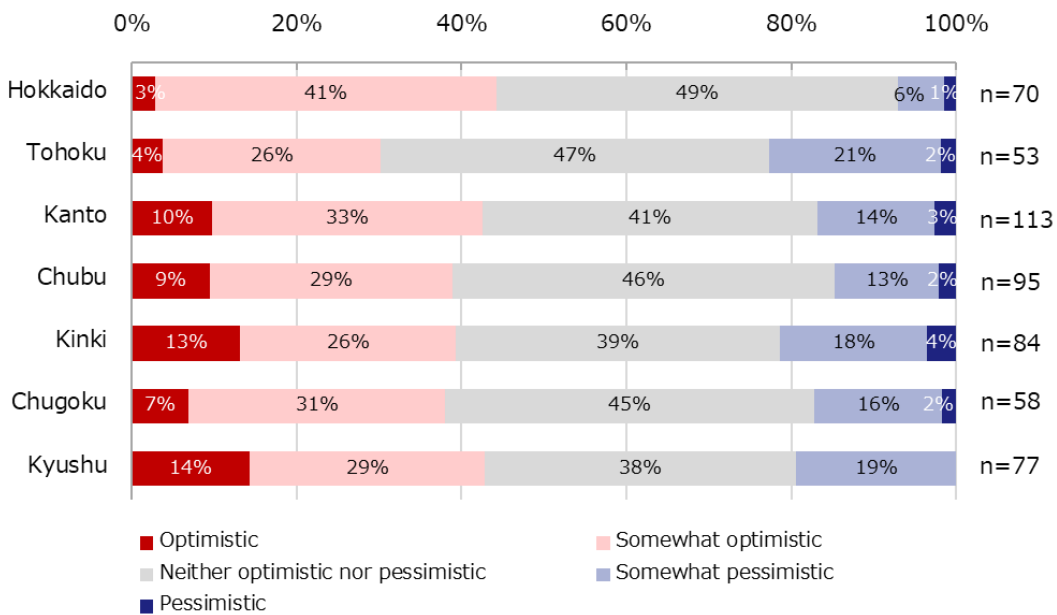
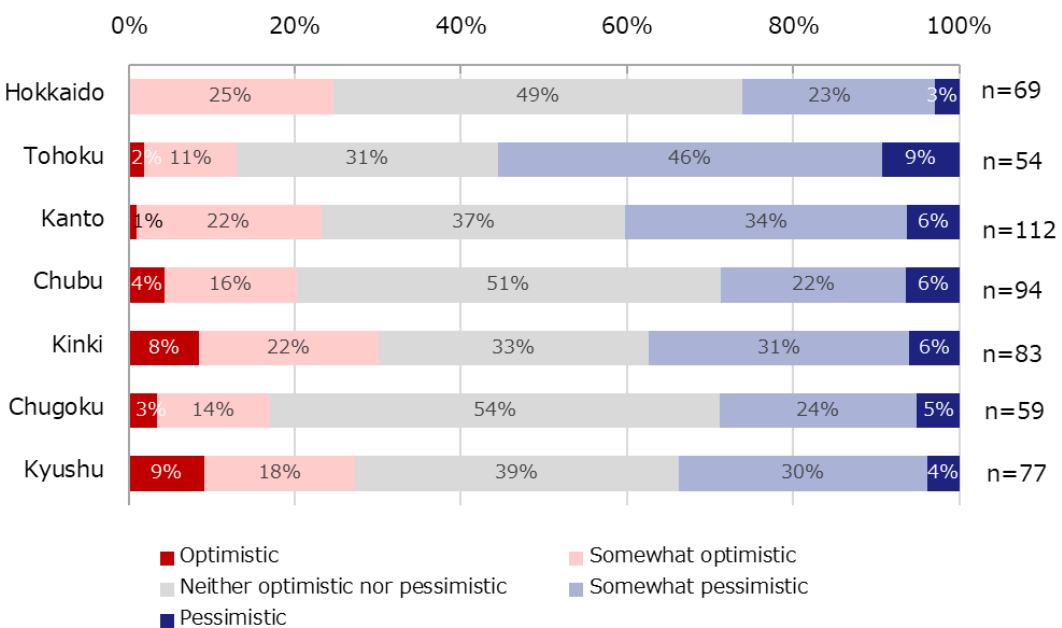


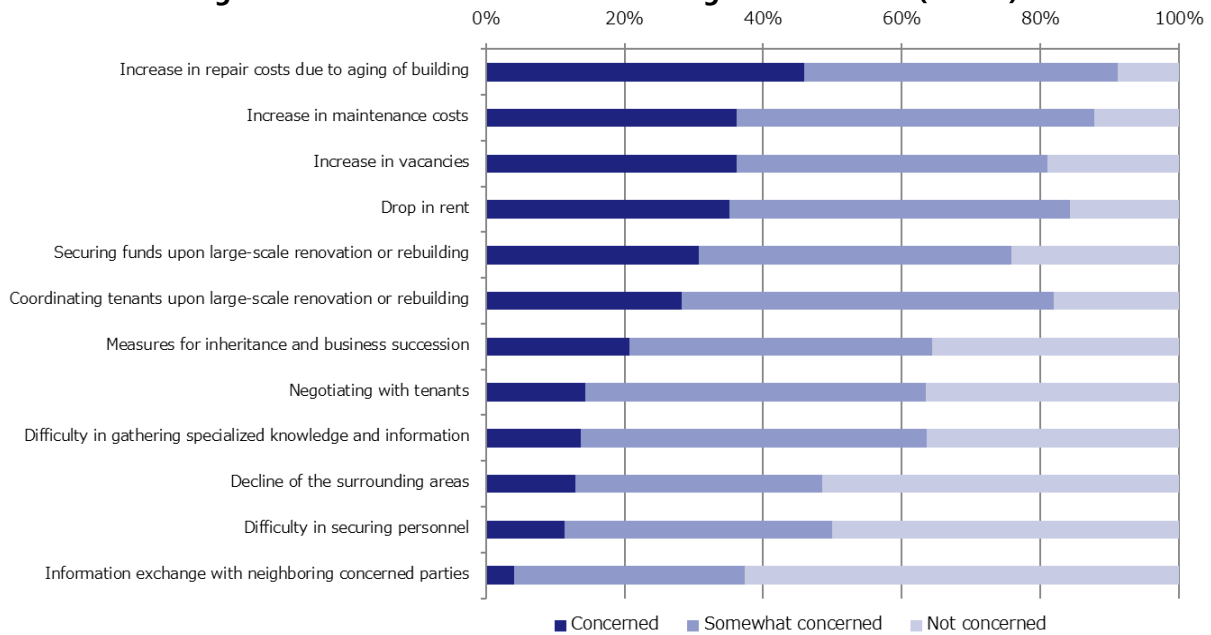
Figure 17: Medium- to Long-term Outlook (By Region)



Concerns in the future business

Top concerns in the future building lease business were matters related to income and expenditure, such as “increase in repair costs due to aging of building,” “increase in vacancies,” and “drop in rent,” followed by managerial and operational matters including “securing funds” and “coordinating tenants” upon large-scale renovation or rebuilding, and “inheritance and business succession” (Figure 18). This result is roughly the same as in Tokyo & Osaka (2017).

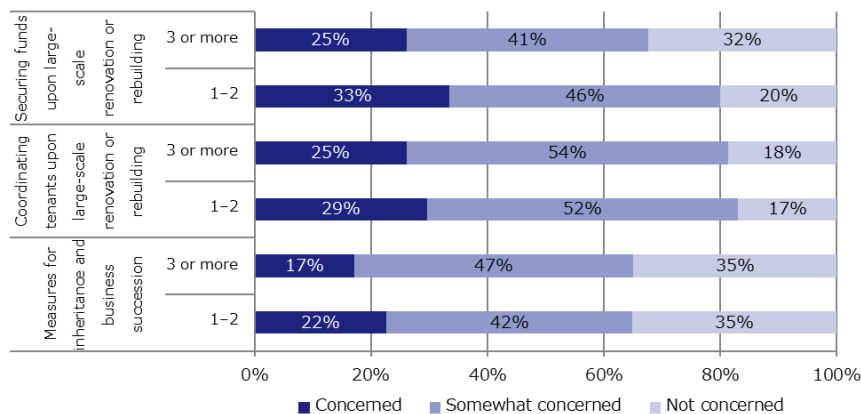
Figure 18: Concerns in the Future Building Lease Business (n=555)



Topic: Comparison by the number of buildings in possession

By the number of buildings owned, operators with one or two buildings were more concerned than those with three buildings or more in securing funds and negotiating with tenants upon large-scale renovation or rebuilding. This is probably because the impact of the drop in income during construction work for renovation or rebuilding is greater for operators with only one or two buildings than those with three or more. Such operators were also more concerned in measures for inheritance and business succession than operators with three buildings or more (Figure 19).

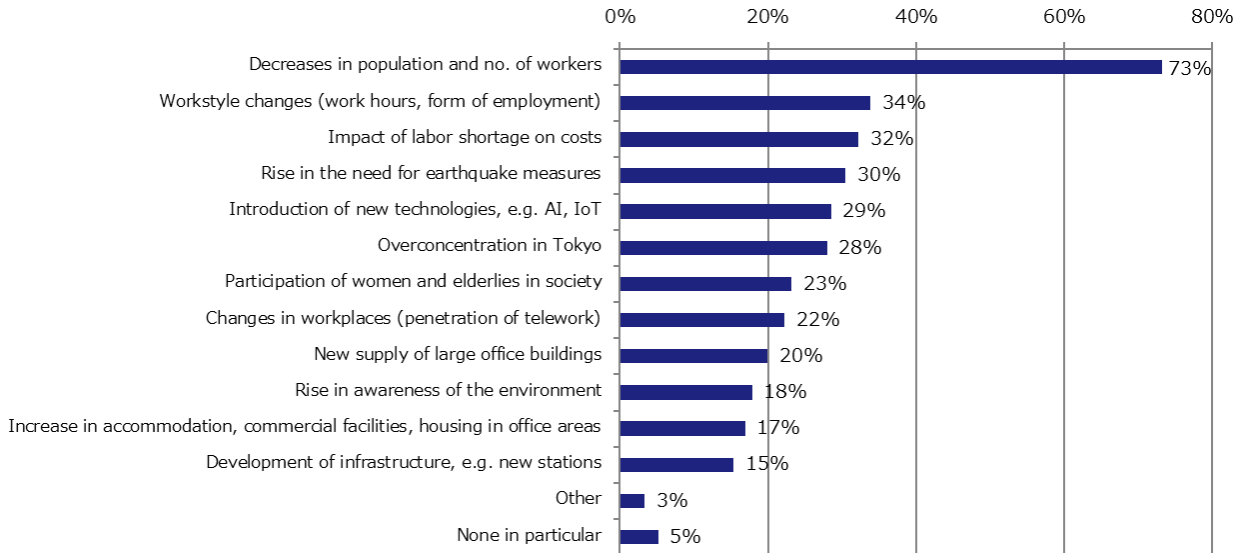
Figure 19: Concerns in the Future Building Lease Business (By No. of Buildings in Possession; n=376 (1-2), 159 (3 or more))



Interest in future changes in society

The top replies of owners’ interest in the changes in society that are thought to have an impact on the future building lease business were “decreases in the population and the number of workers,” “workstyle changes (work hours, form of employment),” and the “impact of labor shortage on costs,” in this order (**Figure 20**).

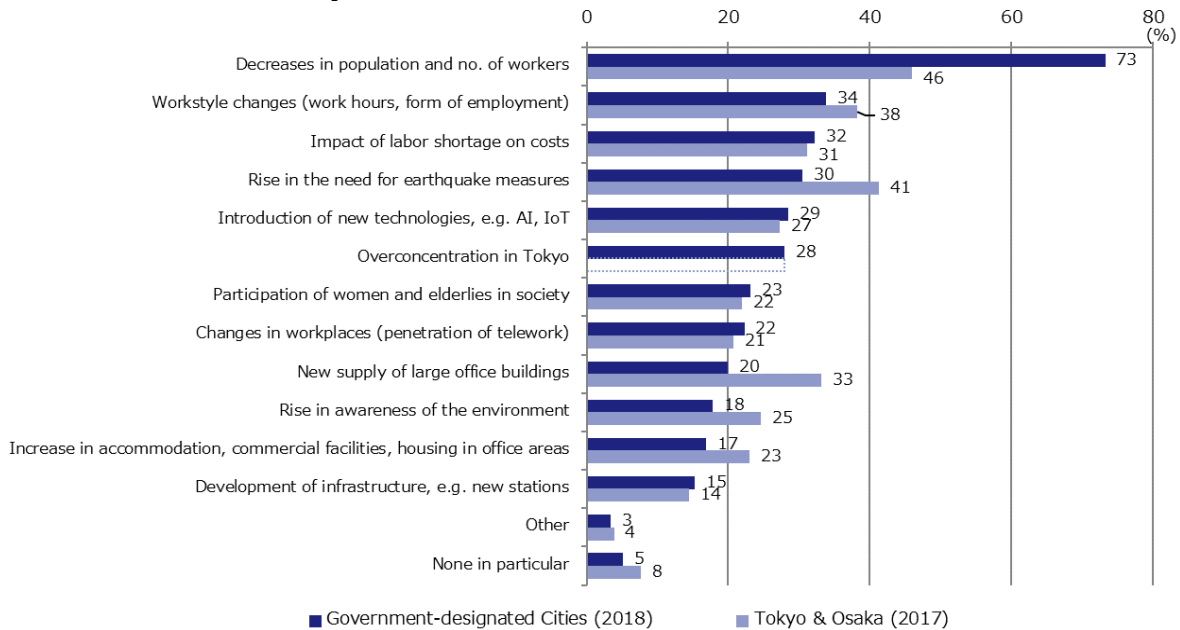
Figure 20: Interest in Future Changes in Society (Multiple Answers; n=545)



Topic: Comparison with Tokyo & Osaka (2017) ③

In comparison with Tokyo & Osaka (2017), “decreases in the population and the number of workers” was 27 points higher in Government-designated Cities (2018) and far outstripped other items (**Figure 21**).

Figure 21: Interest in Future Changes in Society (vs Tokyo & Osaka (2017); 2018: n=543; 2017: n=492)

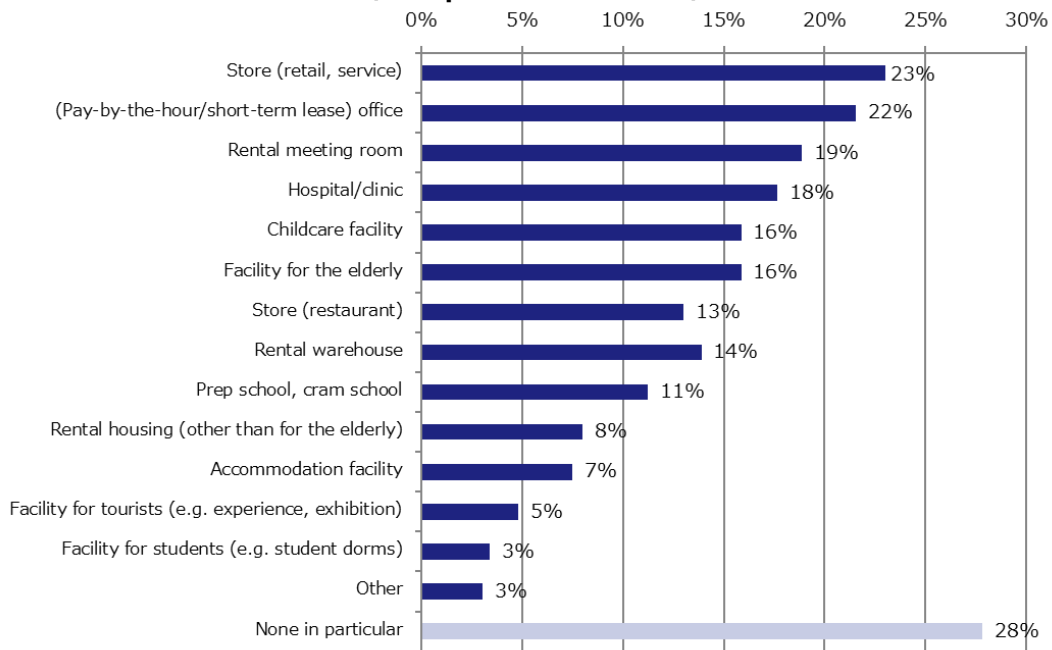


*The “overconcentration in Tokyo” choice was added in Government-designated Cities (2018).

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 “store (retail, service),” “pay-by-the-hour/short-term lease office,” “rental meeting room,” and “hospital/clinic,” in this order (Figure 22). This result is roughly the same as in Tokyo & Osaka (2017). The interviews revealed a large interest in new usages to fill vacancies and improve tenant satisfaction such as providing rental meeting rooms, space for barbecues, and meeting rooms with a mini kitchen, and converting to serviced offices for start-ups.

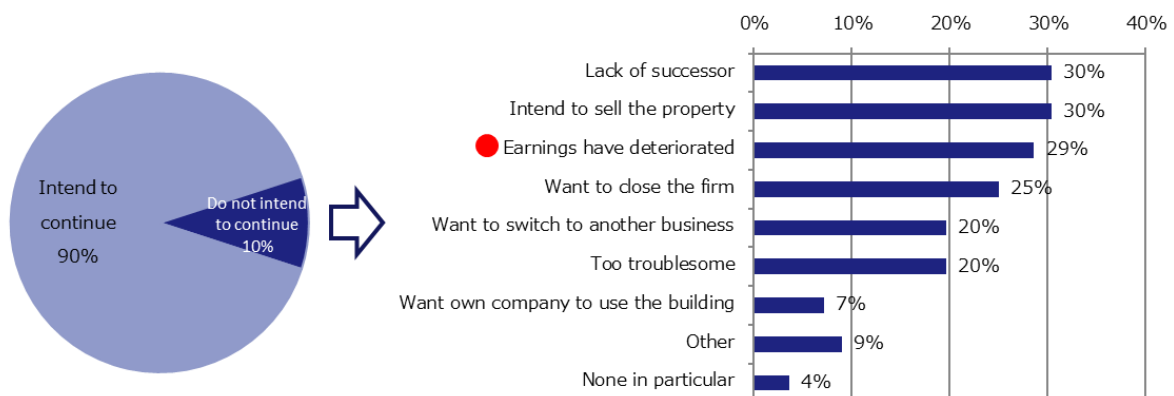
Figure 22: Non-office Usages that Owners are Interested in toward the Future (Multiple Answers; n=541)



Future intentions toward the building lease business

A large majority (90%) of building owners replied that they intended to continue the building lease business. This result is roughly the same as in Tokyo & Osaka (2017). The top reasons for not continuing the business were “lack of successor” and “intend to sell the property,” followed by “earnings have deteriorated,” which accounted for 29% compared to 12% in Tokyo & Osaka (2017) (Figure 23).

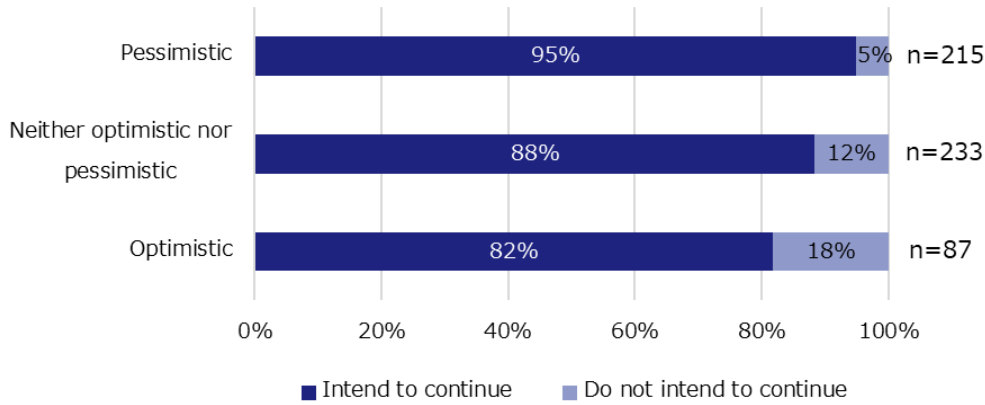
Figure 23: Intention to Continue the Building Lease Business and Reasons for Not Continuing (n=547)



Topic: Comparison by short-term outlook

A comparison of building owners’ intention to continue the business by their short-term outlook (optimistic, neither optimistic nor pessimistic, pessimistic) indicated that the percentage of the intention of not continuing the business was 18% among pessimistic owners, far exceeding that of optimistic owners (5%) (Figure 24).

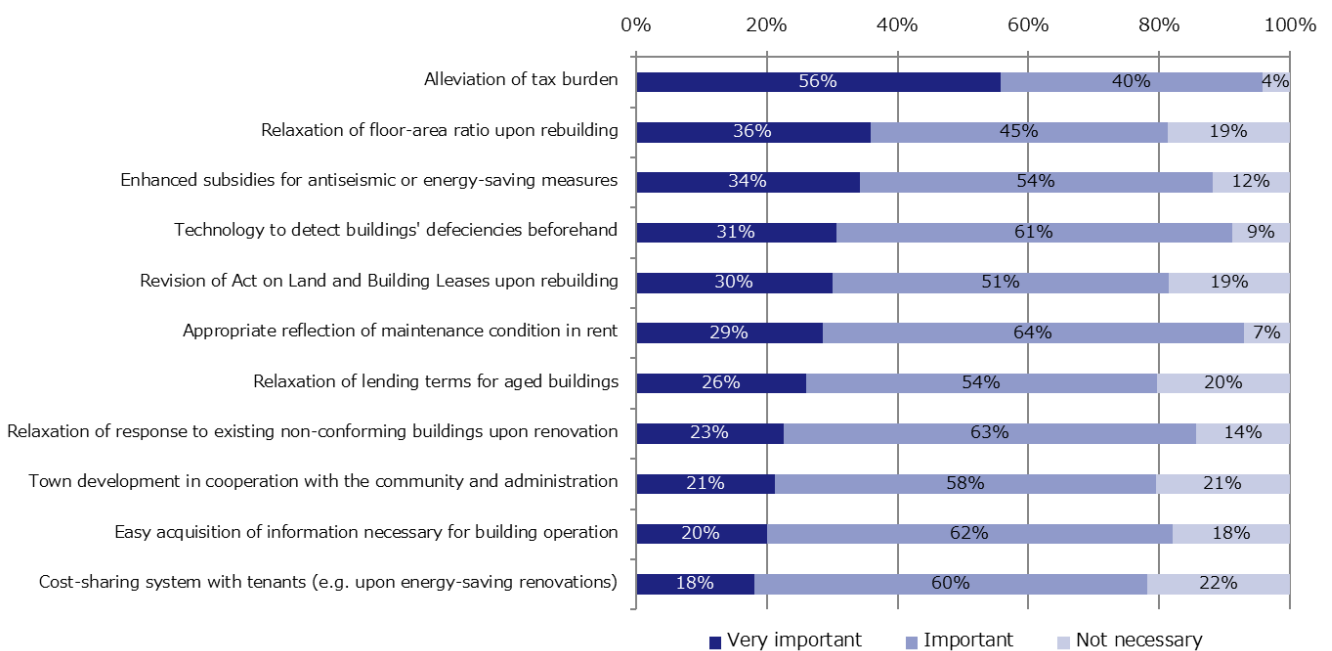
Figure 24: Short-term Outlook and the Intention to Continue the Building Lease Business



Building owners’ expectations in the building lease business

As for what building owners expected in the building lease business going forward, “alleviation of tax burden” gained the most replies as being “very important” (56%), followed by “relaxation of floor-area ratio upon rebuilding” and “enhanced subsidies for antiseismic or energy-saving measures” (Figure 25). This result is roughly the same as in Tokyo & Osaka (2017).

Figure 25: Expectations in the Building Lease Business (n=552)

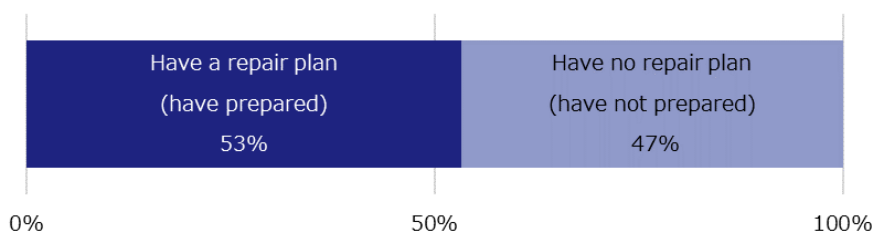


4. Building Owners Who are Conscious of Planned Maintenance

Xymax REI published in 2016 that planned and continuous repairs had a positive impact on rent.^{*3} Based on the assumption that operators with a medium- to long-term repair plan operated their buildings in a planned manner, we examined the difference between operators without such a plan. The percentage of both operators was roughly the same (**Figure 26**).

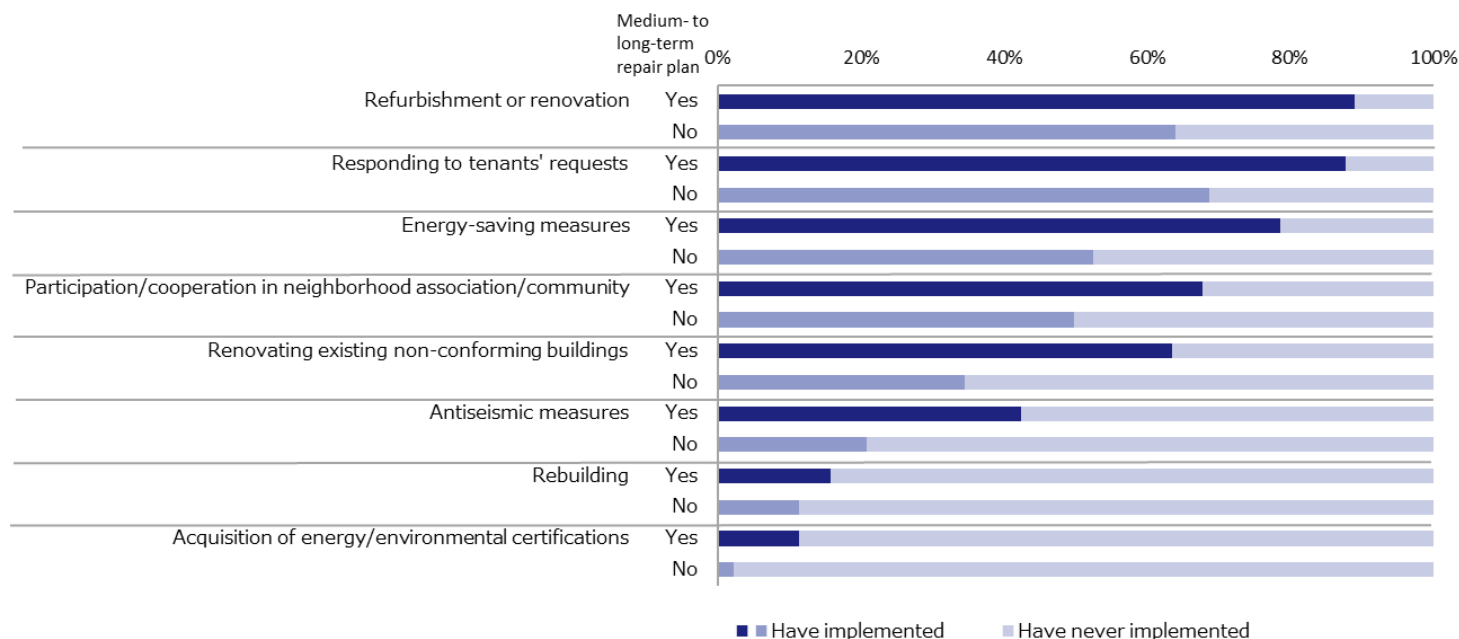
*3 "Economic Value of Repair" https://www.xymax.co.jp/english/news_research/?type=research

Figure 26: Preparation of a Medium- to Long-term Repair Plan (n=599)



In a comparison of the implementation ratio of the measures in the building lease business that we examined in **Figure 12**, we found that, in all the measures, the implementation ratio was higher among operators with a repair plan than among those without a repair plan (**Figure 27**). This result is roughly the same as in Tokyo & Osaka (2017). The implementation ratio was higher not only in measures requiring a large amount of costs, namely "refurbishment or renovation," "energy-saving measures," and "antiseismic measures," but also in "participation/cooperation in neighborhood association/community," indicating a difference in operators' involvement in the local community upon operating buildings.

Figure 27: Implementation Ratio of Measures by Preparation of a Repair Plan (n=502)



We also compared the future outlook. Operators with a repair plan were more optimistic than operators without a repair plan in both the short term (around three years) and the medium to long term (around five to ten years), and less pessimistic (**Figures 28 and 29**).

We believe that operators with a medium- to long-term repair plan carry out measures in a planned manner and, as a result, have less anxiety factors toward the future.

Figure 28: Short-term Outlook (n=494)

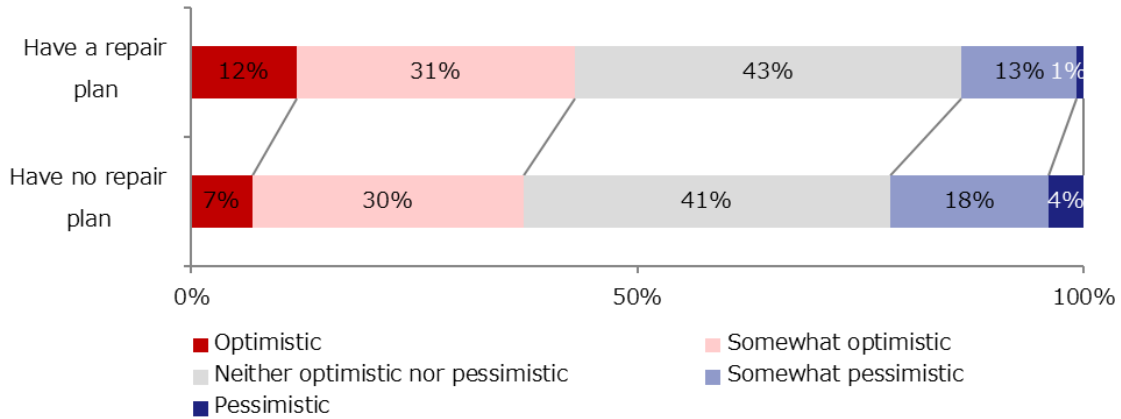
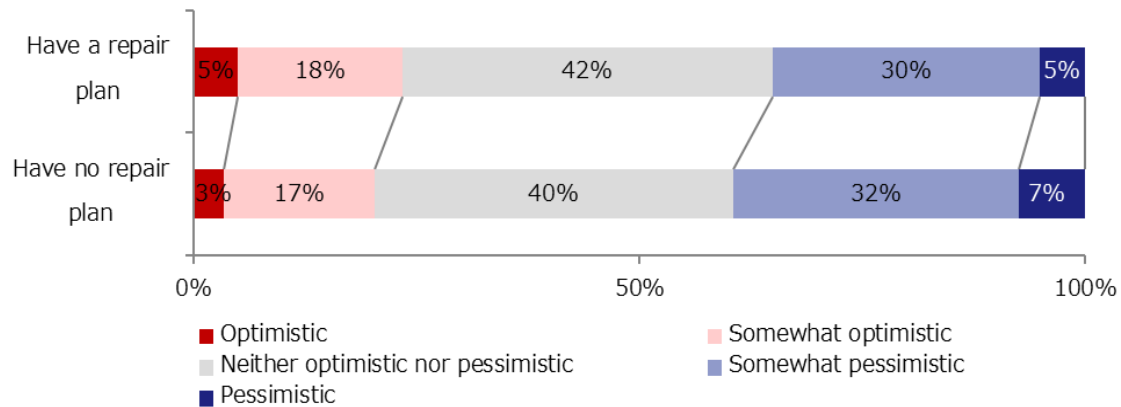


Figure 29: Medium- to Long-term Outlook (n=491)



5. Efforts Made in Order to be Chosen by Tenants

The results of the questionnaire did not show a large difference in the profile of the business managers, such as their age and the age and size of their buildings, and their thoughts toward the business from that of business managers in Tokyo & Osaka (2017). However, operators in Government-designated Cities (2018) had a higher interest in the decreases in the population and the number of workers than in Tokyo & Osaka, indicating a sense of urgency among building owners (**Figure 21**). Therefore, in the interviews we asked building owners about the efforts they made for their buildings to be chosen by tenants. The following are specific examples and candid opinions that cannot be collected from the questionnaire.

Differentiation of aging buildings

- I renovated a building that was rather vacant while maintaining the spacious common area and the retro feel from the time the building was completed. I also highlighted the appeal of the building on our website to develop branding of the building and included photos of the process of maintenance work (e.g. cleaning and repairs), which are not very obvious, in an effort to improve the visibility of appropriate management and increase tenants' sense of reassurance in the building. (Fukuoka)
- I decided to carry out antiseismic measures after witnessing a building collapse due to the Great East Japan Earthquake. I ensured quake resistance and renovated the entire building into a new building with a retro feel. I created a spacious feel to the space by removing the suspended ceiling since the ceiling height was low, having the walls fitted with floor-to-ceiling glass, and using wireless wifi and flat cords without installing a floor for OA capacity. I retained the aesthetics of the exterior and the exclusive sections by placing the braces for seismic strengthening inside the outer wall and creating space between the exclusive section by installing a door that took in light. This led to greater heat insulation performance and energy saving. I insisted on a design that expressed a sense of the "new" amid the old, instead of using custom-made products and other expensive materials. I also added a bit of playfulness through the paintings on the corridor walls and objects such as vintage motorbikes. (Nagoya)
- My building is over 50 years old and houses both offices and residences. In the basement there used to be a movie theater but now it is a restaurant. I insisted on a design that highlighted the new amid the old, with the owner himself involved in deciding the specifications. The design is popular with the tenants, and those who rent the building on a long-term basis are mostly fashionable tenants. I cut costs by renovating the residences on the upper floors, which used to be rather vacant, by in-house construction work instead of outsourcing. The property has garnered a following and has a waiting list of residents. (Kobe)
- When I rebuilt the building ten years ago, I switched from an ordinary rental office business to a serviced office business, anticipating a future rise in demand. The building is highly convenient, with a reception service and extensive common areas such as a business lounge. The offices are fully occupied by start-ups and other small-scale tenants. (Kyoto)
- Although the equipment of buildings deteriorates and becomes obsolete over time, it is not easy to carry out large-scale replacements or upgrades of equipment. I install the latest, high-spec equipment with the intention of using the current building for as long as possible instead of rebuilding the property in the future. (Fukuoka)

Improving tenant satisfaction

- I installed a meeting space in the common area, since it is difficult to secure a meeting space in the exclusive section in small-scale offices. It is also leased by the hour (paid or free of charge) or leased to outside clients. The space is sometimes used as a venue for employment interviews and branch meetings. (Kyoto, Fukuoka, Nagoya)
- I select and attract firms of qualified professionals (e.g. tax accountants, administrative scriveners, lawyers) without having more than one firm of the same profession. I try to offer an environment that enables clients who visit the building to finish all of their business within the building in one visit. This has also enabled the tenants to gain new customers. (Kitakyushu)
- I provide rooftop barbeque space and meeting rooms equipped with a kitchen. They are used for communication between the tenants and for business meetings. They also function as a place for information exchange between start-ups. (Omiya, Kobe, Nagoya, Yokohama)
- In addition to small-sized lease sections, I provide a one-week trial rental service for start-ups. This allows them to see how their customers are attracted to their product/service and the reactions of the customers before launching their business. I also leave the tenants of each floor to operate the building under their own rules. (Kitakyushu)
- There are many things you only know by talking with the tenants. I place importance on gaining awareness through interaction with people. I created a space for e-cigarettes in the smoking area based on the opinion of a woman among the tenants. (Sapporo)

Initiatives with the community

- My perspective is not limited to one neighborhood association but has expanded to the entire community or town. I participate/cooperate in joint associations of multiple neighborhood associations and/or town development committees/conferences. I am engaged in searching for usages such as restaurants and entertainment facilities following the increase of tourists, as well as in the vitalization of the community and regular cleaning activities. (Kobe, Sapporo)
- I unify the neighborhood associations as a leader to raise awareness. I promote measures to invigorate the community while seeking to rejuvenate the members. I hope to review the conventional customs and habits and make them more acceptable. Going forward, it will be necessary to vitalize the broader area to utilize individual buildings. (Sendai)
- The industry that once flourished has declined and the decreases in the population and workforce have accelerated, which have led to changes in the redeveloped townscape. I am committed to developing a platform between the community for vitalization of the town. As part of a town development project, I propose and implement sustainable measures that are easy to participate in by involving multiple districts and neighboring companies. (Kitakyushu)

Personnel strategy

- We make direct use of “silver human resources” (elderly human resources), who are friendly and work carefully, in cleaning services which involve opportunities to come into contact with tenants. (Kobe, Nagoya)

Summary

Tokyo & Osaka (2017) and Government-designated Cities (2018) revealed the actual state of building owners in major cities nationwide. It was common throughout the nation that most of the building owners were aged and had only one or two buildings in possession, a large majority of which were aged 20 years or older. The matters that the owners placed importance on and their expectations in the building lease business such as the alleviation of burden were also common among owners nationwide. In terms of the outlook, although owners were more optimistic than pessimistic in the short term, they were more pessimistic than optimistic in the medium to long term, with concerns in the future being a drop in rent income, the increase in repair costs due to the aging of the buildings, and the rise in maintenance costs. These results were also common nationwide.

Under such circumstances, many building owners were making various efforts so that their buildings would be chosen by tenants. These not only included tangible efforts such as renovation of the buildings and intangible efforts to improve tenant satisfaction, but also initiatives to vitalize the community. Such efforts by building owners would form the basis for building high quality stock.

Xymax REI intends to continue its survey of building owners and research of building stock with the aim of publishing useful information.

Survey Overview

Period	June – September 2018
Coverage	19 government-designated cities, excluding Tokyo and Osaka city (Sapporo, Sendai, Saitama, Chiba, Yokohama, Kawasaki, Sagamihara, Niigata, Shizuoka, Hamamatsu, Nagoya, Kyoto, Sakai, Kobe, Okayama, Hiroshima, Kitakyushu, Fukuoka, Kumamoto) A total of 6,352 companies extracted from Tokyo Shoko Research (TSR)'s data [Net sales] 10 million–3,000 million yen [Industry] Companies whose "principal" or "secondary" business (thus registered) is office lease
No. of valid responses	Questionnaire: 561 companies; 8.8% response rate (72 companies in Sapporo, 55 companies in Sendai, 24 companies in Saitama, 16 companies in Chiba, 54 companies in Yokohama, 16 companies in Kawasaki, 4 companies in Sagamihara, 11 companies in Niigata, 15 companies in Shizuoka, 8 companies in Hamamatsu, 62 companies in Nagoya, 43 companies in Kyoto, 9 companies in Sakai, 34 companies in Kobe, 10 companies in Okayama, 49 companies in Hiroshima, 24 companies in Kitakyushu, 41 companies in Fukuoka, 14 companies in Kumamoto) Interview: 33 companies
Method	Questionnaire survey by post or online, and interview
Survey details	<ul style="list-style-type: none"> 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- to long-term); concerns in the building business; social situations interested in; usage interested in; intention to continue the business; hopes and requests in the building lease 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%.

*The charts contained in this report represent aggregations excluding non-respondents for each question.

Contact for inquiries concerning this report

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