

# Best Practices of Small-to-Medium-Sized Buildings – The 1<sup>st</sup> Report



- Introduction of the building owners' efforts in the changing times -

September 24, 2019

Office buildings represent real estate assets as typical as residential houses, and play key roles as the basis of activities for the companies and the public agencies that support the Japanese economy. Office buildings can be divided into two categories by size – large-sized buildings and small-to-medium-sized buildings. When we look at the stocks of the office buildings for rent, the number of the small-to-medium-sized buildings amounts to 90%. Since many of them were provided en masse during the Japanese asset price bubble period, the whole stocks get aged year by year. In the center of Tokyo, the mainstream of the supply is for large-sized buildings and a new supply of the small-to-medium-sized buildings is small.<sup>1</sup> A shift in the flow of people associated with large-scale development and a renovation of town amenity bring about changes in the office areas. From the demand side, the office strategies of the companies and the attributes desired for an office are changing because of the backgrounds including workstyle reforms. Thus, the environment around the office building business gets increasingly diversified and complex.

Xymax Real Estate Institute (Xymax REI) and the laboratory of Professor Yukio Komatsu at Department of Architecture, Waseda University have conducted a joint study since 2015 via continuous questionnaires and interviews from the building owners possessing small-to-medium-sized building(s) and leasing office building(s). The outcome was released on our website.<sup>2</sup> The studies since 2017 revealed that many building owners had relatively optimistic short-term outlook enjoying a strong office market but that a pessimistic view dominated for the mid-long term. Concerning about increasing costs of repair and refurbishment caused by their aging buildings along with a decline in rent and increase in vacancy, building owners are aware of the necessity to take some actions; however, they seem to be hesitant to implement the measures for these problems because they have operational challenges, cannot find economic reasonableness, and/or cannot see from which to start.

Xymax REI has conducted the questionnaire surveys of the building owners and the interviews on their practices continuously. The results contain building owners' creative ideas and tips for building management, which must be informative also for other building owners. Thus, we decide to release "Best Practices of Small-to-Medium-Sized Buildings - No.1" supervised by Professor Yukio Komatsu of Waseda University, in which excellent cases are introduced as the best practices. Xymax REI plans to continue interviews from building owners and to release a series of best practices regularly. We hope this article will be beneficial information for the stakeholders of office leasing including building owners.

<sup>1</sup> TOKYO 23 WARDS Office Stock Pyramid 2019, released on January 23, 2019  
<https://www.xymax.co.jp/english/research/images/pdf/20190123.pdf>.

OSAKA CITY Office Stock Pyramid 2019, released on January 23, 2019  
[https://www.xymax.co.jp/english/research/images/pdf/20190123\\_2.pdf](https://www.xymax.co.jp/english/research/images/pdf/20190123_2.pdf)

<sup>2</sup> Building Owner Survey 2015, released on November 26, 2015  
<https://www.xymax.co.jp/english/research/images/pdf/20151126.pdf>  
 Building Owner Survey 2017, released on October 25, 2017  
<https://www.xymax.co.jp/english/research/images/pdf/20171025.pdf>  
 Building Owner Survey 2018, released on October 25, 2018  
<https://www.xymax.co.jp/english/research/images/pdf/20181025.pdf>

## Purpose of the survey

The typical measures to improve the value of a building include: hardware refurbishment such as building renovation and seismic strengthening; and intangible efforts such as thorough cleaning, additional tenant services, and cooperation with the neighboring community. However, the effectiveness of each measure varies a great deal by building and there is no index to evaluate it.

This survey is to pick up a wide range of efforts the building owners has made to tackle a big challenge of "improving the values of a small-to-medium-sized building," and to archive them as the best practices. In addition, we classify the values of buildings into two types – the value perceived by the building owner (e.g. property value, profitability, and reduction of operational costs) and the value perceived by the tenants (e.g. comfortability, satisfaction in terms of usage or needs) and discuss how they were changed before and after each owner's specific efforts.

The building owners' efforts introduced here as the best practices were involved in "making use of his own building's features and advantages," "analyzing and identifying the target tenants," and/or "improving the building values through efforts such as vitalization of the neighboring community." The effects of these initiatives are also introduced below. The information should be beneficial for the building owners who cannot decide which measure should be taken.

Xymax REI will continue to collect such individual solutions as many as possible and analyze how the values of a building are improved for office building leasing from the aspects of "building," "operation," "tenant," and "community and environment," for the purpose of discovering universal tips from the collected individual solutions.



## Introduction of the best practices

This first report introduces the initiatives for the following five buildings as the best practices:

- I. Enshow Building** (Nagoya City), where renovation of the whole building was conducted focusing on seismic strengthening plus functionality and enjoyable design with an aim to attract the tenants of long-term contract;
- II. Daizen Building** (Fukuoka City), of which image was refreshed through branding of the building using its website and SNS;
- III. Kinsan Building** (Tokyo) that regenerates continuously foreseeing the tenants' needs throughout the ages, as shown in its acquisition of LEED Gold certification in 2018;
- IV. Tamaru Building** (Tokyo) that catches the changes in social conditions in an agile manner and succeeds in achieving full occupancy by expanding its target tenants; and
- V. Fuji (Alt Kobe) Building** (Kobe City) that succeeded in making it profitable by unique refurbishment and marketing strategy and facilitating communications and integration among the old and new tenants.

Each case is described by the following issues in general:

- Outline of the initiative,
- Profile of the building,
- The background and the problems driving the initiative,
- The details of the initiative,
- The effects of the initiative and the responses from the users,
- Change in the values after the initiative, and
- The building owner's comments.

## I. Enshow Building (Nagoya City)

Enshow Building is aged more than 40 years and has gone through renovation of the whole building from both aspects of hardware and intangible issues to enhance satisfaction of tenants with a focus on those who may occupy their room long term as the targets. At refurbishment, the owner did some works by himself such as creating a screen at the staircase landing and purchasing commercial carpets, which enabled reduction of costs as possible and resulted in a design well-balanced by old and new. In the aspect of functionality, the owner made a range of efforts, being conscious of energy-saving effect and changes in workstyle. It is a comfortable building in which the owner's sophisticated and playful spirit is embodied everywhere. In addition, the building went through seismic strengthening for safety and security of the tenants.

### 1. Profile of the building

Location: Nagoya City, Aichi Prefecture (1-minute walk from Gokiso Station)

Gross floor area: 1,009 square meters

The number of floors: 5 stories above the ground

Year built: 1974

Year of renovation: January 2016 to February 2017

Surrounding environment: Located conveniently at the place accessible in about 15 minutes from Nagoya Station by subway. The nearest station is accessible via both subway Tsurumai Line and Sakura-dori Line. It is a calm residential area, where commercial buildings exist only along the major road and in front of the station. The area allows people to live near workplace.

The owner's age: In his 50's



### 2. Reasons for performing renovation of the whole building

In 2011, when the owner started to recognize a necessity to make some efforts for the aged building, the Great East Japan Earthquake occurred. When the owner went to the affected area with the staff of the affiliated construction company for reconstruction assistance, he recognized an importance of aseismic measures by watching collapsed reinforced concrete buildings. With a high risk of the Nankai Trough Earthquake, the owner were planning to rebuild Ensho Building, thinking that assurance of earthquake-resistance strength is requisite for inviting tenants expected to make a long-term contract. However, because of soared cost of building and difficulty in constructing a building shape of the initial plan, it was changed to maintain the existing building while performing seismic strengthening and renovation of the whole building.

### 3. The details of whole building renovation

#### ① Seismic strengthening

For the first floor, the earthquake-resistant walls were installed and the columns were reinforced by using aramid fibers. For the upstairs, steel braces were applied inside of the building not to cause damage of external view. At installation of the braces, carrying the complete products into the rooms was impossible due to their size and weight, and thus the components were put together at each floor. They installed a heavy component of approximately 700 kilograms using a pulley to make it with a small manpower.



Earthquake-resistant walls and a column covered with aramid fibers on the 1<sup>st</sup> floor (left)



Braces from outside (upper right) and inside of the room (lower right)



#### ② Overcoming the disadvantages

The following refurbishments were performed to provide comfortable spaces where the users do not feel cramped despite low ceiling height of the building aged more than 40 years.

**Double skin system:** The walls of smoked glass were installed between the existing exterior wall and the operation space with a distance of 30 to 40 centimeters. This double skin system was planned originally for aesthetic purpose to hide the braces installed inside of the external wall, but it also has good insulation and thus realizes energy saving. Although the office area became smaller, the double skin system is received well among tenants because it provides aesthetic advantages in the rooms while the smoked glasses also allow protection of privacy without necessity of curtains or window shades but with sufficient exposure to sunlight.

**Glass-walls of the office:** The walls of the meeting rooms were replaced by the glass plates standing from the floor to the ceiling to give a spacious look.



**Removal of the suspended ceilings:** In the rooms of smaller than 100 square meters, the suspended ceilings were removed and the lighting apparatuses were attached directly to the ceilings. Indirect lightings are used mainly, and the rails for the lighting apparatuses were installed for the tenants to accommodate the position and lighting intensity as needed by their usage.

**Flat cords:** Raised floors are not installed but the floors are covered with tile carpets. Electric wiring consists of the wall outlets and the flat cords of 0.9 millimeter thick, and wireless LAN can be used as the standard.



Glass walls of an office



The suspended ceilings were removed, and the indirect lightings were attached directly to the ceiling.

### ③ Enhancement of tenant satisfaction

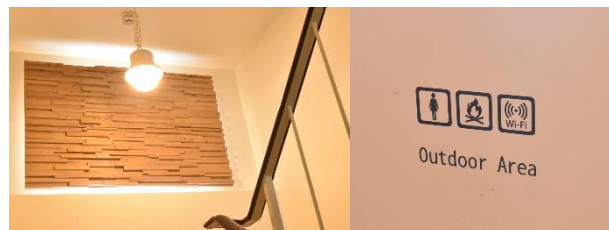
**Rental meeting room:** The room in front of the elevator lobby on the 2<sup>nd</sup> floor is used as a rental meeting room. It can be booked online with the fee of 1000 yen per hour, being used for business meeting or recruitment interview. (Initially, there were rental meeting rooms on the 2<sup>nd</sup> to the 4<sup>th</sup> floors, however, the rooms on the 3<sup>rd</sup> and the 4<sup>th</sup> floors are used exclusively by a tenant.)

**Common refreshing space:** The existing rooftop deck is provided with the chairs, the BBQ installation, and a smoking room to be a space used freely by the tenants.

**Green and wood:** To give a peaceful atmosphere, green plants as well as wood materials are used for interior finish and fixtures. For the staircase landing, the owner created a screen made of wood scraps by himself. The refreshing space on the rooftop deck is floored with wood and garnished with green plants. The tables of the meeting rooms are made of solid timbers of Japanese cypress. Thus, many spaces in the building give the warmth and aroma of wood.



BBQ installation provided on the rooftop deck.



A screen at the staircase landing (made of wood scraps by the owner)

Pictogram on the door to the outside.

**Wi-Fi:** Free Wi-Fi network is available in the building even at the spaces outside of the rooms.

④ Disaster preparedness

For each tenant, a gas-cartridge-powered generator, a portable toilet, and foods for 3 days are provided. Further, for contribution to the neighbouring community, water in the water receiving tank is prepared to be shared at disaster and the space for emergency stocks is offered for free to the local community association.

⑤ Unique features added by the owner

**Design:** Many enjoyable designs are provided and seen in the building as the unique features added by the owner, including an drawing of a human shape on the door front of a restroom, the gap of old (unpainted stairs) and new (refurbished spaces of the elevator lobbies), the carpets on the elevator lobbies chosen to fit an image of each floor, and a vintage motorbike at the entrance. The building name plate was created to adopt the logo at the time of its new construction, mimicking even rust.



A funny drawing on the door front of a restroom.

**Commercial products:** Using not only the materials as suggested by the designing process but also the commercial products purchased by themselves from a do-it-yourself store or a large-scale furniture store (e.g. carpets, legs of the meeting room tables), the owner succeeded in reducing the costs of refurbishment.

**Safety:** In addition to seismic strengthening, the owner took a safety measure for preparation against falling of the exterior wall tiles that might be separated due to earthquake or other reasons. The canopy roof provided above the entrance should play the role of a cushion in case any tile falls down.



A vintage motorbike is placed as a decorative object.  
(It may activate conversations in the business meetings.)

⑥ The company's internal spaces

**Kitchen:** In the space used by their own company, a meeting space with a compact kitchen is prepared. Being used for breaks of the cleaning staff, meetings with a vendor/supplier, or other purposes, the space is well received by the users saying that it allows active and friendly conversations not possible in the meeting rooms.

**Workplace:** Upon renovation, in the company's internal spaces also, they purchased new fixtures and adopted creative desk layouts and hot-desking to try new workstyles. The company intends to evaluate these attempts to see how they affect the quality of jobs, in order to summarize the challenges and other issues to be utilized for future proposals to their tenants.



A meeting space with compact kitchen.  
The windows are furnished with marine window frames.

#### 4. Cost, effects, and other benefits regarding the whole building renovation

The owner spent approximately 125 million yen (of which, seismic strengthening accounts for 31 million yen) for renovation of the whole building. The followings are the effects and the tenant relations after the initiative:

Effects;

- The occupancy rate keeps to 100% after renovation.
- Despite reduction in the leased area after renovation, the rent increased by 2500 yen per tsubo. It resulted in a revenue increase of approximately 7 million yen per year.

Tenant relations;

- Because the double skin system (the screens to hide braces) has an effect of thermal insulation, now the temperature in the rooms does not fluctuate greatly. The tenants made favorable comments saying that the rooms were comfortable. The demands or claims on the air conditioning are scarcely heard from the tenants.
- The fixings for disaster preparedness contribute to security and safety of the tenants, although they are not the factors considered by the tenants at their selection of the building.
- There are increased number of people who want to move in the building. The owner introduces his declined applicants to the neighbor buildings, thus contributing to activation of the community as well.

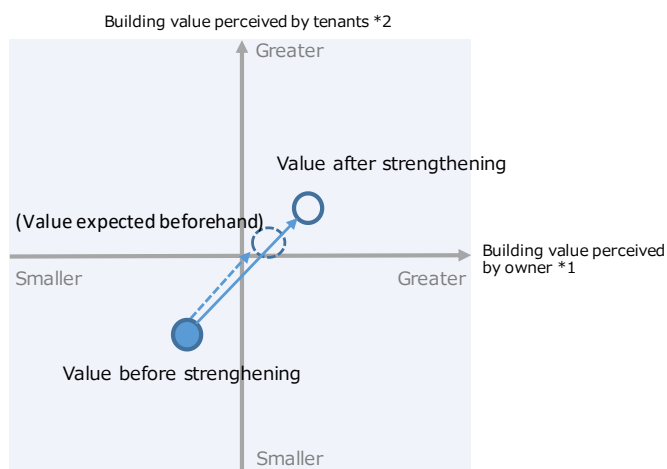
Energy-saving effect;

- With thermal insulation effect of the double skin system, an introduction of LEDs, renewal of air conditioning and others, the electricity cost was reduced by approximately 44% compared to that before the renovation – an achievement more than expected.

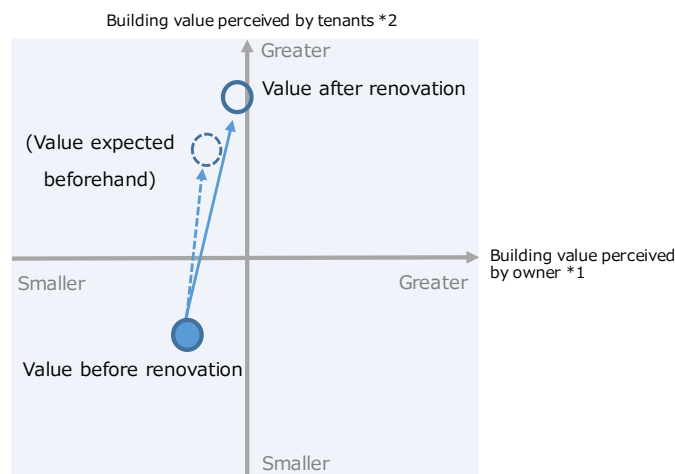
#### 5. Change in the building values before and after the whole building renovation (the owner's evaluation)

We asked the owner to evaluate the change of his building's values before and after the renovation of the whole building. As the result, the values added by both seismic strengthening and renovation exceeded those expected before renovation. In particular, the value added by renovation is much greater than that was expected.

**Owner's evaluation on his building values before and after seismic strengthening**



**Owner's evaluation on his building values before and after renovation**



\*1 **Building values perceived by the owner:** Property value, profitability, reduction in the operational costs, etc.

\*2 **Building values perceived by the tenants:** Comfortability, satisfaction in terms of usage or needs, etc.

\* We asked the owner to evaluate the values of his building assuming that the point at the intersection of the two lines represents the average values of the surrounding buildings.

## 6. The owner's comments on the whole building renovation and future building management

We placed greater value on long-term occupancy than increase of rent. Because of our aseismic measures, a public corporation moved into the building. Although the measures other than seismic strengthening (the fixings for disaster preparedness and utilization of the shared space) are not the key factors considered by the tenants upon their selection of buildings, we believe that all these measures contribute to a sense of great security of the tenants. Our devices created one by one carefully in consideration of tenants' needs and easiness of working resulted in a greater number of good responses after a while than expected. We anticipate that it will lead to long-term occupancy.

In future, our workstyle must be changed even in the medium-sized companies like ours. Prevalence of online infrastructure will allow remote meeting and teleworking. Because we have no plan to expand our workspace, we need to accept various workstyles before recruiting people. Currently, we enable hot-desking by replacing the desks that have been used by individual persons with the long desks that can be shared by multiple persons.

In addition, we started a pilot implementation of teleworking to allow work from home. By making use of the communication tools such as Skype for our meetings, we hope to respond to the needs of our employees who have a small child or a family member in need of nursing care. Although there are problems and challenges, we also hope to offer satellite office business near the homes, if it can be realized by the scale of our company.

The background of my thinking like this was my experience of nursing my father who passed away recently. At that time, I found it was difficult to give a good nursing care if I had been a typical corporate employee. We would like to accommodate our building business to allow our proposal of workstyles that can respond to the aged society and labor shortage. Besides, responding to a change in the society, we utilize sharing services to reduce our fixed costs. For example, we own only one company vehicle and rely on time-sharing service. The real estate industry will be changed in future, and the change must be drastic. It will be regenerated after retirement of the generation that values conventional business practices.



## II. Daizen Building (Fukuoka City)

Daizen Building is a case in which an aged building is regenerated by operational efforts, not by hardware upgrading. The owner believes it is a key to discover the charms of the building and the neighboring community and to organize and communicate them clearly to meet the needs of the tenants and the community. Thus, the company addresses **branding of the building aiming to improve its values**, through sending its messages on its website and SNS and responding carefully to the demands from its tenants in both hardware and intangible aspects.

### 1. Profile of the building

Location: Fukuoka City, Fukuoka Prefecture (7-minute walk from Akasaka Station)

Gross floor area: 3,543.7 square meters

The number of floors: 5 stories above the ground and 1 underground story

Year built: 1973 (Expanded in 1979)

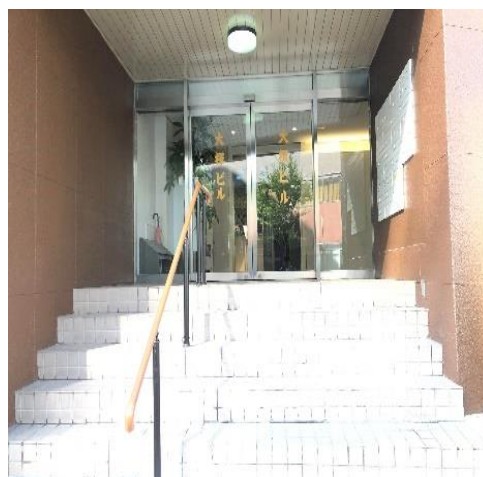
Surrounding environment: The building is in a good office environment where there are the court building, the Legal Affairs Bureau, and Ohori and Maizuru Parks in the proximity. The area has become popular also as a living and academic district and is busy with constructions of high-rise apartment buildings and others these days.

The owner's age: In his 30's



### 2. Reasons for starting an initiative toward branding

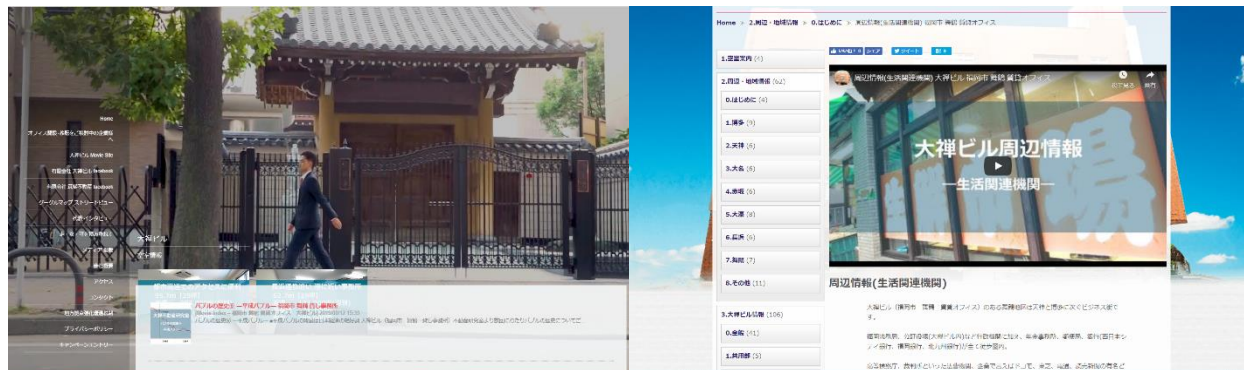
When the current owner took over the operation of the company in 2014, the occupancy rate of the building was less than 70%. While the former owner was technically oriented and focused the company's efforts on building maintenance upon managing his building, he could not take up marketing activities. At that time, in the surrounding area, office buildings were rebuilt into relatively high-end housings such as high-rise apartment buildings, and elementary and junior high schools were remodeled. Thus, the area was shifting to an academic district. On the other hand, there is a significant amount of needs for offices in the area where the administrative bodies such as the court building and the Legal Affairs Bureau are located. Thinking of an increase of the occupancy rate as the greatest challenge of the building, the current owner started the company's marketing activities by facilitating "branding" as an approach to regenerate the aged building through understanding of the surrounding area's situation.



Automatic doors since the new construction

### 3. The details of branding

Daizen Building identified the following 4 issues as its brand identities and is communicating them on its website and SNS including Facebook.



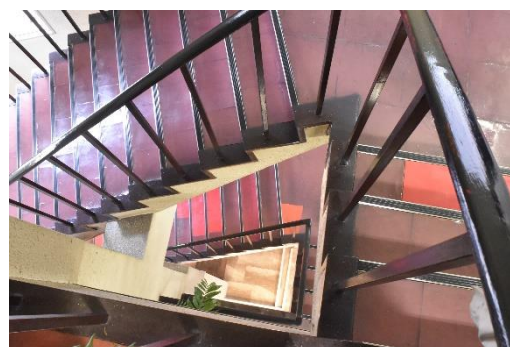
Official Website of Daizen Building using plenty of videos and photos

#### ① Attachment to community

The website introduces the history and the constructions in Akasaka and Maizuru area where the building is located. By discovering the charms of the area and reminding community-based people of fond memories, it is attempting to keep and enhance the visibility of the building as well as that of the neighboring community.

#### ② Fusion of retro-inspired and brand-new charms

The building has a retro-inspired charm found in its spacious staircase landing, spiral-like inside stairs and others that can be seen rarely these days. While preserving the merits of construction and equipment at the time of its new construction, its relatively narrow and obsolete entrance was refurbished to give bright and clean impressions.



Antique spiral-like inside stairs

#### ③ Complete cleaning and maintenance

How inspections and cleanings are performed, and how security and safety are considered – such building maintenance issues are hard to be known by the tenants. Daizen Building has been carefully maintained since the time of the former owner. The company put the videos and the photos of its maintenance process on its website to appeal to its tenants. By letting the tenants know the maintenance process, the company had a range of benefits: After releasing a video showing the complete way of cleaning a smoke removal system equipped in the smoking space, smokers improved their manner and non-smokers' hate of smoke was relieved.



A video on cleaning of a smoke removal system released on the website

④ Addressing the needs of tenants

For the tenants of a small sectioned floor, it is difficult to have a meeting room and/or a refreshing space in their leased area. The building provides a time-sharing meeting room (available also for the users from outside) and a refreshing space to be used for recruitment activities, business meetings, lunch, and other purposes of the tenants. The refreshing space having plenty of women's magazines sees an increasing number of female users these days.



Rental meeting room with meeting tables and workspaces



Bright and relaxing refreshing space

⑤ Other efforts

The company started ads on SNS including Facebook, in order to attract the companies and start-ups located in the remote areas like Tokyo and Osaka that hope to launch their office in Fukuoka to its website. In addition, its building business responds to the needs of the surrounding area by the efforts such as acceptance of a field office for increased number of constructions near the building and taking a measure against doves in consideration of a hygienic effect for future move-in of a preschool.

#### 4. Cost, effects, and responses regarding the branding initiative

The owner spends approximately 6 million yen for refurbishment of the shared space, approximately 700 thousand yen for production and enhanced security of its website, and approximately 175 thousand yen/month for running costs of website operation and others.

The effects and the responses after branding and refurbishment are as follows:

Effects;

- The occupancy rate increased from approximately 70% to 100% (as of August 2019).
- An increase of the rent since its start in 2018.

Responses from the tenants;

- Having known the maintenance process, they had a sense of security.
- They feel that refurbishment of the entrance made the inside of the building brighter.
- An increasing number of women are using the refreshing space.

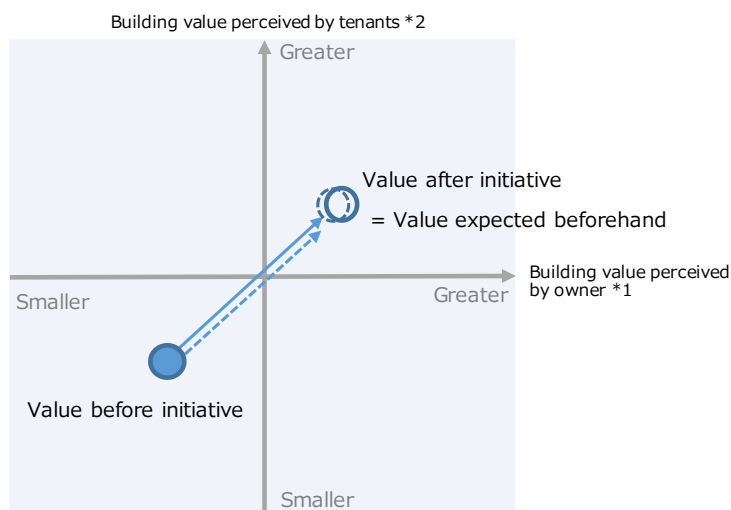
Other benefits;

- The website plays a role of a communication tool with the real estate brokers. One company introduced a firm operating rental meeting rooms, knowing the situation of the building.
- Many potential tenants are checking the building on the company's website. Two inquiries via the website led to making contracts.
- Serving the outside users of its rental meeting room resulted in enhancement of manner consciousness toward the customers among the company's employees.

## 5. Change in the building values before and after the branding initiative (the owner's evaluation)

We asked the owner to evaluate the change of his building's values before and after the branding initiative. The change of the values was as expected. The owner anticipates that the benefits would be added further by the outcome of the company's current efforts using its website and SNS.

**Owner's evaluation on his building values**



\*1 **Building values perceived by the owner:** Property value, profitability, reduction in the operational costs, etc.

\*2 **Building values perceived by the tenants:** Comfortability, satisfaction in terms of usage or needs, etc.

\* We asked the owner to evaluate the values of his building assuming that the point at the intersection of the two lines represents the average values of the surrounding buildings.

## 6. The owner's comments on his initiative toward branding and future building management

It is a key to organize and communicate clearly the charms of the building. With interactive communications using SNS, now we can receive the responses from our tenants directly and respond carefully to their needs, even to a minor one. Before taking over a job of building management from the former owner, I launched businesses related to events, advertisement, IT, and others. In this company, I hope to try brand-new sales styles and advertisements we haven't done before one after another, building on my experience. Now we take some measures to receive responses from the potential tenants directly. For example, we are running a "preview campaign" in which we offer a gift to the potential tenants who came to our building for preview via our website or Facebook, through which we receive "Like👍".

Our efforts are still to be made continuously. We hope to keep on our initiatives toward refurbishment of the building from mid to long-term viewpoint as well as branding and publicity of the building and the neighboring community.



### III. Kinsan Building (Tokyo)

Kinsan Building is a commercial building for rent located in Nihonbashi, Tokyo that was built in 1931. Initially, a drapery wholesaler established in Edo period occupied the first floor. The building was the first work designed by an architect Togo Murano after his independence, and enjoys the reputation of being an "eternal masterpiece." Going through World War II and now celebrating its 88th anniversary, the building has been meeting the needs of the age repeating large-scale renovations from time to time – from the 1<sup>st</sup> renovation in 1956 to the 6<sup>th</sup> renovation in 2014. The building has undergone lots of **improvements to regenerate continuously foreseeing the tenants' needs throughout the ages**. Here, we focus on the two initiatives as the best practices: acquisition of LEED Gold certification with which their efforts to improve energy-saving and environmentally conscious effects are backed by the third-party certification, and seismic retrofitting and renovation started after a key tenant moved out.

#### 1. Profile of the building

Location: Chuo Ward, Tokyo (1-minute walk from Mitsukoshi-mae Station)

Gross floor area: 7,843.05 square meters

The number of floors: 8 stories above the ground and 1 underground story

Year built: 1931

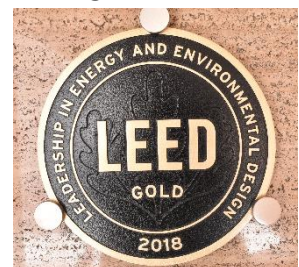
Surrounding environment: In the area, office buildings (e.g. Bank of Japan, megabanks, and securities companies) and shopping facilities (e.g. flagship Nihonbashi Mitsukoshi department store) coexist. Recent years, a major developer has been promoting redevelopment of the area and many buildings were rebuilt.

The owners' age: In his 70's and in his 40's



#### 2. Reasons for applying for LEED certification and the process

The owner got interested in LEED<sup>3</sup> certification when he visited the United States joining a study tour on property management (PM) during 2008 to 2010, through which he became aware of environmentally conscious buildings being advanced in US. In particular, he sympathized with an idea of LEED that the building's efforts to provide the spaces where the users can spend comfortably will result in a higher rating, thinking that it coincided with his company's management philosophy. Having visited Empire State Building and found that the building built in 1931 was LEED certified, he thought it might be possible for his building to acquire the certification and applied for it in 2012. The company has maintained its building with a mid to long-term viewpoint, and introduced energy-saving equipment proactively at the past refurbishments. The state of controlling the equipment is very good: It is operated by the employees, and they modify the operations on demand to enhance tenant satisfaction. The assessment indicated that Energy Star (a certification for energy efficient buildings) score earned 93 points. Although LEED performance score was above 60 points – the rating level for Gold certification, they pointed out the problems regarding water-saving performance of sanitary ware (a requirement) and ventilation capacity of HVAC.



<sup>3</sup> LEED (Leadership in Energy and Environmental Design) is a green building rating system available for building and community projects. It was developed in 1996 by the U.S. Green Building Council comprised of representatives from a range of areas in the industry.

Because seismic retrofitting and renovation from 2014 permitted the building to overcome the issues pointed out, the company reattempted LEED acquisition. This time, the company applied for it following the new rating system called "Arc" performance platform (that measures building performance by comparing metrics across the globe), and made a success of acquiring LEED Gold certification in 2018. Besides renovation, the company implemented environment- and human-friendly measures such as placing mats at the entrances for an anti-dust purpose, production and installation of a differential pressure (DP) monitoring and alarming device to maintain negative pressure in the smoking room, provision of face masks to the cleaning staff, and use of detergents made from natural ingredients.



A DP alarm in the smoking room and environment-friendly detergents

### 3. Seismic retrofitting and change in the floor layouts

In 2014 when a key tenant moved out and the occupancy rate went down to approximately 50%, the owner recognized a necessity for renovation strongly, facing relative degradation in the functionality of the shared spaces including restrooms. Also, because the 1<sup>st</sup> seismic retrofitting in 2006 did not attain "Is" <sup>4</sup>0.6, the company started the 2<sup>nd</sup> retrofitting in which "the earthquake resistant studs system" was employed to strengthen the exterior walls excluding the windows using reinforced concrete walls. Although the system decreased the rentable ratio of the building with the thickened exterior walls and the interior strengthening walls, the owner made safety of tenants a primary concern. In addition, the company changed its floor layouts of the building to be consistent with the number of earthquake-resistant walls in each floor. For example, with a smaller number of earthquake-resistant walls, now the 7<sup>th</sup> store is the only floor to be leased at whole floor having more than 120 tsubo rentable area. Because these layouts coincide with the needs of the clients in the surrounding area, now the building has the tenants occupying a small space of 10 to 40 tsubo and keeps 100% occupancy rate. Moreover, for the tenants having difficulty to prepare a meeting room and/or a smoking room in their own space due to low utilization rate, the building provides a rental meeting room and a shared smoking room in the first basement and the mezzanine floor, respectively.



A floor plotted by earthquake-resistant

<sup>4</sup> Is (seismic index of Structure): An index to measure aseismic capacity of a building. According to the Act for Promotion of Renovation for Earthquake-Resistant Structures of Buildings, a building with Is 0.6 or over is deemed to be at a low risk of falling over or collapse at an earthquake with the Japanese seismic intensity of 6 to 7.

#### 4. Cost, effects, and responses regarding acquisition of LEED certification and renovation

The cost needed for LEED certification included approximately 1.5 million yen for consulting fee and miscellaneous expense and approximately 200 thousand yen for a device installed for maintaining the negative pressure of the smoking room. The costs for seismic retrofitting and renovation are not listed here since they are included in the budget of the mid to long-term plan.

The effects and the responses from the tenants after LEED certification and renovation are as follows:

Effects;

- The occupancy rate increased from 50% to 100% (as of January 2019).
- The rent per unit area increased, although the total revenue did not change much because the rentable area decreased.

Responses from the tenants;

- The tenants satisfy with renovation saying that restrooms look clean and are easy to use and the shared spaces are spacious and look high-quality.
- By measuring the energy consumption level continuously and disclosing the level of power usage to each tenant, it can lead to energy-saving efforts of the tenants.
- Maintaining the negative pressure in the smoking room succeeds in preventing leakage of cigarette smoke, resulting in an increased cleanliness perceived by the tenants. Annual tenant questionnaire also continues to indicate their favorable opinions.

Operational benefits;

- Use of detergents made from natural ingredients alleviated cleaning staff's rough skin and eliminated the need for second wipe.
- By covering the wall of the smoking room with a paint that allows wiping with a wet cloth, now tar on the wall can be removed easily which enables to keep the room clean.

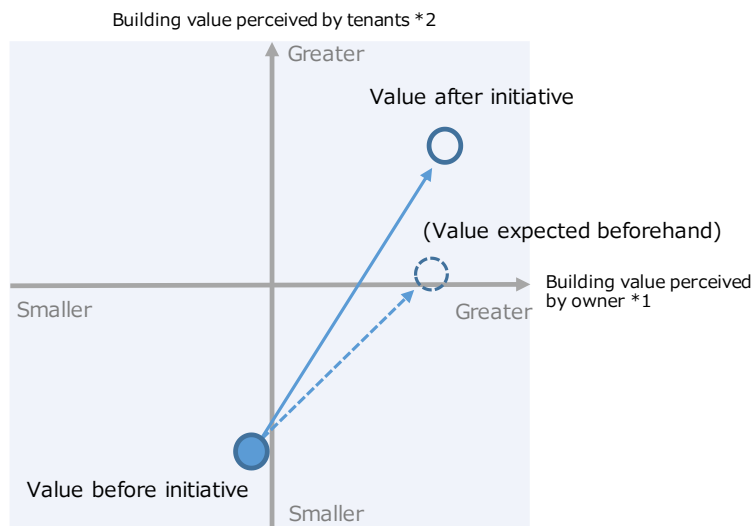
Other benefits;

- According to a real estate broker, potential tenants visiting the building were surprised at its good maintenance when they knew that it was aged more than 80 years. Thus, the company urges them to look in the building before anything else.

## 5. Change in the building values before and after acquisition of LEED certification and refurbishment (the owner's evaluation)

We asked the owner to evaluate the change of his building's values before and after acquisition of LEED certification and refurbishment. Because the company received much better responses from the tenants after the initiatives than the owner expected, the building values perceived by the tenants are increased.

### Owner's evaluation on his building values



\*1 Building values perceived by the owner: Property value, profitability, reduction in the operational costs, etc.

\*2 Building values perceived by the tenants: Comfortability, satisfaction in terms of usage or needs, etc.

\* We asked the owner to evaluate the values of his building assuming that the point at the intersection of the two lines represents the average values of the surrounding buildings.

## 6. The owner's comments on his initiative toward undertaking acquisition of LEED certification and refurbishment and future building management

Efforts to take some measures for scarce energy must be needed further, and we believe now it is important for companies to address energy-saving issues. I heard that, in US, acquisition of an environmental certification influences the values of the building greatly and many tenants determine their move-in depending on the certification. The Japanese tenants would be so near future. Our continued proactive and right building management resulted in acquisition this time: LEED certification is a proof of our efforts. Energy-saving effects can be attained not only by expensive hardware upgrade but also by operational tweaks.

Focusing on enhancement of tenant satisfaction as the first priority, we have made our persistent efforts to add the values of our building, such as combining individual store's air conditioning and central heating of greater humidifying effect, keeping private posts convenient for tenants, and operating building maintenance by our employees. We believe that it is necessary for us to make our consistent efforts to provide environmentally friendly and energy-saving building and continue new improvements, in order to let our building loved by our tenants and meet the needs of the ages.



Vaulted ceiling covered with colorful glass mosaic at the entrance (left) and spiral-like inside stairs (right) giving retro feel.



## IV. Tamaru Building (Tokyo)

Tamaru Building is located near Ogikubo Station – a convenient place at which both the JR line and the Tokyo Metro line are available. However, it is outside of the JR Yamanote Line and hardly the central area for office buildings. Catching the changes in social conditions in an agile manner, the company expanded its target tenants inviting the start-ups and the businesses owned by the non-Japanese and addressing their disadvantages that used to prevent them from renting a room. With its rent less expensive than that of the central Tokyo district and original arrangements at making contract such as introduction of a guaranty company, **the building succeeds in operating in the state of full occupancy.**

### 1. Profile of the building

Location: Suginami Ward in Tokyo (4-minute walk from Ogikubo Station)

Gross floor area: 1,100 square meters

The number of floors: 7 stories above the ground

Year built: 1970

Surrounding environment: Ogikubo Station is surrounded by banks, hospitals, and many multiuse buildings in which restaurants occupy. Going through the shopping street near the station, one can find a quiet residential area. Tamaru Building can be found in a place of 4-minute walk from the station, facing a trafficky major road “Kanjo-8 Line.”



The owner's age: In his 30's

### 2. Reasons for starting the efforts to achieve full occupancy

The company was engaged in construction business initially when the first owner started his own business. It stepped into office leasing through making the rooms the company did not use available for rent, and now operates apartment buildings and 3 commercial buildings for rent. The 3<sup>rd</sup> owner took over a post in 2016 and has been exploring his own style of building management despite having much experience in the industry. Through collecting information, he became aware of drastically changing environment around building management and recognized strongly a necessity to respond to the changes in social environments, without bound by the conventional way of office building management. With office demand concentrating in the center of Tokyo, Ogikubo – outside of the central district – is occupied with many offices of medium-sized companies and rent is less expensive there. Thus, it is a good place for start-ups, however, not many buildings are available for the non-Japanese business owners and those who started his/her own business after retirement. With this background, the current owner started to consider accepting such newly established companies that have abundant energy to push forward their business despite insufficient credibility. He assumed that accepting and supporting them to deal with their disadvantages would lead to an increase in the occupancy rate and enhancement of the values of Tamaru Building.

### 3. Efforts to achieve full occupancy

To achieve full occupancy, the company started a preparation process for earthquake-resistance rebuilding and expanded its target tenants.

#### ① Preparation process for earthquake-resistance rebuilding

Facing toward an emergency transportation road at disaster (Kanto-8 Line), Tamaru Building is required to meet the new quake-resistance standards. Because the result of seismic diagnosis indicated some parts not meeting the standards, the company started to consider how to achieve seismic strengthening. Having the tenants occupying the building more than 20 years, the company negotiated with the Sugunami Ward Office to allow a refurbishment without a need of moving out, through permission of step-by-step seismic retrofitting not meeting the quake-resistance standards at once. Initially, the company was considering employing SRF (Super Reinforcement with Flexibility) technique by which the columns of a building are wrapped in a polyester reinforcing material. This technique would have costed the company approximately 20 million yen – about one tenth of the cost that would be caused by a conventional large-scale renovation. In addition, it would have been possible to progress the reinforcement work area by area and step by step. However, it was revealed that the building had not received the certification of completed inspection when it had been built. Because the certification of completed inspection is a requisite for receiving a subsidy but seismic retrofitting will not give the company the certification, it gave up seismic strengthening and shifted to rebuilding.

In the process, the company is changing the contracts with tenants to a fixed-term lease contract (currently, half of the tenants have changed to it), and preparing to start rebuilding by 2029 at the latest. For the existing tenants, it is explaining the current condition of the building and the rebuilding plan.

#### ② Expansion of the target tenants

Focusing on the social conditions including increased non-Japanese workers, a low birthrate and an aging population, and changes in women's workstyle, the company made a change in its way of leasing. It started to target and invite start-ups that have abundant energy but insufficient credibility, and to tie up with a guaranty company that supports dealing with troubles including back rent and problems due to foreign language or customs. There have been no big troubles or back rent so far. For problems like smoking in a restroom or staying a restroom for long which may be attributable to a different culture or lifestyle, the company puts up a notice to explain and announce the rules of the building. Accepting the non-Japanese users has led to shortening of the invitation period. Also, the company created a mechanism whereby a tenant breaking a lease should introduce a new tenant. Now the building is used by 6 non-Japanese tenants including restaurant and IT business (e.g. Chinese, Nepali, and Korean).

Recently, a designing company comprised of 5 women moved in, and requested to improve the shared smoking space in addition to the painting of a door on the side of a shared space. After preparing the operational system that allows comfortable use by the tenants and reconsidering the issues not documented in the building rules, the company decided to ban smoking in the entire building.

#### 4. Cost, effects, responses, and other benefits regarding the efforts for achieving full occupancy

Because the efforts were made within the company's regular budget, extrabudgetary costs were not needed. The effects and responses are as follows:

Effects;

- The occupancy rate increased from 96% to 100%.
- Before introducing the efforts, there was a time when the building had a room unoccupied for 6 months at longest. Now its room is occupied as soon as it becomes available. One of the rooms was occupied on the next day of the notification for availability.

Responses from the tenants;

- The tenants feel the building is comfortable because their requests are handled sensitively.
- Many tenants said that the company was friendly for the non-Japanese who had tended to be refused to move-in.
- Many existing tenants inquired of the company about vacancy with their hope to expand their space in the building, not to move out to another building.

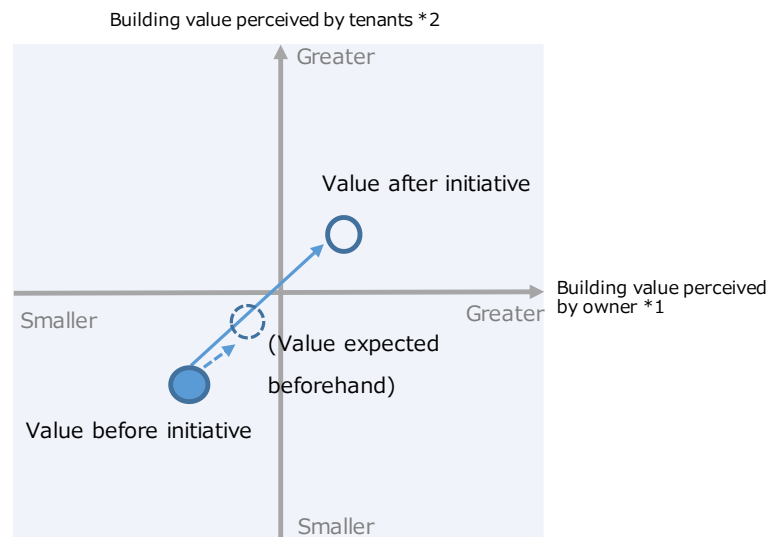
Other benefits;

- Because the building invites the non-Japanese, there are many introductions from the real estate brokers and the neighboring community.

#### 5. Change in the building values before and after the efforts for achieving full occupancy (the owner's evaluation)

We asked the owner to evaluate the change of his building's values before and after the efforts. The values of the building after the efforts are much greater than expected initially. The result shows that the company's original arrangements at making contract such as introduction of a guaranty company are successful.

##### Owner's evaluation on his building values



\*1 Building values perceived by the owner: Property value, profitability, reduction in the operational costs, etc.

\*2 Building values perceived by the tenants: Comfortability, satisfaction in terms of usage or needs, etc.

\* We asked the owner to evaluate the values of his building assuming that the point at the intersection of the two lines represents the average values of the surrounding buildings.

## 6. The owner's comments on his initiative toward achieving full occupancy and future building management

We own rental housing in addition to office buildings for rent, and attempted to increase the occupancy rate in housing initially. In general, the elderly living alone and the non-Japanese people have a difficulty to move in a housing for rent. With aging society and increased number of foreign workers and students, we recognized an importance to take in their demands. We made clear the difficulties they had at moving-in and sought for the solutions. To address issues such as ensuring safety and checking of health conditions of the elderly users, troubles that might be caused by a different culture or lifestyle of the non-Japanese occupants, and fidelity guarantee, we tied up with a guaranty company and started making contract with our new tenants through discussion with the firm. Although there were some troubles after their moving-in, most of them were caused by insufficient understanding of the rules. Thus, a good explanation allowed the persons conform to the rules with no problems. Knowing the keys to deal with beforehand, we become ready for accepting the elderly and the non-Japanese users, being free from a preconceived image of them.

The usage of a property around Ogikubo is changing. Many potential tenants used to request a parking area as a requisite, however, there are increasing number of tenants who do not use a parking area but request a bicycle parking these days. Their requests are changing day by day, and such changes in the usage of a property must get faster and faster from now on. Also, near future, the facilities employing Internet of things (IoT) and/or artificial intelligence (AI) would be introduced in operation and management of the small-to-medium-sized buildings. Virtual reality (VR) preview, explanation of important matters utilizing IT, and e-contract will enable making a contract with a remote user. Operational efficiency in building management will be advanced further by use of smart meters and other technologies. Catching these changes in an agile manner and making use of the knowledge for future building management, we hope to achieve a new business expansion.



## V. Fuji (Alt Kobe) Building (Kobe City)

Fuji Building is a complex building aged more than 50 years, with offices and commercial tenants in the lower stores and rental apartments in the upper stores. In 2012, the current owner purchased the residential floors from Urban Renaissance Agency (UR) and started to manage the whole building. Though **making the residential floors profitable** by unique refurbishment (DIY) and a changed marketing strategy, plus **facilitating communications and integration among the old and new tenants** with its efforts including utilization of a communication tool, the company succeeded in **regeneration of its building**.

### 1. Profile of the building

Location: Kobe City, Hyogo Prefecture (3-minute walk from Sannomiya Station)

Gross floor area: 3,435.55 square meters

The number of floors: 6 stories above the ground and 1 underground story

Year built: 1961

Surrounding environment: The building is located in Sannomiya – the center of Kobe City where Hanshin, Hankyu, JR, subway, and Port Island lines are available. It is surrounded by office buildings and City Office as well as shopping facilities such as SOGO department store.

The owners' age: In his 70's and in his 20's (acting owner)



### 2. Reasons for starting the initiatives toward building regeneration

When newly built, it was a Jointly owned building of which the 3<sup>rd</sup> to 6<sup>th</sup> stores were the residential floors owned by the Public Housing Corporation (later transformed to "UR") and the underground to the 2<sup>nd</sup> stories were owned by the current owner. In February 2012, Urban Renaissance Agency (UR) sold all its properties to the owner, and he manages whole the building currently. From the underground to the 2<sup>nd</sup> floors, a restaurant, an English conversation school, a hair salon, and offices occupy the spaces to keep the occupancy rate of 100%. On the other hand, of the 36 apartments, one-third was used continuously by the occupants since the time of UR, and the other two-thirds were not occupied.

At the beginning, the company started to invite a user for a renovated room for which it had renewed the interior finish at great expense, although it took a long time for the room to be occupied. With the poor cost efficiency, the company determined to reconsider its marketing strategy totally.



Doorplate that keeps a trace of UR's ownership

### 3. Refurbishment and change of marketing strategy for the residential floors

#### The details of the initiatives toward the residential floors

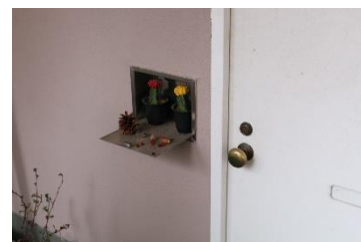
【Inviting tenants who appreciated an old building】 The building is located in a convenient place where one can walk from Sannomiya Station in 3 minutes. (There is no other rental housing closer to Sannomiya Station than Alt Kobe.) At first, the company targeted people who appreciated this location, and refurbished the interior finish in the shared spaces and the residential areas. The owner thought that doing refurbishment by themselves would save the costs and it would become a uniqueness to appeal to potential users. Thus, the company determined to target not everyone but sensitive and creative persons, and to propose another use of its room as a small office/home office.

【Design utilizing DIY and old tastes】 The owner possesses a qualification of welder and can produce many things by himself. He tried to achieve a natural design that utilized old and antique tastes of the building, not denying oldness.

The owner repaired and created lights and walls in the shared spaces, interior finishes and entrances in the apartments, and bike shed by himself. He made use of the bowls purchased in a 100-yen shop as the lampshades in the staircase landings, and coated the walls of the shared spaces with a paint containing plaster that absorbs smell and humidity and makes them look thicker and warmer.



Lampshade made of a bowl purchased in a 100-yen shop



Door coated with a paint containing plaster having a warm feel, and a flower stand utilizing an old milk-bottle post



Industrial sink

Interior finish of the apartments used to be Japanese style but was transformed to Western style; by changing "tatami" mats to wooden floors, and utilizing "fusuma" doors but changing the paper to a natural wood panel. For washing spaces, the company regarded the functionality as the highest priority and installed an undecorated industrial sink and washbasin. Hooks to hang a laundry line inside a room and a milk bottle post beside a front door were not removed for the occupant to enjoy making use of them creatively as the hooks to hang a hammock and a flower stand, respectively. In a room, the company reinforced the floor of "oshiire" (closet) for an occupant who hope to use it as a bed. In addition, the owner prepared a bike shed to meet the needs from the users who commute by bike, by welding a commercial bike stand and the frames.



Retro corridor



Bike shed

The apartments with such delicate finishes met the unique needs of people who hope to enjoy oldness and accommodate it to fit their tastes.

### Effects and responses regarding the initiatives toward the residential floors

The occupancy rate increased gradually, and a vacant room got to be occupied immediately after refurbishment. Now a vacant room advertisement usually leads to 5 to 6 inquiries, resulting in waiting applicants.

By conducting most of the refurbishment processes internally, it (cost of materials) costed only one third of the expenses that may be needed for outsourcing.

Effect;

- The rent rose more than 10%.

Responses from the tenants;

- Some tenants use their rooms as a small office/home office. Many of them have creative and unique occupation such as designer, property or restaurant owner, and artist. The communications among them developed into business meetings.
- The occupants nourish a "culture of creation" by themselves. Their devices such as a room equipped with IoT and a use of a milk bottle post as a flower stand are shared and lead to another device to interior finish.

## 4. Communications among the old and new occupants

### The details of the initiatives toward communications among the old and new occupants

Having commercial tenants and new occupants of apartments with a range of their age and a variety of room usages, the company believed that communications and integration of the old and new tenants would lead to a regeneration of its building.

【Preparation of the communication spaces】 The company prepares a refreshing space on the top floor and a BBQ space on the rooftop deck where the tenants can have a party. Most of the fixtures including tables and lighting were created internally by the company. The space is equipped with rice cooker, jaozi pan, refrigerator, and dishes for having a party. On the rooftop deck, there is a space for vegetable garden.



Refreshing space on the top floor



BBQ space on the rooftop deck

【Introduction of a communication tool】 The acting owner (son of the owner) taking in charge of the building operation since 2019 started new efforts to facilitate communications among the occupants. He introduced a smartphone app called "Slack" (free of charge) as a communication tool for the purposes of making reservation of the refreshing space, sending messages from the owner (e.g. notification of the date of inspection or power outage), and others. In addition, the company hold parties in occasions such as Christmas and "mochi" (rice-cake) making for communications among the occupants.

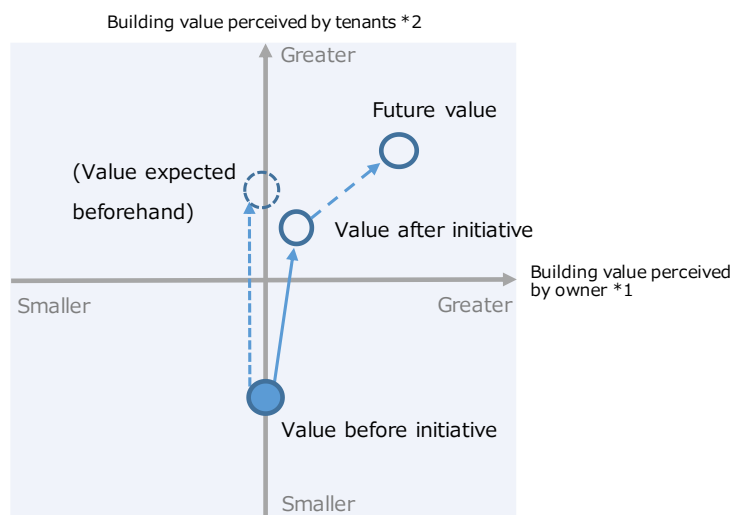
### Effects of the initiatives

- Not only the new users of the apartments but also the occupants since the time of UR participated in the events the company held. As a result, they understood each other much more, which led to no troubles and claims among them. The initiatives also facilitate good relationships between the apartment users and the commercial users: There are good effects such as more frequent visits to the commercial tenants by the apartment users and an introduction of a tenant leading to a new occupancy.
- Some apartment users said that they became to live more comfortably because now they can understand their neighbors.
- Many of the both commercial and apartment users satisfy with the BBQ and refreshing spaces which they can use for culture lessons or communications among their employees.
- Besides an app introduced by the company, there is a spontaneous Facebook group of the tenants, where a circle of the multidisciplinary tenants not involved directly in each other's business urges an introduction of jobs and exchange of ideas.
- The website of Kobe City introduces the company's initiatives as an example of communications among the tenants.

## 5. Change in the building values before and after the initiatives toward building regeneration (the owner's evaluation)

We asked the owner to evaluate the change of his building's values before and after the initiatives toward building regeneration. Because the acting owner took over the operation in the process of the initiatives and defined future value as their objective, his perception of his building's achievement was moderate.

### Owner's evaluation on his building values



\*1 Building values perceived by the owner: Property value, profitability, reduction in the operational costs, etc.

\*2 Building values perceived by the tenants: Comfortability, satisfaction in terms of usage or needs, etc.

\* We asked the owner to evaluate the values of his building assuming that the point at the intersection of the two lines represents the average values of the surrounding buildings.



## 6. The acting owner's comments on their initiatives toward building regeneration and future building management

There are things we can do because the building is old. Preserving useless parts and figuring out how to use them creatively may lead to uniqueness of the building. We hope to continue our effort to harmonize functionality and sophisticated design. In this building, communications among the occupants are facilitated and further spontaneous efforts and creativity are generated. While there are increasing number of coworking spaces and shared offices in Sannomiya, we would like to offer much better operation of our building than that of them. Currently, Fuji Building can be used as each user likes without restrictions, and there are no rules for many issues. However, it might be easier to be used if there were rules for the issues like how to use. So, we would like to prepare the rules and other mechanisms to make the building more attractive. In addition, we would start working on enhancement of the facilities and repair of the unexposed components. To secure the budget for these initiatives, we will prepare a mid to long-term repairing plan.

### Acknowledgements:

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