Xymax Real Estate Institute

TOPIC REPORT

Best Practices of Small-to-Medium-Sized Buildings – The 2nd Report

- Introduction of building owners' efforts in changing times -

April 7, 2020

Xymax Real Estate Institute ("Xymax REI") has conducted case studies through interviews with building owners on a continuous basis. These studies contain building owners' creative ideas and tips for managing buildings, which we believe would be useful to other building owners. Thus, we released "Best Practices of Small-to-Medium-Sized Buildings – The 1st Report" in September 2019 supervised by then Professor Yukio Komatsu of Waseda University, in which we introduced excellent cases as best practices.[*1] As the second in the series of the report, Xymax REI introduces four excellent cases as "Best Practices of Small-to-Medium-Sized Buildings – The 2nd Report." We hope this report will be beneficial information for the stakeholders of building leasing including building owners.

*1 Best Practices of Small-to-Medium-Sized Buildings – The 1st Report, released on September 24, 2019
https://www.xymax.co.jp/english/research/images/pdf/20190924.pdf

Purpose of the survey

The typical measures to improve the value of a building include hardware refurbishment such as 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 between buildings and there is no index that evaluates it.

This survey is to pick up the wide range of efforts being made by building owners to tackle the huge challenge of improving the value of small-to-medium-sized buildings and to archive them as best practices. In addition, we classify the value of buildings into two groups—the value perceived by the building owner (e.g. property value, profitability, reduction of operational costs) and the value perceived by tenants (e.g. comfortability, satisfaction in terms of usage or needs)—and examine how they changed before and after the owners' specific efforts. The building owners' efforts introduced through the case studies include, "eliciting the features and advantages of the buildings they own," "analyzing and identifying target tenants," and "improving the value of the building through efforts such as revitalizing the neighboring community." The effects of these initiatives are also introduced in the report.

Xymax REI will continue to collect as many such individual solutions as possible and analyze how the value of a building improves in the building lease business in terms of "the building," "operation," "tenant," and "community and environment" with the aim of identifying universality in the individual solutions.

Introduction of best practices

This second report introduces initiatives at the following four buildings:
I. ATS Hirokoji Building (Nagoya), which has enhanced its potential within the community and is committed to creating a space that provides comfort to users 24 hours a day;
II. Yamasho Building (Tokyo), which carried out seismic strengthening without evacuating tenants in order to ensure rent income during the renovation;
III. Kagurazaka Masumoto Building (Tokyo), which has adopted creative ideas in its equipment and operation while focusing on changes in the surrounding environment after the building's construction and the importance of maintenance efficiency; and
IV. Hongo Segawa Building (Tokyo), whose various initiatives in pursuit of tenant satisfaction have resulted in a positive cycle of stable business continuity.

The case studies generally examine the following matters:

- Outline of the initiative;
- Profile of the building;
- Background and issues behind the initiatives;
- Details of the initiatives;
- Effects of and users' responses to the initiatives;
- Change in value following the initiatives; and
- Building owners' comments

I. ATS Hirokoji Building (Nagoya)

ATS Hirokoji Building is an example of improved profitability of an unprofitable building aged more than 35 years as a result of a full renovation with a **commitment to creating a space that offers comfort to users 24 hours a day** and by making the most of the location of Sakae, which is home to offices, commerce, and culture.

1. Profile of the building

Location: 5-minute walk from Sakae station, Naka-ku, Nagoya

Gross floor area: 1,777 square meters

Number of floors: 7 above ground, 1 underground

Year built: 1979

Surrounding environment: A commercial district containing department stores and high-class specialty shops, as well as multiple cultural facilities such as the Nagoya City Science Museum. It is also a mature office area that represents Nagoya.

Age of owner: 60s

2. Developing a building with the aim of providing space that provides comfort to users 24 hours a day

The owner of the building owns several other buildings apart from office buildings, such as condominiums and commercial buildings, and is involved in the improvement of the buildings as well as their operation and maintenance. In all of the property types, the owner is committed to create a space available (i.e., where users can live/work) for 24 hours a day that provides comfort as well as extensive features in eating, sleeping, and enjoying, which are the basis of human life, have the entire building evaluated by its users (i.e., tenants and customers of shops) and satisfying them, and improve the potential within the community by blending into the surrounding communities. When the owner purchased the building, ATS Hirokoji Building had rental offices as tenants but with low occupancy rates and poor equipment and usability. The building is an example of improved value through renovation aimed at greater profitability and efficiency.

3. Details of initiatives aiming to create a space that provides comfort to users 24 hours a day

① Full renovation

Matte black is also used on the guideboard

At the time of purchase, the rental offices had poor occupancy rates and the profitability was low. The reasons included aging and deterioration of the building and equipment. The owner thought that a renovation of the entire building was necessary in order to achieve his aim of making the building a space where users can spend 24 hours a day in comfort. He carried out the renovation by examining the building in detail, from the exterior to the equipment inside. For the exterior for the 1st to 3rd floors, which determines the impression of the building, the owner presented a warm image based on the idea of a "3-story Manhattan" by adopting bricks and matte black to differentiate from neighboring office buildings that mostly had glass and silver exterior. He repaired the roof, air conditioning, electric equipment, water supply/drainage pipes, and the interior design, renewing

everything except for the building frame and the emergency power generator. He renovated the fourth floor and above with a local operating company (KCC), which operated the rental meeting rooms and offices.

② Creating functional and comfortable space

As a space where workers spend long hours, the owner installed floor-to-ceiling glass windows to take in the green of the adjacent site (Asahi Shrine). He hung paintings in the elevator halls and produced a creative space by incorporating art. For the convenience of tenants, the owner allocated a convenience store on the first floor, as well as attracting an Italian restaurant on the second floor and a design-conscious hair salon on the third floor. The rental offices are equipped with a large-capacity server that SMEs will have difficulty introducing, as well as facilities such as meeting rooms, meeting space, and printers so that startups can start business without any investment. There is digital signage at the entrance to share and provide information.

Paintings by the owner adorn the elevator hall of each floor

③ Efficient operation

In order to make the building operational for 24 hours a day, it would be necessary to ensure security and emergency response to users. The ATS Hirokoji Building makes the most of various systems to enable efficient operation by the owner alone. Surveillance cameras installed all over the building watches what is happening inside the building at all times, and the reception service of the offices at normal times is carried out remotely by the reception staff of the operating company (KCC). Any trouble that occurs can be handled immediately by checking the situation with the surveillance cameras within the building.

Digital signage at the entrance

An open space with a view of greenery

4. Costs, effects, and user reactions concerning the creation of a space that provides comfort to users 24 hours a day

The cost of the renovation was approximately 300 million yen. The effects and users' reactions to the renovation were as follows:

[Income of the building]

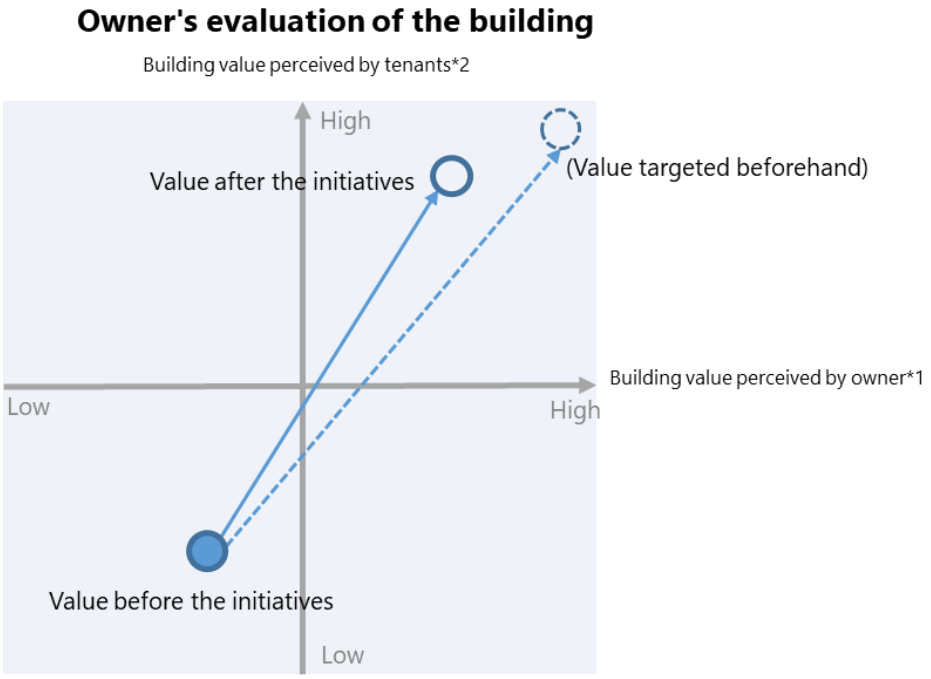
- Income increased significantly by more than 10 times from before the renovation.

[Tenants' reactions]

- Many tenants said they were satisfied with the building, which focused on tenants that required good location, security, high specs, and 24-hour operation.
- Communication companies and foreign companies appreciate the large-capacity server, which was the decisive factor for deciding to move into the building.
- The tenants value the building's facilities and equipment such as rental meeting rooms and printers, which enable them to sufficiently carry out work even if there is no meeting room within the space they rent.
- Tenants' satisfaction is high due to a calm and comfortable space that was achieved through art and building design that takes in views of greenery.

5. Changes in the value of the building by creating a space that provides comfort to users 24 hours a day (evaluation by the owner)

We examined the change in the value of the building before and after creating a space that provides comfort 24 hours a day. The value is currently below the target level since the building is still in the midst of initiatives for improving the occupancy rates of the rental offices.



*1 **Building value perceived by owner:** Property value, profitability, operational cost reduction, etc.
*2 **Building value perceived by tenant:** Comfort, satisfaction according to the usage and needs
We asked the owner to evaluate his building, assuming that the intersection point of the lines of *1 and 2 represents the average value of the surrounding buildings.

6. Owner's comments on creating a space that provides comfort to users 24 hours a day and on future building management

A building is an important place where people spend their time to live and work. The provision of comfort and well-being is required. I want buildings to be a place where people can carry out basic activities such as eating, sleeping, and enjoying without effort. That's exactly why offices require elements of comfort and healing, and the reason why I actively incorporate paintings and other artistic elements as well as greenness. Refurbishing the building takes time but I have not made compromises. I have shared information closely with all collaborators involved in the refurbishing and achieved a better space. To create better space, you must be sensitive to various needs. I have also made a building in Nishiki where I matched artists and ordinary people interested in art and exhibited the artwork created in a restaurant within the building. I operate the entire building by myself, and the matchings have gone well.

When I was 37 I set my retirement year as 2029, set goals for each year, and made efforts to achieve them. I intend to continue taking on new challenges in the next ten years.

II. Yamasho Building (Tokyo)

The Iidabashi area where Yamasho Building is located has seen a change in the environment surrounding the building, such as redevelopment, an increase in tourists from abroad, and the rise in interest in earthquakes and other natural disasters. This has led to more diverse requirements in offices. While only 22% (according to Xymax REI's study) of aged small and medium-sized buildings built under the old seismic standards have declared their quake resistance, the Yamasho Building, in consideration of the safety of the area and users of the building, spent two years carrying out seismic strengthening renovations without evacuating tenants **to ensure rent income**.

1. Profile of the building

Location: 1-minute walk from Iidabashi station, Chiyoda-ku, Tokyo

Gross floor area: 1,700 square meters

Number of floors: 9 above ground

Year built: 1971

Surrounding environment: With connections to four railway lines (JR and subway), Iidabashi offers good transportation access as well as access to major railway stations such as Tokyo and Ikebukuro within ten minutes. With many office buildings and schools, it is a bustling area with constant foot traffic.

Age of owner: 50s

2. Background to the seismic strengthening renovations without evacuating tenants

The owner decided to carry out seismic strengthening renovations as the building was deemed not conforming to standards in a seismic diagnosis upon the enforcement of mandatory seismic strengthening of structures along designated transportation roads (Mejiro Dori) under the "Tokyo in Ten Year's Time" Implementation Program 2011 following the Great East Japan Earthquake. As the building was in the Iidabashi Station Central Area Redevelopment Project area, re-building on its own was not an option.

The owner foresake the use of subsidies for the renovation. To use subsidies, it was necessary to finish the renovation within a certain amount of time, which required evacuating the current tenants to carry out a swift renovation. Amid concerns toward the building lease market due to the impact of the financial crisis and upon considering the fact that there will be no income during the renovation of an estimated period of two years as well as after the renovation until new tenants moved in and that costs will be incurred to evacuate the tenants, the owner chose to carry out seismic construction work in stages without evacuating the tenants.

3. Details of the seismic strengthening renovations without evacuating tenants

The main quake-proof measures are installing braces on the outer walls and quake-proof walls within the floors. The braces were set up inside the outer walls and the quake-proof walls were installed within the lower floors. The exclusive areas on the lower floors were to be split up.

The construction work started off with the floors from which tenants whose contracts expired in 2012 moved out. Since the building is located in front of the station with many foot traffic, the owner took due care of safety and traffic jams caused by construction vehicles. Work that made noise was carried out at night and the braces were transported in pieces since they could not be brought in in their full length, and were assembled on the floor they were to be installed. There was no major trouble with the tenants since the owner had formed good relationships with them. The renovations were carried out in turns by asking the tenants to move to a floor using the weekend where renovations had been completed. It took around three months to renovate one floor, with a total of a little more than two years spent until the renovations were completed in May 2014. The building succeeded in meeting seismic standards in all of its floors. At the same time as the seismic strengthening renovations, the owner also re-covered the ceilings and replaced air conditioners, as well as reviewed the contracts of the rooms which decreased in rentable area due to the braces.

Braces inside the building

Floor divided into smaller rooms due to the quake-proof walls

4. Costs, effects, and user reactions concerning the seismic strengthening renovations without evacuating tenants

The cost of the seismic strengthening renovations was approximately 100 million yen. The percentage of the renovation costs and tenant handling costs was 70% and 30%, respectively. Tenant handling costs included moving costs, interior fitting costs, sales compensation payments for stores on the first floor, and compensation for printed matter, etc. due to changes in tenants' room numbers.

The effects and users' reactions to the renovation were as follows:

[Tenants' reactions]

- The tenants appreciated the move to a newly renovated floor with no suspension of business or evacuation.
- The tenants agreed to the renovation, which required the understanding and cooperation of all of the tenants, partly since it was in the wake of the Great East Japan Earthquake.

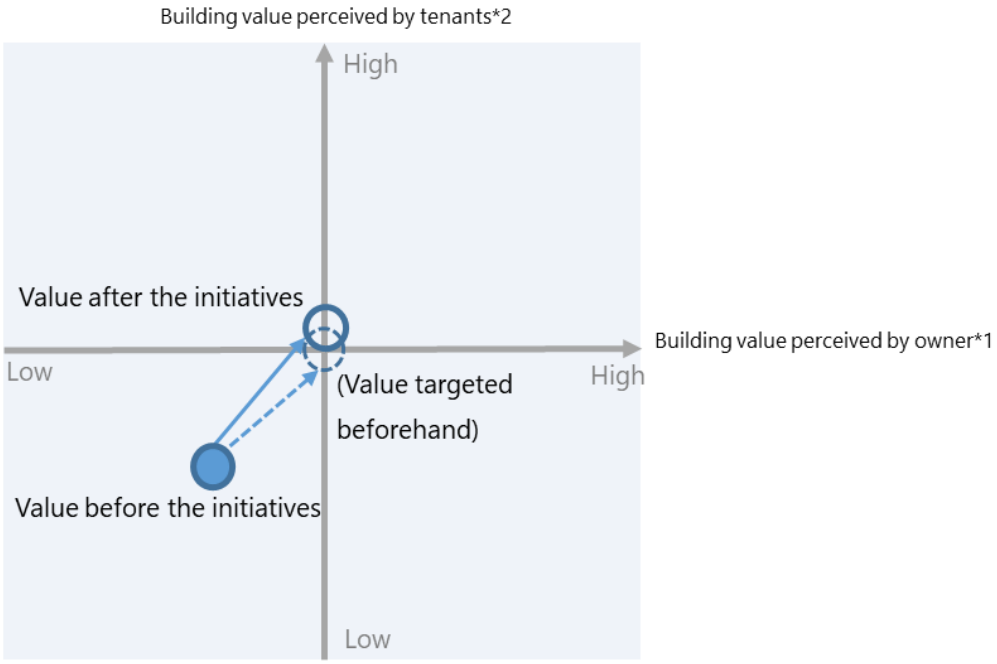
[Income of the building]

- Although the owner was concerned of a future decrease in income since the building was old and under old seismic standards, there was no decline in rent (unit rent per tsubo) and the building has been fully occupied.
- Since a redevelopment project had already been decided, the owner wanted to avoid a large investment and a drop in income during the renovation. There was no period of no income, with stable rent income during the renovation.

5. Changes in the value of the building by carrying out seismic strengthening renovations without evacuating tenants (evaluation by the owner)

We examined the change in the value of the building before and after the seismic strengthening renovations without evacuating tenants. Since the same tenants continue to occupy the building it is not possible to make a comparison with when a renovation were not carried out, but the value of the building has improved more than was expected beforehand as tenants appreciated the replacement of air conditioning equipment, etc.

Owner's evaluation of the building



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6. Owner's comments on seismic strengthening renovations without evacuating tenants and on future building management

Although the trigger was the mandatory seismic strengthening of buildings on the Meiji Dori, I am glad that I carried out the renovations since the tenants feel safer and have continued to stay in the building, and due to the fact that I was able to minimize the burden on tenants during the renovations as well as on the finance of the building. If I had not done it, the rent may have dropped and vacancies may have increased.

The area surrounding Iidabashi is becoming more sophisticated with redevelopment being planned or implemented. Due to the construction of high-rise condominiums, there has been an increase in supermarkets and nursery facilities. Foreign tourists have also increased due to the construction of hotels, which is bringing about changes to the area. The areas that changed and the areas that have not will see differences not only in the seismic performance of buildings but also in the specifications of their equipment. However, not everyone requires high specification buildings, and the needs will vary between users. The differences in the buildings' performances and rent mean that various needs can be met, which would lead to greater diversity of the area. In order to ensure that the area remains comfortable, it will be necessary not only to promote improvements in hardware such as seismic strengthening, but also to strengthen and respond in intangible aspects such as reinforcing the relationship between the neighborhood association and the administration.

III. Kagurazaka Masumoto Building (Tokyo)

Kagurazaka Masumoto Building was constructed in 1985 on the site of a liquor store. By focusing on the importance of the **changes in the surrounding environment after the construction and on improved efficiency of maintenance** since the time of the planning of the building around 40 years ago, it has become an example of building management that maintains the quality of the building at a certain level through unique equipment and operation. Periodic and efficient maintenance based on the idea that maintaining not only the interior and exterior that are visibly appealing but also the building frame and equipment that is hidden from view is important, has resulted in less trouble in building management and less maintenance costs.

1. Profile of the building

Location: 1-minute walk from Kagurazaka station, Shinjuku-ku, Tokyo

Gross floor area: 2,634 square meters

Number of floors: 5 above ground, 1 underground

Year built: 1985

Surrounding environment: Kagurazaka prospered in the Taisho era, which has left behind small alleys retaining the feeling from the era between large streets. The area is popular for its matureness, with its mix of commercial outlets, such as restaurants, and residences.

Age of owner: 70s

2. The background to the pursuit of meeting tenant needs and implementing efficient maintenance

The owner of this building previously belonged to the central laboratory of a major manufacturer. He has abundant knowledge of equipment and materials, and learned the importance of maintenance in retaining the health of the building and extending the building's life while studying in the United States. When his father built the building, the current owner was deeply involved from the designing stage and introduced various measures to prevent the age deterioration of the building as much as possible to maintain the quality of the building.

3. Details of the pursuit of meeting tenant needs and implementing efficient maintenance

① Unique ideas in building materials

Outdoor iron building material that is exposed to wind and rain is usually protected with paint to prevent it from rusting and corroding. However, since paint deteriorates and chips off after a while, it requires periodic maintenance such as repainting. As a way to avoid rusting or corrosion, the building adopted aluminum and stainless materials, which are not prone to rust or corrosion. Although iron materials were common when the building was constructed 36 years ago, it used stainless steel for the rings and the stairs to the rooftop penthouse, which rust easily, and doors that are easily scarred, and aluminum for rooftop fences that do not require strength. Stainless steel pipes were adopted for the water pipes within and outside the building, instead of the usual lining steel pipes.

The interior walls of the sections for lease were painted, not upholstered. If wallpaper is used, peeling it off each time the rooms are restored to the original state would result in rugged groundwork, making it difficult to achieve a clean finish after reupholstering. In addition, complete reupholstering will be required if the same wallpaper is not available. If the walls are painted, not only can they be repainted but also easily find matching color and partially painted.

Stainless steel stairs leading up to the penthouse

Aluminum fence and stairs

Inner door of the entrance

② Specifications that assumed changes in usage

From his experience of seeing buildings abroad, the owner predicted that tenants' usage of offices will change significantly in the future. There was no internet when the building was designed and no one had a computer of their own. However, the owner had set a large electricity capacity and also set aside a spare system (a power distribution board), expecting that the use of personal computers will spread in the future. Even though he had assumed renting out entire floors to tenants, he also divided the power system so that the floors could be separated so as to be able to address economic fluctuation and changes in the industry of tenants they attract. He adopted an individual air conditioning for ease of use. Since a multiple-type individual air conditioning system did not exist at that time, he introduced one-to-one (air conditioner and compressor unit) individual air conditioning. In terms of plumbing, he installed western toilets on the back of a trend in 1980 where the shipment of western toilets outnumbered that of Japanese toilets by more than 20%. Furthermore, he naturally introduced new seismic standards for buildings since the timing coincided with the switch from old to new seismic standards.

③ Systematic repairs

The owner ensures periodic maintenance in order to prevent the rise of complaints from tenants and unexpected trouble. In addition to the regular maintenance, he has renewed the water-resistant coating on the walls and the rooftop water-resistance twice, replaced the air conditioners twice (the second time was with subsidy from the metropolitan government of Tokyo), renewed the toilets, and renovated the paints of the common areas.

4. Costs, effects, and user reactions concerning the pursuit of meeting tenant needs and implementing efficient maintenance

Although the construction costs for the design changes to emphasize maintenance efficiency ended 30% more than was estimated during the initial design, the changes have achieved larger-than-expected effects.

[Maintenance of the building]

- Management costs have been reduced due to less trouble of repairing.
- The cycle of the repair plans can be long, enabling adjustment of repair timings without trouble even when the tenant market is sluggish.
- In addition to maintaining the aesthetic of the exterior since rust does not form easily, there has not been any trouble of rusty water or water leakages even after 35 years from construction.
- The target tenants have changed over time, but I have been able to address the changes relatively easily.

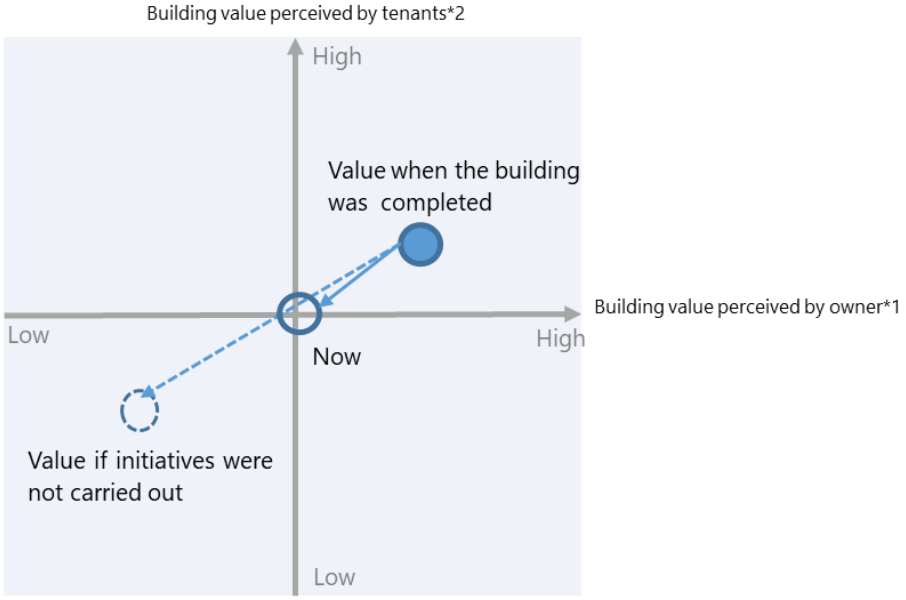
[Tenants' reactions]

- Air conditioning is comfortable compared to buildings of the same age and size, which has resulted in few complaints.
- Tenants' satisfaction is high, and they have stayed at the building for a long period of time.

5. Changes in the value of the building by pursuing to meet tenant needs and implementing efficient maintenance (evaluation by the owner)

We examined the change in the value of the building from when the building was completed to the present. Due to a design that focuses on maintenance efficiency and fine-tuned responses since the time of completion, the building has retained a certain level of quality and its value has declined less than if it had not taken these initiatives.

Owner's evaluation of the building



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6. Owner's comments on the pursuit of meeting tenant needs and implementing efficient maintenance and on future building management

The business conditions of this building had remained poor due to a large interest burden as the building was planned before the bubble economy when construction costs were high, but faced the burst of the bubble after it was completed, which resulted in a drop in rent and a rise in vacancies. There was also a period when sufficient maintenance could not be carried out, but I was able to continue operating the building without lowering the quality thanks to the initiatives I took when the building was designed.

At the planning stage of a building, I think aesthetic designs are the center of focus and it is rare for opinions on the maintenance of the building based on a long-term perspective to be reflected. However, to utilize a building at a healthy state for a long period of time, the maintenance of the building frame and equipment that is hidden from view becomes very important, in addition to the exterior and interior that appeal to the eye. Although additional costs will be incurred, I feel that a design that takes extensive maintenance into account reduces costs and trouble in the long run.

40 years after the planning of the building, the environment surrounding the building has changed, requiring responses in both hardware and intangible aspects. Going forward, I plan to refurbish the water supply equipment to a direct connection boost water supply system. As a way to provide against natural disasters, I have built a maintenance hole toilet and also intend to stockpile sea biscuits and water (for 150 people).

When I rebuild the building in the future, I also want to raise the ceiling height by about 30 centimeters from the current height to make it easier to carry out renovations. I also intend to consider installing the pipe work for water supply and drainage outside the building for ease of maintenance and replacement. I will continue to implement creative ways to manage the building efficiently and to address changes in the social environment.

IV. Hongo Segawa Building (Tokyo)

The Hongo Segawa Building has maintained high levels both in terms of environmental performance and functionality by carrying out equipment refurbishments on a continual basis to create a comfortable space for its tenants. It also has a track record in intangible aspects, such as energy saving measures carried out in cooperation with the tenants and seasonal events to encourage exchanges between the tenants. Such **comprehensive initiatives** with an overarching goal of improving tenant satisfaction have led to a virtual cycle toward stable business continuity. In 2014, the building was the first building in Japan to obtain a BOMA 360 certification (described later).

1. Profile of the building

Location: 5-minute walk from Hongo 3-chome station, Bunkyo-ku, Tokyo

Gross floor area: 3,703.9 square meters

Number of floors: 7 above ground, 1 underground

Year built: 1988

Surrounding environment: With connections to two subway lines, the location offers good access to major railway stations in Tokyo. There are many historic buildings in the area, as it used to contain residences of Daimyos during the Edo era. The area is also an educational district, with several universities scattered in the surrounding neighborhoods, and is also a popular residential district.

Age of owner: 70s, 40s

2. Initiatives that continuously pursued tenant satisfaction and the policy for managing the building

The building was newly constructed in 1988. The owner had set aside a three-year planning period prior to the construction to study examples of buildings in the United States, etc., and introduced a structure that would facilitate the replacement of equipment and a concept of maintenance that does not let the tenants feel the age of the building. Post boxes at the entrance of the building are designed to drop mail from the outside and receive from the inside, which were rare at that time but have become common today. This has eliminated the need for a major renovation when a security system was later installed. A shared meeting room has also been provided since the beginning to address expansion needs of existing tenants as well as the needs of SMEs, even though it meant a reduction in the percentage of rentable area.

A shared meeting room that can address tenants' expansion needs

To improve tenant satisfaction, the owner fosters day-to-day communication with the tenants and encourages exchanges between them. He also pays delicate attention when tenants of the same industry occupy the building. Although the building is located in an educational and residential district, and is not centered around offices, the building has been fully occupied due to the owner's management policy of continuously pursuing tenant satisfaction as well as to focusing his marketing toward tenants who favor such a policy. This policy does not vary with the fluctuation of the tenant market.

3. Details of the initiatives that continuously pursued tenant satisfaction

① Thorough pursuit of safety and comfort

Continuous introduction of new technology: New, environmentally friendly equipment based on the comfort of tenants have been introduced or renewed on a continual basis. LED lights and desiccant air conditioning*1 have been introduced, and the windowpanes are double glazing. Repairs and refurbishment for the water resistance of the exterior walls, etc. are also carried out on a regular basis. To address the increase in the use of toilet cubicles in men's restrooms in recent years, the men's restrooms were fully renovated to include more cubicles, among others.

Functional toilets that address tenants' needs

*1 An energy saving air conditioning system that controls temperature and humidity separately. By controlling humidity directly, the system ensures comfortable room temperatures during the summer without overcooling and prevents drying during the winter.

Desiccant air conditioning that pursues the comfort of tenants

Day-to-day inspection and other maintenance: Safety inspections include twice-a-month inspections of elevators. Water filters are also installed in the staff kitchen to ensure safe water.

② Communication with tenants and seasonal events

BBQ meet (three times a year), rice-cake making meet (once a year): All tenants, local parties concerned, building maintenance companies, and clients are invited to the meets. When the meets are held the entrace space of the building becomes as crowded as the terrace seats of a beer restaurant.

Lunch coupons for the restaurant on the first floor are distributed to employees of tenants

Tea party: This is held at the "Hongo Segawa residence," a Registered Tangible Cultural Property located on the premises of the building. The event offers an opportunity to enjoy tea while viewing the quaint gardens and cultural property antiquities that are not open to the public. During the Doll Festival and the foliage season the Hongo Segawa residence is also open to tenants, who visit there for lunch breaks.

Meal coupons: A restaurant operates on the first floor of the building since there are few restaurants in the surrounding area, which consists mainly of residences. The building offers advantages to both the restaurant and the tenants by distributing meal coupons on a regular basis to the employees of all of the tenants as part of its services to tenants.

Hongo Segawa residence, a Registered Cultural Property on the site of the building (closed to the public)

③ Cooperation with tenants

Energy saving activities: Efforts to raise tenants' awareness toward energy saving are carried out at the building by sharing information on energy saving, such as measuring energy data and displaying the CO2 emission volume in the elevator hall. This is meant to lead to a reduction of energy use and also forms the basis of a strong relationship with the tenants.

④ The first building in Japan to obtain certification

BOMA 360: BOMA 360, which was granted to the building for the first time in Japan, is a certification of an excellent building by the Building Owners and Managers Association International, which evaluates the overall business management of a building and daily maintenance levels. It is rapidly spreading in the United States. It is a 360-degree evaluation of the performance of building management, including not only in terms of the environment and energy but also security, management, and tenant relations. The certification was justifiably granted to the building, which pursues a management service that satisfies tenants.

4. Costs, effects, and user reactions concerning the initiatives that continuously pursued tenant satisfaction

The effects and user reactions after the initiatives were as follows:

[Tenants' reactions]

- In a questionnaire of tenants carried out by the Building Association to study tenants' satisfaction, the building obtained an average score of 95 points, while the nationwide average was a little short of 70 points. Around half of all tenants gave 100 points to the building.
- The desiccant air conditioning is appreciated by the tenants since it maintains stable temperature and humidity throughout the year.
- Equipment with high energy-saving effects has led to a reduction in electricity costs. Tenants have also valued the information on the approximate electricity cost, provided prior to moving into the building.
- Communication between the tenants has increased due to the events, developing into business in some cases.
- There is good communication between the tenants and the building management side, so much so that there are few complaints even during construction work that accompanies noise or smell.

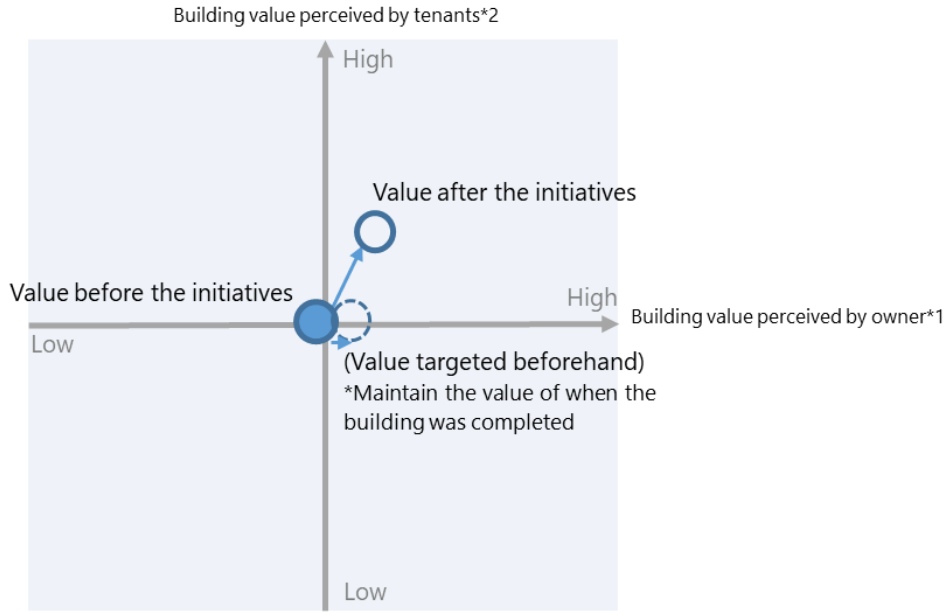
[Other]

- Although the owner was sure that he had achieved a high level of management service that satisfied tenants as well as strong tenant relations, he was able to confirm and tackle new issues upon receiving a third-party certification of BOMA 360.

5. Changes in the value of the building through initiatives that continuously pursued tenant satisfaction (evaluation by the owner)

We examined the change in the value of the building by comparing the value at the time the building was built and that at present. The building's value from the perspective of the tenant has improved from initial forecasts due to measures such as day-to-day maintenance, equipment replacements to improve tenant satisfaction, and events, while the objective at the time the building was completed was to retain the building's value.

Owner's evaluation of the building



*1 **Building value perceived by owner:** Property value, profitability, operational cost reduction, etc.
*2 **Building value perceived by tenant:** Comfort, satisfaction according to the usage and needs
We asked the owner to evaluate his building, assuming that the intersection point of the lines of *1 and 2 represents the average value of the surrounding buildings.

6. Owner's comments on initiatives that continuously pursued tenant satisfaction and on future building management

I want the tenants to remain for a long period of time. That is why I have continued to make efforts to create a comfortable space ever since the building was built. I value talking with them directly so as to convey the appeal of this building and to understand my tenants.

The building received the BOMA 360 certification, but that does not mean there was a significant improvement in the profits of building management. However, the issues that I overcame upon obtaining the certification led to new awareness toward improving tenant satisfaction and proved extremely useful.

This building is built on a site that belonged to my ancestors. Hongo has historically been an attractive area and is also an area where students who graduate from university, etc. choose to continue to live in. As coexistence with and contribution to the community will continue to be important in the future, I intend to place emphasis on my involvement with the community.

Going forward, I have a great deal of interest in how office space will change resulting from the effects of the population decline and work style reforms. The usage of offices should also change due to wellness factors and greater diversity in tenants. At this building in Hongo, I would like to think of services and measures that would lead to the intellectual productivity of offices. I also intend to watch and determine when the major transformation will occur as well as the timing for new investment.

Acknowledgement:
We gratefully acknowledge the cooperation of the building owners, management companies, and other related persons who provided information for this report.

(Reference) Reports by Xymax REI related to building owners:
https://soken.xymax.co.jp/category/
Building Owner Survey 2019, released on December 17, 2019
https://www.xymax.co.jp/english/research/images/pdf/20191217.pdf

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