

Building Owner Survey 2020 (COVID-19 Edition)

The impact of the COVID-19 pandemic and countermeasures

October 21, 2020

Since 2015, Xymax Real Estate Institute (hereinafter, "Xymax REI") has conducted questionnaire surveys of owners of small and medium-sized buildings nationwide who lease out their buildings (*1), in partnership with the laboratory of Lecturer Kosei Ishida of the Department of Architecture at Waseda University.

In this fifth survey that was conducted between August and September of 2020, we asked building owners about the impact of the novel coronavirus (COVID-19) pandemic on the building business and about anti-infection measures, in addition to our regular questions of the current state of the building lease business, its outlook and responses to changes in the environment surrounding the buildings.

On the back of drastic changes in the situations surrounding the building lease business due to the pandemic, we have found through this survey that many business operators are looking for clues to overcome this crisis. Therefore, we are publishing the survey results on matters concerning COVID-19 as part one (COVID-19 Edition) of the report ahead of the results on our regular survey items, which we plan to publish as part two in November 2020.

*1 *Building Owner Survey 2015–2019*: https://www.xymax.co.jp/english/news_research/?type=research

(The survey from 2015 to 2019 was carried out in partnership with the laboratory of Professor Yukio Komatsu.)

Key Findings

1. Impact of the COVID-19 pandemic on the building business

- The most common event in the business due to the pandemic was "Request by tenant for rent reduction" (72%), followed by "Departure of tenant (including request for departure)" (44%) and "Request by tenant for postponement of rent payment" (42%).
- By type of tenant (office or retail), a greater impact was seen among operators with retail tenants for many of the developments. In particular, more than 60% of operators with retail tenants experienced a "Request by retail tenant for rent reduction."
- By region (23 wards of Tokyo, Osaka city, other government-designated cities), the percentage of impact was the largest among operators in Osaka city (both for those with office tenants and for those with retail tenants).

2. Measures against the spread of COVID-19

- More than 60% of operators had implemented one or more of the 14 anti-COVID-19 measures we listed.
- The most popular measure was "Install disinfection equipment for hands and fingers (e.g. alcohol disinfectants)" (43%), followed by "Clean/wipe surfaces touched by many people (e.g. automatic door or elevator buttons)" (38%) and "Open windows for ventilation" (38%).

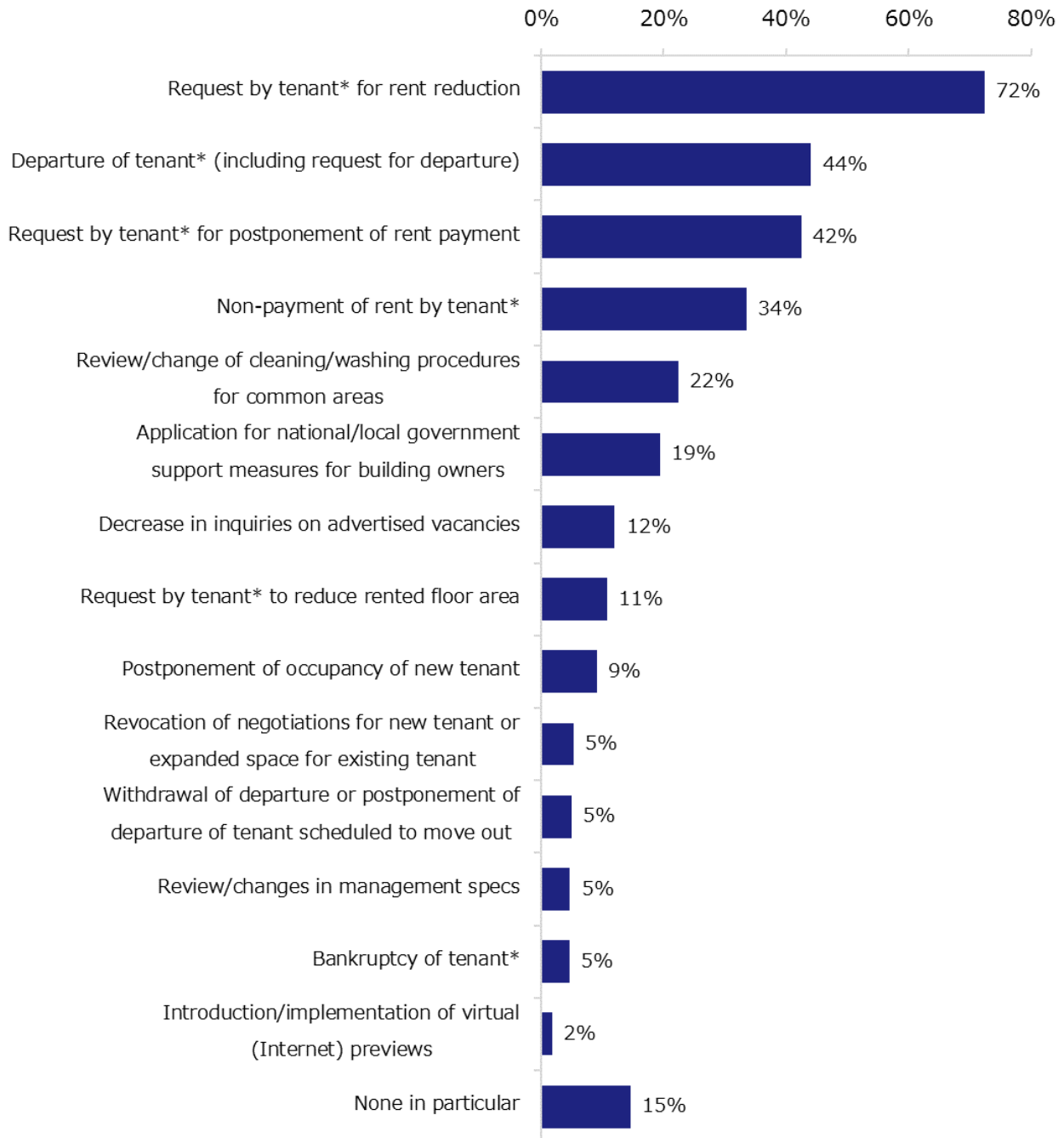
3. Key comments

- We introduce extracts of firsthand comments by building owners about the impact of the pandemic on the business and the management of leased buildings, the short-term concerns and outlook of the building lease business and its medium/long-term outlook and issues.

1. Impact of the COVID-19 pandemic on the building business

We asked building lease operators what they faced or did in the building lease business in the wake of the COVID-19 pandemic. The top answer was “Request by tenant for rent reduction” (72%), followed by “Departure of tenant (including request for departure)” (44%) and “Request by tenant for postponement of rent payment” (42%) (Figure 1). Tenants’ suspension of business and drops in sales due to the corona crisis have had a large impact on the building business.

Figure 1: What Building Lease Operators Faced or Did in the Wake of the COVID-19 Pandemic (n=901)

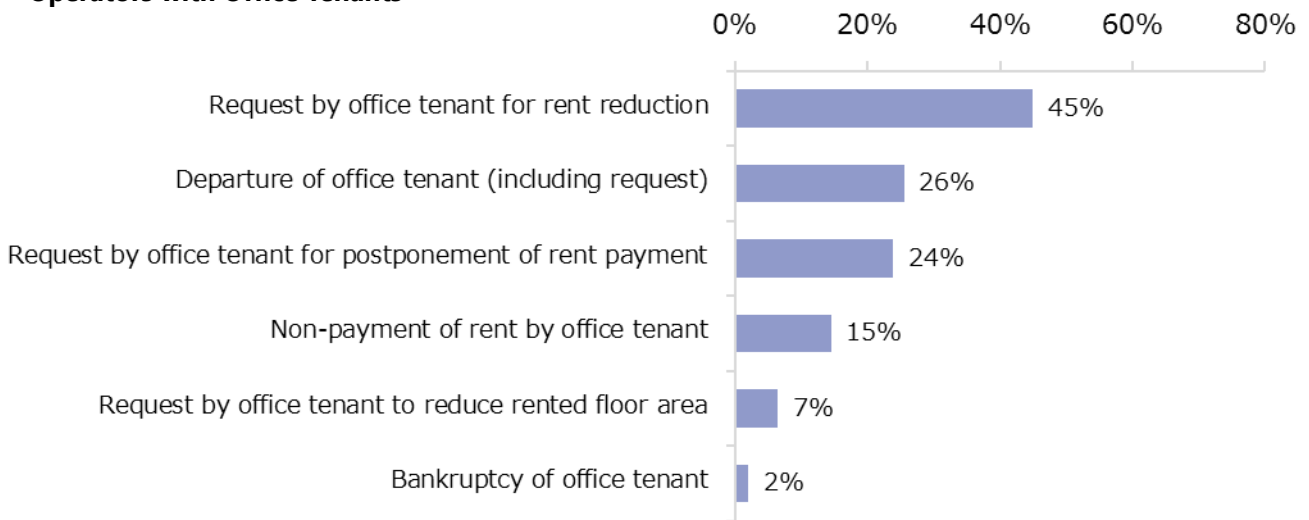


*Office or retail tenant

Furthermore, we looked at the percentages of “Request for rent reduction,” “Departure (including request for departure),” “Request for postponement of rent payment,” “Non-payment of rent,” “Request to reduce rented floor area,” and “Bankruptcy” for operators with buildings housing office tenants (hereinafter, “operators with office tenants”) and operators with buildings housing retail tenants (hereinafter, “operators with retail tenants”) (Figure 2). The percentage of answers related to rent, including “Request for postponement of rent payment” and “Non-payment of rent,” was higher among operators with retail tenants. In particular, the percentage of “Request by retail tenants for rent reduction” was more than 60% among operators with retail tenants. Comments included, “We accepted a rent reduction for a fixed period,” “We had no choice but to consent to a reduction since it would be difficult to find a new tenant if we rejected the request, as business was suspended across the board,” “We reduced common area management fees instead of rent,” and “We could not respond to requests for reduced rent since public aid for building owners is limited and we have to repay our debt.”

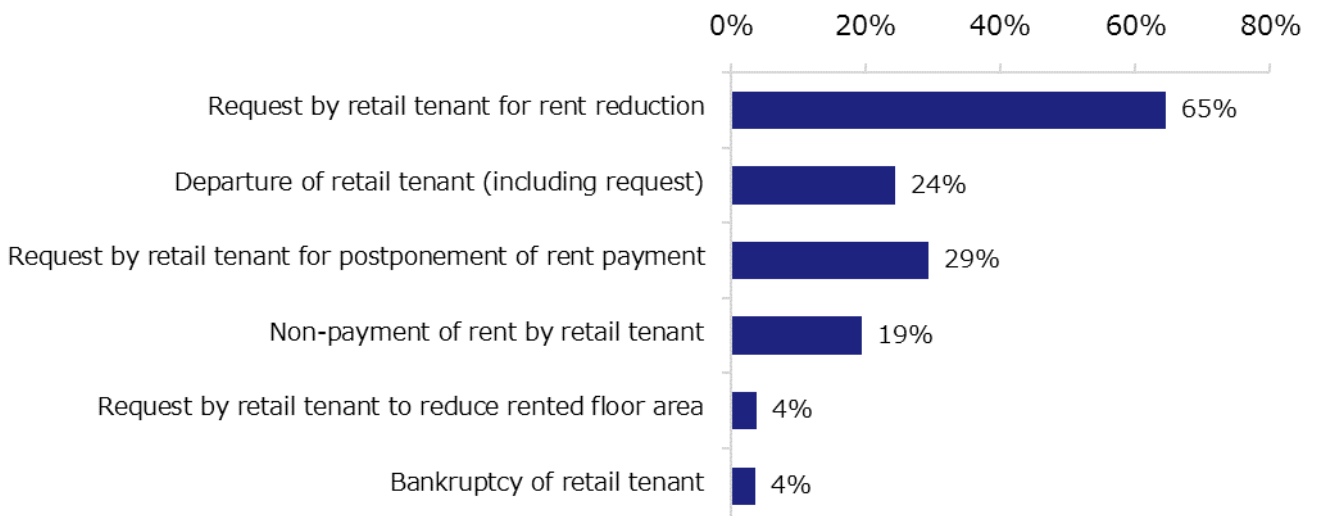
Figure 2: Developments in Building Lease Business Due to the Pandemic (by Type of Operator)

Operators with Office Tenants



Target: Building lease operators that own buildings with office tenants (n=627)

Operators with Retail Tenants

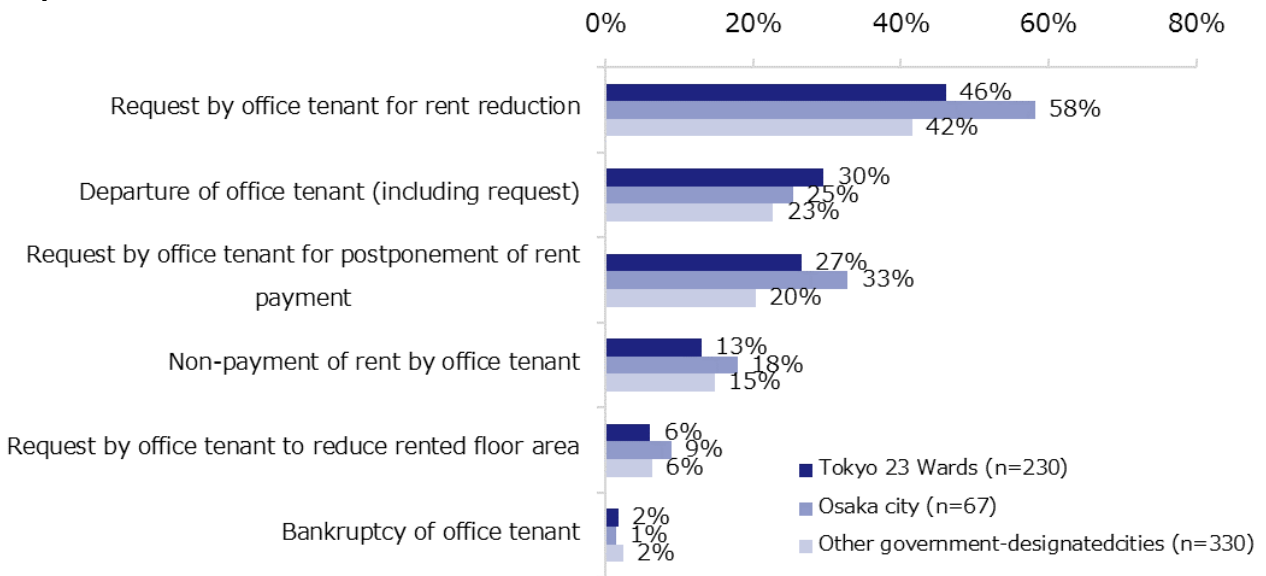


Target: Building lease operators that own buildings with retail tenants (n=657)

We then divided the geographic areas into the 23 wards of Tokyo (“Tokyo 23 Wards”), Osaka city and other government-designated cities and examined what operators faced (**Figure 3**). Among operators with office tenants, Osaka city stood out in “Request by office tenant for rent reduction,” followed by Tokyo 23 Wards and other government-designated cities. Other answers also tended to have larger percentages in Osaka city and Tokyo 23 Wards, and smaller in other government-designated cities. Among operators with retail tenants, there was no major difference in “Request by retail tenants for rent reduction” between Tokyo 23 Wards, Osaka city and other government-designated cities. As for the other answers, operators in Osaka city faced the largest impact as did operators with office tenants, while operators in other government-designated cities tended to suffer a greater impact than operators in Tokyo 23 Wards.

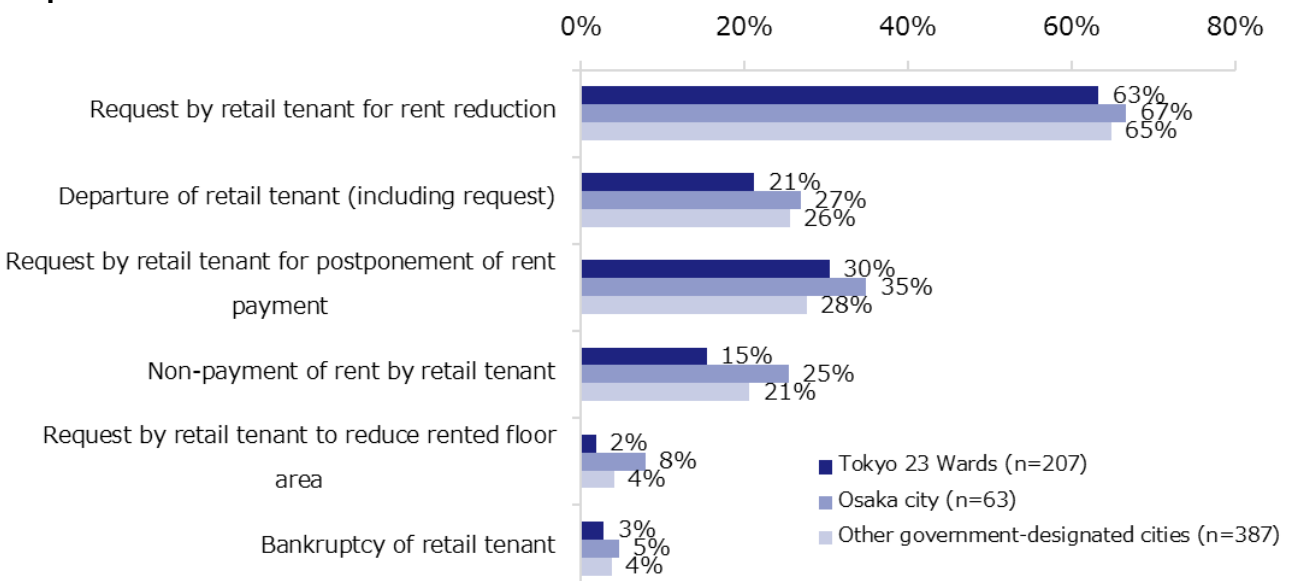
Figure 3: Developments in Building Lease Business Due to the Pandemic (by Type of Operator & Area)

Operators with Office Tenants



Target: Building lease operators that own buildings with office tenants (n=627)

Operators with Retail Tenants



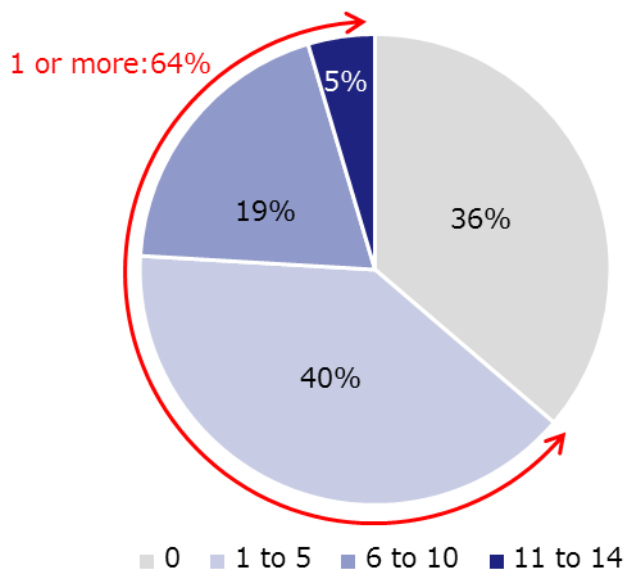
Target: Building lease operators that own buildings with retail tenants (n=657)

2. Measures against the spread of COVID-19

We listed 14 anti-COVID-19 measures and asked operators if tenants have requested the measures and whether they implemented them.

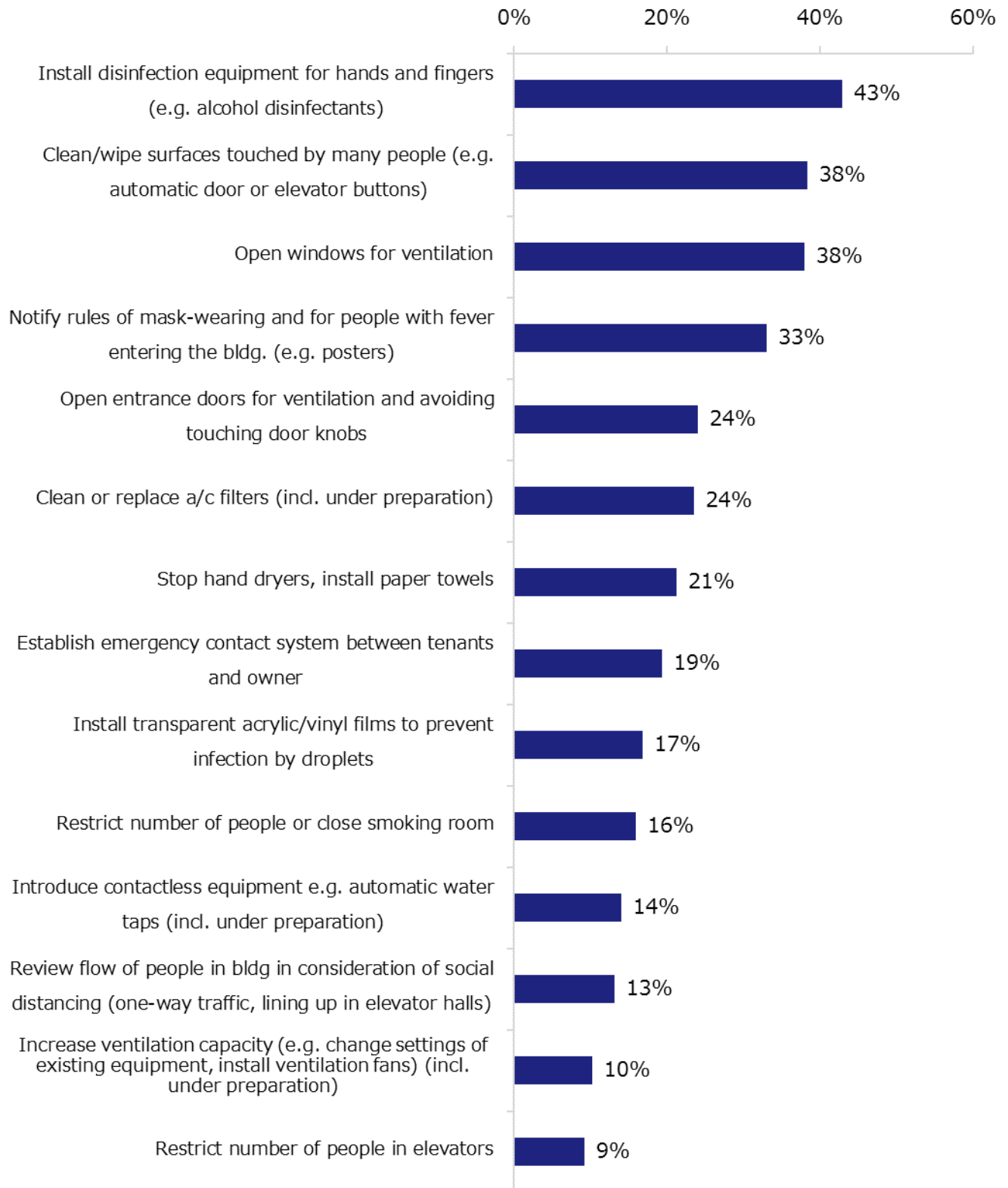
In terms of the number of measures implemented, a majority of operators had implemented some kind of measure, with 64% of the operators replying they implemented one or more (**Figure 4**).

Figure 4: Number of Measures Implemented to Counter the Spread of COVID-19 (n=935)



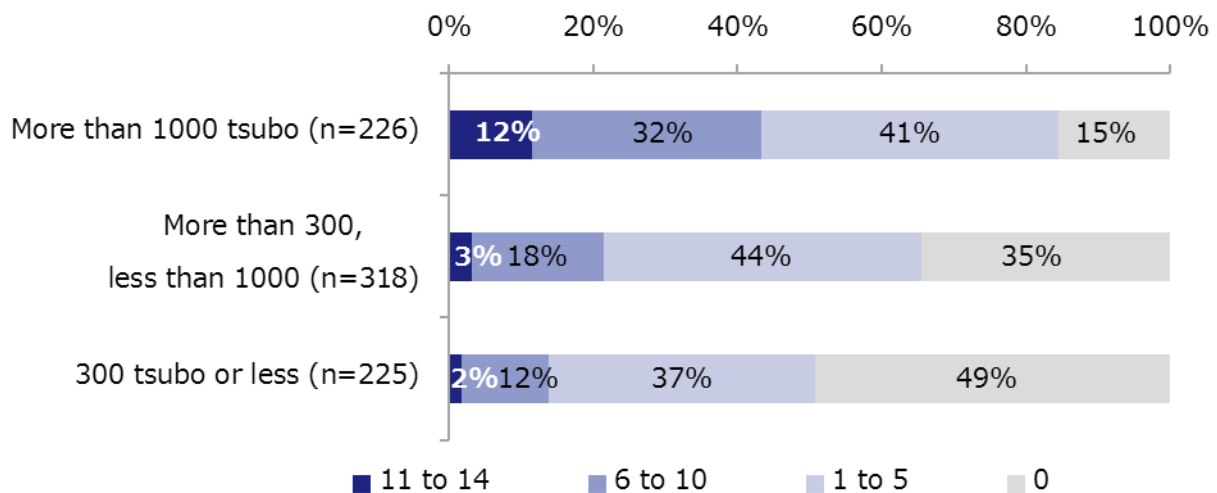
The most common measure that was implemented was “Install disinfection equipment for hands and fingers (e.g. alcohol disinfectants)” (43%), followed by “Clean/wipe surfaces touched by many people (e.g. automatic door or elevator buttons)” (38%) and “Open windows for ventilation (38%)” (**Figure 5**). Many of the measures were implemented on the operators’ own will regardless of requests from tenants, indicating high awareness of anti-COVID-19 measures among building lease operators. Comments also revealed other measures carried out by the operators, such as re-establishing the emergency contact system between the tenants and the owner, adding masks and disinfectants to their supplies, reviewing their ventilation equipment, and installing mosquito nets on windows and doors so that they can be opened, in addition to the usual anti-disaster measures.

Figure 5: Measures against the Spread of COVID-19 (n=935)



We then compared the number of anti-COVID-19 measures implemented by size of the major building in possession. The comparison showed that the larger the building was, the more measures tended to be implemented (**Figure 6**). We believe that operators took steps against the spread of the virus since large buildings have larger common areas and thus larger numbers of attached facilities and people within the building. On the other hand, nearly half of the operators of relatively small buildings took no steps, but many commented that the tenants implemented their own countermeasures.

Figure 6: Number of Measures against the Spread of COVID-19 (by Floor Area of Major Building)



3. Key comments

In this survey, we asked the operators about the impact of the COVID-19 pandemic on the building lease business, anti-infection measures, and concerns in building management going forward (write-in answers). The following is an extract of the firsthand opinions of building owners obtained from the comments to the questionnaire.

Under the corona crisis

[Business]

- We signed a rent reduction contract with all tenants (some declined the offer). There was some confusion due to the slow response of the government.
- I have been responding flexibly to requests by tenants for rent reductions and postponements of payment.
- I did not comply with requests to reduce the rent but repaid part of the lease deposits instead.
- There were requests for rent reductions, but I managed to reach a compromise with my tenants. If I reduced the rent, there is a risk that we might also go under. The government’s business continuation benefits do not apply to us either.
- I accepted retail tenants’ requests for rent reductions and utilized the ward government’s store rent reduction subsidy program.
- There is some support from the government to tenants but hardly any to building owners. Nevertheless, the tenants request rent reductions like it was the most natural thing to do.
- Since there are numerous types of support funds and subsidies for tenants by the national,

prefectural and municipal governments and chambers of commerce, I make efforts to disseminate and share information by organizing the information and sending out materials to all tenants, revising the information each time there is an addition, so that the tenants will not be confused.

- While I think rescuing tenants is important as a temporary matter, there is little support for property owners. It may be difficult, but I hope the government considers some kind of rescue plan for owners, such as a partial reduction or exemption of property tax (for a fixed period is fine).

[Building management]

- As anti-infection measures, we installed disinfectants for hands and fingers, restricted the use of meeting rooms, and stepped up the daily cleaning process. We turned off the hand dryers in lavatories and introduced paper towels, which resulted in an increase in waste.
- Although there was a request to install lids on toilet bowls, we did not change our previous method and have kept the lids removed in order to avoid contact upon opening and closing the lid. When we renovate the toilets in the future, I am considering introducing toilet lids that open and close automatically.
- Basic anti-infection measures are taken by the tenants. We changed the settings of ventilation timers in the common areas.
- We introduced air purifiers and AEDs.
- I maintain communication with tenants by creating a manual for responding to infections occurring within the building.
- We reviewed the cleaning process according to the number of people in the building at each tenant and adjusted the work schedule of cleaning staff. We reviewed the building's opening and closing times since almost everyone in the building now comes to and leaves work on time, as opposed to the previous custom of coming to work early in the morning and working overtime until late at night. We also enhanced security procedures by having patrol in the building in the evenings.

Short-term concerns and outlook of the building lease business

- Neighboring buildings are having difficulty filling their vacancies, which is a cause for concern toward future rebuilding plans.
- The impact of COVID-19 on leased buildings may be yet to manifest itself, such as in the form of a decrease in new contracts and the departure of tenants.
- I have a sense of urgency that leasing may become even more difficult in the future due to the spread of telework caused by COVID-19, limiting industries to which we can rent our buildings.
- I am concerned about reductions in leased areas or tenants' relocations to another building due to companies' reductions of (office) size because of the introduction of telework, etc.
- A drop in the rent market is expected since the decline in revenues of restaurants due to having fewer tables as anti-corona measures will affect rent.
- I am worried whether antibacterial and antiseptic equipment, which I might introduce more in the future, will affect running costs.
- A tenant that moved in recently downsized their office and relocated due to the increase of work-

from-home and telework. This has led me to consider increasing rooms compartmentalized into minimum room areas so that we can respond to office size reductions and relocations for downsizing.

- Due to the spread of telework, I have been reconsidering the raison d'être of tenant buildings, or the way they should be. It might be necessary to provide new contract terms, such as weekly contracts, and new usages of offices.
- Assuming that telework—mainly working from home—sees further expansion, I have been considering diversifying my source of revenue by switching from offices to other usages.
- The use of shared meeting rooms (remote meetings) has increased due to the pandemic. This is probably because there are no closed meeting rooms in the exclusive compartments. This may lead to changes in the use and layout of office rooms.
- There is fear that the building lease business will shrink due to telework. I am also concerned about how to respond to tenants whose staff have tested positive for COVID-19.

Medium/long-term outlook and issues of the building lease business

- It is worth paying attention to the way offices and buildings should be and how the specifications, size and infrastructure of buildings that meet tenant needs will change under the “New Normal.”
- I am interested in whether the changes in work styles will give birth to new systems in the operation of office buildings.
- The expected progress of telework might bring about significant changes to future offices (location, size).
- I expect telework to spread further, as well as outsourcing. Under such circumstances, there is a possibility that large offices will become unnecessary. I intend to start thinking of measures to address this possibility.
- Due to the emerging changes in work styles, I am concerned about the development of office demand itself as well as the demand for offices of up to around 30 tsubo (1 tsubo = 3.3 sqm), which constitute the majority of our supply.
- I am concerned about the possibility of drastic changes in what tenants require in office buildings and whether such changes in requirements are one-off or persistent.
- Going forward, it will become necessary to improve our skills of responding to natural calamities and sudden disasters such as the COVID-19 pandemic.

Summary

Xymax REI has been surveying the situation of building owners in Tokyo and government-designated cities since 2015. Many of the owners of small and medium-sized buildings are elderly and own a small number of buildings (one or two), the majority of which are 20 years old or older. We have also found that their medium/long-term outlooks remain uncertain due to concerns toward increases in expenditure for repairing old buildings and property tax payments, as well as the need to address changes in social conditions, including the declining population, work style changes and an increase in natural disasters.

In this fifth survey, we identified the impact of the COVID-19 pandemic on the building lease business and the measures taken against it, in addition to earlier concerns and issues. We also asked building owners' opinions on future issues and outlooks. Many owners have taken measures against COVID-19 in consideration of the safety of their tenants and responded to rent reductions and postponements of rent payments in support of tenants' business management. However, while there is public rent support for tenants, there are few public aids for building owners. Furthermore, the prolonged pandemic is feared to lead to a decline in the building lease market, which is a cause of concern for many building owners toward the building lease business going forward.

Xymax REI intends to continue publishing beneficial information by surveying the situation of building owners and gathering examples of initiatives on a regular basis.

Survey Overview

Period	August – September 2020
Coverage	<p>21 government-designated cities (Sapporo, Sendai, Tokyo 23 Wards, Saitama, Chiba, Yokohama, Kawasaki, Sagamihara, Niigata, Shizuoka, Hamamatsu, Nagoya, Kyoto, Osaka, Sakai, Kobe, Okayama, Hiroshima, Kitakyushu, Fukuoka, Kumamoto)</p> <p>A total of 10,830 companies extracted from Tokyo Shoko Research (TSR)'s data based on the following: [Net sales] 10 million–3,000 million yen (30 million–3,000 million yen for Tokyo) [Industry] Companies whose “principal” or “secondary” business (thus registered) is office lease</p>
No. of valid answers	<p>Questionnaire: 946 companies; 8.7% response rate (Number of companies: 63 in Sapporo, 57 in Sendai, 298 in Tokyo 23 Wards, 25 in Saitama, 9 in Chiba, 66 in Yokohama, 28 in Kawasaki, 4 in Sagamihara, 7 in Niigata, 13 in Shizuoka, 7 in Hamamatsu, 65 in Nagoya, 41 in Kyoto, 92 in Osaka, 9 in Sakai, 32 in Kobe, 15 in Okayama, 34 in Hiroshima, 20 in Kitakyushu, 44 in Fukuoka, 17 in Kumamoto)</p>
Method	Questionnaire survey by post or online
Survey details	<ol style="list-style-type: none"> I. Respondent company data Age of owner / business experience / lease business' share of total sales / number, age, location of buildings in possession, and more II. Situation of the office building lease business Situation of buildings in possession / business condition / income / expenditure, and more III. The office building lease business going forward Outlook (short-term, medium/long-term) / social conditions interested in / social conditions affecting the building lease business / measures to improve the value of buildings, and more IV. Impact of COVID-19 on the company Developments in the building lease business / measures against infection

Attributes of respondents (Upper row: %; lower row: n)

[Business experience]

Up to 10 yrs	Up to 20 yrs	Up to 30 yrs	Up to 40 yrs	Up to 50 yrs	Up to 60 yrs	61 yrs+
5%	14%	22%	20%	18%	12%	8%
51	128	204	191	173	116	74

[Age of owner]

20s	30s	40s	50s	60s	70s	80+
0%	1%	9%	22%	33%	26%	8%
2	14	88	206	309	244	77

[Building lease business' share of total sales]

Up to 10%	Up to 20%	Up to 30%	Up to 40%	Up to 50%	Up to 60%	Up to 70%	Up to 80%	Up to 90%	Up to 100%
8%	5%	5%	4%	4%	5%	8%	10%	17%	36%
70	49	44	37	34	43	72	91	156	336

[Tenant occupying leased building (multiple choice)]

Retail	Office	Residence	Warehouse	Accommodation	Other
679	646	367	123	38	110

[Number of buildings owned or managed]

1	2	3	4	5+
42%	20%	13%	9%	17%
345	162	104	76	142

[Size of building owned or managed (in tsubo (1 tsubo = 3.3 sqm))]

Less than 300	Up to 500	Up to 1,000	Up to 2,000	Up to 5,000	5,000+
27%	18%	23%	18%	10%	5%
223	151	186	148	80	38

[Construction year of building owned or managed]

Before 1950	1950s	1960s	1970s	1980s	1990s	2000s	After 2010
1%	2%	9%	20%	24%	26%	11%	8%
8	14	78	167	202	217	96	66

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

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

For further inquiries please contact:

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