

NRI Point of View

# Global Central Business Districts 2.0 - New World of Opportunities

— *A view beyond COVID-19*

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Nomura Research Institute Ltd.

May, 2021



# MEGA-TRENDS that will define the future of offices!

CBD areas will remain centre of attraction – pride for all stakeholders: Government, occupants and employees

1 >

Mixed Use Developments – Setting foundation for Future CBD's Masterplans

2 >

Inevitable intervention of technology to play a vital role in deciding new age office buildings

3 >

\* CBD : Central Business District

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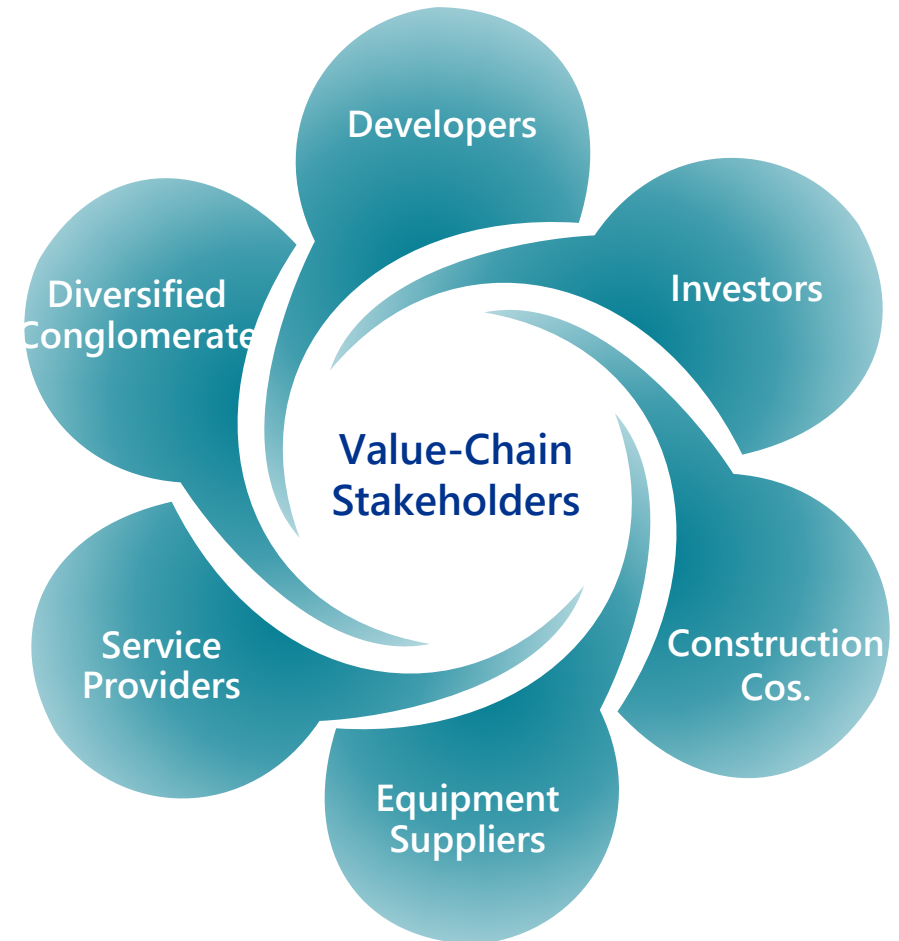
*New and multiple business opportunities already on the way for system integrators and equipment suppliers*

# We analysed 8 global cities and identified opportunities for key stakeholders

## Market Coverage

	<i>Country</i>	<i>City</i>
	Japan	Tokyo
	Singapore	Singapore
	South Korea	Seoul
	USA	New York
	India	Delhi Bangalore
	Philippines	Manila
	Thailand	Bangkok

## Player Relevance



# Covid-19 added to the list of challenges faced by Real Estate developers

### COVID Induced Recent Challenges

#### Increased Demand for Safety

- Physical distancing has become a necessity in the current scenario

#### Work from Home Challenging Physical Workspaces

- Remote working/ WFH has emerged as the substitute for traditional office spaces

#### Unaffordable CBDs

- Falling economy forced businesses to look for cheaper office spaces away from CBD

### Non-COVID Legacy Challenges

#### Rising Demand for Flexibility

- Companies look for spaces that can be easily adjusted to their changing needs

#### Deep Congestion in Cities

- Businesses want to provide work life balance to their employees, with limited commute

#### Promoting Workforce Engagement

- Companies prefer office spaces that provides modern amenities and make their employees feel belonged

## What Global Top Executives are talking about?

Based on statements made by direct stakeholders like developers, investors, tenants, Government, employees, etc.; major agendas have been identified (1/2)

### Hot Topics Being Discussed after COVID-19

<b>1</b> <b>Business Growth</b>	<ul style="list-style-type: none"><li>• Sectors such as IT, ed-tech, e-commerce healthcare grew despite of COVID-19; Shifting businesses out of China by foreign companies</li><li>• Implications – Creation of business opportunities in specific sectors &amp; geographies leading to increased demand for commercial real estate</li></ul>	<b>5</b> <b>New Development</b>	<ul style="list-style-type: none"><li>• Real estate developers planning new commercial developments due to land availability, govt incentives, demand for certain locations, etc.</li><li>• Implications – Increased business opportunities for developers, multiple option availability for the tenants</li></ul>
<b>2</b> <b>Mobility</b>	<ul style="list-style-type: none"><li>• Govt push for high quality public infrastructure and enhanced connectivity across major cities</li><li>• Implications – Shifted tenant preference towards infrastructurally advanced cities; Boost to city's economy and real estate</li></ul>	<b>6</b> <b>Re-Development</b>	<ul style="list-style-type: none"><li>• Substantial renovation of existing office structures</li><li>• Implications – Re-development may lead to mixed use developments, revitalization of business districts and renew prosperity to entire community</li></ul>
<b>3</b> <b>Cost Control</b>	<ul style="list-style-type: none"><li>• Tenants from adversely impacted industries downsizing their businesses and cutting down office spaces</li><li>• Implications – Decreased demand for commercial real estate</li></ul>	<b>7</b> <b>Flexible Work Space</b>	<ul style="list-style-type: none"><li>• Ready to support and agile work spaces with flexible furniture and design, hybrid work culture where employees can work from offices, homes or any suitable location</li><li>• Implications – Business continuity for tenants, flexibility of work to the employees</li></ul>
<b>4</b> <b>Talent Acquisition</b>	<ul style="list-style-type: none"><li>• Tenants from growing industries expanding their businesses &amp; demanding offices with top-notch designs to attract best local &amp; global talent</li><li>• Implications – Increased demand for attractive and cost efficient office spaces</li></ul>	<b>8</b> <b>Satellite Offices</b>	<ul style="list-style-type: none"><li>• Distribution of HQs into multiple different offices</li><li>• Implications – Cater new demand of tenants relocating to suburbs/ fringe locations closer to employees' residences</li></ul>

## What Global Top Executives are talking about?

Based on statements made by direct stakeholders like developers, investors, tenants, Government, employees, etc.; major agendas have been identified (2/2)

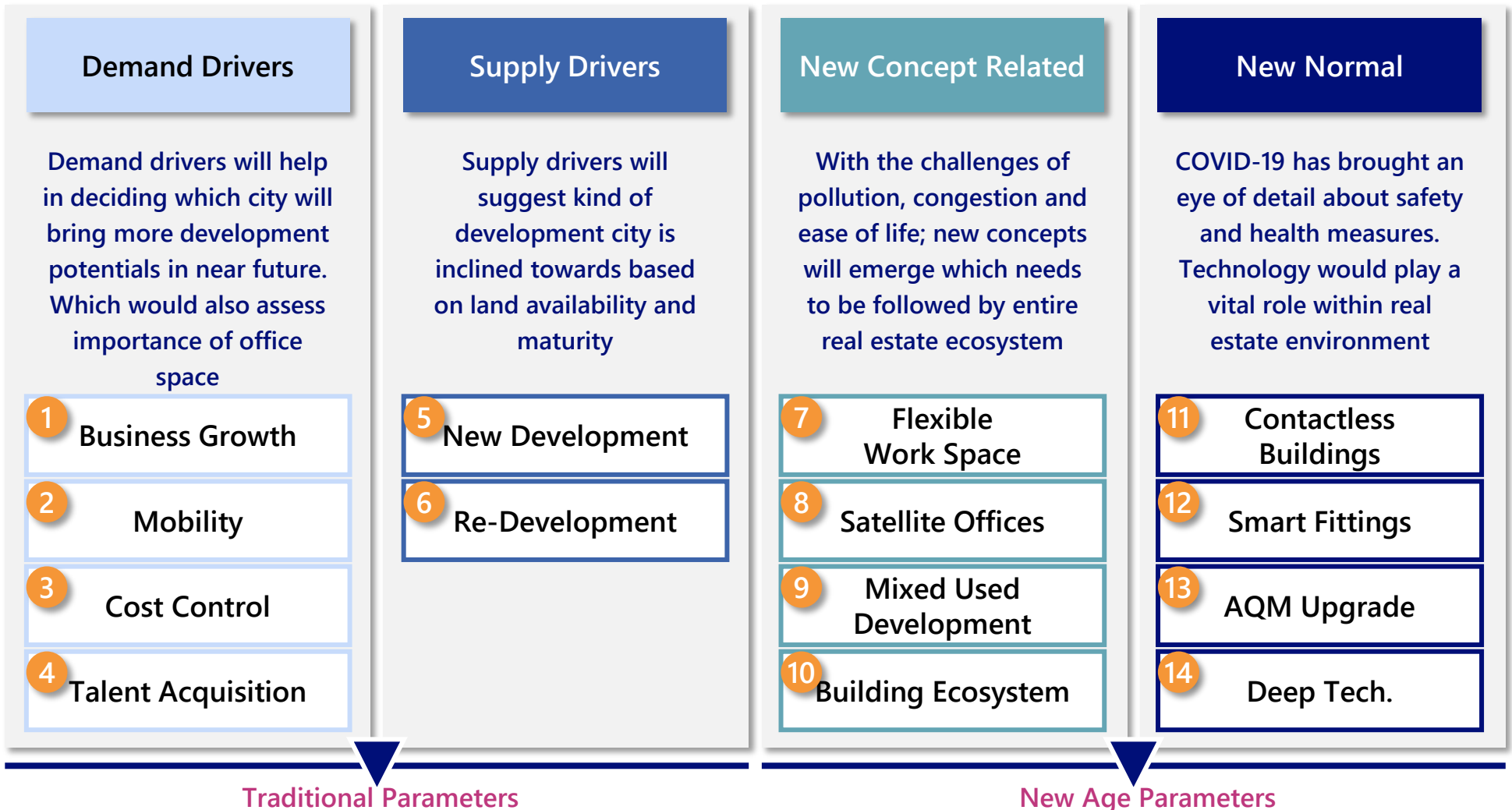
### Hot Topics Being Discussed after COVID-19

<p>9</p> <p>Mixed Use Development</p>	<ul style="list-style-type: none"><li>• Urban development with functionally integrated offices, retail centres, restaurants, creative spaces, etc.</li><li>• Implications – Short commutes and better work life balance for the employees of tenants</li></ul>	<p>12</p> <p>Smart Fittings</p>	<ul style="list-style-type: none"><li>• Office buildings equipped with smart features like motion sensors for crowd monitoring, conference room scheduling, smart surveillance</li><li>• Implications – Greater control of the office space, frictionless workplace experience</li></ul>
<p>10</p> <p>Building Ecosystem</p>	<ul style="list-style-type: none"><li>• Provision of amenities like entertainment centres, amphitheatres, etc. to the office buildings</li><li>• Implications – Creation of atmosphere where employees can get engaged and spend more time around offices</li></ul>	<p>13</p> <p>AQM* Upgrade</p>	<ul style="list-style-type: none"><li>• Building air replacement with new air-filtration technologies, energy efficient cooling system</li><li>• Implications – Provide safe environment for employees, operational cost optimization</li></ul>
<p>11</p> <p>Contactless Buildings</p>	<ul style="list-style-type: none"><li>• Buildings equipped with contactless access, contact tracing, etc.</li><li>• Implications – Top-notch safety provision to the employees of tenants</li></ul>	<p>14</p> <p>Deep Tech</p>	<ul style="list-style-type: none"><li>• Leveraging AI, IoT, RE Tech for digital transformation of workplaces</li><li>• Implications – Enhanced transparency, improved tenant comfort and fostered digital culture</li></ul>

## What Global Top Executives are talking about?

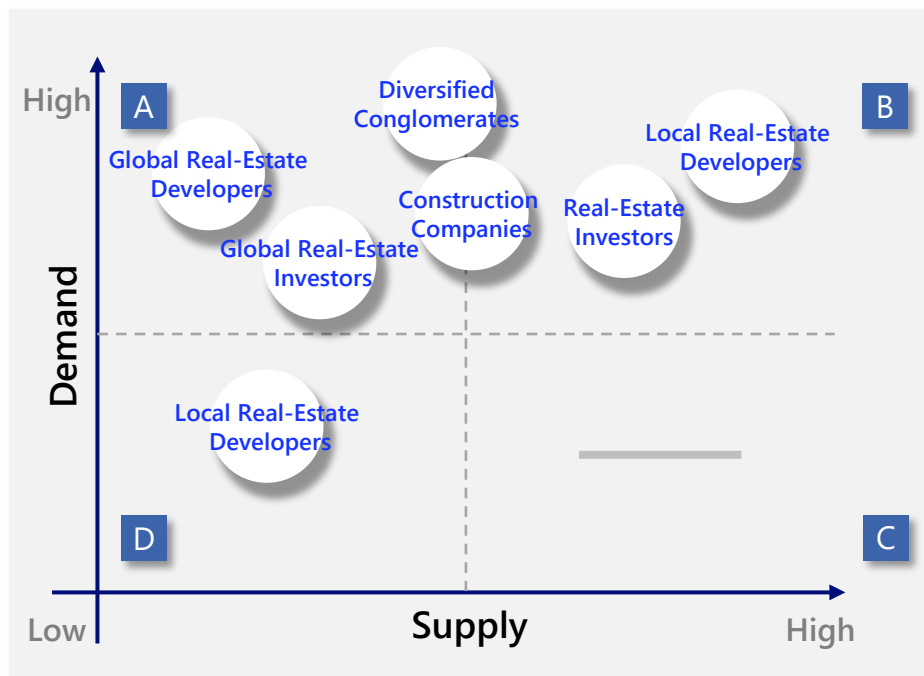
From real estate point of view, such hot topics are being categorized in 4 critical factors which will directly or indirectly shape future of office segment

### Categorization of Major Agendas



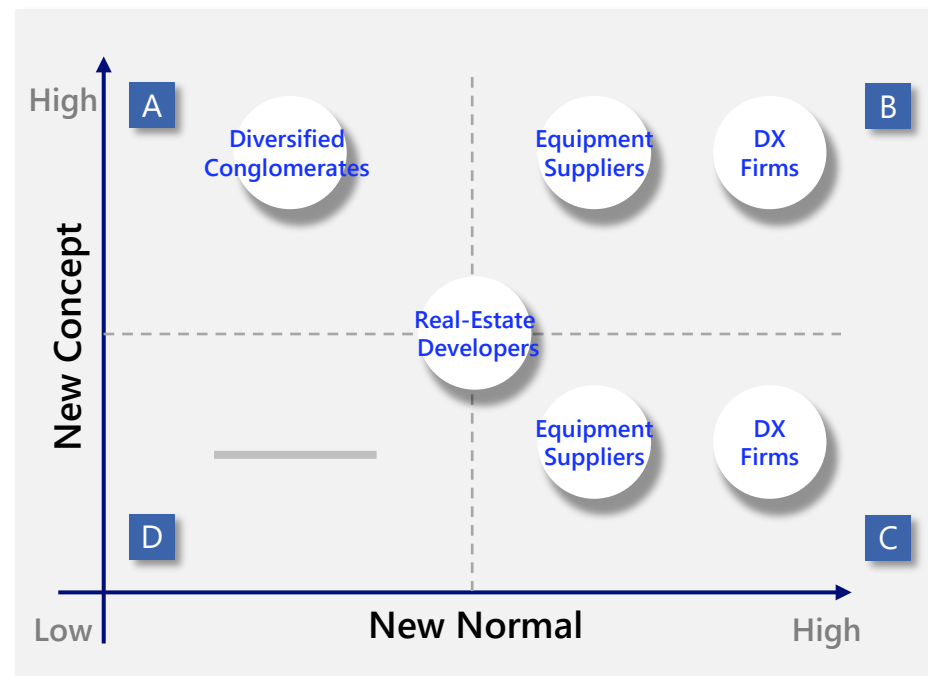
## Multiple opportunities will emerge for multiple stakeholders

### Demand vs Supply Analysis: Traditional Biz



- A** Low supply is a clear sign of weak financial position of local players and so create opportunities for Global investors to developers
- B** With both high demand and supply, more opportunities for local players. Diversified conglomerates may partner for multiple synergies
- C** No demand but higher supply led market, pushes existing players for defaults or bankruptcies
- D** Very limited opportunities to lie with local players

### New Concept vs New Normal: Technology Led





































































- A** With prior Global experience, diversified conglomerates can contribute with multiple products
- B** There are immediate business opportunities to sell advanced products as well as services
- C** Demand for advanced products as well services keeping in behavioural change of end-asset users
- D** With no behavioural change new products are difficult to sell



## Global View | Our Findings

## Summary of topics being discussed in each city (1/2)

	 Tokyo	 Singapore	 Seoul	 New York	 Delhi	 Bangalore	 Manila	 Bangkok
	<i>Priority</i>							
	 High  Medium  Low  No							
Business Growth	Firms expect only moderate growth 	With restricted travel will remain slow 	Moderate as a whole country 	Being centre of world, biz to be usual 	One of the fastest with heavy FDI 	IT dependent city supporting growth 	Improved with focus on BPO & POGO 	Tourism focused, big impact 
Cost Control	Large scale IT companies announced 	More of wait & watch, some triggered 	City depend on domestic companies 	Instead focus on restructuring 	In very rare cases 	Few start-ups cut space, shift to co-work 	Not a move as of now 	Shutdowns & space cut majorly done 
Mobility	Already well established network 	Autonomous which is long term 	Pub. transport is one of the pillar of city 	Technology required for efficiencies 	Employees use private vehicles 	A legacy problem, need solution 	Not a focus area in current situation 	Not an agenda as of now 
Talent Acquisition	Fairly mature market 	Fairly mature market 	City as majority population, less important 	This is high priority to be placed in CBD 	Employees look for prime and new 	Fairly mature being IT capital of India 	Office at prime location, an imp. criteria 	Not an agenda as of now 
New Development	Land unavailable 	Less activities because of low demand 	Focusing on sib-urban areas 	Almost negligible in CBDs 	Abundant land and shifting CBDs 	Short term slow down because of increased vacancy. New activities may start in 2~3 years 	Will remain slow with work from home 	New unoccupied stock added 
Re-Development	Slow activity with low demand 	CBD incentive scheme by Government 	Low priority 	Grade B & C buildings in to residential 	Still no agenda for old CBD (central Delhi) 	Not required 	Not required 	Not required 
Flexible Work Space	Office fixture & furniture innovation 	Opportunities for fixtures & furniture 	High focus to contain virus in initial days 	Opportunities for fixtures & furniture 	Only in the form of co-working 	Avg. employee space less & so possibilities 	Being cost sensitive, no major moves 	Shared offices are being considered 

## Global View | Our Findings

## Summary of topics being discussed in each city (2/2)

Priority



High



Medium



Low



No



Tokyo



Singapore



Seoul



New York



Delhi



Bangalore



Manila



Bangkok

Satellite Offices

Few cases of decentralization of HQ

○

Instead hybrid (home + office)

✗

Decentralization and shift to sub-urbs

○

Hub & spoke model to optimize rent

○

Only in the form of co-working space

△

Mega size of tenants makes it unviable

△

Hub & spoke adopted by BPO segment

○

Majority of tenants are small

✗

Mixed Use Development

Major focus area

○

Key focus and includes residential

○

Direction towards urban regeneration

○

Residential as part of mixed use is focus

△

Has become a new focus area

○

Had been a priority to decongest

○

Key area to attract workforce

○

Identified pre-COVID but will slow down

△

Building Ecosystem

Partially CBDs already cover

△

Less important with mixed use development

△

Eg. like installing art museums

○

Partially already exists

✗

First focus on basics of office buildings

△

Young age employees as driving factor

○

Employees back to office is priority

○

Less priority as of now

△

Contactless Buildings

Gradual steps towards face recognition

○

Crowd management & face recog.

○

Contactless gates planned for subways

○

Heavy focus on sensors and new technology

○

Market not yet mature

✗

Advanced elevator systems

△

No major steps on account of cost

△

Sensor based touchless entry systems

○

Smart Fittings

Has been focus are pre-COVID times

○

Multiple applications acceptable

○

Local Govt. high emphasis on innovation

○

Work-stations installation in parks & hotels

○

Advance surveillance will pick-up

○

Companies still evaluating restart time

△

No major steps on account of cost

△

Intelligent building mgmt systems

○

AQM Upgrade

Advance AC systems and filters

○

Subsidy for low energy air conditioners

○

One of the 1<sup>st</sup> city to identify spread via air

○

MERV13 filters and bipolar ionization

○

Tenants have started demanding

○

Because of push from tenants

○

Similar to global trend

○

New system to upgrade existing ones

○

Deep Tech.

AI based tech for disaster management

○

AI & MLR with data of spatial & behaviour

○

Govt. funds for advanced digital tech.

○

IoT for cleaning and sanitization

○

Will remain a slow agenda

△

Will remain a slow agenda

△

Data security a concern with work from home

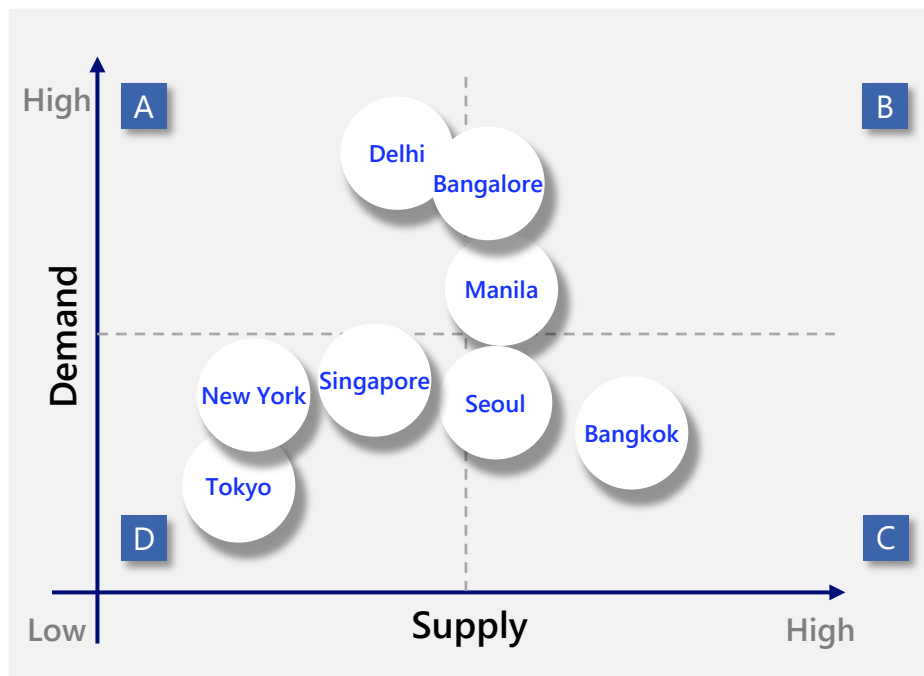
○

Considering data driven sys gradually

△

## Business opportunities examples and illustrations (1/2)

### Demand vs Supply Analysis: Traditional Biz



**A** Delhi and Bangalore continue to keep with demand, though some challenges. Attractive destinations for development as well as investment

**B** Manila, being outsourcing hub, will continue to get business and could be a zone for investment backed

**C** Tokyo, NY & Singapore may not bring new demand but some local level activities shall tend to continue

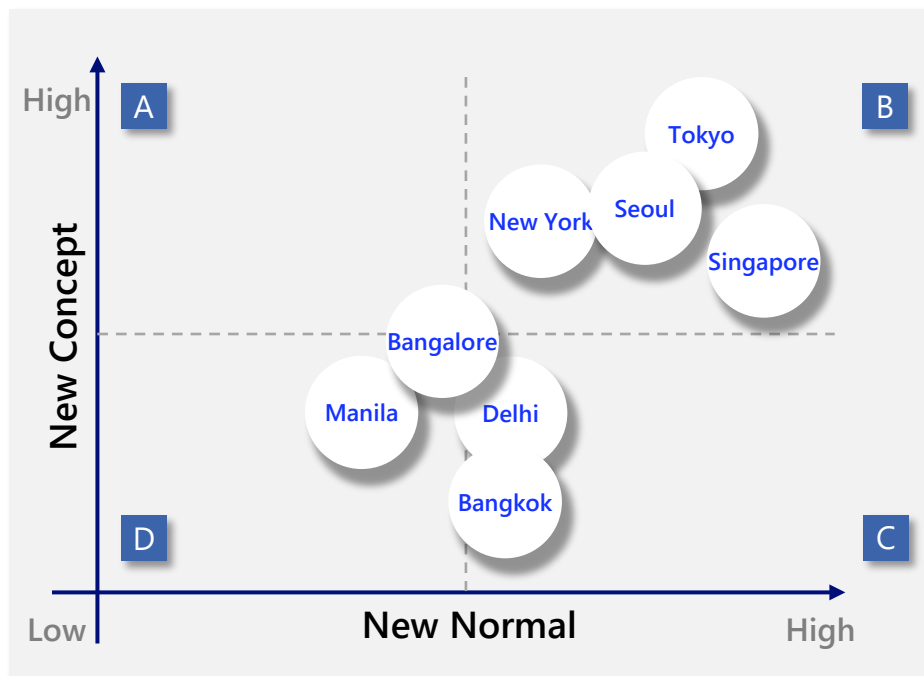
**D** In short run, Bangkok continue to struggle with weak economy and already oversupplied with office stock

### Business Opportunity Suggestions

City	Kind of Opportunities	For whom!
Delhi NCR	Investment into existing projects in districts with high potential	Global RE Investors
Delhi NCR & Bangalore	New development in core CBD areas (JV possibilities)	Global & Local RE Developers
Bangalore	Co-working culture to get re-energised because of start-ups	Global RE Investors & Local RE Developers
Manila	Some development work will continue	Global RE Investors & Local RE Developers
Tokyo, Singapore & New York	Sluggish demand will lead to limited new supply	Local RE Developers
Seoul	New development out of CBDs (sub-urban areas)	Global RE Investors & Local RE Developers
Bangkok	-	-

## Business opportunities examples and illustrations (2/2)

### New Concept vs New Normal: Technology Led



- A** None of the city falls under this quadrant
- B** All developed cities offer opportunities around advanced technology and innovative concepts
- C** Delhi and Bangkok focusing on immediate COVID related problems and not much on technology side
- D** Bangalore and Manila both, despite being IT oriented business, less focus on new technology or concepts

### Business Opportunity Suggestions

City	Kind of Opportunities	For whom!
All Cities	Clear need of better air circulation in terms new system or upgradation	Equipment Supplier & Integrators
Developed Cities	Mixed use development to achieve sustainability	Diversified Conglomerates, Design Consulting & Advanced Engineering
Developed Cities	AI & IoT solutions to solve future problems via data driven approach	DX Consulting
Developing Cities	Face recognition, advanced elevator systems, sensors for touch free environment	Electronic Equipment & System Integrators
Developing Cities	Light mixed use development approach	Diversified Conglomerates & Global Real Estate Developers

# Tokyo is transforming itself from suit-and-tie office environment into a vibrant and lively hub to attract tenants & create sustainable environment

## Prospects of Mixed-use Developments In Tokyo



Tokyo Midtown Yaesu,  
Chuo, Tokyo

- Mixed use high rise project developed by the redevelopment association managed by Tokyo based real estate developer Mitsui Fudosan
- 3.0 Mn sq. ft. mixed-use skyscraper
- Offices and Bvlgari Hotel Tokyo, along with an elementary school atop a retail podium and a below-grade transportation hub
- Direct access to Tokyo Station
- Scheduled to be completed in 2022



Toranomon-Azabudai project

© DBOX for Mori Building Co.

- Mixed use urban redevelopment project by Mori Building Company and Heatherwick Studio
- 6,000 sq. m. central landscaped square, office, residential, retail, school & temple
- Multi-purpose development will create city-within-city full of greenery
- Scheduled to be completed in 2023

### Overview

- Mixed use development efforts happening across Tokyo to generate and sustain vibrancy

### Challenges/ Opportunity

- Need to rejuvenate the city that currently has 60-70% buildings that are more than 50 years old
- Make sub-districts young and lively
- Optimize the use of underutilized resources in the city

### Solution

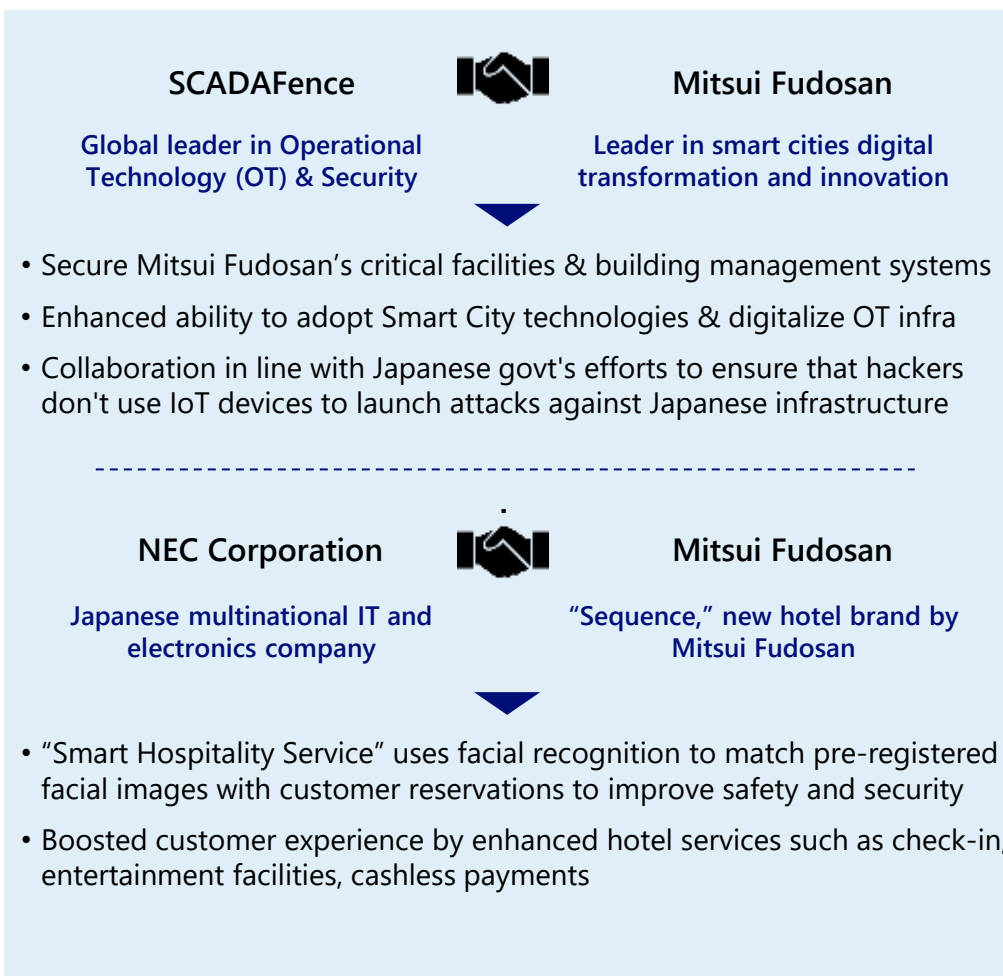
- Public private partnership with a shared vision of urban rejuvenation and mixed use redevelopment
- Developers and property owners seeing value in helping to make surrounding areas more attractive, recognizing that it will enhance their own individual developments

### Business Opportunity

- **Real estate developers** - Plan & execute mixed-use developments
- **Investors** - Invest in potential projects for higher gains & reduced risks

# Developer Mitsui Fudosan is leveraging deep tech to strengthen disaster prevention capabilities of its buildings and make them more user friendly

## Use of Deep Tech By Mitsui Fudosan



<b>Overview</b>	<ul style="list-style-type: none"> <li>Japanese real estate developer, Mitsui Fudosan <b>emphasizing on the use of technology</b> in their buildings for <b>enhanced tenant experience and safety</b></li> </ul>
<b>Challenges/ Opportunity</b>	<ul style="list-style-type: none"> <li>Need for real estate developers to make their buildings (residential, commercial, hotels, etc.) <b>disaster proof, safe and seamless</b> for their tenants/ users</li> <li>Special emphasis to be given by <b>Japanese developers</b> to make <b>buildings protected from earthquake</b></li> </ul>
<b>Solution</b>	<ul style="list-style-type: none"> <li>Mitsui Fudosan is incorporating <b>deep technologies in its assets such as office buildings, hotels</b> to enhance safety and customer experience</li> <li>Set up of <b>Mitsui Fudosan Comprehensive Technology Academy</b>, a building management training facility aimed at improving technical capabilities during normal times and improving practical skills in emergencies</li> </ul>
<b>Business Opportunity</b>	
<ul style="list-style-type: none"> <li><b>DX Firms</b> – Innovate &amp; develop deep tech solutions to enhance safety and experience of the buildings depending on geographical characteristics</li> <li><b>Investors/ Diversified Conglomerates</b>– Identify potential start-ups, companies/ technologies for investments</li> </ul>	

# NRI offers end-to-end solutions, covering strategy creation to implementation

## Corporate Planning



Corporate Strategy Development



New Market Entry Strategy



M&A, Partner Search and PMI



Market Research and Insights

## Business Model Innovation



Digital Transformation - Dx



ICT Adoption Strategy



Cross-Industry Integration – Energy, Mobility, etc.



Project/Asset Portfolio Concept Planning

## Portfolio Building



Investment Opportunity Identification



Asset/Product Mix Development



Demand Assessment and Sales Forecasting



Project Feasibility Assessment

## Business Effectiveness



Organisation Structure Design



Sales and Marketing Effectiveness



Customer Satisfaction Assessment & Improvement



Vendor and Cost Management

## Contributors

### Advisors



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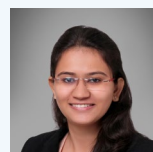


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※ For accessing detailed report and further discussion on the topic please contact <[gpg-infra@nri.co.jp](mailto:gpg-infra@nri.co.jp)>



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