

COMMERCIAL REAL ESTATE MARKETING

AN ANALYSIS OF THE USE OF THE MARKETING THEORY AND PRACTICE
EVOLVED IN THE CONSUMER AND INDUSTRIAL PRODUCT INDUSTRIES IN
THE MARKETING OF OFFICE BUILDINGS

by

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Submitted to the Department of Urban Studies and Planning
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ABSTRACT

This thesis examines the marketing theory and practice of the customer and industrial products industries and relates them to the marketing of commercial real estate. The author believes that although developers diligently plan all other facets of the office development process, the marketing is often left to chance. The marketing of an office building must start at the beginning of the development process and be present throughout the life of the building. The marketer of an office building should start the marketing process by selecting a target market and developing a position within that market, and then approach the marketing process systematical by creating a comprehensive marketing plan. It is the process of moving through these steps that this thesis will examine and that the author feels must be understood and utilized by the developer to be successful in today's competitive market.

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CHAPTER ONE: INTRODUCTION

With vacancy rates for office space in virtually every major market in the United States increasing, and competition for tenants and effective occupancy in the industry fierce, the focus on marketing has never been greater in the commercial real estate industry. Based on a survey of the nation's top 100 commercial developers conducted by Lewis & Associates, more than two-thirds of the respondents said they were spending fifty percent more on promotion and marketing than they did five years ago. (Lewis 1987, 10)

Although the commercial real estate industry has increased its spending on marketing, the theory and techniques of marketing in the industry are not very well developed. This thesis will examine marketing theory as taught for other products and services and relate it to the competitive commercial real estate industry. As competition for office tenants increases, a sound understanding of marketing theory as evolved in the consumer and industrial product industries may be the difference in whether or not a project is successful. Theodore Levitt wrote about the need for marketing in the introduction to his book The Marketing Imagination:

No business can function effectively without a clear view of how to get customers, what customers want and need, and what options competitors give them, and without explicit strategies and programs focused on what goes on in the market place rather than on what's possible in the factory or what is merely assumed at headquarters. (1986, xxiii)

An editor of a 1988 article on the marketing of commercial real estate made this point in saying "you might have the best building in town, but if the right people don't hear about it, it won't lease."

After the construction boom of the late 1970s and the early 1980s, there suddenly existed too many buildings for too few tenants. In the late 1970s true marketing of office development was almost nonexistent. Then Houston-based developer Gerald D. Hines Interests created a marketing differential by commissioning buildings by renowned architects and creating buildings with individual identities. At the same time, Hines put together a consistent marketing program that included such tools as sleek, four-color brochures, architectural models, and a

choreographed display of building finishes, elaborate building models and multi-screen audiovisuals that is now known to the industry as a "marketing center." (Gustafson 1986, 31)

Marketing of commercial real estate is mistaken by some in the real estate industry as "the act of leasing or selling." In this thesis marketing is not defined as leasing or selling, rather as defined by Rod Kimble, a real estate marketing strategy consultant: "the sum total of all actions or processes that motivates people to take action."

The marketing effort should not be seen as competition with the brokerage community. In contrast, the brokerage community, which is an indispensable emissary between the developer and the tenant, should be targeted as the primary recipient of the marketing campaign efforts. The direct user, the tenant, will also be a target of marketing efforts. Yet, industry selling theory recognizes that the more aware and knowledgeable the salesmen is of the product the more successful they will be in their sales. The tools of the marketer of real estate, such the advertising or public relation campaigns, will not lease space of themselves.

Unlike many consumer products, leasing is a large purchase decision and demands a personal "one-on-one" sale. Due to the characteristics of the leasing decision, the marketing strategy and its components are also not a replacement for the active and aggressive canvassing that is most often necessary to fill an office building. Yet, successful marketing efforts will motivate the potential tenants, most of the time through the brokers, by making them aware of, and interested in, the office product. Marketing therefore should be considered an investment in the leasing process to help increase the velocity of leasing.

The marketing theory and structural approach to be discussed in this thesis is generated from a review of several marketing texts. Although most texts utilize the marketing framework of the "Four Ps"--Price, Product, Place, and Promotion-- popularized by E.J. McCarthy, marketing at this time does not have one overarching, unified theory. (Shapiro 1987, 5) "The task of marketing is a blend of both art and science." (Shapiro 1987, 5)

This thesis will discuss marketing as a "blend" by presenting marketing theories and frameworks while also illustrating these theories with examples gained from

research of the commercial real estate industry. Together the theories and the current practices will reveal that in order to be successful in today's competitive commercial real estate industry the developer must understand and utilize a systematic and comprehensive approach to marketing like that which has been developed over time in the consumer and industrial product industries.

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CHAPTER TWO: FIRST THINGS FIRST

CHAPTER SUMMARY: The first steps the commercial real estate marketer must take to successfully market a product is to segment the market, target a market void, identify the end user's needs, and position the product against the competition.

The first and possibly most important decision of the marketing process is the selection of "the market"--the set of consumers with similar purchase requirements-- to be addressed. The product to be produced should not be chosen by default or a hasty reaction to the present market opportunities. Rather, the developer must isolate and recognize the different segments of the market, and position the real estate product to answer the needs and problems of that segmentation. (Corey 1978, 3) "A market segment may be defined as a set of potential customers that are alike in the way that they perceive and value a product---in their patterns of buying, and in the way they use the product." (Corey 1978, 3) The term "positioning" has come to mean the determination of exactly what segment or "niche" the firm's product is intended to fill and the way in which the product is placed, in contrast to other products, to attract customer attention. David Ogilvy, one of the best-known names in American advertising, once wrote that the single most important decision in the marketing of a product is the positioning strategy for that product. (Levinson 1984, 21)

The following chapter will first discuss the segmentation of the market, the targeting of a market segment and then the positioning of the product within that segment.

MARKET SEGMENTATION

Unlike some products, real estate products can not be universally used by all types of tenants, for users have differing business practices and requirements. The developer must identify and target a group of tenants with similar requirements for the product--a market segment whose needs and desires have not been met-- and address the needs of this group. The first step in market selection is identifying the various market segments. The second step is to target a market by first evaluating the segments and then selecting the best "niche" for the developer to enter. At this point the developer can then address constructing the positioning strategy for the product within that market. (Reeder 1987, 197-8)

One can identify a segment by studying three points of view of the market: 1) what those in the market are saying they want; 2) what those in the market do; and 3) who is in

the market. (O'Shaughnessy 1984, 93) To be a useful market segment, a segment must exhibit four characteristics: it must be

- 1) measurable - the developer must have the means in place to measure the quantity and type of tenancy in a market;
- 2) accessible - the segment of office user must be able to be reached and served;
- 3) substantial - no developer should build for a segment that is not large enough or profitable enough for a given product size; and
- 4) actionable - the marketer must be able to formulate ways of attracting or serving the segment. (Kotler 1986, 276)

The successful developer will be the one that is able to understand the market segments and their demand factors in the local market, determine which needs the developer can meet, and produce the right product for the office market segment.

Segments of the Office Market

The design, character and layout of an office building will usually limit the types of users the building will accommodate. An office building's characteristics of

location, size, and architectural design can be considered the basics in creating a segmentation of the office building product available. Different combinations of these characteristics will appeal to different users. Such as a major law firm will want a downtown location, a building with small floor plates so the number of window offices are maximized, and a building with a prestigious reputation. In the same way, the user market segments of the office market can be divided by the company location, size, and type. (Roberts 1986, 75)

Location

It can not be disputed that preference for a particular geographic location is one of the most important market segments. In a 1988 Building Owners and Managers Association (BOMA) study it was found that eighty percent of the tenants responding searched for space within the immediate neighborhood of their building. (BOMA 1988, 53) The developer must therefore understand tenancies in the buildings in the neighborhood surrounding the site to be developed. What are the customer's needs in this location? Are the needs amenities such as food services and health clubs, or is the primary need access to the freeway and a substantial labor pool? When segmenting by location, the marketer should also realize the potential of the location:

as example, a site near local or federal courts for lawyers or a site near the local hospital for medical practitioners. (Roberts 1986, 76) Once recognized, these elements then need to become part of the marketing strategy for the project.

Size

The second basic market segmentation relates the size of the user to the office building design. The design of the office building can be developed to house and cater to either the smaller professional office users or the larger full floor users. Since the smaller tenants can create more property management "headaches" and the large tenants tend to demand concessions, "some owners now seek a preponderance of neither small nor large tenants, but prefer medium-sized companies." (Roberts 1986, 77)

Type

Office tenants form four major groups of users: government, institutional, corporate, and service. Although not a perfect segmentation of the office market, each of these groups will perceive different needs for a building and will value the design and amenities of the office development differently. Each group should therefore be considered differently in developing the marketing strategy.

Differentiation by Segmentation

Any segmentation of the office tenant market, except the segmentation on the basis of price alone, entails a form of differentiation. O'Shaughnessy writes in his text on competitive marketing that something is differentiated "if it is preferred by some buyers to similarly priced rival brands on the grounds of differences in" one of four areas:

- 1) physical aspects,
- 2) services offered,
- 3) the convenience in using, or
- 4) the image projected.

(O'Shaughnessy 1984, 91)

The goal of segmentation is not to just divide the market into sub-classes but to distinguish "want-categories" that relate to distinct demands of various groups. (O'Shaughnessy 1984, 91)

If O'Shaughnessy's theory of segmentation is applied to the commercial real estate industry, the office market goes beyond O'Shaughnessy's four areas of differentiation. There is therefore, an intangible segment to the commercial real estate market. Tenants have a "reaction" to the total package or mixture of the location, size and architectural design, as well as to the created image of the project. Each segment will have identifiable needs and desires for such

characteristics as the office building's name, concept, image, or prestige. This set of intangible perceptions of the project constitute a fifth, very subtle, element of differentiation.

MARKET SELECTION

After the sorting out of the different segments of the market, the next step is to select among the market segments and to select the particular "target" that represents the best opportunity. Although Chapter Four will discuss more fully how the analysis of the market fits within the marketing plan, it is important to note here that the developer must consider both the external (the market conditions) and the internal (the capabilities of the developer) factors relating to the market segment being considered.

Focus Groups

To better understand the segments in the consumer products markets, consumer product firms utilize "focus groups", the informal yet targeted interviewing of a small group of consumers. The interviews are carefully designed to

produce qualitative research of preferences. This allows the firm to gain a view of what the consumers want from, and think of, a particular product. Focus groups and qualitative research allow for the firm to form a hypotheses on how the consumers' perceive and use of the product. (McCarthy 1988, 124)

In field research it was found that several developers have successfully utilized the concept of focus groups or qualitative research to understand the needs of the office tenants in their market. The Irvine Company, active in building suburban office buildings the Southern California market, has successfully used what it calls "buyer awareness" studies. These studies interview small groups of office tenants to understand who is aware of their product, what are the items that motivate a customer to relocate, and how is the developer's office product perceived by those in its market. (Cannon 1983, 14-16) By routinely utilizing this tool, The Irvine Company, keeps an understanding of the how well the developer's product fits the wants and needs of the office tenant in the market.

In Long Beach, California, IDM, a Southern California diversified real estate firm, and Kajima International, an international commercial builder, are developing The Greater

Los Angeles World Trade Center. When completed the development will have more than 2.5 million square feet of commercial space. IDM realized that the current demand for office space in Long Beach would not be sufficient to fill the development and therefore the firm had to add new market segments to the Long Beach market. The developer also realized that a large percentage of all executives in Los Angeles live in the Palos Verdes area of Los Angeles, only minutes from Long Beach; and more than fifty percent of all executives live within a thirty minute commute - an acceptable commute in Los Angeles terms. The developer therefore created focus groups of executives who live in Palos Verdes to understand what needs to happen at the IDM development (and in Long Beach) for firms to locate at The Greater Los Angeles World Trade Center. From the information gained from the focus groups, IDM developed the required amenities, image and life style for their project and are working with the city of Long Beach to create the prescribed image for the city. Unfortunately, at the time of the writing of this thesis it is too early to reach a conclusion of whether or not these efforts have been successful in leading to the leasing of the entire project, but the first two phases have been successfully leased.

In San Francisco, Rod Kimble Associates, a marketing strategies firm, was hired to assist in the marketing of Marathon Plaza, an empty one million square foot development. The firm utilized qualitative research to understand the needs of the office market and the negative images held for the project by the office tenant market. Executives in the market were interviewed to gain their perception of the project and to quantify their needs in an office building. This research allowed the firm to realize six key issues the project had to address for the office building to be marketable. The project marketer had to create a positive position for the building in regards to the building's:

- 1) location slightly outside of the Central Business District;
- 2) extremely large floor plates (up to almost 100,000 square feet);
- 3) height --a ten story building in downtown;
- 4) accessibility;
- 5) neighborhood's services and amenities; and
- 6) on-site amenities.

These issues and needs were addressed in a marketing plan for the project that included the use of several types of marketing communication (advertisements, special events, etc) to help build the correct image for the building. With this image the project began to lease.

As illustrated by the previous examples, understanding first the need and desires of a market as a whole and then the "want categories" of individual segments of the market will allow the developer to market its product effectively. In this process the marketer is forced to "think backward" by picturing the mind of the perspective customer (tenant) at the point the customer (tenant) makes the decision to purchase (lease). (Levinson 1984, 35) "Thinking backward" allows the marketer to realize the needs and desires that are crucial to the motivation of the customer to make a purchase. (Levinson 1984, 35)

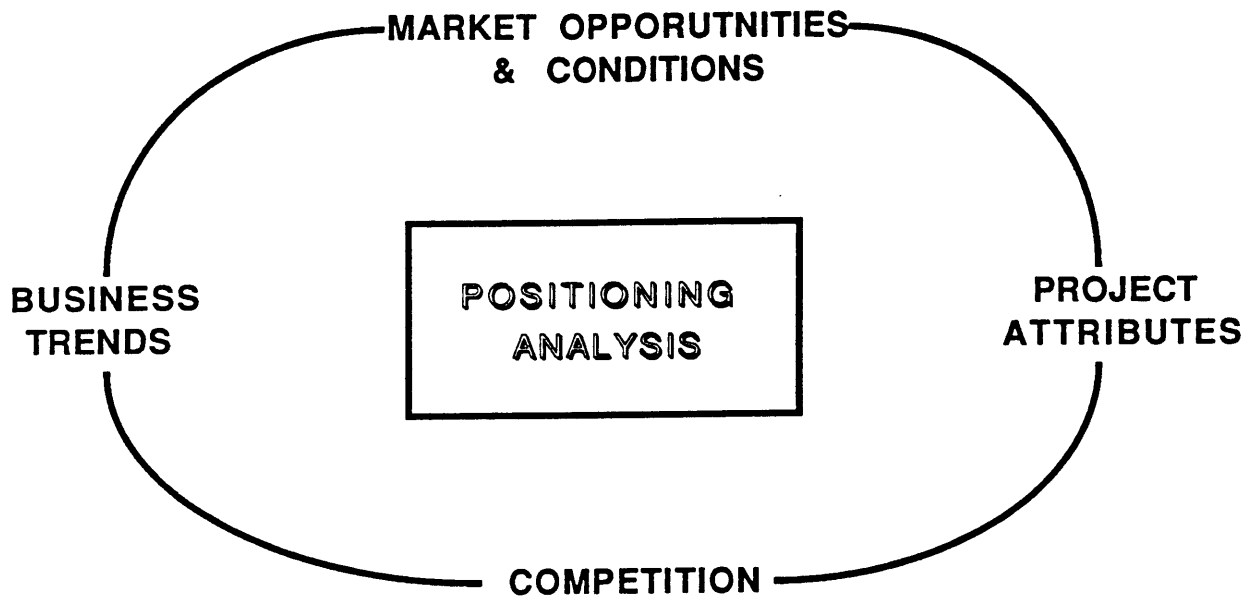
POSITIONING

Once the marketer can understand what motivates the customer to make a purchase and has chosen a market to target, the next step is the positioning of the product.

Positioning starts with a product. ... But positioning is not what you do to a product. Positioning is what you do to the mind of the prospect. That is, you position the product in the mind of the prospect. (Reis 1982, 2)

In order to identify what the best position a project should claim, the marketer should perform a positioning analysis of the major factors that will effect the project's market position. There are generally four factors that should be examined from a positioning point of view (figure 2.1): market conditions and opportunities, attributes of the project, competition, and significant business trends in the project's market. Both positive and negative perceptions should be identified for each of these factors.

Figure 2.1: Factors Affecting Positioning



In commercial real estate, the positioning of the product will be through the unique characteristics of the product. The project name and location figure significantly among the factors creating a position for the product. Other factors would include the reputation of the project's backers or developer, the physical appearance of the site or building, the building's key features, architecture, quality, rental structure, or the project's created intangible image. (Strategem Consultants)

The 1988 BOMA nationwide tenant study on "Office Tenant Moves and Changes" noted some of the elements of a development that had the greatest influence on tenant satisfaction. The study revealed that two thirds of the responding office tenants (377 firms were questioned) consider their office building their "business home" and are therefore reluctant to leave it. (BOMA 1988, 31) The respondents also indicated that if the community perceived their office building as a landmark, the tenant would be more likely to consider the building a business home. (BOMA 1988, 33) These responses from the tenants indicate that the positioning of the office building product should not be comprised of just the tangible elements of the project, yet the positioning strategy should also position the building in the mind of the prospective tenant (and the community) with

the intangible elements that make up the emotion of a "home" and a "landmark."

Rod Kimble stated that people select an office building much in the way they buy a home, with emotion and expectation of a "promise of a lifestyle." The position chosen for the office building product needs to play on these emotions and to convey or conjure up the idea of what it will be like to be in the project.

The Positioning of Atlanta Plaza

Recently in Atlanta, Vantage Southeast, a subsidiary of The Vantage Companies, Dallas, has utilized a positioning strategy that stresses the intangible qualities of the project rather than the building itself. The Atlanta Plaza, a \$225-million multi-use complex of over 2 million square feet of commercial space, has been positioned with an emphasis on the quality of life and amenities of the building's location rather than upon the building's own tangible characteristics. The developer wants to establish the project as a landmark and as a "new standard of excellence" in the city. A series of advertising copy has been developed that will not even show the building structure itself, but will position the product by utilizing a series of photographs of an elegantly dressed woman in the project

area. The first advertisement features the woman in a red hat walking through the transit station at the project site, suggesting the building's direct access to transit and downtown. A later advertisement will show the same woman in designer clothes promenading in the neighborhood. The impact of this advertisement is to emphasize the urban upscale-pedestrian environment of the building's location. More of the same type of advertisements are planned in the future to draw attention to the intangible aspects of the project. (National Real Estate Investor)

The Positioning of Crocker Center

The positioning of an office building with an image must at times be combined with an effort of "re-positioning" an image of the building's location in the audience's mind. The Crocker Center development in Los Angeles, a \$400 million office complex with two office towers, was developed by Maguire Thomas Partners in a redevelopment zone of downtown Los Angeles called "Bunker Hill."

The area that is called Bunker Hill is the area north of the flat area of land that had become the traditional downtown Los Angeles. For much of downtown Los Angeles' history Bunker Hill had been a poor and seedy district adjacent to the downtown area. In 1955 a redevelopment plan

was established and funding approved for the City Redevelopment Agency (CRA) to take 132 acres of Bunker Hill for redevelopment. The first development on the Hill was by private residential developers in 1973, but there was no office development until 1975 when Security Pacific Bank developed an office complex on the hill for its own use. It was in 1978 that Maguire Thomas Partners purchased the two redevelopment lots and obtained the development rights to the Crocker Center location on Bunker Hill. Although the Security Pacific complex was already on the Hill, it was anchored by the bank and therefore when it was developed the bank did not have the task of convincing other major tenants to locate on Bunker Hill. Most major tenant's decision makers perceived Bunker Hill as "outside" the flatlands of downtown Los Angeles. This was a critical perception to overcome, for not only was Bunker Hill "outside" downtown but these decision makers also perceived Bunker Hill as a long walk from both the Jonathan Club and the California Club, the two major business clubs in downtown and two of the few appropriate places for a business lunch in downtown.

In positioning the Crocker Center project, Maguire Thomas Partners jumped to a head start by acquiring as equity tenants both Crocker National Bank and Gibson, Dunn, Crutcher, a large and prestigious Los Angeles law firm. This

action instantly gave the project credibility. Yet the developer still had to convince more office tenants in downtown Los Angeles that Bunker Hill was the "direction of the future." This was accomplished by positioning the project by utilizing its unique features (architectural design, granite towers, views from the highest location in city atop the Hill), its amenities (public space, sculpture gardens and restaurants in a three story glass atrium pavilion), and by purposefully promoting a national reputation for Maguire Thomas Partners for quality and reliability.

The project was positioned as a place of quality and excellence that would redefine downtown Los Angeles. The positioning of the project is evident in some of the headlines of articles written about the project: "L.A.'s high rise Mansion" (LA Times), "Granite Towers bring look of Wall Street to Bunker Hill"(LA Times), and "A City within a City"(Downtown News). Although just one way of communicating the building's position, all of these articles' headlines bring to the mind of the reader the images of activity, prestige, and excellence.

Positioning is more difficult for the office building as a product than it is for the consumer products we see positioned directly through advertising. In the positioning

of its products, the marketing efforts of commercial real estate are much more like industrial marketing than consumer products marketing. Industrial marketing can be defined as the "human activity directed toward satisfying the wants and needs of organizations" (Reeder 1987, 8) rather than the individual consumer. As such, positioning in the industrial market "is accomplished through personal selling, publicity, and trade shows, as well as advertising, and through the company's performance." (Reeder 1987, 221) An important key difference is the commercial real estate developer, similar to an industrial product firm, utilizes its own image to position a product. At Crocker Center, a substantial and sustained effort was put into developing Maguire Thomas Partners as a reliable and quality firm. The Gerald Hines or Tramell Crow projects across the country capitalize on the developer's name associated with an image of the character of the product they will produce. How this and the other various means of communication position the product and communicate the image chosen for a project will be examined next in Chapter Three's discussion of the marketing mix.

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CHAPTER THREE: THE MARKETER'S TOOL BOX

Chapter Summary: The marketer has four controllable means with which to meet market demand: the product, the price, the distribution channels through which the product is sold, and the communication policy for the product. The developer needs to understand how each of these four tools individually and collectively as the marketing mix, can increase the velocity of the leasing of the developer's building.

After the selection of a market and the positioning of the firm's product within that market, the formation of the marketing strategy can be seen as a choice of the mix of marketing tools to be used -- "the marketing mix." As Professor Neil Borden of Harvard Business School described:

the elements of marketing programs can be combined in many ways...The marketing mix refers to the apportionment of effort, the combination, the designing, and the integration of the elements of marketing into a program or "mix" which on the basis of an appraisal of the market forces, will best achieve the objectives of an enterprise at a given time. (Borden 1957)

The mix used will vary from marketing plan to marketing plan, but after a decision has been made concerning market selection, most all marketing plans then have four basic

elements. E.J. McCarthy popularized a way to group these four elements by labeling them the "4 Ps of Marketing":

1. the Product,
2. the Price,
3. the Place (distribution channels),
4. and the Promotion (communication).

(McCarthy 1984, 46-49, and Shapiro 1987, 2)

This thesis will use the terms "distribution channels" and "communication policy" rather than "Place" and "Promotion" for these respective elements of the marketing mix because it is felt that the first two terms better represent these elements for marketing in the commercial real estate industry.

The "product" element of the marketing mix can be defined as all of the aspects of the product that the customer receives. This is to include both the tangible and intangible elements of the product as part of the total package of benefits that the customer acquires when they purchase the product. The "price" refers to the product's total financial cost to the customer. The "distribution channels" are the way and means through which the product information flows to its end user. The "communication policy" is the most visible part of the marketing mix and

represents all of the methods and actions used to let the customers or their agents know about the product. (Shapiro 1987, 2)

All of these tools must be managed to fit together and back into the product's positioning, strategy, and target market. Through the integration of these four, the marketer must create a competitive distinction and maintain a continuity of image for the product.

THE PRODUCT

A product, as a combination of both intangible and tangible goods, is bought by the purchaser in order to solve a problem. (Levitt 1986, 74) As such, the product produced should not be seen as just a physical entity, but it is a "bundle of qualities" that promise certain physical, social, psychological, and economic satisfactions to the buyer of the product. (Foxall 1981, 71) In developing the product, a firm must be aware of what the total product package consists of in the mind of the prospective buyers. (Reeder 1987, 232) The definition of the total product package was formed during the first phase of the marketing process with the market selection and product positioning decisions. The following text will examine the product's qualities and role in the

positioning of the building and the accomplishment of the firm's objectives.

Location has traditionally been declared the office building's only important characteristic. Although location is still one of the most crucial factors in marketing buildings, today it might not necessarily make or break a project, for there are too many other considerations that exist. (Roberts 1986, 19-41) The commercial real estate building can not be defined by just its basic elements: the building's location, size, public areas, elevators, and mechanical systems. The product of a building also includes its services, on site amenities, neighborhood's amenities, parking, public transit access, local labor pool, prestige, tenant mix, etc. The building, like any other product, should be viewed as this complex set of tangible and intangible characteristics and qualities that are created to meet the user's needs and desires. (Roberts 1986, 19-41 and Kotler 1986, 298)

Differentiation of the Product

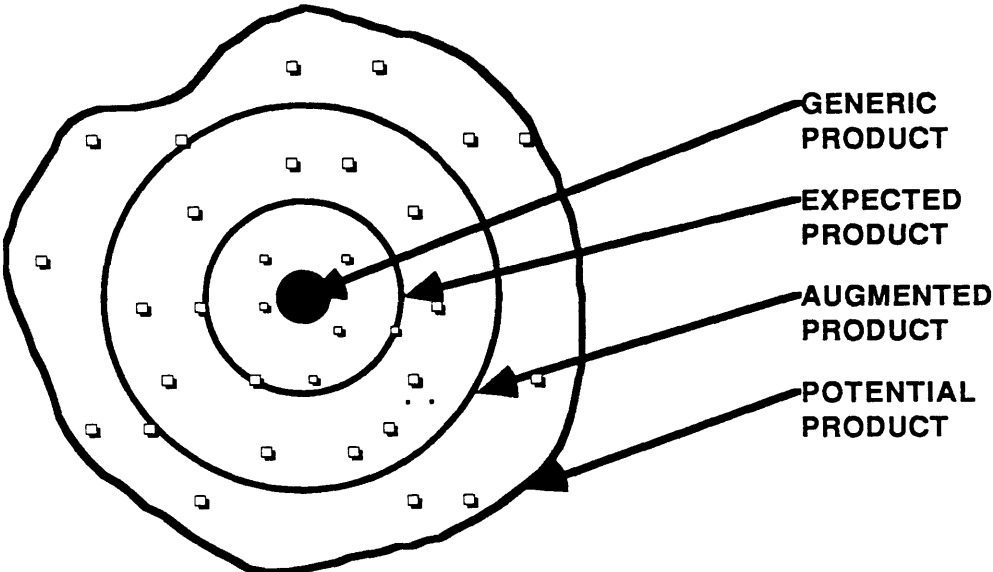
Even after the office product has been tailored to meet the requirements of a target market, the commercial real estate firm must compete within that market "niche". In order to compete successfully within the niche, the firm must

differentiate its product in a way to attract a superior number of customers to their product. (Levitt 1986, xxiv) This competitive differentiation is most often sought through distinctive product features. While some of these are the measurable or identifiable elements of the product, some are also the "intangible" qualities that are the claimed attributes of the product. These attributes include a promise of certain value or results that are greater or different than the competitor's product. (Levitt 1986, 72) The uniqueness of the product will always be realized in this comparison to the competition's product and will be contained in the "things" that make the product transcend beyond the generic product. The "generic core" of the product will seldom have any competitive viability alone, it is added to and differentiated to meet the needs and desires of the market segment chosen. (Levitt 1986, 75)

In order to understand the ways in which the office product can be differentiated, it is useful to work within the framework developed by Theodore Levitt in his book The Marketing Imagination (1986, 78-85) for what comprises a product. Levitt developed a way to visualize (figure 3.1) and explain the levels of the product that account for the ability of a firm (producing any product or service) to differentiate their product from the competition's product.

He describes any product as starting with the "generic product" core. This represents the basic product or the "rudimentary thing" to be sold. For the commercial real estate industry the existence of an office building is the generic core to the product.

Figure 3.1: "The Total Product Concept"



NOTE: DOTS INSIDE EACH RING REPRESENT SPECIFIC ATTRIBUTES OR ACTIVITIES.

(figure from Levitt 1986, 79)

Expected Product Differentiation

The next level of the total product concept is the "expected product": the minimal expectations of the customer. These expectations will vary by customer market segments and by market conditions, but the generic product can only be sold if these expectations are fulfilled. Since competitors will meet these expectations in different ways, the means used to fulfill the expectations will distinguish the competitive offerings from each other. In this way the differentiation of the products offered will follow the customer's expectations. (Levitt 1986, 78-80)

The "expected product" for the commercial real estate industry continues to expand as the tenants' demand more from their work environment. The "expected product" must at least meet the basic needs for such attributes as a space configuration, parking, quality of mechanical systems, timing of delivery, location, and basic amenities. Thus, these are some of the elements that are used to differentiate competing office products.

Of course, for a market segment like class 'A' or premium professional office space, these items alone would not be sufficient to meet the minimum demands or to allow for the differentiation of the product. Maguire Thomas Partners

(MTP) as developers of the Crocker Center on Bunker Hill in downtown Los Angeles chose to target these users for the project's office towers. These prospective tenants' "expected product" would include attributes such as a prestigious and high quality building, an architectural statement, and a good location. Although there exists more to the "expected product" of the chosen target market than these attributes, it was evident in the marketing of Crocker Center that the basics of MTP's approach to differentiating its product included at least these "expected product" attributes. The effort to differentiate the project as a premier location was instantly accomplished by MTP acquiring with equity leases two tenants that are recognized as prestigious: Crocker National Bank and the Gibson, Dunn, Crutcher law firm. The firm also utilized quality architecture to differentiate the office complex as an unique location for the professional office space user. The use of the "expected product" as the basics of the project's differentiation was also evident in the marketing recommendations written by Casey and Sayre, the advertising and public relations firm used by MTP on Crocker Center. The firm stated that it was their recommendation that the marketing effort through the media be "focused on quality, prestige and location."

Augmented Product Differentiation

The "augmented product" is the next level of product attributes and consists of the qualities of the product that are offered to the customer but that are more than the customer thinks they need. The seller creates a greater differentiation by giving the customer more than they expect. Levitt noted that although nearly all firms employ "augmented product", it is seldom used as part of a conscious or systematic program of differentiation. (Levitt 1986, 81-82)

The amenities that the real estate industry has recently utilized as "augmented product" to differentiate office buildings includes both the more active amenities such as health clubs and day care, and the "quiet" amenities such as extensive landscaping, sculpture gardens, and interiors that feature the splendor of grand marble entrances, glass atriums, or displays of original artwork. The addition of child care centers is currently the "hot" amenity in the office market. This amenity is most probably a growing trend for currently over 50% of the nation's children under six years are in child care. (Meals 1989) It is most often one or a collection of attributes that are added as "augmented product" that allow the developer to create a position for the office product in the mind of the potential tenants with a specific theme or concept.

IDM in its development of The Greater Los Angeles World Trade Center created several "augmented products" to position its product as an unique opportunity in the market. Since its target market was international trade firms, the developer differentiated its project with the use of amenities for this target market. For example, IDM established the "Greater Los Angeles World Trade Center Association" (GLAWTC), an organization that is dedicated to the development of international trade, of which all tenants automatically become members. With membership the tenants get additional services such as access to an international networking database, translation services, and informational reports on world markets. The project has other additional "augmented products" including a conference theater with advanced language translation capabilities, a full service international U.S. Postal Station (the developer had a zip code created just for the project site), a day care center, and an athletic club. All of these project attributes allow the project to differentiate itself from anything else in the market and they therefore, if the prospective tenants can be convinced that these "augmented products" are needed, make the project more competitive in the office market.

The firms that "sell" or create the "augmented products" of the office product have come to realize their value to the developer. In the field research performed, a firm that creates the health club and business dining club amenities for developers was interviewed. The firm routinely argues to the developer that their services as an "augmented product" will have three positive effects on the developer's project and as such they bring value to the developer. The firm argues that the addition of the extra amenity will help the office product by accelerating lease up velocity, achieving higher rents, and mitigating tenant turn over in the future years.

Through the process of creating "augmented product" the seller educates the buyer on what is reasonable to expect from the product. Therefore attributes are "augmented" only until the customer begins to expect them as being a normal part of any product in the market. Then the seller must develop additional creative elements to the product to "sell" as "augmented product". (Levitt 1986, 81-82)

This process of "augmented product" becoming "expected product" is very evident in the commercial real estate industry. Samuel Budwig of Chicago-based Metropolitan Structures stated that tenants looking for space who

considered their Illinois Center, an 83 acre mixed-use project in downtown Chicago, exhibited this trend:

In the beginning we would tell potential tenants about the various amenities at the center and some did not see the need for them. However, once they were in, they didn't want to give them up.

(Meals 1989)

Potential Product Differentiation

The final level of the total product is the "potential product". This represents all that is potentially feasible to attract and hold customers. So as the "augmented product" is all that has or is being done, the "potential product" is what remains to be done or what is possible.

(Levitt 1986, 83-85)

It should be noted that the examples of "expected" and "augmented" product discussed here have been for a specific market segment and the various "levels" of the product must be viewed in relation to the market chosen. The best fit for any office market will be defined in the market segmentation and selection stage of the marketing effort.

Economic conditions, business strategies, customers' wishes, competitive conditions, and much

more can determine what sensibly defines the product.... What's "augmented" for one customer may be "expected" by another; what's "augmented" under one circumstance may be "potential" in another. (Levitt 1982, 83-91)

As shown in the 1988 BOMA study Office Tenant Moves and Changes, this was found to be the case in the commercial real estate industry. The report noted that there was a large correlation between the type of amenities expected by the tenant and the type of tenant. The study was also careful to note that generalizations can not be made about the amenities desired "because the preferences for amenities are so strongly related to the nature of particular respondents." (BOMA 1988, 37-41)

The Product's Tangible & Intangible Elements

In utilizing the product's combination of tangible and intangible goods to differentiate it from the competition's product, it is significant to note that the building is a product that can not be truly tested or experienced in advance of purchase. The marketing literature indicates that the ability to inspect a developer's building in another location and to study the detailed proposal and design of the future product are not enough. For though a customer may buy

a product whose generic tangibility is as palpable as the primeval rocks, and though he may have agreed after great study and expensive negotiation to a cost that runs into millions of dollars, the process of getting built on time, and then smoothly operational involves an awful lot more than the generic tangible product itself. What's more crucially at stake are usually a lot of complex, slippery, and difficult intangibles that can make or break the "product's" success.

(Levitt 1986, 95)

The marketer must make these intangible elements of the product tangible to the prospective customer. The ability of the firm to reassure the prospective tenant concerning these product intangibles during the marketing process is crucial to the success of the product. (Levitt 1986, 96-97)

With the increasing pre-leasing requirements in the commercial real estate industry, the prospective customers can not see or test the product in operation in advance of purchase. Even those who sign leases once the building is complete, although they have the ability to walk the project, they can not actually know what the experience of working within the building will be like before "purchasing" the lease. The developer is asking the commercial tenants to buy

"promises of satisfaction" of a lifestyle. The promises are made more tangible with the images created through a project name, the choice of amenities, building design, renderings, and graphics.

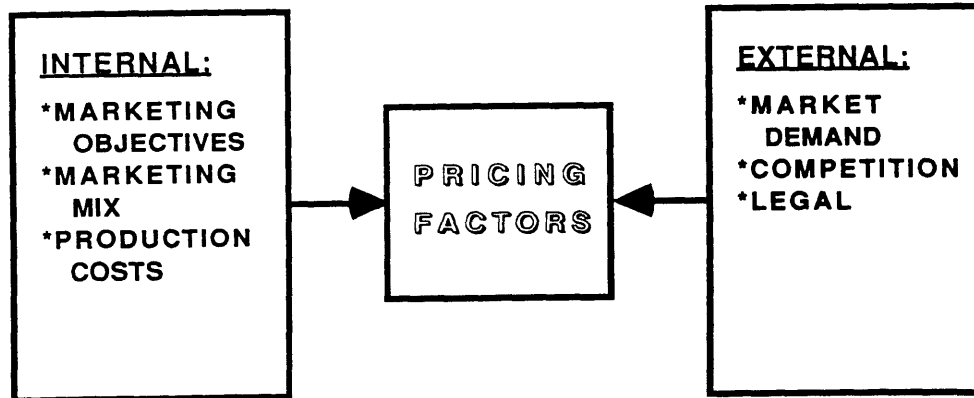
The product, as part of the marketing effort, must stand as a reassurance of the intangible elements that will help secure a sale. Marketing theory explains that a tangible product like an office building lease, which will require a continuing relationship after the "sale" and which performs a function that is crucial to the effectiveness of the buyer's company, will depend heavily for success on the assertions and implications that are made in advance of purchase. Thus the commercial real estate product must be "packaged", in much the same way a consumer product is packaged, to display the promises being made to the prospective customers. The quality and character of "packaging" elements such as the condition of the project site, the responsiveness of the representatives of the project, the brochure, and any project communication vehicles, will all become part of the product itself and therefore part of what the customer finally decides to buy or reject. For it is a cluster of value expectations of both intangible and tangible parts to a product that the customer is attempting to satisfy. (Levitt 1986, 97-99)

THE PRICE

The price of a product is the second of the marketing mix tools that a company can use to achieve its marketing objectives. The price of the product is most often a function of the other elements of the marketing mix, for the customer will attach a value to a product in proportion to the perceived ability of the product to help solve their problem. (Kotler 1986, 368 and Levitt 1986, 77) In this way the amount of latitude a firm has in its pricing decision will largely depend on the degree to which it can differentiate its product in the minds of the buyers.

The marketing theory of pricing divides the pricing decision into the consideration of the internal and external factors effecting the price of a product. (figure 3.2) The internal factors to be considered include the marketing objectives, the marketing mix strategy, and the production costs. The external factors that effect the pricing decision include the market demand, the competition, and any legal restraints in the marketplace. (Dolan 1984, 2 and Kotler 1986, 368)

Figure 3.2: Factors Affecting Price Decisions

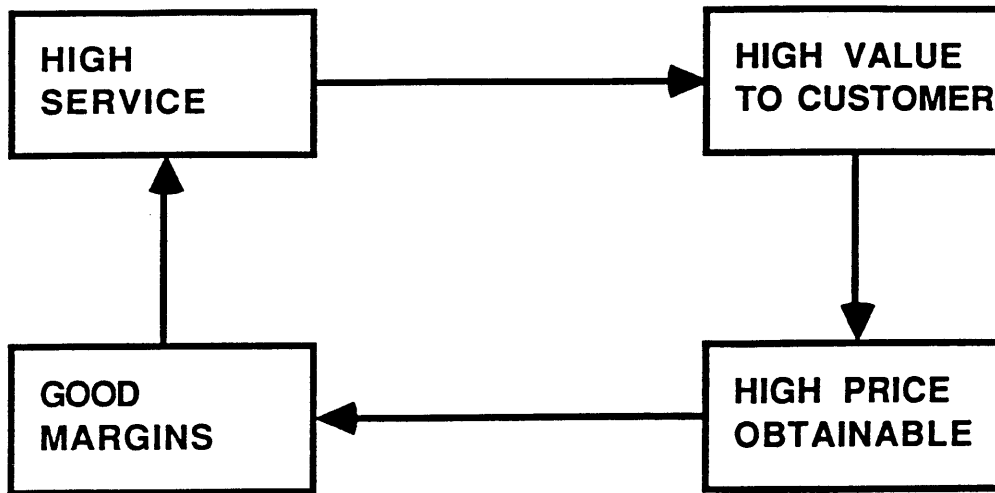


The first element to be considered in creating a pricing framework is the internal factor of costs. The cost to produce the product is a key consideration for it usually sets a lower bound on the price (some firms will sell below costs for a period of time in order to penetrate a market). (Dolan 1984, 2) Yet the firm can not base price on the cost alone, the overall marketing program for the product must also be considered. The price must fit with the other elements in the marketing mix.

The "IBM marketing strategy" is a clear example of the pricing of the product fitting within a larger coordinated marketing strategy. (Figure 4.2) The firm will deliver high service to the customer and therefore creates high value to

the customer, permitting higher prices, and thus creating good margins that fund the higher service.

Figure 3.3: IBM's Pricing Strategy



(Dolan 1984, 2)

Consumer products often utilize price as a key in the product positioning process by using price to define the product's market. Through its marketing effort, the consumer products' firm will stress the product's quality, performance, and other nonprice factors and will allow a higher price to position the product as prestigious. (Kotler 1986, 368-70)

Although the cost of an office building will often set the lower bound for the rent required, the pricing position decision (rent level) of a office building does not fit as well within the other internal factors that marketing theory presents. Since the office building product to be marketed is located in solely one location, the price that it can achieve in rents must be based upon the specific external factors of the market that its exists within. This is unlike the consumer product that can allow price to set its market and which can consequently be delivered to the market that fits that price.

After the firm has looked internally at its costs and objectives, the next step in making the pricing decision is to examine the external or market factors that will influence the price of the product. The major external factor will be the demand for the product or the value the consumers will place on the product. Marketing theory identifies three key features to the demand and value for a product:

- 1) it varies across customer segments,
- 2) for a given customer it will vary over time as perceptions of the product change, and
- 3) it is to some extent controllable by the marketer.

(Dolan 1984, 3)

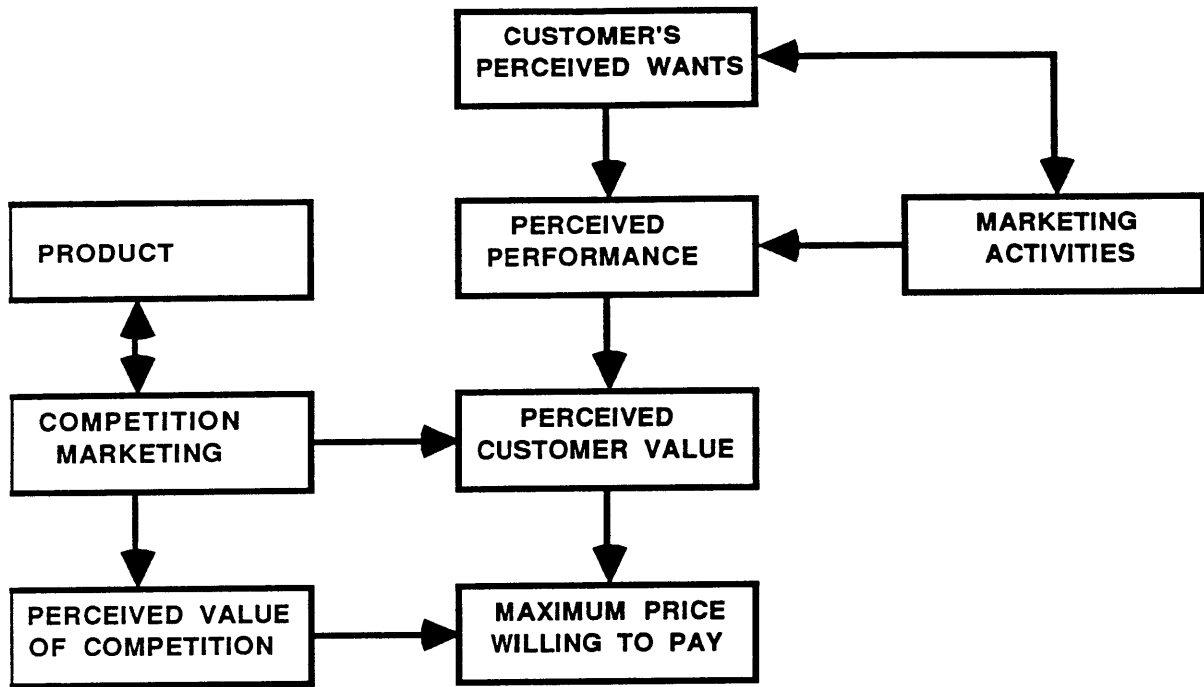
In relation to these features of the market, it is evident that the consumers will evaluate the price of a product by accessing both the tangible and intangible benefits of the product. The marketer can control the value a product is demanded at by utilizing the intangible elements to create a value that will be equal to the "elevated" or total cost of the product. (Kotler 1986, 374-5)

The demand for a firm's product does not exist in a vacuum, but the consumer will also consider the competition's product offerings. In evaluating competing suppliers of a product, the prospective customer will access the benefits of the total offering, including augmented product, of competing firms in relation to the price quoted by each firm. The dynamics of the pricing decision in relation to the marketing mix and to the value and price for competitive products is shown in figure 3.4.

An additional dynamic factor is added to the pricing strategy in the commercial real estate industry. Since the product being produced will be used by the tenant to produce its own products, unlike a consumer product, the price set for the office building rents will influence both the buyer's and the seller's profits. In addition, since the office building product is immobile, the existing and potential

competition within the building's market area will inevitably affect the pricing strategy of the product by setting an upper limit to the price of the product in that market.
(Reeder 1986, 440)

Figure 3.4: The Dynamics of the Pricing Decision



(figure 3.4 was adapted from Dolan 1984, 4)

THE DISTRIBUTION POLICY

The distribution policy is the third of the four means the marketer has to control the "marketing mix" of the product. The "distribution channel" is defined as "the set of firms and individuals that take title, or assist in transferring title, of the particular good or service as it moves from the producer to the consumer." (Kotler 1986, 410) Marketing theory establishes that a distribution policy is developed by examining two questions about the product and its distribution:

1) How long should the channel be to the customer?;

2) How wide should the channel be to the customer?.

(Corey 1978, 7-8)

Before looking at these questions, the marketer must realize the criteria of an efficient system of distribution. Harvard Business School Professor Robert Dolan wrote that an efficient distribution system will provide for four activities:

1. the selling of the product by providing information to the customer through various means;
2. the actual physical distribution of the product;
3. the service of the product after sale; and
4. the receipt of information and feedback from the market so that the producer can understand the

customer acceptance and reaction to the product.

(1984, 2)

The distribution policy development will start with the marketer deciding what parties involved in the marketing of the product will be responsible for which of these four activities. For most commercial real estate projects these tasks will be accomplished in a division of labor between the development firm and the project's agent or broker. In some circumstances the project's architect, general contractor, and financial partner will also play a role as a "distribution channel."

The first question in the channel design decision, a question of "channel length", is decided by choosing to sell the product directly with the firm's own sales force or to sell indirectly through agents. The decision is usually based on whether the firm has a sales volume base that is large enough to support its own sales effort, the number of customers in the market, and the concentration of the customers within the market. Marketing theory also dictates that the higher the product's price and the more complex the buying decision, the more direct the sale channel tends to be. (Corey 1978, 7-8)

Along with the "channel length" issue, the firm needs to

set a distribution policy in regards to the second question of "channel breadth." There exist three basic alternatives in marketing theory with respect to the channel breadth or intensity of market coverage. There is

- 1) "intensive distribution": selling through all responsible agents who will sell the product;
- 2) "selective distribution": selling through only middlemen who will give the product special attention; and
- 3) "exclusive distribution": selling through one middleman per geographic area.

(McCarthy 1988, 232)

General marketing theory states that a firm should utilize an exclusive or selective form of distribution if the cost to sell the product is high and buyers seek out experts in order to purchase the product. An intensive distribution system should be used if the product is a low cost item and buyer convenience is key to the securing of a purchase. (Corey 1978, 7-8)

There exists two ways to motivate the distribution channel to increase the velocity of sales. The firm can establish a "push (through the channel)" policy or a "pull" policy of motivation. The push policy will concentrate most promotional activities on the distributor and will stress the

distributor as a member of the product "team." In contrast a pull policy would utilize aggressive promotion to entice the end user to ask the distribution channel member for the product. (McCarthy 1988, 232)

Although all of the marketing effort is aimed at locating, reaching, and securing office space users, this effort all depends upon the agents' ability to personally sell the office building to the potential tenant. Therefore most commercial real estate project's will motivate the distribution channels with a "push" distribution policy rather than a "pull." (Roberts 1986, 114)

In addition, the office building lease, as does a high priced industrial product, requires a hybrid of distribution policy. The developer must create a distribution policy that will allow for both direct personal sales, in order to solve each potential customer's specific complex requirements for the product, and a somewhat broader reach of distribution, in order to contact all potential customers in the target market. (Reeder 1987, 290-293)

Since the commercial real estate project will gain the greatest exposure through the brokerage community, the developer must be sure to choose the broker which has

experience in leasing their kind of building in their kind of market and has had experience representing the kinds of tenants that the developer has targeted. (Hollander 1985)

The developer must still make the decision of whether to utilize the entire brokerage community involved in their product type (intensive distribution), to select a few to represent the project (selective distribution), or to give an exclusive arrangement to one broker (exclusive distribution). There exists a drawback to establishing an exclusive arrangement with one particular broker or brokerage firm. The developer must be concerned about the brokers' focus and commitment to the project. There also exists a conflict of interest when the brokerage firm or broker also represents other projects which are competing for tenants in the same market. (Carnahan 1987, 49)

The field research indicated that the brokers' focus can be better maintained with regular scheduled marketing meetings, status reports, and daily contact with the developer. An additional concern was that an outside broker might not push as hard as an inhouse broker to make a deal happen at the project. The outside broker might place the tenant at the project with the least resistance--the project that makes completing the transaction the easiest-- rather

than the project of best fit with the tenant. To help maintain a strong commitment by the brokerage community it was recommended that the developer maintain a competitive commission schedule and instant commission policies.

THE COMMUNICATION POLICY

Even the best designed product, intended to satisfy a specific need, can not do so if the target customers are not aware of the product, what it can do for them, and how they can purchase it. The communication policy, the process of informing the public about the product and persuading them to buy, is the fourth and most visible marketer's tool for controlling the marketing process. Although there exist many ways to inform the target audience about the product--personal sales, public media advertising, public relations, direct mail, the exact mix of these different types of communication will depend upon the way the product's consumers purchase the product. (Corey 1978, 8)

Not only will the communication policy vary across the type of customer, the communication policy will also vary throughout the different phases a customer goes through during the purchase decision. The communication policy must insure that the customer is reached and influenced at each stage of their decision.

Consumer Buying Cycle

Figure 3.5, "Stages of Consumer Buying Cycle" (Jaffe Associates), shows this effort diagrammatically. The customer will begin the buying cycle by "information

gathering"; at this point the communication policy must reveal to the customer that the product is available and would serve the customer's needs. The customer then moves to a state of "confusion" as the customer is confronted with several product options of how to solve their problem. At this stage the marketing communication policy must differentiate the developer's product and services from the competition's offerings.

Although the following stage, "point of sale", does not have a communication need identified on figure 3.5, for large purchase items like an office building lease, the communication policy must still be very interactive. Exactly at this point-of-sale, the developer and prospective tenant attempt to solve the tenant's specific problems and needs.

The fourth stage is often overlooked in the commercial real estate industry. Theory identifies that buyers go through "buyer's remorse" after a purchase. It is at this point the communication policy must continue to insure the client that the choice of product was the best choice. A satisfied customer is one of the product's best marketing agents and should also be included as part of the marketing process. The final stage of the buying cycle is the customer's identification of additional requirements,

STAGES OF CONSUMER BUYING CYCLE

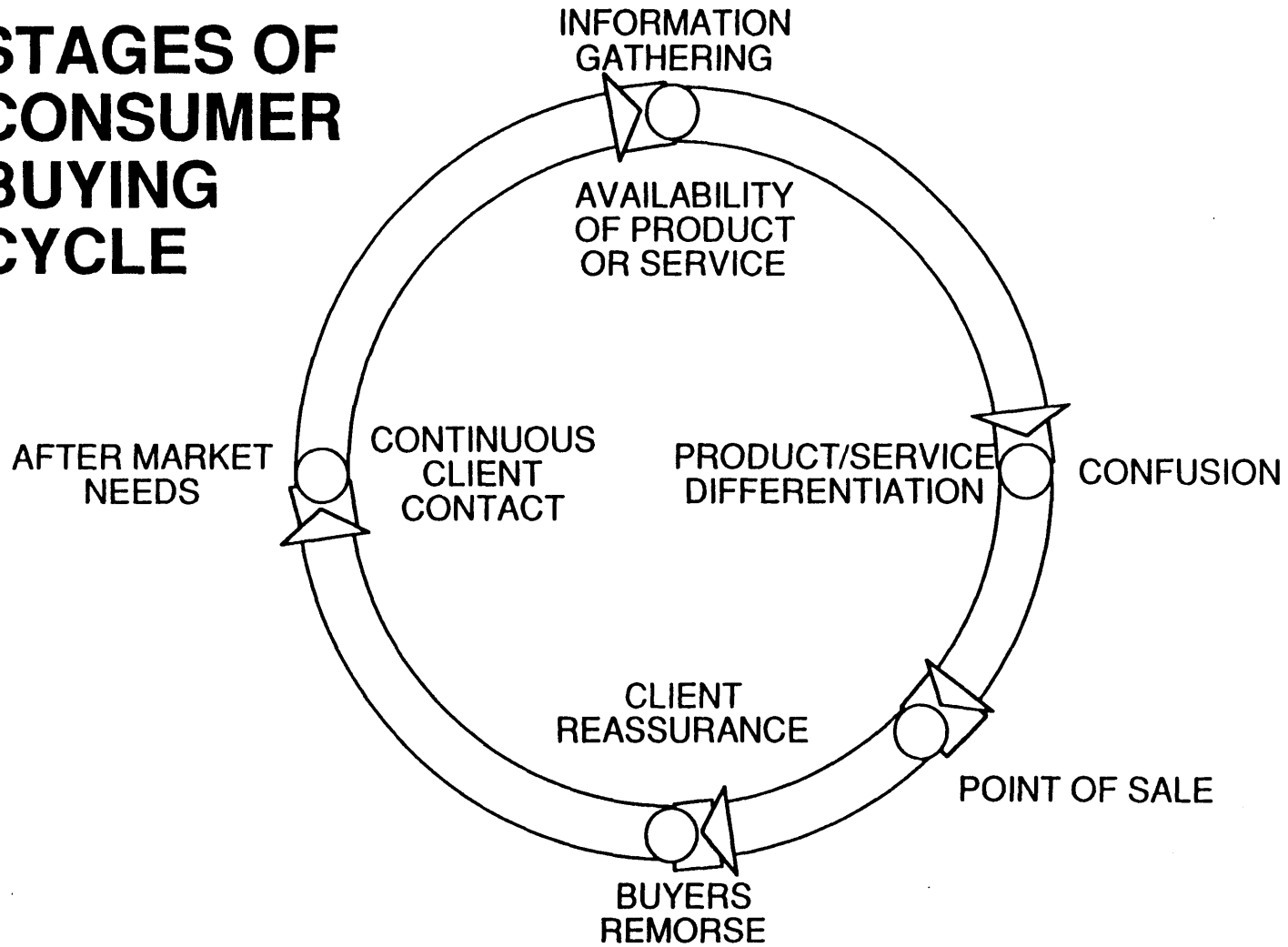


Figure 3.5: Stages of the Consumer Buying Cycle

titled on the diagram as "after market needs". In order to maintain a client over the long term through successive primary and secondary base terms, the developer must understand these "after-market needs" and can do so by keeping continuous contact with the client over time. (Corey 1978, 8-9)

Determinants of Communication Policy

Although the product, the price at which it is offered, and the channels through which it is brokered will all perform a communication function during the customer buying cycle, marketing theory defines six determinants to developing a comprehensive and appropriate communication policy for a product. (Quelch 1975, 4-12)

- 1) **OBJECTIVES:** The type of demand to be stimulated, i.e., create awareness, knowledge, or preference.
- 2) **TARGETS:** The recipients of the message--will the message "push" the product through the brokerage community and/or "pull" it by stimulating end user demand.
- 3) **MESSAGE:** The information to be communicated, i.e., distinguishing characteristics, features, or benefits, and how to get more information.

- 4) **INTENSITY:** The amount and frequency of information to be communicated to the customers: usually a function of the other determinants.
- 5) **MEANS:** The way the message will be communicated, i.e., print advertising, direct mail, personal selling, point of purchase displays, etc.
- 6) **PROFITABILITY:** The marketer must insure that the results of the communication policy are profitable in relation to the costs.

Advertising v. Personal Selling

In the development of the communication policy the greatest debate is often the choice between the wide range of possible means of communication. In choosing among the various communication media, it is important to find the communications medium that will reach the target audience and that can communicate the message. (Quelch 1975, 7-9)

Generally, the choice of media is divided between the use of advertising and personal selling. Advertising includes both media advertising (e.g., magazines, newspapers, outdoor billboards) and nonmedia advertising (e.g., point-of-purchase displays, brochures, direct mail), and is usually less expensive in cost per person reached than the use of personal selling. Each media offers unique

opportunities to the marketing of any product. To create a complete communication policy for the marketing of an office building the marketer must utilize both advertising and personal sales.

Marketing theory identifies personal selling as offering the marketer the ability to:

- * identify prospective customers,
- * provide personal reassurance of the rightness of a purchase
- * establish a "two-way communication" with the buyer, rather than just giving a generic set of information, and
- * develop tailored solutions to the customer's needs.

The use of personal selling is therefore most helpful to the communication efforts when:

- * difficult or complex information must be delivered,
- * tailored purchasing solutions are required to satisfy the buyer's needs, or
- * it is important for the prospective customer to "feel the goods." (Corey 1978, 9-10)

Since the office building lease is a complex product for which the customers have very user specific needs, the marketer of the office building lease must rely on personal selling, despite its costs, for the bulk of the communication

effort. The use of personal selling will insure that the decision maker is exposed to the message, make certain that the message is custom tailored to the information needs of the individual customer, and allow the marketer to respond to needs and objections. (Quelch 1975, 9)

Most developers will stop the marketing communication effort here at personal selling. In his book on industrial marketing Robert Reeder explained that the communication effort for a complex product is not complete with personal selling as the sole communication medium.

complex ... products, coupled with buyers' expectations and unique information needs, requires personal contact...[It is] not possible however, for sales people to make contact with all individuals... Studies have indicated that on average for every ten buying influencers, a salesperson reaches only three to four. ... Advertising creates awareness, enhances the effectiveness of the selling effort, and is an important ingredient in creating and maintaining demand at the distributor level.

(Reeder 1987, 399)

Marketing theory identifies that advertising (both media and nonmedia) can be useful to the commercial real estate marketer in its ability to:

- * introduce the product and create awareness;
- * assure quality, reliability, and credibility;
- * create a prestige image;
- * position against competition; and
- * develop interest among the brokers.

(Corey 1978, 9 and Monroe 1985, 7-8)

These abilities allow the developer to utilize advertising to accomplish two different objectives. Since the target tenant population will be receiving the majority of its information needs through the brokerage community, the majority of the marketer's communication effort with advertising will emphasize the broker in an attempt to "push" the project through the brokerage community. Yet it should not be ignored that the marketer can accomplish two important tasks, getting the customer to the broker and simplifying the broker's job, by also utilizing an effective "pull" media advertising campaign. This advertising will be intended to stimulate the need for information by potential tenants which the broker will provide. (Quelch 1975, 9)

The use of advertising will be useful to the marketer only if the specific advertising medium gets the message

across, the target audience can be reached, and the buyers are open to receiving the message through advertising. (Corey 1978, 9) A recent study (Peabody Fitzpatrick Communications, 1986) of advertising practices in the commercial real estate industry indicates that prospective commercial building tenants are being reached and are open to receiving the advertising message. Almost fifty percent of the tenants in the study began their search for office space by identifying prospective properties without broker assistance. This allows room for the marketer to influence these prospective tenants with advertising, public relations, and other marketing communication vehicles. One third of the tenants indicated that some advertising marketing tool played a role in their going to see their present building for the first time. The study also emphasized that the developer must raise and sustain the awareness of their project within the brokerage community, for over forty percent of all tenants went to a broker without identifying prospective buildings.

There exist many ways to communicate to the target audience through advertising. The following media will be examined here for their use in the commercial real estate marketer's communication policy: print (magazines and newspapers), outdoor signage, brochures, direct mail,

newsletters, marketing centers and audio visual shows, and public relations.

Print

The print medium consists of newspapers, magazines, and journals. Newspaper advertising is generally the least expensive of these media, but it has the disadvantages of having a very general audience and a very short lifetime. In contrast, magazines and journals can reach a specific target audience and have a longer life than a newspaper. The development community generally does not understand the use of print advertising:

There is a great debate between marketing people and owners about advertising. Owners say, 'You want me to advertise, but I never get much of a response.' [But] you don't advertise to get responses. (Monroe 1985, 76)

Advertising is not going to close a deal. The goal of print advertising will most often be to establish a distinctive and memorable identity for the project in the prospective tenant's mind. Just as it is for most of the advertising effort, the primary thrust through the print medium will be to alert the brokerage community. The print advertisements should "address issues of location, ambience and building features." (Gustafson 1986, 34) Appendix One

contains three of the print advertisements that were used for Marathon Plaza in San Francisco. The advertisements relate to the six issues and needs that the project had to address for the building to be marketable. If personal selling was the sole dimension to this project's communication policy, the message regarding these six issues could not have reached the audience that it needed to reach and that it did reach through print advertising.

The responses to a recent study of advertising practices in the commercial real estate industry (Peabody Fitzpatrick Communications 1986) indicated that the city's major daily newspaper is the publication most often consulted to locate new office space. The study also noted that the best publications for advertisement of office buildings are those that target both the tenants and the brokers. Due to the number of brokers and corporate location managers that read Black's Guide, this publication was singled out as a publication that can efficiently reach a large portion of the target audience.

Outdoor Signage

The marketing communication objective usually chosen for outdoor signage is to convey a brief message and to suggest a course of action. Outdoor signage consists of billboards,

transit displays, on-site leasing signs, etc. Although billboards have been used effectively to help recognition of new large office complexes adjacent to the major roadway where the display is located, billboards and transit displays are generally less useful to the commercial real estate marketer than they are to the marketer of a consumer product. On the other hand, on-site signage can be very useful in communicating a brief message to the real estate target audience. Although on-site signage is stationary which limits the number of people who will see it, on-site signage is an important part of the real estate developer's communication policy. On-site signage's limitation is also its greatest benefit, because with on-site signage the marketer is assured that the recipient of the message has been in the market location and has seen the project. Recently the construction barricade has been realized as a unique opportunity to communicate to the target audience in a creative, unusual manner. (Roberts 1986, 91-2)

Brochure

The brochure is one of the most frequently used advertising media in the commercial real estate industry. The brochure allows the marketer to convey a great deal of information and to present an image for the project. The objective generally chosen for the brochure is to establish a

prestigious image for the project and to "sell the sizzle", the unique attributes of the project, to the prospective tenant. It should communicate a feeling of quality, permanence, and capture the character of the project while still communicating the information required: the architectural elements, the floor plate configuration, the elevator system, the developer's experience, the fire, life, safety systems, etc. In communicating all of this information, the brochure has the additional quality of making the uncompleted project appear more tangible or real to the target audience.

Direct Mail

Direct mail allows the marketer to promote a project in detail directly to the tenant prospects and brokerage community. Direct mail's greatest advantage over other forms of advertising communication is its ability to communicate directly with the target audience and to deliver information about the project in great detail. When utilizing direct mail it is crucial that the mailing list is appropriate and that the mailing is creative so that it is given the respect of the target audience and not considered "junk mail." (Roberts 1986, 93-97)

Newsletters

Due to its editorial style and its format, a newsletter carries nearly as much credibility as a newspaper article written about the project or the development firm. The advantage of a newsletter is the marketer controls the message and the timing of the release of the "story." The greatest use of the newsletter as part of a communication policy is in an attempt to keep the brokerage community informed about the project. If the delivery of newsletters to the brokerage community is consistent, the newsletter will also help establish a loyalty among the brokers as they "feel a part of the team." (Murry 1988, 26)

Marketing Centers/AudioVisual Shows

The marketing center and audio-visual shows that are used in the marketing of office buildings are the commercial real estate industry's answer to the point-of-purchase display and merchandizing performed by the consumer products industry. Although a marketing center generally includes elaborate models, and "high-tech" imagery that sets it apart from an audiovisual show, the two deliver many of the same attributes to the marketer's communication policy.

The marketing center or audiovisual show give the

marketer of office space the ability to tell the development's "story", reinforce an image of quality, instill trust, and help tenants visualize the intangible. (Gustafson 1986, 35) Many tenants are reluctant to lease space they can not see, let alone walk through, the marketing center will try to persuade the prospective tenant what the real project will be like. Unlike any other form of advertising, these tools take the prospective tenant completely away from work and into an environment that is completely controlled by the developer-- "to a magical blend of reality and illusion." (Gustafson 1986, 30-35) For the increasing number of out-of-town builders who do not have local credibility, the marketing center is a critical asset. It offers the developer a way to communicate credibility and prestige without the prospective tenants needing to travel to other cities to see the developer's ability and other projects. The use of either a marketing center or an audiovisual show will not sell space, but they are tools that will help get the target audience to the site and help the marketer speak to the intangible elements. Chuck London, the producer of all of Gerald Hines' marketing centers, placed the right perspective on the use of marketing centers as a communication tool. He said, "The show doesn't sell. The show is the twinkle on the chrome." (Guenther 1984)

The production of either a marketing center or an audiovisual show is very expensive. If the development firm wants to utilize these tools, it is advisable for the firm to carefully examine their communication policy to see if this means of communication is in line with the chosen objectives, targets, and message, and is a profitable investment in the marketing of the project. (Taylor 1988, 13)

Public Relations

Public relations arouses the interest of potential tenants and establishes an image for a building by publicizing the important aspects of the building's design, tenancy, features, or creators. There are many public relation tools including press releases, promotional giveaways, ceremonies (groundbreaking, topping out, grand openings), business entertainment, and community involvement. (Roberts 1987, 101) Most marketers utilize public relations to accomplish the objective of creating a public image and awareness of the project's prestige or quality. Public relations' power as a communication tool is in the credibility it creates for the development firm and the project as well as the broad reach of audience it will encompass. (Murry 1988, 25-29)

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CHAPTER FOUR: THE MARKETING BLUEPRINT

Chapter Summary: With an understanding of the market selection, the positioning of the product within the market, and of the ability to utilize the marketing mix to achieve a maximum market share of the available tenants, the commercial real estate marketer must understand how it all fits together into a comprehensive marketing plan.

Before a commercial real estate enterprise can be successful at marketing its product, the developer must start out with a marketing plan. The marketing plan is the developer's blueprint to the marketing process. The well crafted marketing plan allows the developer to have a systematic approach toward realizing its target market, analyzing the factors and trends in the market, and designing a marketing program to best meet market conditions.

A study by Charles Ames showed three major pitfalls in the marketing planning process by companies:

- 1) failure to fit the marketing concept to the abilities of the developer;
- 2) overemphasis on information collected at the expense of content;
- 3) failure to recognize alternative creative plans due to continuation of current policies.

(Dolan 1984, 9)

Although the study was conducted for industrial products, the characteristics of the office building lease as a product and the office tenant as a customer fit better into the characteristics of an industrial market than a consumer market. As such it is important for real estate developers to understand the three pitfalls found and to understand the systematic process to forming a marketing plan in order to avoid these pitfalls.

The first failure found by the study was traced to the fact that companies would try to borrow the marketing plan of another organization. The marketing plan must be based upon the characteristics of the developer marketing the product and in relation to the characteristics of the market at the time the product is introduced. (Dolan 1984, 9) Thus the real estate firm must be careful not to introduce a specific office product type and its marketing concept on the basis that another developer in the market has been successful in leasing with that concept and product. The developer must produce a plan that will match the company's abilities to produce a product for the users in that market segment.

The second point speaks to the collection of masses of data on a market without paying attention to and understanding the factors that really make the market work.

(Dolan 1984, 9) The commercial real estate industry often fails on this point. Developers will collect static data on vacancy and absorption without looking at how all of the external factors, political, social, and economic, will effect the office market. Some developers will enter a market almost automatically when the vacancy rate falls to a certain level. The market commitments are made without an understanding of where the demand is coming from (e.g., job creations in the area, regional job shifts to the area, etc.) or without taking into consideration the competition. This failure is evident in the overbuilt office markets throughout the nation.

The final pitfall occurs when a firm creates a marketing plan for a product by merely updating an old marketing plan. Ames reminds us that the market environments are constantly changing and that a plan should not be based on a simple "straight-line extrapolation of the past." (Dolan 1984, 9) With the increasing competition in the commercial real estate industry this might have never been more true than today.

To avoid the study's three pitfalls the commercial real estate firm must therefore utilize a systematic process to achieve a marketing plan. Most all marketing texts discuss a similar step by step process to achieving a complete

marketing plan. The remainder of this chapter will examine a five step process that can help the real estate developer create a comprehensive marketing plan. The five steps to be addressed are:

- 1) Situation Analysis,
- 2) Problem/Opportunity Statement,
- 3) Objectives,
- 4) Strategy, and
- 5) Action Program (with a marketing budget calendar).

(Dolan 1984, 2, and Roberts 1986, 12-18)

Situation Analysis

The situation analysis of a marketing plan gathers the required information for the developer to understand the market its building is going to be in and the building's position in that market. The situation analysis represents the research required to accomplish the market segmentation, market selection, and product positioning as discussed in Chapter Two. The realization of what this research tells the marketer will be the second part of the marketing plan: the opportunity and problem statement. (Roberts 1984, 13)

The situation analysis should be broken into two

distinct parts: analysis of the external factors on the market, and analysis of the firm's internal factors that will influence the marketing of the product. (Foxall 1981, 31)

The analysis of the external factors should include analysis of the consumers, the competitors, and the market environment. A marketer should be aware of the key segments of consumers, their buying behavior, and the trends in the primary demand for the product. In analyzing the competition, the developer should know who is servicing which segments in the market, and what are the characteristics of their product. In order to avoid the third pitfall, the developer must also understand the environmental factors that will influence the market by researching the economic, political, social, and legal factors that could influence the market. (Dolan 1984, 2) With communities asking developers for more and more concessions, these factors have an increasing importance in today's political climate.

By examining the internal factors that will influence the marketing of their product, the developer will avoid the first pitfall. The firm must look at their own resources, capabilities, and goals to see if these factors fit the market opportunity being presented. (Dolan 1984, 2)

Problem/Opportunity Statement

After formulating the data necessary to understand the market, the next step of the marketing plan is to interpret and summarize this data into problems and opportunities that exist for the developer in the market. Duane Roberts wrote in his book on the marketing of office space that:

Accurate recognition of problems and opportunities forms the foundation of the rest of the marketing plan, allowing the agent [marketer] to capitalize on the opportunities and avoid or overcome the problems. (Roberts 1984, 13)

A problem would be, for example, a building with large floor plates and a market that consisted of only smaller users. An opportunity would be the realization of a growth industry in the project's market that will be needing office space to grow into over the next few years. Just as the situation analysis covered both the internal and external factors surrounding the product and its market, the realization of the problems and opportunities must not forget to note the developer's strengths that are to be exploited or its deficiencies to be remedied. (Dolan 1984, 3)

Statement of Objectives

The objectives should be quantitative in nature and should be put in writing. By doing this it insures that as the process of marketing the product moves on it will always be clear what the marketing goals or objectives were for the product. Such tangible goals for an office building product would be the square footage to be leased in a period of time, rental rates to be achieved , or the share of the market's absorption to be captured by the building. (Roberts 1984, 14)

Marketing Strategy

Although the word "strategy" originated from a military context, it is widely used in a business context today. Harvard Business School Professor Raymond Corey described a marketer's strategy to be very much like the military commander's strategy in that military strategy was:

based on what was known of the enemy's strength and positioning, the physical characteristics of the battleground, the friendly or hostile sentiments of those who occupied the territory and, of course, the strength and character of the resources available to the commander. (Corey 1978, 1)

The marketer's strategy is similar in the way it is based upon the competition and market characteristics that were found in the situation analysis and defined in the opportunity and problem statement, and upon the developer's strengths and resources in the market. (Corey 1978, 1)

The marketing strategy will therefore include many interrelated elements, and its first and most important element is the market selection and positioning. For with the selection of a target market, the developer can tailor its strategy toward specifically attracting and securing customers from the market segment. The strategy should be a broad conceptual statement of how the firm's resources will be deployed to achieve success in the market chosen. (Roberts 1984, 14) The strategy can therefore be seen as the method for the firm to fulfill its objectives by remedying its problems while taking advantage of its opportunities. (O'Shaughnessy 1984, 39)

As discussed in Chapter Three, the developer utilizes the marketing mix--the product, the price, the distribution channels through which the product is sold, and the communication policy for the product-- to control the marketing of the product. As part of the marketing plan the

marketer needs to examine each one of these four and determine what resources and emphases should be placed on what part of the marketing mix. (Roberts 1984, 14)

The marketer should also examine the strategy chosen and the marketing mix to be used to insure that the marketing program developed fits the needs of the target market. Each element of the mix should be reviewed for its influence on the customer in the target market segment. The program should also be reviewed for its fit with the relative strengths and weaknesses of the company and its competition in the market. (Shapiro 1984, 2-3)

Action Program

The action program is the last of the five steps toward a comprehensive marketing plan. The key of an action program is to insure continuity in the developer's approach to marketing the product. The action program is the tactics to be used for implementation of the marketing strategy. It will state which media should be used to advertise and the intensity of that advertising over time. The plan should also specify the target audiences to receive marketing communications and the schedule of planned public relation events. Since personal selling is so important in the

commercial real estate industry, it is important that the approach and time to be spent on the personal selling of the project be specified. This would include specification of the use of special events, personal presentations, or the materials to be used by the project's agents. (Roberts 1984, 15)

To insure a successful marketing program it is important for the action program to include control devices to be used by the marketer to insure the marketing plan yields more benefit to the developer than it cost to produce. A marketing calender and a budget of marketing resources have been two tools used successfully by firms to help manage the marketing effort. The marketing calendar should identify the promotable stages and milestones of the development process (e.g., the closing of the project financing, the design, the groundbreaking, the topping out) and other special events or holidays within the community that will take place during the development of the project. These events should be targeted for promotional events and press releases. The marketing budget needs to clearly allocate the development funds available for the marketing effort to the various communication efforts (e.g., advertisement, special events, direct mail, promotional gifts). (Roberts 1984, 15)

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CHAPTER FIVE
CONCLUSION: THE MARKETING MANDATE

Marketing is crucial to maintain or increase leasing velocity in today's competitive environment and the marketing of an office building must be planned from the start. Developers in the commercial real estate industry will go to great effort to systematically and comprehensively plan every step of the building process-- **except the project's marketing.** The developer will utilize sophisticated financial analysis, management intensive project meetings, and construction time tables, but most often when the task is marketing the developer's approach is reactive rather than proactive.

Currently many developers will work backward through the marketing process, starting with one of the communication tools of the marketing mix and working back into a marketing strategy. Not prepared to commit the time and effort to understand marketing, a developer might hire an advertising or public relations firm. Without the guidance of a comprehensive marketing plan created by the developer, advertising agencies do what they do best: emphasize their own communication tools over the other ingredients of the marketing mix. Usually this results in a lack of continuity in the project's image, an oversight of the project's own

niche market opportunity or special attributes, and possibly a greater cost than needed. **THE MARKETING PROCESS MUST BE MANAGED.**

In order to manage the marketing process, the developer must commit energy to understand it. Today there are numerous seminars and articles that are being written about how real estate financial analysis has become more sophisticated with Wall Street's influence. What the commercial real estate industry now needs is the same beneficial influence from the marketing departments of the industrial and consumer product industries. Developers must comprehend the theories and techniques used to market consumer and industrial products, and adapt them to the marketing of real estate development products.

Although a typical office building lease is a large purchase decision and as such requires a personal one-on-one sale to close the deal, a well developed marketing program should be seen as an investment toward these leasing efforts and help to increase the velocity of the leasing. But the process must start at the beginning of the project. The developer needs to divide the market into groups with specific "want categories" and then pay attention to the market by "thinking backward" to picture the mind of the

prospective tenant as the tenant decides what type of project is going to best serve the needs and desires of their firm. This process can be enhanced with the utilization of research, such as focus groups, to understand the prospective tenant's preferences.

The developer must also realize what is contained within the office building lease. It is not just the sale of the right to occupy a space of a certain size. The office building is a larger bundle of tangible and intangible qualities which will be valued differently by different market segments. The developer's project should be positioned within the market niche with an image, just as a consumer products will create an image. The developer should understand Levitt's "total product" and include the process of differentiation as a conscious part of the marketing plan. In today's competitive market the developer will need to be creative to produce a greater differentiation through the use of new "augmented product" attributes, either tangible or intangible, that will elevate the project beyond the "expected."

Since the office building can not be actually tested before the tenant "purchases" it, the sale will depend on the assertions and implications the developer makes about these

attributes in advance of the purchase. The developer can be more competitive by applying the marketing techniques from industry, including the use of advertising and public relations, to communicate the qualities that can not be tested--the promise of a certain lifestyle--to the prospective tenants.

As the developer studies the marketing of other products, it is evident that no other industry would dare launch a new product or service without a marketing plan. -- Why should the commercial real estate industry? -- Although the real estate product has its unique characteristics, the same general marketing theories and techniques apply to the marketing of a new office building, and with time and study a set of specific theories and practices will evolve for the commercial real estate industry.

APPENDIX ONE:

The following appendix contains three print advertisements for the Marathon Plaza project in San Francisco. The advertisements directly address the six issues identified as key to the marketability of the project. The advertisements have been reproduced at the permission of Rod Kimble, the marketer of Marathon Plaza at the time of this marketing effort. (Rod Kimble Associates, Tiburon California)

So What's the Point?

San Francisco's Newest High Rise Is A Low Rise



Introducing Marathon Plaza and Its Single Floor Superiority

...how San Francisco's newest office building is an exciting new concept

MARATHON PLAZA

San Francisco's Beating a Path To Our Door



MARATHON PLAZA

...how the city is moving in our direction

Sometimes Bigger is Better



MARATHON PLAZA

...how our efficient floors reduce your space costs by up to 23 percent



MARATHON PLAZA

...how we're surrounded by over 400 shops, restaurants and support services

San Francisco's Newest Transportation Center Is An Office Building



MARATHON PLAZA

...how we're the center of an amazing transportation network

Finishing Touches



MARATHON PLAZA

...how our plaza is becoming a new focal point for the city

Over the last few months we've been pointing out the many advantages and benefits of MARATHON PLAZA.

Things like location, amenities, support services and especially how our floor efficiencies can substantially reduce your space costs.

But all the points we've tried to make are really beside the point.

The point is you've got to come see for yourself what we've been talking about. Because that's really the only way to see how our points give you the advantage.

And that's just the point.

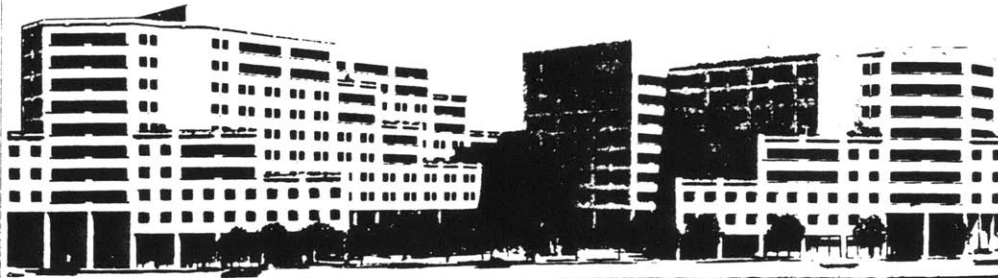
For Leasing Information Call:

Peter Sullivan
(415) 495-8270

MARATHON PLAZA

Second Street between Folsom and Harrison

San Francisco's Newest High Rise Is A Low Rise



Introducing Marathon Plaza and its Single Floor Superiority

Once in a great while someone has the vision, intelligence and resources to take a simple concept and create something remarkable. MARATHON PLAZA is such an achievement.

Utilizing a creative design concept called horizontal high rise, MARATHON PLAZA consists of two towers of 9 and 10 stories, joined at floors 3 through 6. These virtually unobstructed floors offer large tenants the inter-office convenience and flexibility of single floors ranging in size from 30,000 to 98,000 - sq. ft.

The result is a significant cost saving because of the 15-25% more floor space efficiency than found in conventional older buildings.

No more running from floor to floor, waiting for elevators and losing valuable time. And MARATHON PLAZA's floors are easily divisible into smaller spaces for smaller users wanting the same cost savings and efficiencies. Offices become easy to plan now and easy to expand to meet future space needs.

Truly San Francisco's seen nothing quite like this before.

San Francisco's Beating A Path To Our Door

With few buildable sites left in the traditional Financial District, MARATHON PLAZA sits right in the middle of the natural path of business growth: the Second Street Corridor.



This historically distinguished neighborhood is alive with new restaurants, shops and services of all kinds and is the designated hub of new office, housing and commercial development as contained in the new Downtown Plan.

Occupying a full block on the east side of Second Street between Folsom and Harrison, MARATHON PLAZA is right in the middle of where San Francisco business is growing and going.

San Francisco's Hardest Working Building Works In Ways You Won't Believe

MARATHON PLAZA was specially designed to accommodate the changing needs of the modern electronic office.

BART, MUNI, SamTrans, East Bay Transit, Golden Gate Transit, Golden Gate Ferry, Caltrain and the TransBay Terminal are all within a short walk, making it easy to get to work.

And for those who drive or car-pool, MARATHON PLAZA is right next to the Bay Bridge, all major freeway ramps and contains its own enclosed four-level garage.

What could be easier?

Surrounding this sunny open courtyard are carefully selected retail shops, restaurants and other services important to employees.

Designed to be inviting and relaxing, a variety of regular events, shows and exhibits are part of the activities planned after opening.

We want MARATHON PLAZA to be one of San Francisco's great public spaces.

NORTH TOWER		NORTH TOWER	
sq. ft.	Rate	sq. ft.	Rate
10	11,000	10	11,000
9	75,000	9	75,000
8	19,000	8	19,000
7	19,000	7	19,000
6	34,000	6	34,000
5	27,000	5	27,000
4	43,000	4	43,000
3	97,000	3	97,000
2	28,000	2	28,000
PLAZA	10,000	PLAZA	10,000

Single Floor Superiority

A unique poke through floor system for efficient electric, communication and data distribution means desks, telephones and computer equipment can be easily moved between offices and floors without expensive core drilling or complicated hook-ups. It also means no access panels or visible seams in floor coverings.

Air conditioning and electrical systems are designed for increased power and cooling for workstations yet are energy efficient to ensure low operating costs.

Building management systems include sophisticated security, access and life safety designs to assure employee well-being at all times.

San Francisco's Newest Transportation Center Is An Office Complex

Increasing traffic congestion makes access and convenience more important than ever. MARATHON PLAZA sits at the hub of one of the most integrated transportation systems in America.

An Exciting Place To Work An Exciting Place To Be

MARATHON PLAZA was designed to be graceful and dramatic, eliminating the cold personality of most modern urban architecture.



The focal point of the building is its magnificent 3-4 acre plaza with its cascading fountain, beautiful reflecting pool, terraced seating and lots of trees and flowers.

MARATHON PLAZA Assures The Pleasure Of Your Company

Whether your company is well established with an image to maintain or is just beginning to make its mark, the right business environment can make all the difference in the world.

And that's what you'll find at MARATHON PLAZA with its large floor superiority and technological efficiency assuring the pleasure of your company, whether large or small.

MARATHON PLAZA's unique location offers you city prestige and convenience in a new exciting downtown area.

But don't take our word for it. Come see for yourself.

In today's competitive market it's easy to get a good deal in a good office building.

But if you demand more than the ordinary in both quality and value, you could get a great deal in a grand building at

MARATHON PLAZA

For Leasing Information Call:

Peter Sullivan
(415) 495-8270

MARATHON PLAZA

Developed and managed by Marathon U.S. Realty, Inc.

San Francisco's Beating A Path To Our Door



Some people still think the San Francisco business district ends at Market Street.

Not any more.

With few buildable sites left in the traditional Financial District, the natural path of business growth is down the dynamic Second Street Corridor. This historically distinguished area, where the Financial District meets downtown, is alive with new developments, shops, restaurants and services of all kinds.

And right in the middle of all this activity is MARATHON PLAZA, with its single floor

superiority accommodating any corporate space need and a location offering easy access and convenience.

MARATHON PLAZA was specifically designed for the changing needs of the modern electronic office by incorporating a unique system for efficient electric, communication and data distribution.

And employees and visitors will appreciate the on-site retail amenities and the beautiful 3/4 acre plaza, fountain, reflecting pool and regular program of special events designed to enhance one of the city's great public spaces.

Check us out and see why San Francisco's beating a path to our door. You'll find we're right in the middle of where San Francisco business is growing... and going.

Exclusive Leasing Agents:

SCHNEIDER
COMMERCIAL REAL ESTATE

Peter Sullivan, Curt Ghan
(415) 397-0900

Retail Information:
Edward G. Zampa & Company
(415) 956-3355

MARATHON PLAZA

Second Street between Folsom and Harrison