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What Tenants Want: UK occupiers' requirements when renting commercial property and strategic implications for landlords

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Abstract

Businesses need property in order to generate turnover and profits. If real estate owners are to be able to provide properties and related services that are desirable, it is crucial that they understand tenants' requirements and preferences. Changes in the way businesses operate might well lead to an overall reduction in space requirements in all sectors. Faced with reductions in demand, landlords will find themselves in an increasingly competitive marketplace for tenants. Of the array of strategies available to landlords, what strategies should they employ for maximum effect? This paper examines what United Kingdom tenants want from commercial property (retail, industrial and office). The first part provides an analysis of data from several hundred interviews with occupiers of commercial properties owned by some of the largest UK real estate investment companies. Results are presented for each of the asset classes separately. The second part compares the findings with previous research and discusses the strategic implications for landlords.

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1.0 Introduction

A recessionary real estate market demands smart asset management. Although commentators are predicting that 2014 will see market improvements, global office leasing remains sluggish. The US office vacancy rate for the last quarter of 2013 was down from a post-recession high of 17.6% in late 2010 to 16.9%. However, the vacancy rate was still well above the 12.5% average rate recorded in the third quarter of 2007 (Reuters, 2014). A similar story prevails in retail, with the growth of e-commerce affecting demand for “bricks and mortar” retailing (Jordan, 2012; Mueller, 2013). In the UK, *Retail Futures 2018* forecasts that by 2018 total store numbers will fall by 22%, the share of online retail sales will rise from 12.7% (2012) to 21.5%, and town centres will lose 27,638 stores (Centre for Retail Research, 2013). Indeed, only large warehousing, the result of advanced e-commerce and omni-channel distribution models, seems set for significant growth in demand. As a result, landlords of less than prime property will need to develop strategies to attract and retain tenants.

Much of the literature about commercial occupiers’ property strategy is written from the perspective of the tenant, and analyses what property directors, managers or facilities managers should consider in order to maximise the utility of the premises occupied (see, for example, Edwards & Ellison, 2004; Gibler, Black, & Moon, 2002; Haynes & Nunnington, 2010; Haynes, 2012; Heywood, 2011; Nourse & Roulac, 1993; Roulac, 2001). Authors advocate the need to ensure that a company’s real estate strategy is aligned with and supports its overall strategy and goals.

For landlords to provide properties and services that are desirable to tenants, they must understand occupiers’ requirements and preferences. Corporate real estate texts on how directors might approach their own property strategies offer only limited assistance to investors in real estate in terms of raising awareness of tenants’ needs. Arguably of more use are the studies conducted into occupiers’ priorities when looking for new premises. Most of these studies have been in the office sector (including Adnan & Daud, 2010; Gibson et al., 2000; Appel-Meulenbroek, Havermans, Janssen, & Kempen, 2010; Leishman et al., 2011; Levy & Peterson, 2013; van de Wetering & Wyatt, 2011; and White, 2013). Specific findings from such studies will depend upon whether occupiers are given free rein to voice opinions or whether they are required to prioritise options from a list presented by the researcher. In the former case, the findings depend upon how the researcher categorises respondents’ comments; in the

latter, key factors might be omitted. Gibson et al. (2000) and White (2013) provide good summaries of typical findings from studies interviewing office occupiers (Table 1). A comparison of both studies indicates some commonality, highlighted by the shading in Table 1.

Table 1: Comparison of Occupiers' Priorities for Office Space

Rank	Ranking of criteria used to select new office space (Gibson et al., 2000)	Priority of factors considered by occupiers when choosing new premises to rent (White, 2013)
1	Location	Location
2	Cost of property (rent, rates)	Monetary Cost of Rent
3	Ability to vacate / exit	Condition of the Premises
4	Other occupational costs	Service Charge Provisions
5	Length of commitment	Interior Design and Layout of the Premises
6	Expansion / contraction capabilities	Rent Review Clause
7	Efficiency of layout	Landlord's Reputation
8	Speed of occupation	Existing Tenants' Experience of the Premises
9	Opportunity to promote branding and identity	Managing Agent's Reputation
10	Inclusive package of real estate, fit out and services	Previous Experience with the Landlord and / or Managing Agent

This paper reports on research that forms part of a larger study into whether landlords achieve greater returns from their properties if they treat their tenants as valued customers. The larger study considers all stages of the “occupancy lifecycle” and the “service-profit chain” (Heskett, Sasser, & Schlesinger, 1997) applied to commercial real estate, including lease renewal and reputation. This paper considers the first stage of the process – what factors are considered by occupiers when they seek to rent commercial premises?

The paper first draws on data collected by RealService Ltd³ from 1999 – 2014. During the 15-year period, RealService conducted tens of thousands of interviews with occupiers of commercial and residential property in the United Kingdom on behalf of landlords. Many of these interviews probed occupiers’ reasons for choosing the property they rent. Section two presents evidence from interviews of tenants, or their representatives, from three commercial sectors: industrial, office and retail. In all, some 970 interviews are analysed. In Section 3, the paper discusses the findings of the interviews in the context of real estate development and investment. In particular, the paper suggests that real estate managers address five strategic

³ RealService Ltd; Founder and CEO Howard Morgan; e-mail: ContactUs@real-service.co.uk

areas in attracting and retaining tenants. Section 4 concludes and makes suggestions for future research.

2.0 Analysis of Interviews with Occupiers of Industrial, Office and Retail Property

Analysis of interviews is separated into the main asset classes, after which the key determinants of property selection are discussed.

It is important to note that the interviewees mostly comprised tenants of the major landlords who had commissioned the research. In this respect, it is not a truly representative sample of all commercial occupiers in the UK, with the sample skewed towards occupiers of high-end properties, such as 'class A' offices and prime shopping centres. It does not include those who chose to use serviced office space, or 'business clubs', for example, or to take very short-term leases. A small number of interviews were conducted with potential occupiers who had chosen not to proceed with a letting.

Figures 1.1 – 1.4 summarise the reasons cited by occupiers of industrial units, offices, retail warehouses and shops for their choice of premises, respectively. Figure 1.5 shows the results of responses to an additional question, which was asked of more than 100 property directors of the main corporate businesses and retail multiples in the UK: "What are the characteristics of the ideal landlord?"

2.1 Findings from Occupiers of Industrial Units

For Industrial premises, approximately 150 business owners were interviewed, with respondents being asked for up to three reasons for their choice of property. Figure 1.1 shows the reasons cited by occupiers of industrial premises for their choice of property. Most respondents (78%) cited the location of the industrial park as the main reason for their choice. Factors relating to the size and configuration of their unit were also considered crucial, but these were only specifically cited by 20% of respondents (space/layout), 17% (size) and 13% (cost). Typical comments included,

"Location was very important as we wanted to be near our previous premises to make it easy for our staff. The size of the unit was important, and in the end we took two adjacent units and knocked them together. The proportions of the space were also an important factor. We need about 10% office space and 90% for our factory."

Others commented on the need for “flexibility regarding space, and scope to grow”.

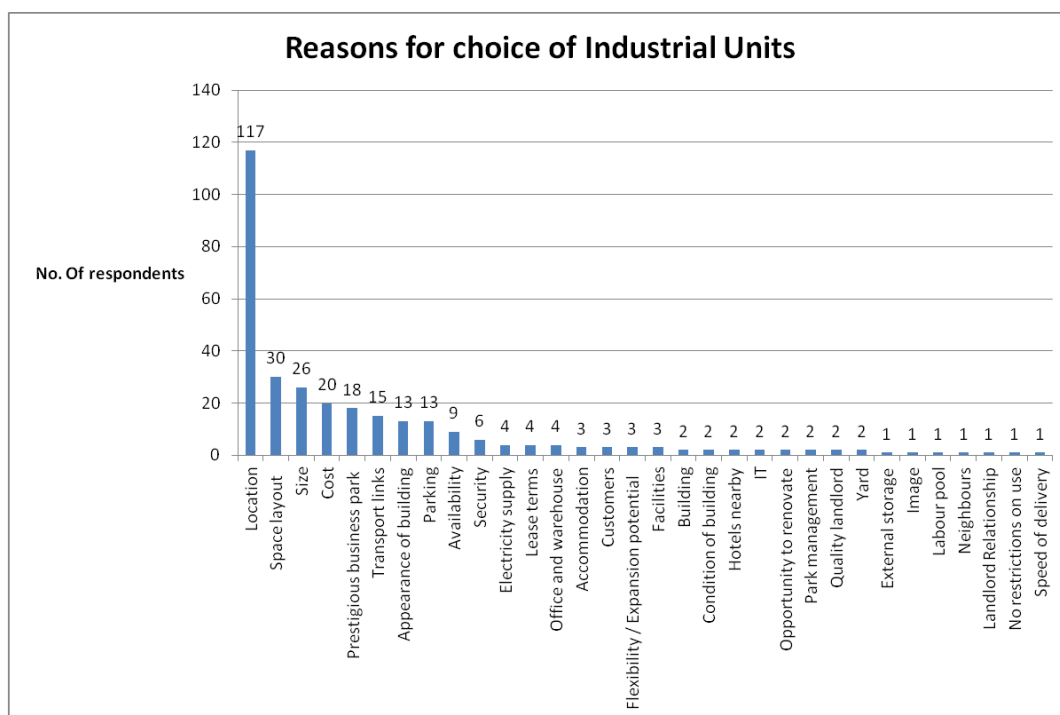


Figure 1.1: Reasons cited by occupiers of industrial premises for their choice of property

Cost and Lease Terms were also key considerations; as one respondent summarised,

“People looking at properties always have three criteria, which are location, rent and product.”

Ease of access to the estate for staff and customers was emphasised by many interviewees, including the importance of good road access, public transport links and (preferably free) parking. The image of the estate and of the building matter to those who have to entertain visitors or clients:

“It's a fantastic setting and makes a great impression on customers. It gives them the impression we are doing well.”

Some companies have specific requirements for storage, a high roof, or “a good infrastructure, a good power supply and good communications” and several mentioned the importance of security patrols on the estate. The fact that only five respondents mentioned factors relating to the landlord or estate management as affecting their choice of premises may be indicative of a looser relationship between landlord and tenant in industrial premises than in other types of commercial property.

2.2 Findings from Office Occupiers

Data for a much larger sample of office occupiers was available, with over 400 respondents. Figure 1.2 shows the reasons cited by office occupiers for their choice of property. Once again, the results support most previous research in finding that the key determinant of choice of office is location (66%). Location is cited as being a factor in staff recruitment and retention, convenience for the business owner and accessibility for clients. Allied to location, availability of parking was mentioned as a consideration by 7% of respondents and proximity to public transport links by 5%.

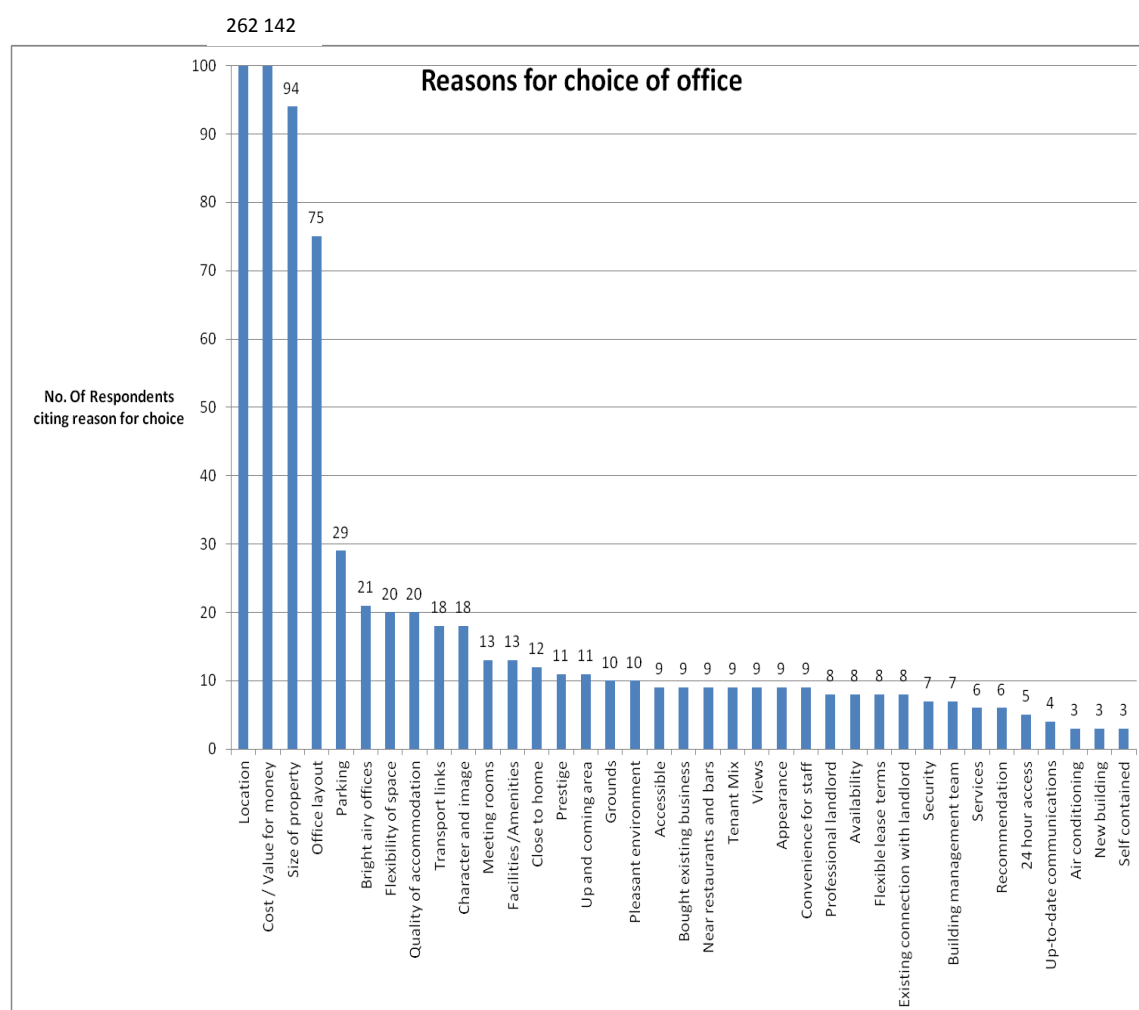


Figure 1.2: Reasons cited by Office Tenants for their choice of property

The second most frequently cited factor for choice of premises was cost, rent or value-for-money. For one respondent it was the only consideration:

“I had no choice. I looked at about 30 and this is the only one I could afford and was suited to us.”

Another respondent stated,

“We got a fantastic price on it. It was £10,000 cheaper than on the other side of town.”

Another interviewee, mentioning both location and cost, commented,

“The price was most important but the location too. We wanted to be outside the [London] Congestion Charge Zone.”

For some respondents, value in use was more important than the baseline rent:

“The fact that the video conferencing facilities and meeting rooms were provided at no extra cost was important to us. We used to spend thousands of pounds on flights but now we can use video conferencing instead of flying to see clients. We were reluctant to invite clients to our previous office because there was an extra charge for the room, the projector and the coffee.”

Another respondent also commented on the benefit to his business of the facilities, that

“the big decision-maker was the availability of meeting rooms free of charge.”

In terms of the form of the office, the size and layout is very important to occupiers, as is the internal climate, lighting and ambience. Several respondents chose an iconic or prestigious building because it supported the image of their business that they wanted to convey to their customers:

“We love the exposed bricks and the rawness of the building. It's a bit shabby and really cool. Our company is playful and young and our CEO is quite cool. This building works well with his personality.”

In addition, occupiers appreciate building security:

“a manned-reception”; “an attractive lobby”; “a lovely reception without being intimidating.”

Prospective tenants recognise the importance of a pleasant environment, both internally and externally. Many interviewees commented on the importance of the surrounding area on staff productivity and well-being, with one noting that,

“After a couple of weeks it registered that there was a positive impact on the team. There was a distinct improvement in morale because of the ambience. It is a big bonus that we can go out and walk in the grounds. The cafe on site also improves the convenience here.”

For some occupiers, the nature of the tenant mix matters, either by providing the synergy that having similar businesses within a multi-tenanted office provides, or avoiding direct competition from similar service or product providers. For office occupiers, this issue is far less significant than for retailers, but its relevance does still hold in specific types of businesses,

such as law or IT. Twenty-one respondents cited the landlord, the building management team, or a recommendation regarding the landlord, as being instrumental in their decision to take the particular office space. One respondent specifically commented on the professionalism of the streamlined leasing process affecting their choice to take a lease, making it “easy in and easy out” and “simplified and straightforward.”

2.3 Findings from Occupiers of Retail Units

For the retail sector, interviews were conducted with a range of representatives, including (i) retail property directors; (ii) store managers of retail warehouses on retail parks; (iii) store managers of retail units in shopping centres or shopping districts.

2.3.1 *The views of retail property directors*

For chain stores and multiple retail organisations, the decision about which properties to rent is rarely taken at site level, but by national or regional property directors. Around 100 interviews were conducted with retail property directors. Although the questions did not explicitly ask, ‘What are the factors that affect your decision to rent a particular property?’, comments have been extracted from the interviews which shed light on occupiers’ references when it comes to renting retail units. The availability of units of the right size and preferably in the right location is felt to be crucial, and the ‘right tenant line-up’ in a centre is described as “critical”.

For retail property directors, costs are paramount. As one says,

“We are a global business and the UK is the most expensive country in which to expand. Our occupation cost is the key factor influencing our space requirements. We would prefer turnover-only rents.”

In order to justify high rents, retailers require “the opportunity to drive sales, an appropriate location and space configuration”, and “consistency of trade, and decent footfall”.

2.3.2 *The views of store managers*

Data relating to store managers has been separated, to allow for separate analysis of the views of store managers of retail warehouses on shopping parks with those of store managers of units within shopping centres or shopping districts.

Retail Warehouses on Shopping Parks

Figure 1.3 shows the reasons cited by managers of retail warehouses on retail parks for their choice of property. The main single factor affecting their choice of property is the retail mix on the park, with 49 of the 120 respondents (41%) citing this as crucial in attracting customers. The location of the park is referred to explicitly by only 13 (11%) respondents. However, aspects of accessibility, including parking and public transport, are mentioned by 45 (38%) interviewees.



Figure 1.3: Reasons cited by Retail Warehouse Managers for their choice of property

The atmosphere of the park, incorporating appearance, maintenance and layout is cited by 66 respondents (55%), and security, including patrols, CCTV and good lighting is also considered important. The unit itself, whilst important, is mentioned less frequently than the ‘macro-level’ features which drive footfall to the Retail Park: tenant mix, accessibility, free parking and appearance. Certain categories of retailer, including furniture stores and others selling big-ticket items, place importance on being on a destination park. Respondents appreciate amenities such as places to eat (for both staff and customers) and covered walkways, seating areas and pleasant foliage which help to increase dwell time. Only three of the interviewees mention the relationship with the landlord as a factor in their decision to take a unit on the park.

Store Managers in shopping centres or shopping districts

Figure 1.4 shows responses from approximately 100 interviews with store managers in shopping centres or shopping districts. In the case of independent retailers, the manager’s response regarding choice of property generally reflects that of the retailer. However, for some of the other respondents, the answers may involve second-guessing the decisions made by the person with principal responsibility for signing the lease, as this is unlikely to be the store manager. This probably explains why cost / rent / value-for-money do not feature highly in the responses from store managers.

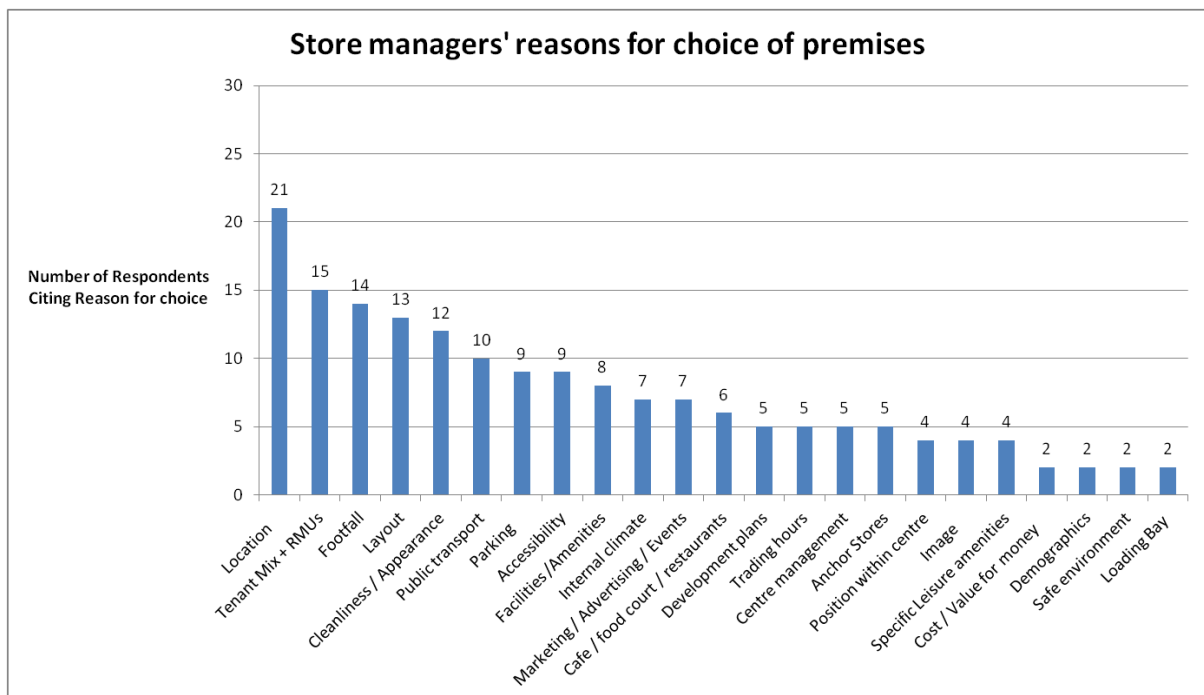


Figure 1.4: Reasons cited by Store Managers for their choice of property

For store managers, the key considerations are location, tenant mix and footfall; the last of which is largely driven by the other two factors. One respondent explained the criteria used, saying,

“We were looking for a reasonably prime site - not prime-prime, but prime. We were looking for something off-pitch. This area has picked up. There are more shops than there used to be and even the nooks and crannies do well.”

Several respondents used the phrase “up and coming” in describing the vicinity, and believe that they get better value for their rent in such an area. Footfall is also driven by public transport, parking and accessibility, and these aspects are mentioned by many of the interviewees.

In shopping malls, the decision to rent a unit hinges greatly on the presence of anchor stores in the Centre. Specific supermarkets, department stores, chemists and other major retailers were cited by name as factors influencing the decision to take space within a centre, and also which particular unit to take. Another aspect driving footfall is marketing and advertising, as well as events staged in a mall, or specific amenities such as a cinema and places for shoppers to eat, to increase dwell time. A further issue is the image and appearance of a shopping centre, and the cleanliness and internal climate of the common areas; aspects which make it more pleasant for staff and shoppers alike. Since these are the responsibility of the landlord, paid for by service charges, several respondents noted that the centre management personnel were relevant to the decision to take space in a particular shopping mall.

2.4 The Qualities of the Ideal Landlord

Figure 1.5 shows the results of responses to a specific question, asked of more than 100 property directors of the main corporate businesses and retail multiples in the UK: “What are the characteristics of the ideal landlord?”

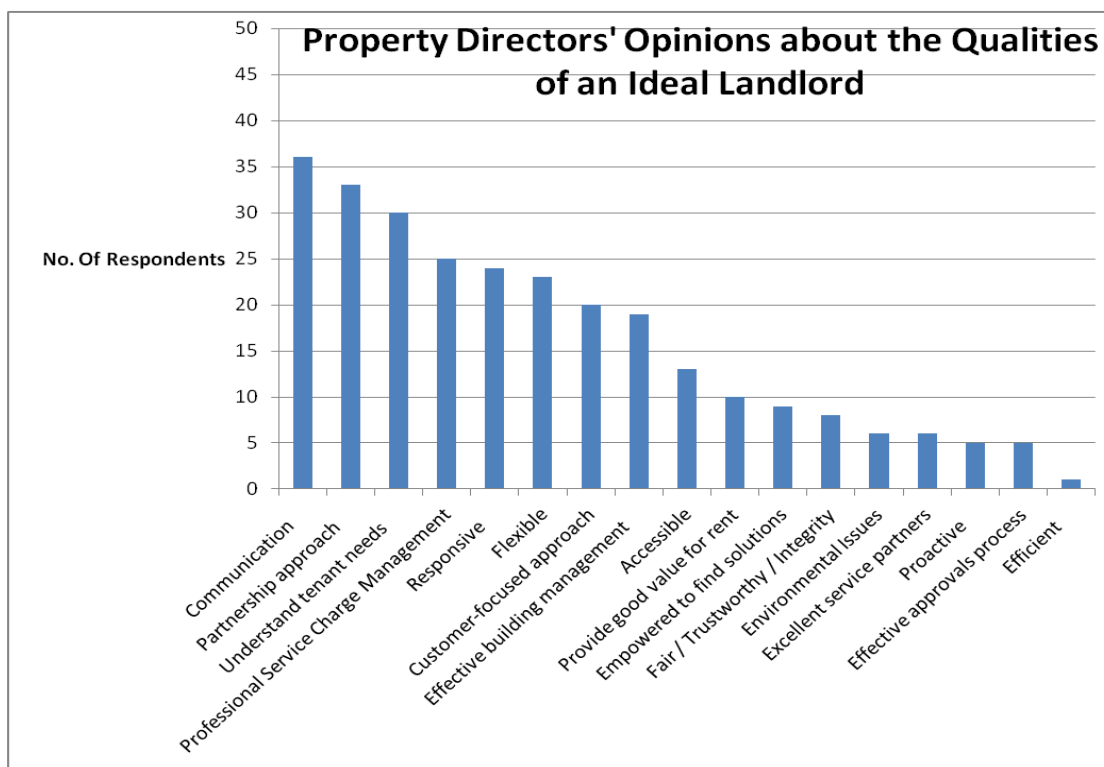


Figure 1.5: Occupiers’ Opinions about the Characteristics of an ideal Landlord

The consensus amongst corporate property directors was that a good landlord should understand the needs of the occupier, be flexible and communicate with the tenant, adopting a partnership approach. Respondents require:

“flexibility, and a willingness on the part of the landlord to strike deals in response to changing market conditions”.

Retail property directors, in particular, emphasise that landlords must “understand retailers’ margins, profits and competition” and “appreciate the need to drive footfall to achieve an acceptable profit margin”. Property directors also emphasize the importance of good service charge management, with timely budgets, transparency about costs and clear documentation.

3.0 Discussion of Findings: Strategies for Competitive Leasing

Most previous research into occupiers’ priorities when looking for new premises has been in the office sector, including Adnan & Daud, (2010); Gibson et al., (2000); Appel-Meulenbroek, Havermans, Janssen, & Kempen (2010); Leishman et al., (2011); Levy & Peterson, (2013); van de Wetering & Wyatt, (2011) and White, (2013). Such studies generally support the findings of this study, with location, costs, flexibility and building configuration being the over-riding considerations. Gibson et al., (2000) found that the total costs of occupation are of particular importance and White (2013) found the reputation of both landlord and managing agent to be important, and that a prior relationship with a landlord was a factor in the decision to take new space.

In their study of factors influencing the choice of office space in Kuala Lumpur, Adnan & Daud (2010) consulted not the decision-makers themselves but property consultants, agents and managers in order to obtain the opinions of “experts” – experienced real estate service suppliers. The findings were classified into four key considerations; the most important criteria for each are shown in Table 2.

Location	Lease Features	Building Features, Services & Management	Monetary Consideration
Branding/image	Renewal terms	Security & access control	Rental rate
Access to amenities	Length lease	Responsive management & maintenance team	Total occupancy cost
Accessibility to public transport	Termination clause	Car park provision & accessibility	Cost of fit out
Traffic conditions		Building image/identity	
Level of crime		Modern IT & Communication Systems	

Table 2: The most important considerations for office occupiers, according to property consultants (Adnan & Daud, 2010)

Some previous studies show similar findings but place more emphasis on aspects of sustainability. The answers given by occupiers will depend upon the questions asked, the way they are phrased and whether the questionnaires leave scope for unprompted opinions. The *exact* requirements of occupiers will depend upon their precise circumstances and business needs⁴. Clearly, often compromise will be necessary, since the ideal property may not be available at the time it is desired, or at the right price. However, five overall considerations are revealed by this study: (i) location; (ii) cost; (iii) the form of property itself; (iv) flexibility, in lease terms and space; and (v) the reputation and professionalism of the landlord and managing agent. When analysed in detail, each of these considerations can provide valuable information for landlords in strategies for improving their ability to attract and retain tenants. The five considerations, and the ability to work strategies around them, are offered here.

3.1 Location⁵

It will come as no surprise to most that this study confirms the location of a property to be the most important factor considered by potential tenants. Of more interest are the underlying reasons that give rise to a preferred location. The occupiers' emphasis will vary, according to the nature of the business, such as convenience of access for customers, staff, clients, suppliers, or for product distribution. For the 2010 version of their periodic study into the

⁴ For example, Levy & Peterson's New Zealand study comprised occupiers who had chosen to locate to a sustainable building. The rationale behind the study was to explore the importance of sustainability as a factor in deciding which premises to rent. The study found that location, attractiveness to staff, marketing (brand and image) and flexibility were of greater importance than sustainability (Levy & Peterson, 2013).

⁵ The aphorism "location, location, location" is largely attributed to Lord Harold Samuel, the founder of Land Securities, who is reputed to have said: "There are three things that matter in property: location, location, location", although the double repetition does seem to have been in use from the early 20th century in newspaper advertisements for real estate (Safire, 2009)

European Cities most attractive to corporate occupiers, Cushman & Wakefield (2010) surveyed 500 senior managers or directors with responsibility for choosing property, and showed the four factors of greatest importance to be: (i) easy access to markets, customers or clients; (ii) availability of qualified staff; (iii) quality of telecommunications; and (iv) transport links.

On the face of it, there is little that landlords can do about the location of assets in their portfolio, apart from trade. However, strategies might be employed to address the inadequacies of a location. For example, in the case of office space, where accessibility for employees is the prime concern, this might mean lobbying hard for public authorities to improve public transport; entering into joint schemes with public authorities for bus provision; providing clear information on public transport options; supporting employee car sharing schemes. This strategy was employed by the £320m Maxim business park near Glasgow in an attempt to attract new tenants: in 2011, only 32,000sqft out of 750,000sqft was occupied⁶.

The preferred location for retail property is in a state of flux. For decades, out-of-town retail parks and prime shopping centres have been expanding in the UK, at the expense of town centres and secondary space in cities. Such decline has led to the commissioning of several reports examining how to re-vitalise the nation's high streets (Charlton, Pyrke, Shapland, Delaney, & Burnaby, 2013; Grimsey, 2013; Portas, 2011). While retailers are employing increasingly sophisticated techniques of modelling and forecasting in order to identify preferred locations for new and replacement stores (Reynolds & Woods, 2010). The emphasis over the next decade is likely to shift from widespread new store development to a greater focus on maintaining and improving their current portfolios. At that stage, it is likely that retail tenants will adopt more reliable approaches to decision-making and employ robust but flexible forecasting procedures that combine modelled data with analyst observations. Retail landlords will need to undertake similarly robust analysis of a centre or park's consumer potential in order to achieve the best tenant mix.

In terms of office tenants, priorities over location have been shown to be different for different types of tenants. Proximity to clients appears to be of higher priority for smaller tenants, while

⁶ Managing agents, Arisaig Property Partners were also able to offer more flexible lease terms to potential tenants, with shorter lets and lower rents available.

being located near public transport, retail and other services as well as potential employees have been found to be higher priorities for larger tenants (BOMA & Kingsley Associates, 2013a, 2013b). Armed with such knowledge, the landlord or a business park should not employ a strategy of letting in smaller units to smaller businesses, but invest time and resources in improving public transport, retail and others services on site.

3.2 Costs and Value for Money

Our analysis found that the *second* factor that is of major concern to occupiers is the *overall cost* of renting the property: indicating slight discrepancy with the results of the global occupier satisfaction study, which found that occupiers' *greatest* concern was their rent and the total overall costs of occupation (BOMA & Kingsley Associates, 2013a).

Total overall costs of occupancy encompass far more than the headline rent: fit out, running costs and business support services can account for more than half the total costs of occupation of offices (Gibson et al., 2000). Business rates, service charges and other costs can all result in significant expenditure (see for example Ford, 2013). IPD has produced a Code to help occupiers to calculate their overall occupancy costs and also other key ratios including space usage, property effectiveness and environmental sustainability metrics (IPD Occupiers, 2013).

The importance of costs to occupiers means that property owners and managing agents can enhance the landlord–tenant relationship by ensuring that occupiers receive value for money and that occupiers understand the costs so that they can appreciate the value. Perhaps the main determinant of a tenant's satisfaction is that they understand the value-in-use of a product or service for which they are charged (Lemke, Clark, & Wilson, 2010): it is therefore crucial that occupiers are aware of the value of inclusive costs. For example, owners or managing agents with a large portfolio should have sufficient influence and bargaining power to be able to negotiate discounts for bulk-buying services on behalf of occupiers, thereby reducing service charges or other costs which occupiers have to pay. Members of Real Service Best Practice Group are assessed on criteria which include delivering value for money to occupiers, and practices include procurement of insurance, utilities, telephony and IT and services such as waste disposal and recycling, at lower prices than individual occupiers would be able to achieve.

For services that are included in the rent and service charge, occupiers require a “well-drafted service level agreement with a provider they can trust” (Gibson et al., 2000) and want to feel confident that service charges are fair, transparent and well-managed (Freethy, Morgan, & Sanderson, 2011; Noor, Pitt, Hunter, & Tucker, 2010; Noor & Pitt, 2009; Tucker & Pitt, 2010). Owners and agents can help occupiers understand their expenditure by adhering to the RICS Code of Service Charges in Commercial Property, including sending out budgets at least one month before the start of the service charge year, and reconciliations within four months of the end of the year (RICS, 2011).

3.3 The Building itself

A crucial determinant of choice is, unsurprisingly, the building itself: its specification or footprint, condition, functionality and image. However much property owners try to invest in buildings that are attractive to occupiers, all properties suffer from depreciation due to physical deterioration and obsolescence arising from technological, social or regulatory changes taking place (Crosby, Devaney, & Nanda, 2013).

As this study shows, amongst the most important determinants of respondents’ choice of office premises are size and layout. Organisations require appropriate desk configurations for employees, which are conducive to productive working, and, typically, meeting or conference rooms. Other important features in a well-functioning building include: lift capacity (average wait time at peak periods); reception facilities; access control and security; and toilet capacity (number of cubicles per employees, per floor) (Nunnington & Haynes, 2011).

The aesthetic, form and function of the building must be considered, as well as its age and condition. Some occupiers will be particularly concerned about the image their property conveys to clients and customers, while others, such as call centres, may be more concerned about maximising the number of employees per unit area. Other factors considered by potential occupiers relate to information technology, maintenance and signage policy, such as the ability to brand (Nunnington & Haynes, 2011).

One thing owners can do to mitigate depreciation is to work with occupiers to ensure the property is well-tended, and that the fit-out is as flexible as possible to allow modification to

meet occupiers' needs. "A building that is less capable of adapting to the changing needs of its users, compared with other buildings within its class, will suffer relatively rapid functional depreciation; as utility falls, the willingness/ability to pay rent will also fall" (Ellison & Sayce, 2007). Studies have shown that sustainable properties may retain their value better, particularly if longevity and flexibility are factored into the design process (Eicholtz, Kok, & Quigley, 2010; Parker, 2008; World Green Building Council, 2013).

Given the increasing importance placed on sustainability in real estate decisions, is 'going green' a viable strategy? Certainly, eco-certified properties should have lower energy bills thus reducing occupiers' costs: research in America and New Zealand indicates that a 'green' building uses 25-50% less energy than conventional buildings (World Green Building Council, 2013) and water consumption savings resulting from strategies such as water reuse and efficient plumbing fixtures have been estimated at 39% compared with conventional buildings (Kats, 2010). Further benefits to occupants of green buildings include reduced maintenance, and risk avoidance or insurance issues such as mould and power cuts (Wiley, Benefield, & Johnson, 2010).

Green buildings might also attract tenants who prioritise corporate social responsibility and have a greater concern for their employees' welfare. Many studies have supported the view that there is a link between green buildings and the health and productivity of occupants. The design of properties which have been certified according to the requirements of BREEAM and LEED will have incorporated factors affecting the comfort of occupiers such as air-quality, natural lighting and temperature, creating an atmosphere which is the antithesis of "sick-building syndrome"⁷. In particular, studies have found benefits from the following interventions: providing individual temperature controls for each worker, improved ventilation, lighting designed to control glare and brightness and access to the natural environment through daylight and operable windows, all of which have been found to improve the productivity of workers and organisations (Loftness, Hartkopf, Gurtekin, Hansen, & Hitchcock, 2003; Lorenz & Lützkendorf, 2008; World Green Building Council, 2013). Feige, Wallbaum, Janser, & Windlinger (2013) are unable to prove definitively that comfort improves productivity

⁷ Defined by the US Environmental protection Agency as describing "situations in which building occupants experience acute health and comfort effects that appear to be linked to time spent in the building but no specific cause or illness can be identified."(US EPA, 1991)

but they are able to demonstrate that work engagement is correlated with comfort. They assert that “high user comfort can reduce the turnover rate of employees”. Their study also finds that “building users feel the need to have an influence on their work environment and do not wish to work in buildings which are fully automated.” In research into the link between “Green Buildings” and employee productivity, 2.88 fewer sick days were reported on average after companies moved into a new, environmentally-certified building and that 12% of the 534 responses from tenants in 154 LEED or Energy Star certified offices ‘strongly agreed’ that employees were more productive, 42.5% ‘agreed’ that employees are more productive, whilst 45% found ‘no change’ (Miller, Pogue, Gough, & Davis, 2009).

In their review of prior research into sustainability in real estate, Falkenbach, Lindholm, & Schleich (2010) consider property-level drivers (the potential for increased rental income, reduced property costs and increased value), corporate drivers (image) and external drivers (such as governmental and legislative requirements). Their research using CoSTAR and NCREIF data finds a rental premium for LEED or ENERGY STAR certified buildings of an order of 5%, and that certified buildings generally have lower vacancy rates and higher capital values. Other studies showing a rental premium include Reichardt, Fuerst, Rottke, & Zietz (2012), Fuerst & McAllister (2011) and Fuerst et al. (2011).

Miller et al. (2008) cite possibly anecdotal evidence that when tenants were asked at a US Commercial Real Estate Development Association (NAIOP) Green Conference if they would be willing to pay more for a green building, they all said “no”, but when asked if they would pay the same for a non-green building, they said they would pay less!

A recent study into the effect on rent of energy efficiency studied a sample of 817 transactions for offices with Energy Performance Certificates (EPCs) in the UK (Fuerst, van de Wetering, & Wyatt, 2013). The research found a significant rental premium for energy-efficient buildings, (those with good to excellent EPC ratings of A–C, compared with those rated D) although the premium “appears to be mainly driven by the youngest cohort of state-of-the-art energy-efficient buildings.” This supports the view of Reichardt et al. (2012) that certified buildings may command higher rents, but this “does not indicate causation as certified buildings tend to have superior building features.”

Studies showing reduced vacancy rates in eco-certified properties include Miller, Spivey, & Florance (2008), Pivo & Fisher (2009) and Wiley et al., (2010). Using CoStar to investigate rents and sales data for a sample of Class A office buildings in America, Wiley et al. (2010) found rents to be approximately 7 – 17% higher for LEED or Energy Star certified buildings and occupancies between 10 and 18% higher. Of course, actual returns may not be greater for building owners because the properties are more expensive to buy, with a premium of \$30 and \$130/sq ft for EnergyStar-labeled and LEED-certified properties, respectively. Likewise Eicholtz, Kok, & Quigley (2010) find that “an otherwise identical commercial building with an Energy Star certification will rent for about 3 percent more per square foot and that the increment to the selling price may be as much as 16 percent.” The main benefit will be to developers, as the additional costs of construction, which have been found to fall within the 0% - 12.5% range (World Green Building Council, 2013:21) are more than offset by the sales or rental premiums.

3.4 The Need for Flexibility

Many of the respondents in our study expressed the need for flexibility when seeking to rent premises - flexibility in lease terms and also flexibility in space requirements. Landlords have responded to occupiers’ requests for flexibility by reducing the lease lengths and introducing break clauses: “more than 80% of new leases granted in 2012 were 1-5 years in length and the sheer number of short leases means that the average lease length has fallen to under 6 years for the first time, standing at 5.8 years” (IPD, Strutt & Parker, & BPF, 2013).⁸

Flexibility of space will likely continue to be important to occupiers as a cost reduction strategy. The efficient use of business premises is undoubtedly of great concern to occupiers with companies being particularly keen to consolidate the space they occupy. The US General Services Administration, as the manager of thousands of federal properties, is specifically encouraging agencies to reduce office space and increase energy efficiency across the federal government. Through their Total Workplace initiative, GSA hope to save millions of taxpayers’ dollars. For example, the Fish and Wildlife Service is projecting \$3 million in savings through the elimination of 72,000 square feet of office space. The initiative includes teleworking, desk sharing and office consolidation. In trying to lead by example, GSA’s new headquarters

⁸the previous year’s Annual Lease Events Review stated that average lease length in 2011 had fallen to just 4.8 years “measured on an equally weighted basis and including the first break where applicable” (BPF & IPD, 2012; BPF, 2012); the discrepancy between figures depends upon whether leases are weighted according to rental value or whether each lease is treated equally

building was remodelled to accommodate more employees on less square footage, saving the agency \$24 million in leasing fees annually (Reuters, 2014). In the U.S., the average office space per worker has declined from 225 square feet in 2010 to 176 sq ft in 2012 and is predicted to fall to 151 sq ft in 2017⁹.

One approach to dealing with variable demand for space by an occupier is to treat the rented premises in two parts – core and periphery. Core space is rented for a longer periods but ideally with “functional flexibility to alter it to the current business needs” (Gibson et al., 2000). Peripheral space is needed for a shorter period of time and a premium would be paid to be granted such flexibility. However, landlords need to be confident of market demand and tenants’ attitudes to pricing for peripheral space and services. Our own results show that tenants can come to resent paying extra for meetings rooms: a business model where such facilities are provided for no extra charge might prove more profitable in the long run.

Studies show that occupier satisfaction with the flexibility of their leases and their ability to negotiate terms has increased during the past decade (IPD, Cfi-group, & RICS, 2005; “UK Occupier Satisfaction Index 2007-2012,” 2012), although larger organisations appear to have more success and clout in the negotiations than small and medium sized enterprises (SMEs) (Property Industry Alliance & Corenet Global, 2010).

3.5 The Leasing Process

The professionalism of the letting agent is an important factor as it gives a first impression of the service that a prospective occupier might expect to receive (Seiler & Reisenwitz, 2010; Seiler, Webb, & Whipple, 2000). Owners who are entrusting the task of acquiring occupiers to agents must ensure that appropriate incentives and key performance indicators of agency are in place (Ronco, 1998; Williamson, 2002).

Most research on customer service in real estate leasing has focused on residential brokerage in the United States, where residential property comprises a sizable proportion (estimated to be 21.7% at the end of 2011) of the investment property owned by institutional investors and

⁹http://www.corenetglobal.org/files/home/info_center/global_press_releases/pdf/pr120227_officespace.pdf

other major property-owning companies¹⁰. Seiler, Seiler, Arndt, Newell, & Webb (2010) and Seiler et al. (2000) used variants of SERVQUAL¹¹ to investigate the relationship between customer service, customer satisfaction and word-of-mouth recommendation to other potential home-buyers in real estate brokerage. The earlier study concluded that real estate agent characteristics are important, so staff need to be knowledgeable, well-trained and personable, and that tangible aspects also matter, such as the visual impact of the office and its equipment and documentation. The later study concluded that a single dimension from the RESERV¹² model, Professionalism, with the seven items listed in Table 3, is a good predictor of a customer's likelihood to recommend a real estate broker.

1	Real estate firms should use up-to-date technology.
2	The commission of fee charged should be in keeping with services provided.
3	Properties should be well advertised by real estate firms.
4	Real estate agents should get adequate support from their firms to do their jobs well.
5	A firm's agents should be knowledgeable.
6	Real estate agents should be instrumental in setting the best selling prices for a house.
7	Real estate agents should make suggestions for how to best prepare a house for sale.

Table 3: Service quality attributes for a One-Dimension Professionalism Scale (Seiler et al., 2010)

The clarity of documentation is important to occupiers, who need to be able to understand the terms of their lease for reassurance that they will not encounter unexpected problems. The RICS has recently launched a new type of lease in conjunction with the British Retail Consortium, written in plain English and designed to be straightforward to understand, and offer increased flexibility to occupiers and to help fill retail voids to benefit landlords (RICS & BRC, 2012)¹³. Other major landlords had previously taken the initiative and introduced simplified leases, for example Land Securities' Clearlet Lease¹⁴, which complies with the Lease

¹⁰ In the UK the proportion is far lower (2.6% at end of 2011) (IPD, 2012), although this is likely to change as major landlords are starting to make significant investments in residential property and sectors such as student accommodation are also growing fast. According to Estates Gazette (p. 54 Dec 2013), 25% of the current development pipeline of UK REITs is thought to be residential.

¹¹ The SERVQUAL model of determinants of service quality (Parasuraman, Zeithaml, & Berry, 1985)

¹² RESERV is a model designed to measure satisfaction with Real Estate Brokerage i.e. residential estate agency service (S. L. Nelson & Nelson, 1995). It uses the five dimensions of SERVQUAL plus an additional two: Professionalism and Availability.

¹³ The rationale being to keep lease terms as simple as possible, reducing the effort required by the potential occupier, since "customer effort score" has been shown to have a strong inverse correlation with customer satisfaction (Dixon, Freeman, & Toman, 2010).

¹⁴ <http://www.landsecuritiesretail.com/about-us/our-approach/clearlet/>

Code and Service Charge Code and offers customers options such as all-inclusive service charges, to give occupiers more certainty about the cost of their property.

4.0 Conclusion

This research supports most previous studies in finding that commercial occupiers seek a property with an appropriate specification for their business, in a convenient location at a fair price. The precise priority of factors varies with sector, and with individual business requirements. However, Landlords wishing to achieve good occupancy rates would do well to focus on strategies that address five specific features of tenants' requirements: location; cost; building form and function; flexibility of space and lease terms; and the leasing process.

While location remains the top consideration of tenants, landlords must act smartly in managing their portfolios accordingly; trading properties where necessary, and employing property-specific strategies elsewhere. Sensible strategies will vary from sector to sector, for example, achieving the maximum tenant mix in retail centres and parks through employment of expert systems and analysis; providing better transport solutions for business parks; and improving the security and aesthetic appearance of industrial units.

Landlords can employ various strategies to help keep tenants' costs down, including assistance with utility contracts. Most of the last decade's research indicates that eco-certified properties can command a rental premium and that occupiers are willing to pay more because their operating costs are reduced. Indeed, there is some indication that green-proofing a building is prerequisite to making other strategic investments in it. A number of studies have found that occupiers now expect sustainability features to be incorporated as standard in new buildings, that "it is just part of what good 'quality' means" (World Green Building Council, 2013). While such attitudes are likely to migrate to refurbished buildings, in our results, sustainability and environmental considerations did not feature as highly as might have been expected. In interviews with occupiers it was apparent that concern about sustainability varied with the economic climate, with occupiers expressing greater willingness to reduce their carbon footprint when their business was doing well, but relegating sustainability in their list of priorities during the economic downturn. Similarly, Leishman et al. (2011) found that carbon-reduction interventions may deter occupiers if they interfere with the functionality of the

space. These are important points for future research: empirical studies are needed that will provide investors with sound cost-benefit analysis when it comes to alternative refurbishment specifications.

The serviced office sector is expanding to meet the demand from occupiers for more flexible access to space, but has to apply a different business model to ensure its attractiveness to investors as well as occupiers. Income from such short-term rents is more volatile, with less certainty of high occupancy rates, so actual rents per square metre have to be higher than for longer-term lets and conventional office leases, and a larger proportion of the income is derived from value-added services (McAllister, 2001). From an owner's perspective, more research is needed to demonstrate whether being more flexible has increased occupancy rates, and whether returns from more flexible models such as serviced offices exceed those from more traditional models of commercial property supply.

Finally, surveys suggest that landlords are more likely to be able to supply properties that meet the needs of occupiers if they exhibit "qualities of an ideal landlord", as perceived by corporate property directors, including rapport and close liaison with occupiers, an understanding of their needs, integrity, professionalism and fairness. Our own study into whether landlords achieve greater returns from their properties if they treat their tenants as valued customers should provide evidence of this.

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