THE CONSEQUENCES OF QUALITY:

The Effects of Customer Satisfaction on Tenant Retention

by

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ABSTRACT

This thesis investigates the quality of building management services as perceived by tenants and its effect on tenant retention. The impact of quality is viewed in the abstract and with direct application to the real estate industry. The quality construct and its dimensions create various levels of customer satisfaction for the tenants thus influencing their leasing decisions. It is the contention of this work that higher levels of satisfaction lead to a higher probability that the tenant will renew.

To disprove the hypothesis there are no differences in satisfaction levels between tenants that renew and vacate, data was collected through the use of a survey of office building tenants who have recently made a leasing decision. Analysis shows the distinction between tenants who renew and tenants who vacate to be both directional and meaningful.

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INTRODUCTION

The magic phrases in the service industries for the 1990's are "service quality" and "customer satisfaction". While these terms may be terrific buzz words to begin cocktail conversations or thunderous themes to motivate employees, they are very difficult terms to define or measure with a global uniformity acceptable to industry members and customers. Real estate is a service industry. In real estate the concepts are applied to the field of asset management and property management. The service providers are those individuals or companies involved with the management of the physical asset, the property and improvements themselves, 'Building Management.'

Building management is the culmination of efforts by two distinct groups that have blurred into one. The first group is asset managers. The second group is property managers. This thesis is not preoccupied with the premise to completely define the roles these two professions encompass. However, we are concerned with the products of their service. The conclusion is that the products are tenant services and the customers are the tenants. While this approach treads lightly on the obligations of building management to owners and investors in real estate, the project makes the argument that tenant retention is always in the best interest of the building owner. Tenant retention increases property performance hence property value.

So how does one go about defining quality in this industry? As the American Society for Quality Control states: "Quality - A systematic approach to the search for excellence." Using that definition, how does one measure quality or customer satisfaction? This study asked customers (tenants) about their perceptions of their service experience to measure customer satisfaction. The notions of expectations and perceptions are important to any quality venture but only perceptions were utilized in the field work. And what is the relationship of the level of quality to the level of customer satisfaction experienced by the tenant? And what are the implications for these levels of customer satisfaction? In other words what does all of this service quality talk translate into in concrete terms. The purchase intentions of the customer is the bottom line: will they buy.

In the real estate industry, it is the notion of a repeat purchase we are concerned with, a retained tenant. Building management is in the business to retain tenants. A tenant purchases a collection of goods: the right to occupy certain physical space from which it will conduct business. What are the factors that go into this decision? The five lease decision factors used in field work include: rent level, location of space, size of space, the financial stability of the firm and the quality of tenant services received.

This thesis is not an attempt to prescribe to the real estate industry how to retain tenants or how to institute a quality service program. This paper looks at how such devices influence tenant satisfaction and asks the question is satisfaction an important factor in the valuation of a building?

This topic is a result of interest by LaSalle Partners to sponsor research in the area of quality and asset management. The subject responds to the issue of customer satisfaction and its influence on leasing decisions. The options for lease decisions for the purpose of this work, excluding a number of qualifiers, are few: *to renew* a lease for an existing location or *to vacate* the present location and take occupancy in a new building. There are, however, numerous factors that influence this decision. It is the hypothesis of this study to quantify the effect of customer satisfaction on this decision making process.

The notion of customer satisfaction stems from the customers opinion of the quality of service they have received. This relationship is explored. The justification for satisfaction and hence purchase decisions is a complex issue, but as most experts contend, high quality service is an antecedent. This effect may also be seen as the difference between what the customer expects and what the customer perceives to be the quality of service received. This notion is imbedded in an entire series of research papers and journals known as "SERVQUAL" (from service quality)[1].

An analysis of service quality and customer satisfaction beyond just the real estate industry is important to this work to create a base from which to apply quality measurement tools to real estate building management. The quality of service is the single most important factor controlled by the asset manager. Hence, the quality of service put in place by the manager through customer satisfaction has a direct correlation to tenant retention.

Industry interest in the topic is keen. With the commercial real estate market in its presently depressed state there is very little growth if not contraction in the industry. With this lack of industry expansion, there seems to be an inwardly focused effort towards the real estate industry. This condition has resulted in the expansion of the asset and property management services fields. Developers have gone from being builders to providing complete real estate services including building management services for hire. With the increase in competition in the real estate services industry, quality and particularly service quality have come to the forefront.

Another economic effect has been the lack of expansion for tenant space requirements. There is less demand for new office space today than five years ago. There is a contraction of spatial needs for business in America. Because of this condition, the importance of tenant retention has grown dramatically. It is now imperative for successful property financial performance to maintain existing tenants. Consumer satisfaction literature is abundant with notes on the financial advantages of keeping existing customers and these notions are directly applicable to real estate and tenant retention.

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[1]Zeithaml, V. A.,Parasurman, A. and Berry, L.L., Delivering Quality Service, The Free Press, 1990, p. 19.

REVIEW OF SERVICE QUALITY AND CUSTOMER SATISFACTION

This chapter explores the three forces that determine the consequences of quality service in literature today. The first force is service quality. Service quality is defined in the terms of today's most prominent service quality authors. These definitions while similar on the general scale create interesting insight in detail on how service quality or service quality products should be viewed regardless of the industry. The second force is customer satisfaction. While the service provider may have excellent service quality, it is argued in literature that the distinction that matters is customer satisfaction. The third force discussed in cross industrial terms is purchase intentions. While excellent service and high levels of customer satisfaction are complex topics in their own right, it is the influence of these two on the consumer's purchase intentions that influences the bottom lines for most service industries today. The argument presented is that quality of service received influences the customer's level of satisfaction and subsequently the customer's intentions to purchase. The concept of pricing is also briefly discussed in an influential context. The notion of "*value added*" in the eyes of the consumer is also discussed.

Once these hypotheses are explored and documented in terms of the literature, the next step is to canvass the literature on how to measure service quality and customer satisfaction. This section concludes with a brief look at the impacts of service quality on the business entity itself; in other words what are the costs and benefits to a service business for instituting a quality program?

What Is Service Quality

The first step in a quality related venture is the definition of quality. For our purpose here we confine our research endeavor to the service industry and service quality related issues. As the American Society for Quality Control states in their creed: "*Quality - a systematic approach to the search for excellence*," the definition of quality involves achieving certain standards. But what are these standards? According to Rosander, the quality of services is real, observable and identifiable.[2] But this statement still merely describes it and does not tell you what it is. According to Zeithaml, Parasurman, and Berry (ZPB), they formulate their definition of service quality to be: "*service quality, as perceived by customers, can be defined as the extent of discrepancy between customer's expectations or desires and their perceptions.*"[3] ZPB see service quality as the culmination of two different service quality issues. The first issue is what the customer anticipates the service encounter will be like. This preconceived mind set for the service scenario may be formulated by a number of different stimuli discussed below; this expectation has a predicted ranking of the service encounter. The other part of the definition is the real side of what the customer actually experienced. This is a personal evaluation of the service encounter, an individual's personal ranking of the provider's staff's actions. The difference between these two rankings is what defines service quality for ZPB. Their Gap Theory is as stated the gap between service expectations and service perceptions by the customer define service quality.

Two factors of service quality are service conformance and service competitiveness. Both of these ideas come from the individual service sector that defines the service itself. How well a provider meets those guidelines set by the industry and how well the provider does with respect to its competition are the dimensions of quality in this context.

The definition of quality by Hayes is "*the extent to which they conform to the design.*"[4] Hayes expands this by using two more phrases: Quality of Design and

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[2]Rosander, A. C., The Quest for Quality in Services, Quality Press, 1989, p. 7.
[3]ZPB, p. 19.
[4]Hayes, B. E, **Measuring Customer Satisfaction: The Development and Use of Questionnaires**, ASQC Quality Press, 1992, p. 1.

Quality of Conformance. Quality of design is the ability to possess an intended feature or features. And quality of conformance therefore, is how closely these intentions are met.

Who then is responsible for service quality? It is the cleaning contractor's staff who vacuums the floors and empties the trash containers, not the company management. "*They were hired for a purpose.*"[5] Services are rendered by the lowest paid employees of the company.[6] The quality of the service is determined by the individual waiting on the customer, not middle management from the offices downtown.

> Poor-quality services were connected directly with employee behavior and attitudes and the respondents used these words to describe them: lack of courtesy, indifference, unqualified, too slow, work not done right, lack of personal attention. This is to be expected because the service in numerous companies and industries is determined by the individual clerk or sales person who waits on the customer.[7]

Strong management commitment to service quality excellence motivates an organization and strong lack of commitment has the opposite effect. The service leaders contain four characteristics: service vision (service quality is integral to success), high standards (must be better than good service to differentiate themselves), in the field leadership style (service encounters are in the field not the office so this is where leadership must be visible), and integrity (do the right thing brings in the issue of personal pride and management fairness). These characteristics are drawn from numerous sources including articles and interviews and are shown to be in accordance with this research.

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[5]Rosander, p. 18.
[6]Rosander, p. 43.
[7]ZPB p. 7.

With the quality issue, quality beliefs must be examined. Wollschlaeger argues that differences amongst beliefs is a matter of degree and is determined by the goals to be achieved, the environment with respect to the culture or point of view and the usefulness of the belief to explain a phenomenon .[8] Then to qualify the term "*belief,*" Wollschlaeger states a belief is the mental acceptance of a truth as we believe it to be.[9] There are three dominant beliefs about quality present in literature today. The first belief is quality of conformance decreases the cost; the second is perceived quality increases the selling price; and the third is most errors occur because the criteria for self control are not met. The first two are explored in depth as they apply to the service industry and real estate.

There are very few firms that do not compete at some level in service. Therefore, it is important for companies to have their own model of service quality that has roots in the industry. The dimensions used to define service quality can be found from numerous sources. The issue of the service provider's perspective in contrast with the customer's perspective may be the crux of lack of service quality today. As shown by ZPB's work and others, what the consumer expects from a service transaction may not adequately match what the provider thinks the consumer wants. Likewise what the consumer perceives to have experienced from a transaction to be a certain level of quality may not correlate to the provider's perception.

ZPB derive their definition of service quality as stated above, to be: "*service quality, as perceived by customers, can be defined as the extent of discrepancy between customer's expectations or desires and their perceptions.*"[10] In other words, they see that meeting or exceeding the customers expectations as the keys to ensuring satisfactory service quality. There are five factors that influence expectations. These five are not only found in ZPB's work but throughout the literature. The first is word

[8]Wollschlaeger, L. J., The Quality Promise, ASQC Press, NY 1991, p. 7.
[9]Wollschlaeger, p.9.
[10]ZPB. p.19

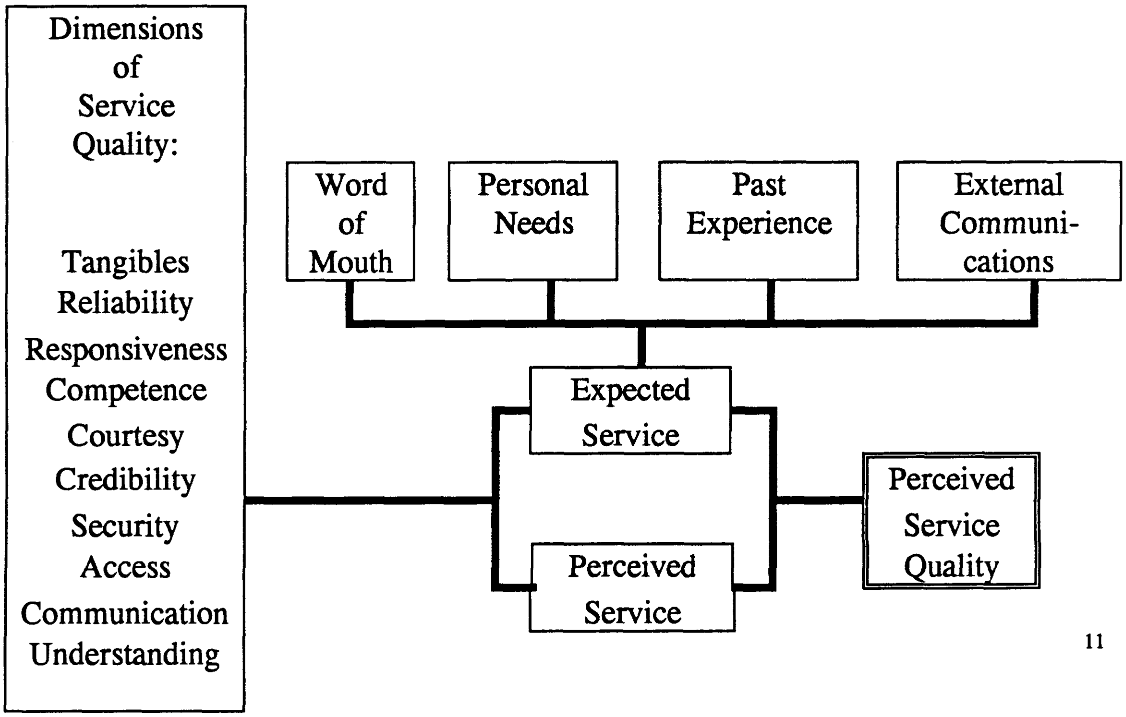
of mouth from other customers and their experiences. The second is the customer's past experience with the service or service provider. Next is the personal or individual characteristics of the customer. Fourth are the external communications, the provider's marketing material, experienced by the customer. And the fifth factor is price and its ability to shape expectations.

ZPB develop the dimensions of service quality. They start with ten dimensions developed from extensive work with customer groups from several different service industries, including the credit card industry, repair and maintenance industry, long distance telephone industry and the banking industry. These dimensions noted are:

Tangibles, Reliability, Responsiveness, Competence, Courtesy, Credibility, Security, Access, Communication and Understanding the Customer.

It is the influence of these dimensions on both expected service and perceived service that produce the customers assessment of service quality. As depicted graphically below :

Customer Assessment of Service Quality



[11]

Service quality is described as a form of attitude by several in the literature. Similar to what ZPB demonstrate, this attitude is a comparison of expectations and performance. But is this disposition an attitude towards the perceived quality or expected quality? The literature diverges here into two camps. This study incorporated only the use of perception scores as the tenant's assessment of service quality. The difference score or gap as outlined above is not pursued here.

There are some in the quality field like Cronin, that assert that perceived service quality is conceptualized as *the* measure of service quality. And that this attitude influences customer satisfaction and hence the customer's purchase decision. This "SERPERF" construct is weighted entirely with the perception of quality in the service encounter. The customer's expectations are less important to service quality and customer satisfaction and purchase decision. While only service perception was

[11]ZPB, p.23.

incorporated in the field work, this is not meant as a conclusion that only perceptions influence decisions. This thesis is not a battlefield for the "SERVQUAL" - "SERPERF" intellectual skirmishes.

Customer Satisfaction

The relationship of customer satisfaction to service quality is viewed as a complex theory involving text after text of research or it can be viewed as a fundamental principle that service quality is an antecedent of customer satisfaction. John Beard taught us the paradox that a poorly managed business finds it easier to satisfy itself than to satisfy a customer, while a well-managed business finds it hard to satisfy a customer and is never satisfied itself.[12] This is customer satisfaction at its simplest level, along with another popular phrase "the customer is always right."

To paraphrase Karp and Hanan in their customer satisfaction work, you may think you manage buildings but what you really manage is satisfied customers.[13] "*Customer satisfaction is the ultimate objective of every business: not to supply, not to sell, not to service but to satisfy the needs that drive customer satisfaction.*"[14] Customer satisfaction must be managed, measured and marketed then maximized. Customer satisfaction should be a way of life and corporate policy. What does it mean for a customer to be *satisfied,* satisfied with a purchase; satisfied with the service that follows. The satisfied customer is the repeat customer. Satisfaction is the bottom line that has been added to the customer; "if the bottom line is profits than satisfaction puts money there."[15]

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[12]Karp, P. and Hanan, M., Customer Satisfaction AMACON, NY, NY 1989, p. 9.
[13]Karp, p. 9.
[14]Karp, p. 11.
[15]Karp, p. 13.

Prevalent throughout business today is the concept of added value to a product or service. The customer is searching to get the most benefit for his / her purchase dollar.

> You should not interpret "satisfied customers" as meaning that *you* are better. Customers are satisfied because you have made *them* better: better at performing the mainstream operations that provide their revenues or better at performing the peripheral operations that generate their costs. What satisfies customers is the improvement they see in themselves, in their capabilities, their productivity, and, ultimately, in their profits. If you can be a source of their satisfaction, they will share it with you in the same ways. [16]

Customers are satisfied with suppliers who do two things:

> 1. Make or save the maximum amount of money for them, more money that they can add to their own businesses themselves or in partnership with competitive suppliers.
>
> 2. Cost the minimum amount of money for them (less than competitive suppliers) by minimizing hidden costs, indirect costs, and all expenditures that must be budgeted as unrecoverable costs instead of returnable investments.[17]

In the final analysis, customer satisfaction is measured in dollar signs and not in smiles.[18] Therefore managers must know where to apply the effort to raise customer satisfaction levels. Managers are frequently asked by higher management to evaluate themselves, "How are you doing ?" They are evaluating themselves on several generic concepts including: quality, reliability, fairness, helpfulness and informative. But similar to the issue of quality mismatch, managers' self assessments do not necessarily match customers'.

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[16]Karp, p. 13.
[17]Karp, p. 14.
[18]Karp, p. 14.

How Is Service Quality and Customer Satisfaction Measured

Characteristics of product manufacturing are measurable using unequivocal and definable standards. Characteristics of services are measurable, observable effects and conditions, and observable behavioral traits and attitudes.[19] Obvious measurable characteristics include time as in the time a tenant had to wait before a service call was answered or price as in what was the cost to the tenant to have the problem corrected. But neither of these can address the most pressing measurable aspect of quality: was the customer satisfied?

"*Customer satisfaction must be managed to achieve a single objective: to improve your customers' value.*"[20] The measurement of customer satisfaction is therefore based on auditing *improvement.* Essentially you must measure three things: (1) what you improve, (2) how much you improve it, and (3) how much better you improve it than your competitors. "*We need to survey all customers for their attitudes, preferences, and appraisals not only those who complain.*"[21]

There are issues with respect to problems in the measurement of service quality and customer satisfaction. Heskett states there are five sources of service measurement problems.[22] The first and most obvious is the intangibility of service. As noted by several experts, service has no lasting product you can pick up examine and measure. It is a fleeting exchange between parties that is experienced more than manufactured. Second is the lack of error data for the industry. If thirty widgets are produced in a particular manufacturing run, the manufacturer may estimate that there is a one percent chance that one of those thirty products may be defective. This may be based on the knowledge of past manufacturing runs, from the equipment manufacturer or any

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[19]Rosander, p. 139.
[20]Rosander, p. 99.
[21]Rosander, p.15.
[22]Heskett, J. L., Sasser W. E. Jr., and Hart, C. W.; Service Breakthroughs; The Free Press, p. 80.

number of sources. The relationship of this scenario to the service industry is minimal. There is unlikely to be anything the service provider has available to estimate the likelihood of a service error rendered at any given exchange. Third, there is the cost involved to install a quality or cost measurement system. The resources needed to collect this necessary data noted earlier may be cost prohibitive to yield any sufficient results.

The fourth source of service measurement problems is a potential incompatibility of cost of quality measurement with the organizational culture. Whether it is the front line staff complaining the measurement techniques interfere with their ability to do their job effectively, or the management frightened that it may hurt productivity, the measuring may be unwanted by company personnel. The fifth source is that the design of traditional accounting systems may not be capable of acknowledging the benefit of such a system. Accounting departments see the cost of instituting such a quality improvement system but may not be capable of distinguishing the additional returns from such a venture thus the motivation to even begin the process is debatable.

If customers' impressions of service quality are the paramount topic, Heskett makes an interesting observation regarding service perceptions:

> Facts are useful, but they take a back seat to customers' perceptions in measuring the benefits and costs of service quality. Together, facts and perceptions can be used to calibrate service quality at a level keyed to what customers find acceptable, whether the objective is to exceed this level by a little or a lot. [23]

There are three predominant aspects of quality in the service industry that sets it apart from the manufacturing or products industry quality control. These three concepts are not unique to ZPB's work but rather found in numerous works looking at

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[23]Heskett, p. 82

service quality issues. Also, these three concepts make the measurement of quality of service performance that much more difficult. Firstly, services are fundamentally *intangible*. It is the experience of the event; the receipt of service is just as important as the result of the service. There are no technical specifications to premeasure and screen out non conformance prior to the event itself. Secondly services are not homogeneous from provider to provider. Service is *heterogeneous*. The physically human element in the service process is obviously not identical from provider to provider. The interaction between individuals on both sides of the service transaction is not nearly completely predictable for multiple participants in multiple situations. Lastly the process of the service event itself is *inseparable* and impossible to discern between service production and service consumption. "*There is no factory to serve as a buffer.*"[24] The point of sale is the only event. Therefore it is at the point of sale that the measurement of service quality should take place.

ZPB shed light on these service quality thoughts by borrowing from goods-oriented literature. As ZPB discuss the difficulty of service quality perception:

> Service quality is more difficult for customers to evaluate than goods quality. Therefore, the criteria customers use to evaluate service quality may be more difficult for the marketer to comprehend.[25]

In the real estate field, how do tenants evaluate the service provided by their building management, perhaps cleaning services or response time to problems versus how that same tenant evaluates the office furniture or copier they have just purchased. The courtesy displayed by the building management staff is more difficult to evaluate than the fleet of company automobiles recently leased or office equipment just purchased.

> Customers do not evaluate service quality solely on the out come of a service; they also consider the process.

[24]ZPB, p. 16.
[25]ZPB, p. 16.

> The only criteria that count in evaluating service quality are defined by customers. Only customers judge quality; all other judgments are essentially irrelevant. Specifically, service-quality perceptions stem from how well a provider performs vis-a-vis customers' expectations about how the provider should perform.[26]

A Model of Service Quality

ZPB ten original dimensions of service quality contained numerous areas where overlap occurred. Through research and statistical analysis ZPB refined the original ten dimensions. This work left them with five measurable dimensions or terms of service quality. ZPB felt customers could distinguish between these five quality constructs. ZPB then developed this reconfiguration into their instrument to measure service quality: *SERVQUAL*. SERVQUAL is a measurement instrument developed by ZPB and used by many marketers, that consists of two sections. The first section is an expectations section and the second a perceptions section. Both sections use a 22 question or statement format exploring the five dimensions of service quality. The five dimensions developed by ZPB:

1. Tangibles -	Appearance of physical facilities, equipment, personnel, and communication materials.
2. Reliability -	Ability to perform the promised service dependably and accurately.
3. Responsiveness -	Willingness to help customers and provide prompt service.
4. Assurance -	Knowledge and courtesy of employees and their ability to convey trust and confidence.

[26]ZPB, p. 16.

5. Empathy - Caring, individualized attention the firm provides its customers.[27]

ZPB's support of these five dimensions:

> The five SERVQUAL dimensions, by virtue of being derived from systematic analysis of customers' ratings from hundreds of interviews in several service sectors, are a concise representation of the core criteria that customers employ in evaluating service quality. As such it is reasonable to speculate that customers would consider all five criteria to be quite important. [28]

SERVQUAL is a concise multiple-item scale with good reliability and validity that companies can use to better their customers.[29] The 22 item scale and the five dimensions developed by ZPB will be adapted for use in the tenant evaluation of service quality later in this text.

ZPB's gap theory warrants some mentioning here in this section about service quality model. Gap theory is essentially the difference between consumer's expectations about service performance of a general class of service providers ;a class of service providers may be all insurance companies or in this study all building managers. And the consumer's assessment of the actual performance of a specific firm within that class drives the perception of service quality. Accordingly:

SERVQUAL Score = Perception Score - Expectation Score

It should be noted in our dynamic world the potential for this score to vary as time passes and as perceptions and expectations over a number of service encounters potentially fluctuate over time. ZPB examine in depth a number of other service gaps:

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[27]ZPB p. 26
[28]ZPB p. 26
[29]ZPB p.175.

Gap 1	Customer Expectations & Management Perceptions Gap - Not knowing what the customers want
Gap 2	Management Perceptions & Service Quality Specifications Gap - Not setting service quality standards for an organization
Gap 3	Service Quality Specifications & Service Delivery Gap - Employees are unable or unwilling to perform service at a desired level
Gap 4	Service Delivery - External Communications Gap - Marketing material does not match reality.
Gap 5	SERVQUAL Score.

All of these potential service gaps warrant further examination in any quality improvement program. For the purposes of this text only the SERVQUAL score is of interest and more specifically the perceptions component.

The increased emphasis in all industries is to produce high quality products, provide high quality services or both. Many companies form quality improvement teams from within the company, complete with mission statements and objectives. Many hire outside consultants to aid them in their quest for quality.

It is the goal of this thesis to measure these aspects of quality. Measures allow a business to:

1. Know how well the business is working.
2. Know where to make changes to create improvements, if changes are needed.
3. Determine if the changes led to improvements. [30]

The ability to measure objective or *hard* indices of quality in the service world is difficult; things like the time to complete a service or the time it takes to respond to a

[30]Hayes, p. 1.

service call or the cost of acquiring the service are applicable here but there are far fewer of these tangible items in the service industry when compared to the product market. Quite obviously the size or dimension and color of a product is definitive and easily measured. Products offer an objective index that every other product, of like kind, can be compared and contrasted to. This is not completely transferable to the service industry. The most common hard measure in the service industry, time is measured with difficulty. For example, if the transaction completion time for a service is measured by a stop watch and indicates a fast completion time, this does not ensure that the customers perceive the completion time as fast. The customer may have expected an even faster time.

> Because quality is determined, in part, by the extent to which goods meet the customers' requirements, the measurement of quality in non-manufacturing settings is probably best indexed by customers' perceptions of the service they received. [31]
>
> The entire American economy seems to be revolving around the phrase "customer satisfaction." There is a strong desire to establish and use measures of customers' attitudes as indices of the company's quality. Often, this desire stems from the lack of quality measures available to some companies (especially service companies) or results from an interest in satisfying customers. [32]

There is increased emphasis however to measure subjective or *soft* indices in the marketplace. These measures examine personal perceptions and attitudes and are more difficult to quantify than the objective criteria. They are however very important in determining how satisfied a customer is with a particular service. Therefore it is the combination of the two approaches that provide companies with a more comprehensive measure of customers' satisfaction with a service performance experience.

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[31]Hayes p. 3.
[32]Hayes p. 3.

It is the category of customer satisfaction that is the most heavily weighted of the seven categories used in the annual Malcolm Baldridge National Quality Award, the award given by Department of Commerce, Bureau of Weights and Measures to the American company which demonstrates the highest standards of business practice. Within this category companies are judged on their knowledge of customer requirements and expectations (Category 7.1), their determination of customer satisfaction (Category 7.6), their ability to summarize satisfaction results (Category 7.6), and the results of comparisons to other companies (Category 7.8).

A heightened competitive market along with manifestations like the Malcolm Baldridge National Quality Award have influenced companies to begin to focus there quality improvement efforts on the customer itself.

To incorporate customers' perceptions and attitudes into their quality improvement effort, companies must be able to gauge customers' attitudes accurately. One way to measure customers' attitudes is through questionnaires. These questionnaires however must be designed to accurately gauge customers perceptions about the quality of the service.

Goodman and company explore the validity of customer satisfaction work going on in the world today. Similar to ZPB's work, Goodman stresses the importance of the use of customer expectations in the evaluation of service quality.

Three primary problems with customer satisfaction measurements according to Goodman are as follows:

> The first is that a company cannot interpret the meaning of the dissatisfaction measurement. Second very few companies include questions about market actions that result from satisfaction levels. Finally, customers are not asked the questions that would reveal the sources of their satisfaction or their dissatisfaction. [33]

[33]Goodman p. 35

The question to ask is "How satisfied is a satisfied customer?" In other words does the customer mitigate his / her satisfaction rating with his / her low level of expectations? Accordingly with SERVQUAL in mind, the satisfied customer is the customer who has his / her experience exceeded by the expectations. Granted low expectations may be overwhelmed by even a mediocre experience but this is the formula for satisfaction: exceed or match the expectation. But here Cronin argues with his SERPERF construct, that it is merely the initial expectations that matter and this is replaced with experience over several service encounters and thus it is experience that drives satisfaction.[34]

If there exists a need to ask market based questions, then the accurately phrased question must be used.

> Satisfaction cannot be considered in a vacuum. Market actions related to customer satisfaction are critical to the long term success of the company. Thus, a cause of dissatisfaction that does not translate to market damage is not as important as one that does. [35]

A tenant who has just made a leasing decision is obviously not going to make that decision again for probably five years or more in terms of a commercial tenant. Therefore, a question asking if they would make the same decision again in the form of a repurchase is invalid. Furthermore tenants who have just made such a commitment will tend to rationalize to justify their decision.

It is important for customer satisfaction surveys to identify the causes of dissatisfaction and satisfaction. Goodman states:

> Why are my customers dissatisfied? How do I prioritize the corrective actions I need to take to improve satisfaction? Unfortunately, most of the monitoring

[34]Cronin, J. J. and Taylor, S. A., "Measuring Service Quality: A Reexamination and Extension", **Journal of Marketing**, Vol. 56 (July 1992), 55-68.
[35]Goodman p. 35.

> systems used today do not provide actionable data that can be used to answer these questions. Thus, managers become frustrated when they are informed that a significant percentage of their customers are dissatisfied, yet they are given no guidance regarding the cause(s) of the dissatisfaction or how improvements can be made. [36]

.Cronin and Taylor examine the issues surrounding the conceptualization and measurement of service quality. They also explore previous territory with the issues and interrelationships of service quality, customer satisfaction and purchase intentions. Raising the quality of service provided is a strategy being employed by businesses in all service sectors to increase or better their market condition. But we come back to the issue of what is service quality: "an elusive and abstract construct that is difficult to define and measure."[37] They cite numerous pieces of research that support the notion that simple performance based measurements are superior.[38]

Through empirical testing Cronin demonstrates the relationship between service quality and customer satisfaction. In fact Cronin declares service quality to be an antecedent to customer satisfaction just as several other authors do. The effects of this causal relationship between service quality and customer satisfaction also have a substantial impact on the purchase intention of the customer.[39]

> Simply stated, the managers of service providers need to know how to measure service quality, what aspects of a particular service best define its quality, and whether consumers actually purchase from firms that have the highest level of perceived service quality or from those with which they are most 'satisfied." [40]

While this paper does not assert to be a prescription for companies to achieve high levels of customer satisfaction, it is important to understand the elements that

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[36]Goodman, p.36.
[37]Cronin, p. 55.
[38]Cronin, p.56.
[39]Cronin, p.56.
[40]Cronin, p. 56.

make-up customer satisfaction. According to TARP (Technical Assistance Research Program based in Washington D. C.) : [41]

Doing the job right the first time	**+**	**effective customer contact management**	**=**	**maximum customer satisfaction/loyalty.**

TARP has designed a five step program based on this formula for companies to follow in order to improve the companies ability to satisfy customers. This program is available in a number of different publications.

Impact of Quality / Customer Satisfaction

Now that we have defined or at least attempted to define service quality and customer satisfaction and their relationships, we look to explore the impact of these constructs have on business today. These effects are seen through a customer's purchases hence a direct effect on the income a service provider realizes. The general theory is higher quality leads to higher returns.

> If there is a moment at which service managers most often are moved to act in seriously seeking service breakthroughs, it's the moment at which they first realize the true cost of poor service.[42]

It is this potential "watershed" mark that prompts action. "Measuring the true cost of poor service can be a dramatic call to management action."[43] Companies who take the trouble to determine the potential impact of deteriorating quality on its profit performance find themselves forced into motion to end this negative affect to the bottom line.

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[41]Goodman p. 37.
[42]Heskett, p. 73
[43]Heskett, p. 76

Literature shows there are four costs involved in achieving service quality. These include two general types of costs of failure: internal and external failure costs. While both of these costs have roots in the manufacturing industry they have application to the service provider. Internal failure costs are the costs of correcting defects uncovered by the producer before they reach the customer. External failure costs accrue from errors experienced by customers. Obviously the internal failure is the more difficult error to catch because of the point of sale analogy used to describe a service. Because this service is considered to be almost instantaneous, management intervention has to be preventive as opposed to corrective. External failure costs should be well examined as this data can be collected through the measurement efforts outlined above.

The other two costs associated with quality are preventive costs and appraisal costs. These costs are self explanatory. Preventative cost are undertaken in the effort to avoid the failure costs mentioned above. Costs may come in the form of increased staff training or higher staff compensation levels. Appraisal costs are costs incurred in an audit of the existing service provider's operation. The importance of appraisal costs, or rather the importance of appraisal expenditures, is discussed in the previous section regarding the measurement of service quality and customer satisfaction. There must be some benchmark or base line measurement on which a company can improve.

Understanding the true cost of poor quality leads directly to recognition of the value of quality maintenance and improvement. The subsequent actions of customers following a change, positively or negatively, can be viewed as the effects of quality of service on customer satisfaction and hence the customers purchase intentions.

> It is difficult to monitor customer behavior as a result of good or poor service and perhaps even more daunting to establish cause -and- effect relationships explaining such behavior. But through efforts to track customer usage and

> systematically interview customers when service patterns have declined, it is possible to establish estimates of costs of poor service.[44]

Two of the service industries most respected authors have their own view on the cost of quality. Crosby states: "the cost of quality is the cost of doing things wrong." And Rosander declares: "*the cost of quality is the gain obtained by getting rid of non-quality or anti-quality characteristics.*"

What are the costs of quality to a company? The costs are the consequences of striving to achieve high quality or struggling to avoid low quality products or services. If there is not quality hence value for the consumer, the product or service will go unpurchased. Achieving higher relative quality relative to competition entails costs and these costs are real. Using Rosander's three broad components of the cost of quality one can derive the total cost of quality.

- C = Total cost of quality
- C_1 = Cost of what is done right with the best processes and performance at a given level of technology. Very difficult to reduce.
- C_2 = Organizational costs of doing business; economies of scale to try to reduce costs. Reduction may be possible.
- C_3 = The cost of non-quality characteristics; costly sources we attempt to minimize. Most attacked for cost reduction.

$$C = C_1 + C_2 + C_3$$

[44] Heskett. p. 82

An obvious calculation for the return on an investment into a customer satisfaction program can be calculated. After computing the programs total cost therefore:

$$\frac{\textbf{Annual marginal profit earned}}{\textbf{Annual cost of programs}} = \textbf{Return on investment}$$

Hence there is a concrete investment decision to be made on the implementation of any quality improvement program.

The effects of poor service are documented extensively in service quality literature:

> Sales representatives for a range of service companies have told us that it requires three to five times more effort, often over a period of years, to regain a customer lost because of poor service than to induce a new customer to try the service. There are good reasons to lose a customer (including, for example the conscious refusal to lower a price to meet a competitor with inferior service). But poor service often accounting for 20% to 30% of lost customers, is not one of them.[45]
>
> When a customer is lost because of poor service, a decision has to be made whether to regain that customer or to attract several new customers to a service. Too often, this decision does not take into account the secondary benefits, such as reduced bad will and negative word-of-mouth advertising as well as improved server morale, resulting from regaining a formerly dissatisfied customer.[46]

The theory is, with service excellence everyone wins. This thought is echoed in service literature to such a degree that to not mention it here may invalidate this work as a piece on service quality. But as ZPB state if it is in all of the literature why doesn't it exist more prevalently in business. There exists "*The national incongruity*

[45]Heskett, p. 76.
[46]Heskett, p. 77.

that service excellence pays off and yet is in such short supply."[47] What is the payoff of quality to service providers? Service leaders all believe there is a payoff to high quality, but many executives are not as convinced that hard dollar investments correlate to profits. The only time there is a payoff is when there is an improvement in the eyes of the customer, an improvement to perceived service quality. Therefore, it must be improvement experienced by the customer for the customer to realize a true gain in value. It is not the marketing of this enhanced service, or the experience of previous service but the realization by the customer that he /she is better off by purchasing this superior service.

"*The positive relationship between perceived quality and profitability is documented empirically*"[48] ZPB quote the results of the Profit Impact of Market Strategy to demonstrate this. They then go on to quote Buzzel and Gale from *The PIMS Principles,* an analysis of this national quality research program, to make this point explicitly:

> In the long run, the most important single factor affecting a business unit's performance is the quality of its products and services, relative to those of competitors. Quality edge boosts performance in two ways:
>
> - In the short run superior quality yields increased profits via premium prices. As Frank Perdue, the well-known chicken grower, put it: "Customers will go out of their way to buy a superior product, and you can charge them a toll for the trip." Consistent with Perdue's theory, PIMS businesses that ranked in the top third on relative quality sold their products or services, on average, at prices 5-6% higher (relative to competition) than those in the bottom third.
>
> - In the longer term superior and/or improving relative quality is the more effective way for a business to

[47]ZPB p. 3
[48]ZPB p. 9.

> grow. Quality leads to both market expansion and gains in market share. The resulting growth in volume means that a superior-quality competitor gains scale advantages over rivals. As a result, even when there are short-run costs connected with improving quality, over a period time these costs are usually offset by scale economies. Evidence of this is the fact that, on average, businesses with superior quality products have costs about equal to those of their leading competitors. As long their selling prices are not out of line, they continue to grow while still earning superior profit margins. [49]

The perception theory of pricing and its influence on purchasing decisions can be observed in classic micro-economic theory with a downward sloping demand curve. This graphical relationship dictates that as the price of a product increases fewer buyers will decide to purchase it. Hence it has been assumed that price serves only as a measure of purchase cost (sacrifice) to the buyer. However, research evidence indicates that the role of price is more complex than that of a simple indicator of purchase cost to buyers.

The traditional economic model of buyer behavior with the downward sloping demand curve assumes the customers decision making process depends on three things: the price of all goods (or services in this case), the level of income or purchasing power, and the individual preferences of the buyer. This assumption of rational behavior has four major premises:

1. Perfect information about market and pricing.
2. A buyer who can interpret this information.
3. Prices are independent of subjective wants or satisfactions.
4. Perfect information about tastes and preferences.

1,2 and 4 are not present in today's market. The result of this is that the examination of the relationship among price, perceived quality and perceived value

[49]ZPB p. 9.

leads to interesting conclusions for customers' behavior. Higher quality can demand a higher price because the customer feels he / she is getting more value for his / her purchase dollar.

Monroe verifies that buyers do perceive a positive price-quality relationship

> Indeed, major business publications indicate that superior product and service quality can represent potent competitive advantages. Moreover, it is recognized that customers' perceptions of quality, benefits, and value comprise the reality faced by business and service organizations.[50]

ZPB demonstrate the positive relationship between relative perceived quality and return on investment or return on sales based on *The PIMS Principles*[51]. Perception for a relatively inferior quality service company correlates to a return on investment of 18% and a return on sales of 8% while a company with relatively superior customer perceptions of service quality show a 32% return on investment and a 12% return on sales.

As Cronin notes, attitude is an important part of the purchase decision:

> Consumers form an attitude about a service provider on the basis of their prior expectations about the performance of the firm, and this attitude affects their intentions to purchase from that organization. This attitude then is modified by the level of (dis)satisfaction experienced by the consumer during subsequent encounters with the firm. The revised attitude becomes the relevant input for determining a consumer's purchase intentions.[52]

Customers have the perception they receive more value for their dollar spent with a company with a high service reputation. The customer strives for higher value

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[50]Monroe, K. B.; Pricing - Making Profitable Decisions ; McGraw-Hill 1990, p.53
[51]ZPB p. 10.
[52]Cronin, p. 57.

for every dollar spent. Value is the customer's "overall assessment of the utility of a product based on perceptions of what is received and what is given."[53] Therefore :

> The concept of value helps explain how companies with strong service reputations are often able to charge higher prices than their competitors. Customers have to expend more than money to use a service; they also have to bear non monetary prices, for example, time and psychic cost. These customers may be willing to assume more monetary cost to reduce non monetary cost and/or to obtain an otherwise stronger service. [54]
>
> The magnitude of the savings that can arise from a quality program can easily be seen by visualizing what would happen if all the losses due to negative quality characteristics are eliminated. [55]

ZPB believe quality creates true customers. This is a further demonstration of the augmentation of rewards through providing service of high quality. True customers are repeat customers. They become annuities. As demonstrated in numerous texts, a consumer will spend "X" dollars in his / her lifetime purchasing a certain service. By demonstrating loyalty to the customer through superior service quality, the customer is likely to respond in a positive fashion by continuing to make purchase decisions with that provider. There is an entire subset of purchasing decisions that revolve around "*brand name*" issues that is an associated quality issue applicable here but too complex to detail here.

It is said a "true" customer will sing praises to others and an angry or disenchanted customer will do the opposite. Favorable word of mouth must be strived for and negative comments must be prevented. The key to creating a true customer is performance. "*Competitors commonly offer the same services but different service.*"[56]

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[53]ZPB p. 11.
[54]ZPB p. 11.
[55]Rosander p. 52.
[56]ZPB p. 11.

There are several other issues that must be touched on when discussing purchase intentions and the impacts of service quality. These issues include the theories behind the timing of purchases, or purchases in a period of time or a lifetime. These issues of purchase decision timing obviously vary from service sector to service sector. One is much more likely to have an automobile serviced more frequently than making an office space leasing decision, but both are decisions that involve quality of performance issues. In the next chapter all of these general quality concepts will be applied to the real estate industry.

THE REAL ESTATE INDUSTRY

With the basic principles of service quality and customer satisfaction covered in the previous chapter, we now apply these concepts to the real estate industry. But first, a few critical questions; who are the service providers in the real estate industry and who are their customers and clients? Particular attention must be paid to the fields of asset management and property management. After an examination of the roles these management entities play in the market place, quality concepts and their function in the industry can be explored. Real estate and the associated asset and property management concerns supported as service providers for the real estate industry.

What are the products of the real estate industries? Through industry views and opinions expressed here, tenant retention through customer satisfaction is proven to be the product of effective asset and property management. Therefore, with this supposition documented, what are the impacts of service quality and customer satisfaction? These effects, according to the literature presented earlier, can be applied and measured. This thesis takes the impacts of service quality and customer satisfaction as discussed above and applies them to the real estate industry. Tenant retention is the dominant theme in real estate markets today. What are the industry experts' views on this topic? This section concludes with two distinct examples of how service quality and customer satisfaction influence property performance.

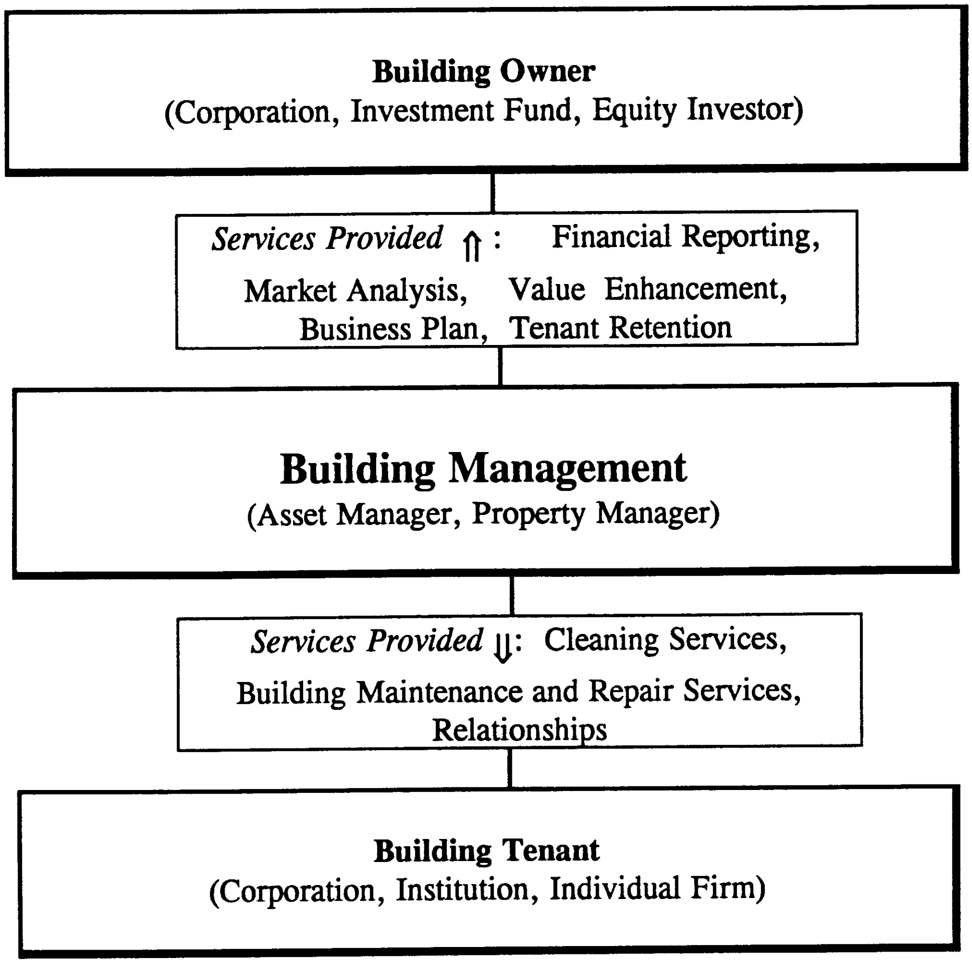
Who are the Service Providers and Who are Their Customers and Clients.

In the real estate industry their are multiple parties available to serve this sector of commerce. There are contractors, builders, and developers, all struggling in our early 1990's economy, but eager to supply the market place with physical space and improvements ready to pervade. There are leasing agents and brokers available to show us all of the available options. However it is the building management we are most concerned with. Granted, building management may provide both the construction and brokerage services, but it is the overall services provided by this entity that dominate this study.

Building management, the term used in the data collection phase of this enterprise, may combine or overlap two entities in the real estate profession: the asset manager and the property manager. As defined below, the functions of these two tend to differ but have much in common. The focus of both of these groups is the augmentation of property value. The scope of responsibilities for asset and property managers are frequently different but equally likewise overlapping. While means may differ and focus be the same, it is the obligation of both to service both the customer *and* the client, the tenant *and* the owner.

Just as there are two entities to this concept of building management, there are two particular groups who are the potential beneficiaries of the services: the owner and the tenant. There are, of course, many situations where the lines between all of these entities may become blurred or even non-existent, but the triumvirate put in place in this world is:

Building Management Service Responsibilities:



Building management has service obligations to both the owner and tenant. The owner obligations of building management will be skimmed briefly in the asset and property sections below, but it is sufficient to say the goal of management is the maximization of value. This is directly in line with any owner's objective, the maximization of his / her investment dollar. It is fair to say that the goal of a tenant is the maximization of value for his / her rental dollar. This study focuses on building management's efforts as viewed from the tenant side of the equation; The lower two-thirds of the chart above. It is the contention of this work that through the optimization of service quality positively influencing the tenant's satisfaction level, tenants view their leasing situation as a form of value maximization. It is also the contention here that this higher level of satisfaction is positively correlated to the owner obtaining value maximization.

Institutional investors are probably one of the more dominant categories of owners in medium to large income producing properties. Therefore, in the 1990's, building managers are either working for fee or working directly with the institutional investor. The goals of institutional investors differ from that of developers. Developers in the 1970's and the 1980's acquired or built buildings to earn a fee, make a statement in the community with a signature building or simply for pride of ownership.[57] Institutional investors on the other hand have single primary objective, to achieve a desired yield or return on investment. Whether valuing cash flow or appreciation of equity the institutional investor is sufficiently sophisticated to measure the return.

The customer is the tenant here. Although their are often other entities being served, *all* benefit with high quality service being delivered to the tenant.

Asset Management

Asset management is a loosely defined discipline but with ever increasing importance in the marketplace. By definition, asset management is a service-oriented business, a dual edged service provider: to the client (owner) and the customer (tenant). Even the real estate industry has multiple views on what asset management is. Some of these views are presented below.

[57]Muhlebach, R. F., "Effective Property Management in the 1990's", Journal of Property Management, September / October 1988, p. 65.

Asset management could be defined as the on going process of creation of value over time along with updating and supervising a strategic business plan for a property and ensuring the property manager is an effective day-to- day implementer.[58]

> It is impossible to define "asset management" in simple terms. As a learned trade, it requires an in-depth understanding of local, regional, and global markets, building operating systems, rental rates, space planning, design, federal and local laws and ordinances, accounting, marketing, leasing, and economics. In human terms, it requires insight, a genuine concern for tenant satisfaction, and the ability to develop and maintain healthy relationships with tenants, investors, brokers, financial contacts, and vendors. Consequently, asset managers today must be service oriented, market-smart, creative, innovative and proactive in preventing and solving problems, insightful, and highly skilled as financial planners and negotiators. Furthermore, they must understand how to mesh the needs of tenants and the constraints of the market with the long-term objectives of their clients. [59]

Often the ultimate goal of asset management is to maximize value in a manner consistent with the owner's financial objectives. The distinction between asset management as a third party for a fee, especially an incentive based fee, and management of equity is irrelevant in this context. The goal is the same: *value maximization*. Today, an asset manager must consider the real and perceived values of the asset within the market, and develop and implement aggressive, market driven strategies to make the property more desirable to its prospective tenants.[60]

The asset manager's job is a difficult one today and is getting more complicated all the time. There are over built markets in most regions of the U. S.; Atlanta has an

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[58]Gorman, B., "Asset Management: Trends for the Future," *Journal of Property Management*, Jan/Feb 1990, p.20-23.
[59]Iezman, S. L. and Ihlenfeld, N. A. "Real Estate Asset Management", *Real Estate Review*, Summer 1991, p. 59.
[60]Weinstein, H., "Value Added: An Asset Management Case Study", *Real Estate Finanace*, Winter 1992, p. 39.

office vacancy rate of 17.3%, Chicago 23.0% and Manhattan 22.2%[61]. These rates and similar ones around the country are keeping competition high for those few available tenants . Additionally, rising operating costs are making it more difficult to make a profit, and more demanding tenants with their more sophisticated styles contribute to the challenge to maximize real estate values. The emphasis today has shifted to enhancing or preserving the value of existing real estate assets. Adding value over the short and long term, the "bottom line" objective of any real estate venture or transaction, has become a tougher proposition. Corporations and investors are looking to enhance the value of their real estate holdings in the current economic climate and to differentiate their buildings from the competition.

A companies view of asset management may be driven by the origin of the company. For instance financial companies have one set of priorities or means of operations and real estate companies have another.

> Today, the money in real estate is coming from or directed by Wall Street or the very large financial institutions. They treat real estate as just another asset class, which should be in every portfolio. At the same time they feel that real estate should have the same grounding in financial analysis and return as stocks and bonds. This outlook gives the financial mindset increased prominence. It also leads to a rather slavish regard for the IRR....In some cases it also means too little concern for the property, the tenant mix, or the competitive alignment. What is the property really like? What is across the street? What kind of tenants does it have now and will it have in the future? What is happening to the competition in the market? Real estate oriented asset managers would say, "Let's go look at the property. Is there deferred maintenance? Is there competition down the street drawing off the better tenants who pay better rents? [62]

[61] All first quarter 1993 estamates from National Real Estate Investor April and May 1993 issues.
[62] Kately p.6.

It is the real estate oriented manager with hands on knowledge who is in a position to create value by services. It is the real estate oriented manager who understands the importance of quality to building management.

Complete asset management dictates linking a property's three components: the physical asset itself, the property's marketing plan, and the property's financial aspects or objectives. In addition asset managers must consider the perceptions that characterize a property within these aspects. "*The ultimate success of any program to consistently think in a new and creative ways to develop and implement clear market-driven strategies.*"[63]

It is important to look at how to position the asset to maximize its performance in the market place, what competition could occur in the foreseeable future. What decisions should be made with regard to that asset? You must have a plan for each individual tenant. It is a customer service business today.

A large national insurance company has created a spin-off enterprise, Company A, an asset management firm. This subsidiary business has blossomed. A large percentage of growth stemmed from third party entities. Their entrance into this field was initially to protect investments, their own and those of their pension fund clients. They have attributed their success to taking owners' perspectives in the management approach. As part of their marketing plan, they feel their experience from extensive ownership positions gives them a distinct edge in third party contracts. The real estate oriented wisdom will give owners / clients more value for their management expenditure. Their views:

> Asset maintenance must be the new focus of (building) managers who wish to participate effectively in this evolving environment. Asset maintenance must maximize the existing revenue stream in order to preserve the asset

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[63]Weinstein , H. "Value Added: An Asset Mnagement Case Study", *Real Estate Finance*, Winter 1992, p. 43.

> maintain the current tenant base..... Today's competitive real estate climate no longer tolerates lackluster thinking. Progressive ideas, coupled with "bottom line" orientation from the on-site level to the most senior executive must develop and prevail.... Meeting the tenant's and the landlords needs becomes the driving force behind the job.[64]

Asset management involvement has increased throughout the property's investment cycle. Expanded services for both client (owner) and customer (tenant) are becoming commonplace. For the owner, sophisticated financial reporting is now warranted by institutional investors. Third party managers include these fiduciary tasks in their daily routines. For the tenant, multiple services are made available. Included here is tenant representation from a broker position. If an asset manager is unable to accommodate a tenant in its own building, the manager may be willing to broker on behalf of the tenant to find space, even if it is in a competitor's building. A look at who is doing the asset management will show multiple disciplines involved in the profession.

In-house asset managers who set goals, devise policies and oversee day-to-day property management are becoming a rarity. On the ascent are third-party firms that attend to on-site property management in close cooperation with the asset manager. The future of asset management will require a higher level of sophistication in the job. Local markets will be more competitive. There will be more decision making on the broader portfolio level. Properties will be monitored more closely on a performance basis. The focus will shifting toward broad-based business plans to position asset for the long term.

Property Management

[64]Toohey , W. J., "Property Management in the 90's: Braving New Worlds", *Buildings*, March 1993 p. 87.

The change in the property management industry has evolved over the last decade but changed drastically since 1985. Property managers across the country use the word "blur" to describe what is happening to the demarcation between themselves and asset managers.[65] Property management as an industry did not exist until the 1950's. There are over 25,000 companies in the business today.[66] Has the quality revolution struck yet? In a recent search of industry articles concerning property management only one article out of 658 concerned quality. Perhaps the revolution has not started.

The asset manager is not any better than the individual on-site manager or personnel, the staff of the property, or the facility manager. On-site personnel must understand the relevant performance criteria for the property, recognize how these criteria are being measured, and assist them in getting better performance from the property. Just as the quality literature states, the customer does not encounter the executive in the business suit from the corporate offices, but the field staff: the receptionist who takes the complaint call or the building technician who responds. These are the front lines of the real estate service sector. Property manager's represent the building in its most critical area - the market place.

The standard real estate textbook states that a building manager is a person or firm responsible for the operation and improvement of real estate. But textbooks deal largely in theory and in environments under ideal market conditions. Today's conditions are not ideal, and the dominant management functions are the renting of space and maintaining of good tenant relations. Without these two functions, the others simply would not be necessary. Often the focus is no longer on being solely the agent,

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[65]Sumner G., "Property Managers Focus on Retention Amid Mounting Competition", *National Real Estate Investor*, March 1993, p.90.
[66]Hooper, C. "Premisys Delivers Excellent Service in Increasingly Competative Market", *National Real Estate Investor*, March 1993, p. 94.

but on performing as the tenant representative. This focus is similar to some new thinking in the asset management field.

Leasing to new tenants or re-leasing to existing tenants is tough in today's market. "*We're finding today's tenant more educated,*" *says an executive of a New York based property management company. The tenant is much tougher, more sophisticated, and represented by more professionals than ever before....Today the value is there for the tenant.*"[67]

Real estate from the perspective of an owner rather than a developer or broker is common marketing language found in brochures. Companies require sensitivity to customer and tenant satisfaction and solid ownership that can provide the necessary support in technology and other resources. As one real estate executive states, "*The quality of the personnel and services provided by our company is unsurpassed in the industry today....We create attractive and cost-efficient environments offering services and amenities that help attract and keep tenants.*"[68] Maximum return is the management's priority. The company's ability to achieve this will dictate success.

The selection process for a property manager is an important decision. "*Property management is a very difficult business in a rapidly changing environment.*"[69] Third-party property management is selected by the asset manager based upon experience with product type, research capabilities and awareness of the market, reputation, market presence, and potential conflicts of interest with competing properties. Asset managers assess property managers on three major functions: 1) Marketing and Leasing; 2) Financial reporting sophistication; 3) Operational capabilities. Another way to sum up the property managers' responsibilities would be to execute the management, leasing, marketing, and / or redevelopment plan.

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[67]Adler, H., "Managers, Tenants Adjust To a Changing Relationship", *Better Buildings*, June 1992, p. 62-64.
[68]Hooper p. 96.
[69]Bentsen, L., "How to Skin Your Asset Manager", *National Real Estate Investor*, July 1992, p 101.

With the selection process understood what opportunities exist for the manager? There is less product available on the market to manage. With the property management opportunities condensing, the predicted effect would be for management firms to be leaving the field. But the opposite has happened. Numerous competitors have flocked from other areas of the industry. The only cash flow that still exists to is management. Development fees and profits have dried up, brokerage commissions are slim with little market activity and few acquisitions and dispositions follow. Fees are the driving force behind this. With the slide in the leasing and development sectors of the industry anybody with real estate knowledge is moving into management. This may be a market by market issue but the dominant feeling is there is stiff competition. Stiff competition leads to lower management fees.

With a dramatic slowdown, if not complete stop, to new development, the real estate industry has shifted focus to the property management forum. "*Suddenly everyone wants to be a property manager.*"[70] Because of this intense interest and the economic pressures in the industry, fees are dropping and profit margins are disappearing.

> They are under intense pressure to cut costs and, at the same time, retain tenants - seemingly contradictory objectives. They must deal with a host of new issues, from the environment and recycling to handicapped access. They are being asked by their clients for more comprehensive and more timely reporting. They are taking on roles and responsibilities previously performed by the asset managers and leasing agents. [71]

Other pressures on property managers include reporting guidelines set up by institutional owners. These systems require an extensive amount of resources. The owners are banks or insurance companies that have taken properties back or pension

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[70]Radding, A. ,"With Property Management in the Spotlight, Competition is Cutthroat", *National Real Estate Investor*, p. 86.
[71]Radding, p. 86.

funds that have owned the properties all along, the institutional owners reporting structure is complex and requires a certain level of sophistication by management to respond.

> Many property managers say because of the cost / profit squeeze and the stiffer competition they have had to quickly improve their service. Most are going beyond what used to be the norm in an all-out effort to please their clients and add value. As a result some say the nature of property management has changed.[72]

Properties that are already well managed have little opportunity to cut expenses due to existing efficiencies. In fact, despite incredibly efficient property management, expenses may rise in a given year. The property manager can only affect the expense line items so much. Thorough and efficient maintenance is expected, if not demanded, by institutional investors and equity owners. Equally important to these investors is the property manager's ability to maintain good relations with the tenants.

Some of the industry comments include:

> A property management company will be fired if a property's operations are poor, but they may not even be hired if *all* the firm can do is hold down costs....Value in real estate is created primarily through increasing income. Property managers need to spend their time creating value. Managers must view properties as complicated businesses that require sophisticated management programs.[73]

The trend is towards asset-tuned property management firms; firms that go beyond cleaning and landscape maintenance and understand the bottom line. Of greatest importance is getting the most productive results from a particular building, the investment. With this new breed of property manager mutual goals can be established for building management by both the asset manager and the property manager.

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[72]Sumner p. 88.
[73]Toohey, p. 87.

Whether a management company works for a fee or from in-house staff, it is the quality of the management service that means achieving ultimate financial goals. Asset managers must, in turn, work with the property manager of every building to formulate a strategy to maximize the value of the property. Pressure is on the property manager to create cash flow and increase the property's value. There are two ways to increase net operating income (NOI). The first is to increase the property's income and the second is to reduce the property's expenses. The larger potential is created by increasing income. To increase net income or even cash flow, tenants must be attracted and retained. Tenants look for value. Property managers must provide this value through service quality.

Real Estate: The Service Business

According to the federal government and their standard industrial classification (SIC) system, real estate is a service industry. Real estate falls under major group number 65, 'Real Estate,' and sub groups 653, 'Real Estate Agents and Managers,' and 6531, 'Brokers, Agents Real Estate Fiduciaries and Managers of Real Estate.' These grouped utilities are used by both the client and customer entities. These functions obviously align themselves with the service camp as opposed to the manufacturing camp. While these functions do not explicitly call out the service label, others do. Under the explicit 'Services' group, major category number 73, exists group 734, 'Services to Buildings' and 7349, 'Building Maintenance and Cleaning Services.' It is these concrete building service functions that the customer will evaluate for the quality of building management.

Real estate managers act more like CEO's of properties rather than just rent collectors. They must be more sophisticated professionals capable in financial analysis, accounting, real estate law, tenant relations, marketing and personnel management. [74] Treatment of real estate as a business will therefore will allow emphasis on service quality issues.

In an effort to enhance value in their real estate holdings it is important for asset managers to understand real estate's dual personality. As a hybrid investment, real estate maintains the characteristics of both a unique asset class and as an independent operating business.

The characteristics of real estate as an asset class include three broad concepts. The first is the stability of the income stream. The leases for office or other professional space run quite often for five years or more thus allowing for valuation of the rental stream as a virtual annuity. A continuation of this thought brings us to our second thought that the valuation of this stream will be driven by market forces based on market rents for tenants and market returns to investors. The third concept is based on the useful lifetime of a building. The tax code allows for depreciation over several decades and this timetable allows for an investor to recover his / her capital investment and earn an acceptable return. These characteristics allow financial analysts and money managers to interpret real estate ownership as an acceptable asset class to be held in a diversified investment portfolio.

There is an additional view of real estate investment as investment in a commodity.[75] It is the commodity of physical space, a manifestation that all businesses need to function. The tangible and intangible aspects of this concept are brokered to interested and even needy parties. Applying simple supply and demand logic of any commodities market will dictate the success or failure of this commodity investment. Granted, this logic is orchestrated by vast market forces, both local real

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[74]Karras, S. "Real Estate and Asset Management in the Investment Cycle", *The Real Estate Finance Journal*, Spring 1990, p. 86-89.
[75]Interview with National Real EstateAsset Manager, Firm C.

estate markets and global capital markets. Therefore it is nearly impossible to exactly predict.

However, this is not stocks, bonds, gold or corn futures being invested here, it is real estate and there are several characteristics real estate maintains that allow it to be classified as a distinct business area within the actual economy, its second personality. From the microeconomics spectrum, local or regional supply and demand of space, whether it is apartment units, single family homes or office buildings, will have an effect on the market rental rate. This volatility in the income stream therefore contradicts the earlier annuity comparisons. From the macroeconomics spectrum the cost of capital will affect all aspects of real estate investment. The higher cost of capital implies a higher overall cost of developing real estate. These higher initial investment cost may exist, but there are independent forces on the income side not necessarily in tune with this cycle. Again we see volatility in the expected return to real estate. Direct ownership of property requires a long term view; the time required to dispose of or sell real estate shows that it is an extremely illiquid investment vehicle.

While the above two paragraphs make a case both for and against real estate classification as an operating business, it is the intensive physical management of the property itself that warrants real estate's justification as an operating business. The importance of managerial abilities and operational expertise directly contributes to the financial success of the investment. Only through comprehensive management of the particular property can value be realized or even enhanced. It is this aspect of the real estate business that quality of service and its ultimate product, tenant satisfaction, strongly influence. It is this influence that will dictate the success or failure of the business. Just as a vice president of a national real estate management firm states, "*As our markets become more complex, real estate was seen more as a business and we managed it like a business*" and "*We are more sensitive than ever before to the impact of individuals on our business and the importance of communication and interpersonal* *skills.*" She uses financial analysis as her barometer of property and property manager performance.[76]

The feature of real property that distinguishes it from other investment media is its requirement to be managed. Although all investments require at least some degree of management to ensure appropriate disposal and acquisition decisions, during the holding period very little active management is necessary except to receive income. In the case of equity shares the investor does, of course, have voting rights, but in practice the investor has very little if any input in activities which determine the success of the investment. The same is not true of the property; the fabric of the building must be maintained. Tenants must be provided adequate services, improvements must be instituted, the physical plant must be maintained.

The most pressing aspects of real estate in relationship to other vehicles of investment (investment media) is the degree to which the investment must be managed.[77] Although other investments require some degree of management in the acquisition or disposition decisions, they require very little input into day-to-day activities. Real estate management on the other hand requires intense monitoring and input from the management entity.

Third party managers can reduce corporate overhead, however, the corporation also gives up some management control. Real estate remains a very local business despite national investors in the market. The local manager may be able to provide a higher quality service because he / she understands the market, local vendors, and tenants of a particular building.

Building management should be viewed as the business of property management and value enhancement.

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[76]Goognough, A. , "How Instituitons Monitor Management Effectiveness", Journal of Property Mangement July/August 1990.
[77]Dubben, N. and Sayce S.; Property Portfolio Management Routlledge, p. 38.

> Success is based on a sophisticated blend of professional management, the latest technology and a business strategy that focuses on cutting costs and boosting profits for building owners while creating satisfaction for tenants and their employees.[78]

Now that we are firmly entrenched in the belief that building management is a business, where is the industry headed and what can clients and customers anticipate for the future? There have been several mergers and acquisitions of real estate management firms. Three recent acquisitions of real estate investment and management companies have sparked talks that industry wide more purchases may be forth coming.[79] The first deal was a large institutional realty corporation based in the midwest buying out a west coast advisory firm. Both firms were national in scope before the buyout. The second transaction was a national insurance company based in the northeast buying a British real estate advisor. The third acquisition was a west coast management firm acquiring multiple small, independent management firms around the country.

The motivation for these acquisitions was from profit margins according to an investment banker specializing in management firms.[80] The bank advisor states that profitability is directly proportional to the volume of assets under management. Given present economic conditions, real estate asset product growth has slowed considerably, there is little or no development going on. The investment banker believes "*the threshold for profitability has risen, four years ago we used to believe that companies with $350 million worth of assets under management could be profitable. Today, its more like $1 billion.*"[81]

Between the three potential income streams in real estate, acquisition, disposition and management, the first two have "dried up" and only the management

[78]Hooper p. 94.
[79]Williams, Terry, "Realty acquisitions spur talk"; *Pension and Investments*, April 19,1993; p.14.
[80]Williams, p.14.
[81]Williams, p.14.

entity has continued to perform. There is constant profit pressure on real estate managers; therefore by increasing the pool of properties, a sufficient economy of scale must be achieved to maintain margins. Why have profit margins slimmed so drastically for such large entities? $300M certainly sounds like sufficient volume to maintain profitability. Why has it jumped to $1B? Theories include competition for fees. If you can not beat the competition, buy them. There are tougher industry guidelines in the fiduciary and reporting aspects of the industry. Thus with this increased overhead a larger base is necessary to support it. Have expectations in level of service warranted by all parties prompted this action? Additional motivations for these transactions are the acquisition of top shelf real estate managers as a solution to large banks or insurance companies REO problem. The bonus of economy of scale the larger companies provide may be a significant advantage in the marketplace. Enhanced purchasing power corresponds to cheaper prices hence the bigger the company the less costly expenditures.

The national insurance company motivation for the purchase is its belief the industry is going global similar to other markets, therefore it must position itself accordingly, with local representation. The west coast company collecting local firms for its portfolio has a similar belief. Real estate investment may be going global with national and even international firms but it is the local entity, the on site manager who is responsible for its success through service quality.

Tenant Retention

The Institute for Real Estate Management (IREM) showed in their study tenant retention is the most important aspect "to office building value, maintenance, and ultimate value enhancement in the 1990's."[82]

[82]Norwell, W. D. and Stevens V. A., "Tracking Retention Efforts", *Journal of Property Management* , March / April 1992, p. 24.

Commercial asset managers have known this, but have only focused their efforts as markets became over built in the late 1980's and early 1990's. Residential property managers have known this and worked on it for over a decade. Apartment management explains:

> Residents are our customers and there is a direct correlation between an apartment community's occupancy and its level of service.... Too often, managers reduce rents and give concessions to reduce turnover. Substituting excellent service could make this unnecessary by retaining residents and increasing referrals. It is too expensive to get residents in the front door only to have them move out through the back door because of poor service. Move-out costs are costly. It is more cost effective to serve tenants properly from the beginning and to maintain them as residents.... Substantial amounts of money are spent in getting a resident into our project. This can be wasted or lost without a commitment to retaining existing residents through consistently good service.[83]

Providing friendly and total-scope management, addressing all of the traditional aspects of property management, but with special emphasis on tenant retention are important parts of a tenant retention program. It is not the premise of this project to dictate systematic property management techniques that will enhance tenant retention. Literature is abundant with these recommendations and some bear mentioning. So, what makes up a tenant retention program?

> A building's most valuable asset is its tenants. Yet, when managers develop an aggressive marketing and leasing program for an office building, existing tenants are frequently overlooked. However, the competition never overlooks your tenants. Aggressive brokers are canvassing your building regularly. The property manager can counter this action by developing a tenant retention program.[84]

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[83]Basile,F. "Establishing Good 'Customer' Service with Residents", *Journal of Property Managemen,* July/August 1991, p. 65.
[84]Muhlebach, R. F. and Wood, J. O., "Retaining Tenants with the Personal Touch", Journal of Property Management, January / February 1989, p. 50.

From the literature, a tenant retention program may have four basic components. These four components are one, improving the building physically, two, enhancing the building's tenant mix, three, adding building amenities and four, developing tenants' employees' loyalty through the personal touch.

The tenant retention program needs to be a:

> Thoughtful, written action plan with goals, objectives, and a budget.... Tenant retention planning must become an integral component of the property's long-range planning.... Retention is a pervasive, positive management attitude coupled with a systematic approach to keep tenants satisfied. We like to think of it as 'preventive marketing.' "[85]

It can be argued that the workplace is a second home where individuals spend from eight to sixteen hours a day. Therefore, comfort may be a consideration in the tenant's level of satisfaction with the space.

> Generally based on price and location, the consumer makes his or her decision among products that are not all that dissimilar....The question then becomes, 'What makes our box better than the next one?' Our considered opinion is that people stay where they are regarded as valued customers.[86]

With the property manager overseeing the day-to-day operations, physical maintenance, marketing and most importantly tenant relations, the building manager's ability to perform these functions is critical to attracting new tenants and maintaining the satisfaction of the existing tenants. Tenants are most satisfied in a building with a strong service orientation, one that consistently meets tenant needs on a daily basis. It obviously makes sense to invest free rent in an existing tenant than to give it to a complete stranger. Personal responsiveness increases tenant satisfaction. Creating

[85]Hartz, E.L and Reber, S. K., "Tenant Retention- A Strategic Approach", *Journal of Property Management*, March / April 1992 ,p. 14.
[86]Hartz, p.15.

advantages over other competitors is the marketing plan. Delivering service after the sale is the implementation of this plan.

Regular tenant events such as parties and holiday events are also a part of many tenant retention programs.

> "Tenant retention is the key, " says one real estate executive. "Simply pay attention to your tenants. Listen to what they have to say. Don't wait for them to come to you. Learn their business and their special needs. Make their office a home away from home - they'll never want to leave." It is clearly in the owners interest, in most instances to renew an existing tenant's lease. "If we fail to deliver services, we have an unhappy tenant, and it is very difficult to renew the lease. It is that simple." says another.[87]

"*Success in our business relates to tenant satisfaction*" relates the president / CEO of company B, the national subsidiary of a second insurance company. He adds that this requires specific strategies. Their strategy is embodied in what they refer to as their '*tenant retention process.*' Various tenant retention programs are designed to enhance properties "*making them a viable, pleasant environment where tenants can conduct business.*"

One of the more useful tools the building manager has available is the use of tenant surveys. Just as the quality literature expounds on the usefulness of surveys, their importance cannot be understated here in real estate. The use of a poll of customers (tenants) for individual service priorities is common; this allows for customization of consumer services as it applies to the individual tenant or market. Use of the survey information as a practical tool to better serve the customer is an approach Company B along with numerous others in the industry execute. Companies regularly survey tenants to create a report card on services. This range of services includes comfort, security, amenities and responsiveness of the management office.

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[87]Sumner, p. 92.

Company B's managers regularly look for input from lease decision makers. It is the decision maker who makes the leasing determinations hence their input is invaluable in evaluating probabilities of tenant retention.

> Real estate is a personal business focusing on the needs of people as opposed to corporate. The time one has to develop solid relations with tenants, learn their needs and demands and focus on any improvement before the expiration of their lease is very limited. [88]

The core of building managers' business is tenant retention. The phrase of the property manager for the 1990's is to "*add value.*" The key is to add value to services in order to retain clients and acquire new ones. Many industry experts agree that hard times may have a positive effect also: " *they have forced property mangers to reassess, rethink and refine their operations - in short to shape up.*"[89]

In today's highly competitive office market, owners, developers and property managers have become painfully aware of the costs associated with sagging office occupancies. Foregone rent, unrecaptured operating expenses, tenant improvements and brokerage commissions along with potential diminution of asset value all combine to make property owners increasingly focused on implementing successful tenant retention programs. First and foremost in any venture to this end is making tenant relations a priority.

By most knowledgeable expectations, it is anticipated that the office leasing environment will remain increasingly competitive. Existing excess capacities in most domestic marketplaces, the recession, continued emphasis on controlling costs by most major corporate tenants and the general slowing of growth in the office work force will prolong these conditions. Consequently, effective implementation of a tenant retention

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[88]Hooper p. 95.
[89]Sumner, p. 86

program will become increasingly important for building owners in order to reduce cost.

The Impact of Quality in Real Estate

The bottom line is not who is doing the job but how well the job is being done. The perception of value drives rental rates. Perceptions of poor quality will force lower rent rates in order to sustain perceptions of value or lack of value. The necessity of a proper price-value relationship in order to compete in the market place cannot be understated. In one particular case study the improvement of the building image through both physical and cosmetic adjustments and through a quality improvement program for management, caused expected rent increases while still maintaining a competitive perception of value.[90] This hypothesis was proven true.

Just as detrimental as monetary losses with the loss of a tenant, there are additional losses associated with the tenant moving out due of lack of satisfaction. The tainted reputation of the local property manager, the loss of referrals from a dissatisfied tenant, a decline in the projects image and the dulling of the projects competitive edge all contribute to this negative appearance.

There are numerous costs incurred by dissatisfied tenants. The amount of time incidental issues and handling complaints takes pales in comparison to the many broken leases resulting from minor problems that have grown out of proportion.

> Satisfied clients rarely tell more than two or three associates about the excellence of their property managers, but the dissatisfied client tells an average of 12 other people in that market. Rarely would a manager get the opportunity to tell the other side of the story. [91]

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[90]Weinstein p. 39.

[91]Madden, C. S., "Keeping Tenants Satisfied" , Journal of Property Management, January / February 1989, p. 52.

The key is relationships. Satisfied customers tend to be profitable customers.

> Empirical research on client / tenant / manager relationships suggests that the more satisfied customers are the profitable they will become in the long run. Exceptions obviously can be found where clients or tenants would best be released. Some research also suggests that when relationships deteriorate beyond a certain level, the manager should cut his or her losses. Strategies for creating and maintaining positive relationships, however, are usually profitable and rewarding.[92]

The financial impact of quality in the real estate may be difficult to ascertain at first glance but is an important influence as shown in the examples below. As was stated earlier in this text, it is difficult for building management to cut expenses by any substantial measure. With the assumption that management is already efficient in its duties it will be impossible to reduce operating expenses. As this first example demonstrates, the effort should be on the augmentation of income after a proficient management plan is in place.

To demonstrate this point, assume that a hypothetical office building of 200,000 square feet leases for $20 per square foot, as an expense stop of $4 per square foot, and operating expenses of $5 per square foot. If an aggressive leasing and marketing program could increase the occupancy by only 2 %, an additional $80,000 of base rent would be generated (200,000 SF x $20/SF x 2% = $80,000). To achieve an $80,000 savings in operating expenses of $1,000,000 per annum, costs would need to be reduced by 8%. Even with an already efficient management machine at work, perhaps an 8% reduction in savings is obtainable. The value of this additional income stream may translate into $800,000 in increased property value using a 10% capitalization rate. A $4/SF increase in property value is good news for any investor.

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[92]Madden, p. 53.

Using the same assumption, if a 10 % increase in occupancy could be achieved, \$400,000 (200,000 SF x \$20/SF x 10% = \$400,000) of additional base rent would be realized. It would take a 40% reduction in operating expenses to achieve the same savings. It is virtually impossible to achieve a reduction in operating expenses of 40% in a well-managed building. The value of this additional income stream may translate into \$4,000,000 in increased property value using a 10% capitalization rate. Certainly a number that would get attention is this \$20/SF increase in property value.

Let's step back for a moment now and contemplate how these changes could take place. What has occurred for occupancy to increase by 10%? What are the costs associated with this increase? Were tenants retained or were new tenant's brought in through a marketing blitz or major concessions in the lease negotiations? It is the contention of this thesis that the cost benefit ratio of tenant retention is much more attractive than new leases and therefore through high levels of service quality followed by high levels of customer satisfaction, tenant retention is much more likely.

However there is always the price behavioral elasticity response: a technical way of stating the tenant is going to move across the street for a 50% reduction in rent. We are in the value decade and therefore a bargain is still a bargain. There is difficulty then in trying to correlate the level of services and their associated premiums with returns in the form of increased cash flow, should there be any. However customer behavior is never totally predictable regardless of management input. This does not contradict the fact in a stable (price stable) market customer satisfaction is elastic to service quality perception. Just as the quality literature demonstrates, consumers will flock to value laden alternatives.

Effective building management by both asset and property management can reduce the systematic risk of real estate. Therefore as demonstrated above management and management goodwill can add value to real estate .

INVESTIGATION METHODOLOGY

The method of investigation for this work has consisted of a literature search in the areas of service quality, consumer / customer satisfaction, and property management issues including levels of services and tenant retention. The academic side of this literature has served as the backbone for more detailed field investigative work. An effort was made to define the product of asset management through the literature. Customers were polled for their opinions on the product's quality.

This field work took the form of a survey of tenants who had made a lease decision recently; for the purposes of this work, the project time limit was to survey tenants who had made lease decisions since January 1, 1991. These tenants were polled to get their responses to questions concerning the quality of service they received prior to their lease decision. Tenants who renewed were polled to get their responses to questions about their *present* building management, but prior to their lease decision. And tenants who had vacated space and taken occupancy in space under new management, were questioned about their *former* management. Tenants who had left space but remained in their project or building with the same building management were quantified as tenants who had renewed. These questions attempt to quantify customer satisfaction. The tenants were also questioned about the contributing factors involved in the decision making process and their respective weigh. The results of these two series of questions were then analyzed in an effort to correlate quality of service to tenant retention.

The access to tenants came from multiple building managers nationwide. Both asset managers and property managers have contributed the key resources here: access to tenants who fit our description, having made a leasing decision since January 1, 1991. These multiple buildings with their multiple managers gave the research a cross section of tenant service quality and therefore more lively data to analyze.

Class A office space in suburban and central business district markets was the target area. The motivation behind using these product types was the homogeneous characteristics of the product independent of geographic regions and the multiple node attributes of the individual market. In other words there are multiple locations within a particular market that have equally desirable attributes creating ample choices for tenants. Also between markets the similarities are strong enough to allow comparison between for example, the Chicago suburban office market and the Washington DC suburban office market. This relationship may be a difficult one to prove by through existing literature therefore both the positive and negative aspects of this approach are present.

The survey instrument used to measure customer satisfaction must use the dimensions of quality. These dimensions of quality are synonymous with customer requirements[93]. In other words customer requirements are those aspects of your service that define its quality. The purpose of this list of customer requirements is to compose a set of dimensions that completely describe the service rendered.

Hayes has proposed two methods to examine and measure customer satisfaction.[94] First is the critical incidence approach which involves customers in determining the quality dimensions. The second method is the quality dimension development approach; this approach has the service provider establishing the quality dimensions to describe the service. We will briefly examine both approaches.

The critical incidence approach to determine customer requirements stems from use in establishing performance dimensions in performance appraisal systems. According to Hayes, this method is also applicable here in developing customer satisfaction questionnaires. The method's strength is in the use of the customers' input to define customers' requirements. The use of the critical incidence method could add

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[93]Hayes p 6)
[94]Hayes p28)

requirements that may have been overlooked and remove requirements that have no meaning. This method may have some relationship to the use of expectations in customer satisfaction work. The theory that customers and service providers have some difference of opinion in what the service should involve may be explored through the critical incidence approach using customer input. Hayes definition of a "*critical incident*" is an example of organization performance from the customers' perspective.

> Critical incidents are those aspects of organizational performance which customers come in contact directly. As a result these usually define staff performance (in service organizations).... A critical incident is a specific example of the service... that describes either a positive or negative performance. A positive example is a characteristic of the service or product that the customer would like to see every time he / she receives that service. A negative example is a characteristic of the service which would make the customer question the quality of the company.[95]

The basis for the second approach, the quality dimension development method, is for the people who supply the service to promote a list. This method is basically a two step process according to Hayes. One is to identify the dimensions that define the quality of the service, and two is to adapt those dimensions to specific incidence applicable to the particular industry. The list can be compiled by using literature searches in the general service quality realm, or more specifically Hayes cites the work done by ZPB. Their five dimension list is designed to cover the entire service industry. The five dimensions developed through the work of ZPB are tangibles, reliability, responsiveness, assurance, and empathy.

The second step in this development process is to cite specific examples where these dimensions apply to a service interaction. These examples may be similar to the following:

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[95] Hayes p13

1. Tangibles - The Building Management adequately executed the routine cleaning services.

2. Reliability - When the Building Management promised to do something by a certain time, it did so.

3. Responsiveness - Employees of Building Management were always willing to help the tenants.

4. Assurance - Building Management was honest and its employees trustworthy.

5. Empathy - Building Management gave our firm individual attention.

Although both the critical incidence and the quality dimension development are valid constructs from which to establish customer requirements, this project used the quality dimension development approach to build customer satisfaction surveys. The input from industry experts was more easily attainable to construct the survey instrument. The logistics involved in orchestrating multiple personal tenant interviews to use a critical incidence method were impossible to overcome given the time constraints of this study. Therefore the quality dimension approach won out. This method is summed up in the following table:

Quality Dimension Development

Steps	Important Points
1. Create list of Quality dimensions	• Read professional and trade journals to obtain list of quality dimensions. • Generate list from personal experience.
2. Write definitions of each dimension	• Definition can be in general terms.
3. Develop specific examples for each quality dimension	• Examples should use specific adjectives reflecting the service. • Examples should contain specific behaviors of the provider. • Examples should use declarative statements.

Similar to work developed by ZPB and used by countless others, the survey instrument employed here worked on a twenty-two question format exploring the five dimensions above. We looked strictly at the performance of services and left the expectations measure for other research endeavors. A seven point Lickert-type scale was used to quantify tenants responses. A score of seven represented a strong positive feedback and a score of one an equally strong negative feedback. This seven point continuum created an adequate range for opinions to accurately describe the customers opinions. The survey instrument is the appendix of this paper.

The survey instrument was broken into several different sections. The first section was the standard demographic set of questions: name of firm, location of office, size of office, number of employees and similar type questions. The second section inquired about the tenant's perception of quality of building management services received prior to their leasing decision. For tenants who have renewed, this section probed issues surrounding the tenant's present building management and for those tenants that had vacated their former space this section inquired about the tenant's previous building management experiences. These questions were designed to explore the five dimensions of service quality mentioned earlier. There were also two overall quality / satisfaction questions. These questions were used to check the validity of the five service dimensions and supply overt measurements of tenant satisfaction.

The second half of the survey targeted what was important to the tenant. The questions asked for a ranking of importance (not important to very important) of issues and factors as they related to their satisfaction and lease decision. The survey concluded with two questions concerning ranking the five service dimensions and five leasing factors (location, office size, rent, financial status of firm, and building management service quality).

RESULTS

The results of the survey work are presented in the following manner. First are the descriptive statistics, how many surveys went out, how many usable statistics were received, and so forth. This information is presented below in a table. From this table the two groups, tenants that renewed and tenants that vacated, are distinguishable on some parameters and similar on others. These results are presented below. The analysis of variance (ANOVA) is used to explore the impact of the five service quality dimensions across the two groups. ANOVA is then used on overall satisfaction scores across both groups. Then we look at a unweighted least squares regression of the overall service quality as it is dependent on the five dimensions of service quality. Next we attempt to prove the null hypothesis: there is no difference in satisfaction levels between tenants that renew and tenants vacate space. ANOVA is used to explore the different rankings of both satisfaction results and lease decision factors.

TENANT RETENTION SURVEY SUMMARY OF RESULTS

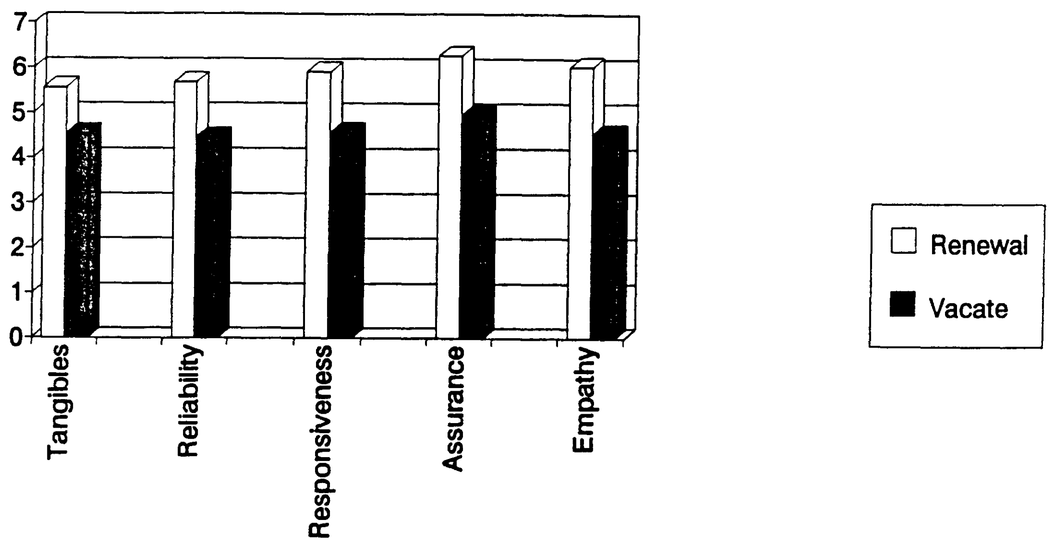
TOTAL # OF SURVEYS SENT OUT	330
TOTAL # OF USABLE SURVEYS REC'D	92
PERCENTAGE REC'D	27.9%
NUMBER OF RENEWED TENANTS	42
%	45.7%
NUMBER OF VACATED TENANTS	50
%	54.3%

	ANALYSIS OF RENEWAL TENANTS		ANALYSIS OF VACATED TENANTS	
	MEAN	(stnd dev)	MEAN	(stnd dev)
The (overall) Quality of Building Management (1-Very Poor; 7-Excellent)	6.05	(0.81)	4.63	(1.57)
Satisfaction with Respect to the Five Factors of Service Quality (1-Very Unsatisfied; 7-Very Satisfied)				
Tangibles	5.56	(1.11)	4.54	(1.35)
Reliability	5.68	(0.95)	4.46	(1.48)
Responsiveness	5.92	(0.76)	4.57	(1.57)
Assurance	6.29	(0.63)	4.96	(1.59)
Empathy	6.04	(0.79)	4.55	(1.50)
Satisfaction with Overall Quality of Management Service (1-Very Unsatisfied; 7-Very Satisfied)	5.81	(0.82)	4.5	(1.62)

	ANALYSIS OF RENEWAL TENANTS		ANALYSIS OF VACATED TENANTS	
	MEAN	(stnd dev)	MEAN	(stnd dev)
Overt Ranking of Importance of Five Factors of Service Quality (1- Most Important; 5 - Least Important)				
Tangibles	1.52	(0.82)	2.16	(1.03)
Reliability	1.90	(0.93)	2.16	(1.46)
Responsiveness	2.71	(0.85)	2.64	(0.94)
Assurance	3.43	(1.44)	3.60	(1.28)
Empathy	3.62	(1.61)	3.40	(1.46)
Overt Ranking of Importance of Lease Decision Factors				
Size Requirements	1.90	(0.88)	1.92	(1.03)
Financial Stability of Firm	3.81	(1.46)	3.81	(1.46)
Location of Office	1.95	(1.04)	2.16	(1.06)
Rent Level	2.48	(1.22)	2.32	(1.13)
Quality of Tenant Services	3.38	(1.61)	3.52	(1.18)
Other Statistics				
Average SF per Worker :		405.1 SF	390.7 SF	

Graphically:

Satisfaction Across Five Service Dimensions



The partial list of the results tabulated above has a few notable results. First and foremost is the expected result: *tenants that renew have a substantially higher ranking of the overall quality of tenant services than do tenants that vacate(6.05 to 4.63) and tenants that renew are more satisfied (5.81 to 4.51)*. This result is tested for statistical significance latter in this section.

The second striking result is the priority of leasing decisions. Regardless of the decision made (renew / vacate), the most important priority is the size requirements followed closely by the location of office. Then the level of rent with the quality of tenant services and financial stability a notch below them. This result appears to be independent of renewal or vacate classification.

The average square footage per worker is smaller for tenants occupying new spaces than tenants that renewed. This confirms industry expectations about economic and market realities that the average square footage per worker is contracting, firms are downsizing.

The ANOVA results presented below are the two groups as they are compared using the responses to the questions concerning the five dimensions of service quality. The dimensional means are used here as they are used in the balance of the analysis.

Renew / Vacate

Quality Dimensions Effect on Service Quality :

Variable	*F*	Observations	*P*
Tangible	18.0379	92	5.26E-05
Reliable	35.9121	92	9.84E-06
Response	38.9553	92	5.63E-06
Assure	38.6996	92	3.80E-06
Empathy	48.3251	92	2.07E-07

From the results above, we can see that there is a statistically significant disparity between the renewals and vacates and that all five service quality dimensions were perceived differently between the groups. There is not a single dimension or factor of service quality or customer satisfaction that vacate tenants was equally ranked with renewal tenants' scores. In general service providers were less satisfactory across the entire spectrum of service quality. The differences noted in the Summary of Results are due to difference in population not sampling errors. For all five dimensions the F value is substantially greater than F-critical (3.9469) and the P value (the relative probability of our observed F value occurring by chance) is negligible.

As stated earlier our first null hypothesis states the following:

H_0 : There is no difference in satisfaction levels between tenants who renew and tenants who vacate.

Our alternative hypothesis states:

H_A : There is a difference in satisfaction levels between tenants who renew and tenants who vacate.

We have generated both the null and alternative hypothesis (null is: there is no difference and alternative is: there is a difference). We have collected data as summarized above. This data is used to determine the summary score which bests describes the difference between the two groups, renew and vacate. The overall scores incorporated to answer the questions concerning overall building management service quality (very poor to excellent) and overall satisfaction with building management services (very unsatisfied to very unsatisfied) are used in this analysis. Using this score a total of 80 responses are utilized with 40 for the renewal sample and 40 for the vacated sample. The results of the *t*-test is therefore:

t-Test: Two-Sample Assuming Unequal Variances

	RENEW	*VACATE*
Mean	5.8902	4.5000
Variance	0.6915	2.5494
Observations	80	80
Pearson Correlation	0.1627	
Pooled Variance	0.2160	
df	121.9304	
t	6.9930	
P(T< =t) one-tail	0.0000	
t Critical one-tail	1.6575	
P(T< =t) two-tail	0.0000	
t Critical two-tail	1.9798	

(NOTE : The confidence level or alpha for this test is 0.05, the chance for random error is therefore less than 5%.)

The two sample assuming unequal variances *t*-test is used to determine whether the two groups' sample means are equal. This heteroscedastic *t*-test is employed because the two groups are distinct in their purchase or leasing decisions.

If we assume H_0 to be true (there is no difference between the two groups), we would expect the t statistic to equal approximately 0.0 or at least be below *t*-critical. In our project $t >$ *t*-critical, therefore the two sample means are statistically significant and we therefore reject H_0 and accept H_A , there is a difference between the two groups.

The t-test has determined the difference between the two group samples is meaningful. With the *t* value above *t*-critical, the difference between the two groups is not likely due to sampling error. That is the data comes from two different populations: satisfied tenants who have renewed and less satisfied tenants who have vacated.

A duplication of this approach using ANOVA for the distinction between groups using overall quality means yielded an F value of 25.9769 and a P value 1.96E-06. Again the null hypothesis would be rejected, there is a difference between groups.

The question exists how well did we predict the overall satisfaction by using the five dimensions. We will use an unweighted least squares regression of the mean of the two overall quality questions and see how well the five dimensions predict it regardless of lease decision.

Unweighted Least Squares Regression of Overall Quality

Overall Quality = $X_0 + X_1$(TAN) + X_2(REL) + X_3(RESP) + X_4(ASSU) + X_5(EMP)

Regression Statistics

Multiple R	0.8669
R Square	0.7514
Adjusted R Square	0.7370
Standard Error	0.7044
Observations	92

Analysis of Variance	df	Sum of Squares	Mean Square	F	Significance F
Regression	5	128.9856	25.7971	51.9974	1.47E-24
Residual	86	42.6666	0.4961		
Total	91	171.6522			

	Coefficients (X_0 - X_5)	Standard Error	t Statistic	P-value	Lower 95%	Upper 95%
Intercept	0.3547	0.3246	1.0926	0.2774	-0.2906	1.0000
*TAN	0.3278	0.0809	*4.0543	0.0001	0.1671	0.4886
REL	-0.1745	0.1513	-1.1536	0.2517	-0.4752	0.1262
RESP	0.0318	0.1889	0.1682	0.8668	-0.3438	0.4074
ASSU	0.2966	0.1520	1.9514	0.0541	-0.0055	0.5987
*EMP	0.4370	0.1292	*3.3832	0.0011	0.1802	0.6938

(* - Statistically significant independent variables)

The regression statistics above tell us we have a good predictor for the behavior of overall satisfaction based on the five factors. The adjusted r^2 value is 0.7514 and therefore is close to 1 indicating a good portent. The overall F value of 52.00 is significant with a significance of 1.00E-24. The tangible variable is the most significant with a t statistic greater than t critical of 2.00 and a P value less equal to 0.0001. The empathy variable is the only other significant variable.

Now ANOVA is used to compare our two groups. Similar to the t-test performed above, the F statistic can be used to evaluate the null hypothesis. For instance the first table of ANOVA results could have been used to reject the null hypothesis: there is no difference between groups across all five service dimensions. Our new null hypothesizes for these tests are as follows:

H_0' : There is no difference in importance levels for service dimensions between tenants who renew and tenants who vacate.

Our alternative hypothesis states:

H_A' : There is a difference in importance levels for service dimensions between tenants who renew and tenants who vacate.

And for importance of leasing decisions, the following null hypothesis is speculated:

H_0'' : There is no difference in importance levels for lease decision factors between tenants who renew and tenants who vacate.

Our alternative hypothesis states:

H_A'' : There is a difference in importance levels for lease decision factors between tenants who renew and tenants who vacate.

First we will look at the quality dimensions importance variance and second we will examine the lease decision factors importance. We compare the observed F value from our study to a critical *F* value. This critical *F* value is a cutoff point, above which the probability of obtaining an *F* value is only 0.05 if the null hypothesis is true. The ANOVA results are as follows:

ANOVA Difference Equations Test for Difference of Means

Renew / Vacate

Quality Dimensions :

Variable	*F*	Observations	*P*
Tangible	0.4579	92	0.3378
Reliable	0.1438	92	0.7054
Response	0.0000	92	0.9919
Assure	0.0304	92	0.8617
Empathy	0.0305	92	0.8618

(NOTE: the *P* value is the relative probability of our observed *F* value occurring by chance.)

The *F* critical values for the above analysis is 3.9469. The small *F* values above indicate that the between group variance is smaller than the within group variance, therefore these two groups can be said to come from the same population. In other words, it does not matter whether the tenant is one that renews or vacates space he /she maintain the same importance rankings of service quality dimensions. Therefore we do not reject the null hypothesis (H_0') that there is no difference between the importance of service dimensions regardless of the renewal or vacate classification. We can therefore attribute the differences of the means between the two groups as shown in the Summary of Results table, to nothing more than sampling error. A second look at these values shows a relatively good correlation between group values for each dimension.

Here is the lease decision analysis:

ANOVA Difference Equations Test for Difference of Means

Renew / Vacate

Lease Decision Dimensions :

Variable	*F*	Observations	*P*
Location	0.2784	92	0.5991
Size	0.0130	92	0.9094
Financial	0.0989	92	0.7539
Rent	0.1904	92	0.6721
Service Quality	0.5236	92	0.4712

The critical *F* value for the analysis above is also 3.9469. The small *F* values above indicate that the between group variance is smaller than the within group variance therefore these two groups can be said to come from the same population once again. Therefore this is no distinction between renewals and vacates when the issue of lease decision factors importance rankings is explored. Therefore we do not reject the null hypothesis (H_0'') that there is no difference between the importance of lease decision factors regardless of the renewal or vacate classification. We can therefore attribute the differences of the means between the two groups as shown in the Summary of Results table, to nothing more than sampling error. A second look at these values shows a relatively parity between group values for each decision factor.

We have shown that the difference between satisfaction levels is both directional and meaningful between tenants that renew and tenants that vacate. We have shown there is no difference between these groups when it comes to the importance of both quality dimensions and lease decision factors.

CONCLUSION

The consequences of quality are high levels of customer (tenant) satisfaction. Tenants who are more satisfied with building management services are more likely to renew than to vacate their present premises. The quality of service and hence the tenant's satisfaction level is therefore the single most important factor management can control. The rent is set by the local economic and real estate market; the location of office space is permanent and unadjustable by definition; the tenant's office size requirement are a function of its business plan and methods; and the tenant's financial stability is dependent upon its individual market and business practices. The only lease decision factor capable of management influence is therefore: *quality of service*. High service quality is the antecedent to high levels of customer satisfaction. And therefore it is the assertion of this thesis that higher levels of customer, tenant, satisfaction follow with higher levels of tenant retention. Tenant retention leads to augmented property financial performance hence higher investment value, the goal of all real estate management. Therefore it should be the effort of every real estate manager to achieve the highest possible level of tenant satisfaction to maximize property performance and investment value.

The formula for this assertion has been the following. First the quality service literature was researched and explored to establish the parameters by which service quality is defined and measured. The academics' work in this area was fruitful and yielded an excellent framework from which to investigate the commercial real estate industry. The real estate industry was then authenticated as a service industry, a business not simply an investment. The industry's service providers, both asset managers' and property managers' roles were defined and an explanation of how their relevant functions combined to form building management was presented. Building management is subsequently presented as the key component of service provision used in this text. The customers for this venture have been tenants, the individuals or firms who purchase a bundle of rights which grant the privilege to occupy space from which their business is conducted. The purchase decision being made is the decision to renew a lease for existing space or vacate the space. The key ingredient to this research effort has been to examine this decision making process.

Nearly one hundred tenants were polled. Forty-six percent were tenants who renewed and fifty-four percent were tenants who vacated. (Further research might investigate whether these statistics are proxies for tenant retention rates of approximately fifty percent in office space.) These tenants were from multiple building managers; their experiences were all different but one constant remained: the more satisfied tenants renewed leases with their building managers. The priorities and rankings of these tenants were consistent in their lease decision making criteria and their quality dimension evaluations. Only their leasing decision set the two groups apart in this study. But what followed again, is *satisfied tenants renewed and dissatisfied tenants vacated.*

APPENDIX

The survey instrument:

(NOTE: This is an approximation of the original survey instrument; publishing constraints prohibit an accurate reproduction of the survey instrument)

Massachusetts Institute of Technology
Center for Real Estate
MASTER'S PROGRAM - SUMMER RESEARCH PROJECT 1993

1. Name of Firm ____.
2. Major Metropolitan Area nearest to your location ________________________.
3. Is your office in a suburban or downtown location? SUB CBD (Please circle correct response)

4a.) Size of Office Space Rented __________ (sf). **4b.)** Number of Employees at this location ________.

5. What industry is your firm in (SIC code if known)________________________.
6. Have you made a lease decision since Jan. 1, 1991? yes no (Please circle correct response)
7. Was the result of this decision to: **7a.)** Renew in your present location ? yes no

   7b.) Leave your old space and take occupancy in your present location ? yes no

The following statements concern the level of tenant services you received prior to your lease decision. If you answered yes to 7a.), these statements concern your present Building Management or if you answered yes to 7b.), these statements concern your previous Building Management.

8. The quality of Building Management services was? 1-----2-----3-----4-----5-----6-----7
   (Please circle correct response) ***VERY POOR*** ***EXCELLENT***

These statements ask for **your feelings about your Building Management** (either present or past accordingly). Please show the extent to which you agree or disagree by using the appropriate number. Starting with question number 9 the number 1 **represents** ***STRONGLY DISAGREE*** and the number **7 represents** ***STRONGLY AGREE.*** Please circle the number which best reflects the strength of your feelings. There are no right or wrong answers. We are interested in a number that best shows your perceptions about your Building Management services.

	PLEASE CIRCLE CORRECT RESPONSE		*STRONGLY DISAGREE*						*STRONGLY AGREE*
9.	Building Management maintained an adequate comfort level (temperature, ventilation).	**9.**	1	2	3	4	5	6	7
10.	Building Management maintained a positive image of our building.	**10.**	1	2	3	4	5	6	7
11.	Building Management adequately executed the routine cleaning services.	**11.**	1	2	3	4	5	6	7
12.	Building Management maintained the interior common areas to our satisfaction.	**12.**	1	2	3	4	5	6	7
13.	Building Management maintained the exterior grounds to our satisfaction.	**13.**	1	2	3	4	5	6	7
14.	When Building Management promised to do something by a certain time, it did so.	**14.**	1	2	3	4	5	6	7
15.	When we were having problems, Building Management was sympathetic and reassuring.	**15.**	1	2	3	4	5	6	7
16.	Building Management was dependable.	**16.**	1	2	3	4	5	6	7
17.	Building Management provided its services at the time it promised to do so.	**17.**	1	2	3	4	5	6	7
18.	Building Management kept adequate records and documentation.	**18.**	1	2	3	4	5	6	7
19.	Building Management told the tenants exactly when services would be performed.	**19.**	1	2	3	4	5	6	7
20.	Our firm received prompt service from Building Management staff.	**20.**	1	2	3	4	5	6	7
21.	Employees of Building Management were always willing to help the tenants	**21.**	1	2	3	4	5	6	7
22.	Employees of Building Management were never too busy to respond to tenant requests promptly.	**22.**	1	2	3	4	5	6	7
23.	Building Management was honest and its employees trustworthy.	**23.**	1	2	3	4	5	6	7
24.	We felt safe in your transactions with Building Management employees.	**24.**	1	2	3	4	5	6	7
25.	The employees of Building Management were polite and courteous.	**25.**	1	2	3	4	5	6	7
26.	Employees got adequate support from Building Management.	**26.**	1	2	3	4	5	6	7
27.	Building Management gave our firm individual attention.	**27.**	1	2	3	4	5	6	7
28.	Building Management employees gave us personal attention.	**28.**	1	2	3	4	5	6	7
29.	Building Management employees knew what our needs were.	**29.**	1	2	3	4	5	6	7
30.	Building Management had our best interests at heart.	**30.**	1	2	3	4	5	6	7
31.	Building Management provided adequate access to the building during non business hours.	**31.**	1	2	3	4	5	6	7
32.	The comfort level in the space after normal business hours was satisfactory to us .	**32.**	1	2	3	4	5	6	7

⇒⇒⇒PLEASE TURN PAGE OVER FOR SECOND PART OF SURVEY⇒⇒⇒

PLEASE COMPLETE AND RETURN TO:.......

PAGE 2

The following statement relates to **your feelings about Building Management** again prior to your lease decision. Please circle the number which best represents your own perceptions.

33. My feelings towards Building Management services would best be described as
(Please circle correct response) 1-------2-------3-------4-------5-------6-------7
VERY UNSATISFIED *VERY SATISFIED.*

The following statements relate to your feelings on the importance of certain tenant services and issues as ranked on the same 7 point scale. In the left hand column please respond as to how important this factor was to **your overall satisfaction** as a tenant in that space and in the right hand column please respond as to how important this factor was to **your lease decision** concerning that space.

1-----2-----3-----4-----5-----6-----7
NOT IMPORTANT *VERY IMPORTANT*

SATISFACTION	**Please circle correct response for each column**	*LEASE DECISION*
1 2 3 4 5 6 7	**34.** The comfort level within our space and common area (temp., vent.).	**34.** 1 2 3 4 5 6 7
1 2 3 4 5 6 7	**35.** The image projected by our building.	**35.** 1 2 3 4 5 6 7
1 2 3 4 5 6 7	**36.** The performance of routine cleaning services.	**36.** 1 2 3 4 5 6 7
1 2 3 4 5 6 7	**37.** Interior building maintenance.	**37.** 1 2 3 4 5 6 7
1 2 3 4 5 6 7	**38.** Exterior building maintenance.	**38.** 1 2 3 4 5 6 7
1 2 3 4 5 6 7	**39.** Landscape maintenance.	**39.** 1 2 3 4 5 6 7
1 2 3 4 5 6 7	**40.** Interior building signs, directional signs to tenant spaces.	**40.** 1 2 3 4 5 6 7
1 2 3 4 5 6 7	**41.** Exterior building signs, signs marking building.	**41.** 1 2 3 4 5 6 7
1 2 3 4 5 6 7	**42.** Adequate, convenient and safe parking facilities.	**42.** 1 2 3 4 5 6 7
1 2 3 4 5 6 7	**43.** Access to building after normal business hours.	**43.** 1 2 3 4 5 6 7
1 2 3 4 5 6 7	**44.** Comfort level of space after normal business hours.	**44.** 1 2 3 4 5 6 7
1 2 3 4 5 6 7	**45.** The overall quality of service received as a tenant.	**45.** 1 2 3 4 5 6 7
1 2 3 4 5 6 7	**46.** Communication with Building Management, both written and verbal.	**46.** 1 2 3 4 5 6 7
1 2 3 4 5 6 7	**47.** The honesty of Building Management and its employees.	**47.** 1 2 3 4 5 6 7
1 2 3 4 5 6 7	**48.** The competency of Building Management and its employees.	**48.** 1 2 3 4 5 6 7
1 2 3 4 5 6 7	**49.** The reliability of Building Management and its employees.	**49.** 1 2 3 4 5 6 7
1 2 3 4 5 6 7	**50.** Building Management's timely response to our call.	**50.** 1 2 3 4 5 6 7
1 2 3 4 5 6 7	**51.** Building Management's commitment to provide quality service.	**51.** 1 2 3 4 5 6 7
1 2 3 4 5 6 7	**52.** Size of space met our current requirements.	**52.** 1 2 3 4 5 6 7
1 2 3 4 5 6 7	**53.** Financial stability of our firm.	**53.** 1 2 3 4 5 6 7
1 2 3 4 5 6 7	**54.** The location of our office space.	**54.** 1 2 3 4 5 6 7
1 2 3 4 5 6 7	**55.** Rent level met current market standards.	**55.** 1 2 3 4 5 6 7

Listed below are five statements pertaining to Building Management and their employees and the services they provided. Please respond as to how important these features were to you in evaluating the **Quality of Service** received. PLEASE RANK THESE FEATURES 1 THROUGH 5 (1= Most Important; 5= Least Important)

		RANK
56.	The appearance of our office space, the building common areas and the building exterior and grounds	**56.** ________
57.	The Building Management's ability to perform the promised service dependably and accurately.	**57.** ________
58.	The Building Management's willingness to assist us and provide prompt service.	**58.** ________
59.	The knowledge and courtesy of the Building Management's employees and their ability to convey trust and confidence.	**59.** ________
60.	The caring, individualized attention the Building Management provided us.	**60.** ________

Listed below are five statements pertaining to Lease Decision Making. Please respond as to how important these features were to your **Lease Decision..** PLEASE RANK THESE FEATURES 1 THROUGH 5 (1= Most Important; 5= Least Important)

		RANK
61.	The size requirements for our office space.	**61.** ________
62.	The financial stability of our firm.	**62.** ________
63.	The location of our office space.	**63.** ________
64.	The rent level met our current market standards	**64.** ________
65.	The quality of tenant services we received was satisfactory to us.	**65.** ________

THANK YOU FOR YOUR TIME.

PLEASE COMPLETE AND RETURN......

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