CBE
CENTER FOR THE BUILT ENVIRONMENT

Office Tenant Needs Study

Introduction: What do office tenants want and how much are they willing to pay for it?

The office tenants needs study was performed during a series of four focus group sessions in July and August of 1999.

CBE and the Fisher Center for Real Estate and Urban Economics were approached by Spieker properties in June of 1999 to help them better understand the emerging needs of leading-edge office tenants. Spieker Properties is one of the nation's largest publicly traded real estate companies, with over 40 million square feet of commercial properties located in California and the Pacific Northwest.

Spieker was specifically interested in ensuring the long-term value of their existing portfolio of space, and making sure that they were looking at the correct mix of services and infrastructure to appeal to a new profile of client in high technology, bio-technology and service sector industries. Specifically, would these leading-edge industries be interested in leading-edge building and office technologies?

So what exactly does the much ballyhooed "knowledge worker" of the new millennium need in an office environment? Are the traditional real-estate selection criteria obsolete- to be replaced with a new set of priorities? How important are green building practices and alternative officing when making office space decisions?

CBE was interested in the study because it gave our Center an opportunity to talk with end-users about the kinds of new technologies and building management practices they have been considering for their buildings, and to put into context the desirability and marketability of these technologies and practices.

The Office Tenant Needs Study was organized around focus groups of 8 to 15 people. Participants were selected jointly by CBE staff and Spieker Properties based on business sector (high-tech, bio-tech or services) and company profile (size, geographic scope, revenues and space use).

Focus groups are rarely a definitive sample of user attitudes and needs. What they offer instead is a reality check on assumptions we may be working under in our research, and (if they work well) a vibrant "brainstorming" approach to issue identification and clarification.

Method

In July and August 1999, CBE conducted four focus groups in two neutral settings near the heart of San Francisco's 'Silicon Valley'. Groups were moderated by CBE Research Associate Steven Murray, Assistant Dean for computing in the College of Environmental Design. Steve has had extensive professional experience in planning for technology in corporate facilities, and has considerable expertise as a professional focus-group facilitator. Groups were organized to include representatives from a mixture of industries, in order to stimulate a broad discussion of building issues.

Participants represented large, medium and small companies. Small companies were more likely to be privately owned, use office space intensively, and be concerned primarily with cost. The larger companies tended to have a substantially greater investment in labs, R&D, and other types of spaces, and were considerably more inclined to entertain innovative office technologies.

In order to make participants more comfortable offering candid opinions, participants were asked to contribute their expertise according to the following scenario:

- You have been retained as a consultant to Advent, Inc., a 5-year-old company located in the San Francisco Bay Area. Advent, Inc., is currently experiencing double-digit growth and needs to lease new space. Advent can be flexible with which of its operating units are moved into this space, but they need to consider office, R&D, and manufacturing needs.

- Advent Inc. is in a similar business as your current employer; you have been selected as a consultant based on this parallel expertise.

- You are charged with identifying the key real-estate and facilities issues that Advent should be thinking about as they consider selecting, fitting-out and moving into new space. Specifically:
    - What factors should guide building selection?
    - What weight should be assigned to different decision criteria?
    - What price sensitivity should be assigned to different kinds of building features?

Structure of the Discussions

The focus groups were structured to bring people with different backgrounds into conversation with each other on topics of mutual concern. In moderated discussions, one or two discussion leaders often emerge, with remaining participants playing supporting roles either emphasizing individual points or challenging assumptions. To minimize this effect, we used a polling technique to make sure that all the participants were on the record with their thoughts. Additionally we included real-estate professionals and CBE staff as participants in the discussion to illuminate areas of nuance in the discussions. We seeded the conversations by establishing a tight agenda and directed conversation with a real-estate decision chart (see Table 1). The chart was structured to encapsulate the universe of real-estate decisions any company would need to consider.

That universe was broken down into three traditional criteria groups and two emergent or evolving areas of concern.

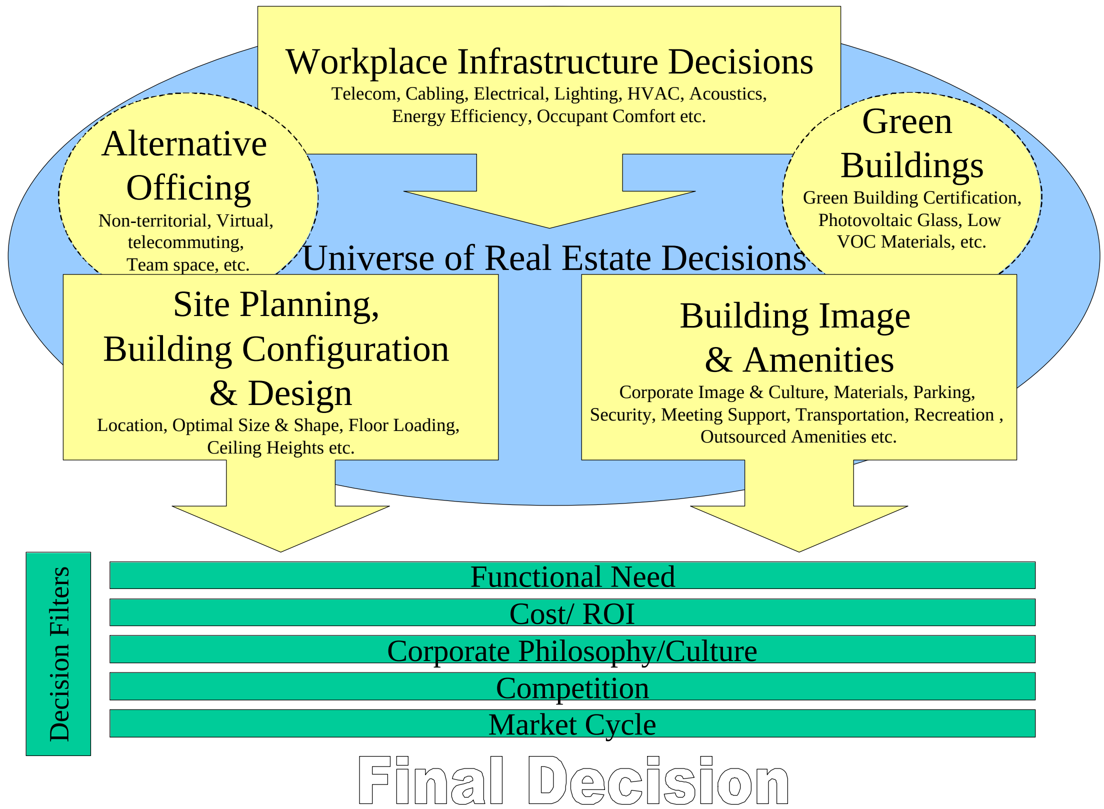

Table 1: Real Estate Decision Chart

Three traditional areas of real estate decision-making were described:

- **Site Planning, Building Configuration and Building Design**. This category involves the location and actual shape and configuration of the building, the functional use of the space and critical issues such as floor loading, ceiling heights etc. Most participants agreed that from their positions in support of the business of their company these were issues of primary concern.

- **Workplace Infrastructure.** This category includes the mechanical systems providing heating and cooling (HVAC), the electrical systems supporting telecommunications and power, as well as workplace lighting, acoustics, energy efficiency, occupant comfort and emergency planning. In many cases these were ranked as second.

- **Building Image and Amenities.** This category includes the corporate image the facilities suggest and what kinds of amenities the site has, including parking, security, meeting support, special transportation, recreation or other outsourced amenities.

Two emergent categories lying at the nexus between traditional areas of real-estate decision-making were also described:

- **Alternative Officing**. Encompassing both traditional site planning and building design and workplace infrastructure, most alternative officing schemes are designed to lessen the impact on a business of the more traditional areas of the chart. Alternative officing was defined as including "non-territorial" officing strategies such as telecommuting, virtual officing, hoteling and team spaces. Additionally the influence of strategic facilities planning and alternative futures planning was included in this category.

- **Green Building.** Encompassing both workplace infrastructure and building image and amenities, green building practices include green building certification, photovoltaic glass, low VOC material and recycled materials. Often seen as having a strong PR value, green building issues are tied to corporate culture and image. At the same time, these practices can support workplace infrastructure, particularly in terms of occupant comfort.

Five decision filters were then described. These general criteria are often applied to at decision points when evaluating the broad areas of decision making outlined above. These areas are:

- Functional Need
- Cost or Return on Investment
- Corporate Philosophy or Culture
- Competition in the Company's Market
- The Market Cycle of the Company

A sixth filter, Location, was purposefully omitted. Each group, however, requested that it be recorded as well.

Participant Profiles

Participants fell into two broad categories. Participants from small, typically privately-held companies with a limited number of employees expressed great willingness to make intensive use of ready-made office space, with work practices constantly re-adapting to physical conditions. These participants generally showed little enthusiasm for premium image or amenities, instead recommending broad flexibility in terms of infrastructure and building design, and a willingness to 'break the mold', with informal 'fun' such as a corner devoted to a ping-pong table, or the ability to bring your dog to work. Price sensitivity was sharp, and commute-oriented location (including proximity to airports) a frequently recurring theme.

Participants from medium and large companies, on the other hand, represented more well-established, publicly traded companies, with large investments in specialized real-estate such as labs, research and development space or manufacturing facilities. These participants considered building image and amenities an important component of employee recruitment and retention, and, in the case of financial services, an important component of the company's 'public face'. Most expressed considerable concern about the ability of building infrastructure to support business practices, particularly in terms of specialized needs such as lab ventilation, back-up power, ability to support required weight loads, and access to secure voice/data service. Most were sophisticated about the ways in which building design could support corporate culture and mission, and openness to new building technologies and design practices. Price sensitivity was driven by cost/benefit considerations and payback times. Commute-oriented location, including proximity to airports, was also a frequent concern.

	Small Companies	**Mid Size Companies**	**Large Companies**
Public vs. Private	78% Private 12% Public	25% Private 75% Public	100% Public
Estimated Headcount	10-250	700-3000	7500 - 30,000
Estimates Revenue	200K - 100M *Most did not answer	200M - 1.2B	150M - 20B
Estimated Gross SF	8KSF - 30KSF	600KSF - 1MSF	500KSF-10MSF
% Office Space	25%-100%	15%-95%	10%-90%
	Median 90%	Median 95%	Median 50%

Table 2: Focus Group Participant Profiles, n=28

Patterns Emerge

A number of general patterns were common to all focus groups. When polled initially, nearly all participants in all groups cited location, cost and functional usefulness as the framework within which all real estate decisions would be evaluated. As conversation progressed, however, nuances emerged. Key outcomes included:

- **Need for information**. Nearly all participants expressed a need for better information on the availability of innovative building technologies. Most participants from larger companies expressed a willingness to consider these technologies, even if they involved a higher first cost, if they had reliable, credible information on cost/benefits and payback times.
- **Flexible, adaptable spaces**. Nearly all participants agreed that easily re-configurable office spaces are needed to support rapidly changing business practices and organizational structures. Participant's reactions were mixed to descriptions of raised access floor/underfloor air technologies. Many said they would consider the technology given a reasonable payback time, however some voice reservations based on negative experiences in the past with older raised flooring systems.

- **Inadequate utilities**. Most participants expressed frustration with some aspect of a building's provision for utilities. Key areas for improvement include provision for utilities in a competitive, deregulated environment (ability to choose from competing services) and voice/data infrastructure that is secure and of sufficiently high bandwidth.
- **Disaster resilience**. Most participants were very sensitive to the need to have zero downtime on mission-critical operations, and expressed enthusiasm for the ability to withstand natural and man-made disasters, particularly in terms of uninterrupted back-up power.
- **Inadequate HVAC**. Many participants described standard HVAC systems (provided at move-in) as inadequate to meet functional requirements. Specific complaints included inability to handle occupant and equipment loads, inability to provide for specialized needs such as lab ventilation, and poor occupant comfort.
- **Landlord as partner**. Many participants expressed an interest in having a collaborative, rather than adversarial relationship with their landlord, with landlords demonstrating knowledge of the physical space requirements of their tenant's business.
- **Alternative officing**. Some participants described alternative officing practices as an important design strategy. Few saw it as a significant factor in making a real estate decision.
- **Turnkey services**. Few participants saw value in having a landlord provide a greater array of turnkey services and instead look to tenant improvement allowances for build-out, and independent vendors located near the building for services.
- **Green buildings**. Few participants saw advantage in green building technologies. Most viewed 'green' technologies as image, and did not feel that this image was important, either within the scenario or to their organization. When described as providing clean, healthful, energy efficient space, these were seen as obligations of the developer and not value-added features commanding a premium.

In addition to the above cross-cutting issues, several patterns specific to company size emerged:

- **"Guerrilla Officing".** Participants from small companies often adopted a 'why not' or 'anything goes' attitude. Investment was low but creativity high. These companies were very receptive to new technologies and designs as long as upfront investment was not required.
- **Mid-size conservatives.** Participants from mid-size companies were more reluctant to think outside the box than their counterparts from larger and smaller companies. These participants were more narrowly focused on the bottom line, and frequently reduced alternative technologies and designs to a cost/benefit calculation.
- **Mature investors.** Participants from larger companies were eager to entertain innovations requiring investment, provided that these innovations had clearly defined payback periods and a demonstrated ability to improve operations and/or productivity.

Most Critical Facilities Issues

We asked each group to rank order real-estate decision areas and filters we had identified. The overall consensus was:

- **Cost**. All participants said that real estate decisions ultimately come down to cost. In a large percentage of companies, the CFO or COO ultimately made real-estate decisions. Non-traditional approaches to real estate could be accommodated only if the return on investment did not extend out too far.
- **Location.** All participants viewed location as a fundamental business decision and a critical retention issue for key staff. Telecommuting and virtual officing were seen as having little effect.
- **Building Configuration.** Most participants viewed the ability to expand or contract space use according to business need or functional requirement as a critical need. This area was most frequently cited as an issue with which participants could use more help.
- **Infrastructure.** Most participants viewed infrastructure, particularly HVAC, power, data cabling, security and other services as a key to supporting effective workplace environments. However, there were widely divergent views on expectations of what specifically should be provided by a landlord, and little enthusiasm for paying a premium for improved options. Most mid-size to large tenants preferred to assume individual control of as much of this as they could; smaller companies adopted a 'make do' approach
- **Image and Amenities/Competition.** Many participants viewed these two categories as closely linked. For businesses with significant public contact, a high level of finishes conveying 'success' was deemed important. For most others, priority was placed on appearing to be responsible to shareholder value while providing facilities that encourage employees to spend an ever- larger amount of time at work. Participants from mid-size companies appeared particularly sensitive to the need for amenities that allowed them to recruit and retain top talent.
- **Alternative Officing/Market Cycle.** Most participants were familiar with the concept of alternative officing, and stated that provision for telecommuting was widespread. Few felt that alternative officing would have a significant workplace impact, noting that the workplace was being transformed more by a rapid cycle of internal expansion/contraction/reorganization of work units, rather than the impact of workers sharing desks or working at home. Flexibility in workplace design and financing were frequently cited as key to being prepared.
- **Green Building/Corporate Philosophy/Culture** . No participants ranked these categories as being of primary importance in making a real-estate decision.

Conclusions

Office space in the San Francisco Bay Area commands a significant cost premium, and nowhere in the Bay Area are rents higher than in Silicon Valley. Businesses in this location rely heavily on 'intellectual capital' of highly educated highly skilled workers. Tenants are willing to pay a premium to locate proximate to these workers and executives.

Tenants in this market are looking to real estate providers to educate them on any innovative features they may be providing. Mid-size and large companies in particular are receptive to intelligent infrastructure such as raised access floors, underfloor air, innovative data and power cabling, provided that cost/benefit and payback is clearly described. Amenities that maximize a tenant's ability to recruit talent and keep that talent on site are also desired.

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