Office take up & existing stock: which factors make the difference?

An Italian on-field research

Jacopo della Fontana
D2U – Design to Users
Milan
jacopo.dellafontana@d2u.it
Aim of the research

✓ To better understand the importance of technical, design and communication factors in promoting office buildings Take-up

✓ To check on the alignment and expectations of Industry players

✓ To suggest a more effective approach to promote market offering
Research partners

The research has been promoted by:

D2U is an Italian Architectural practice that develops creative solutions, compatible with the objectives, the financial restrictions and the practices of professional Clients.

ULI is a worldwide nonprofit education and research institute with focus on the use of land in order to enhance the total environment.

BNP Paribas Real Estate, is a leading corporate real estate company in Europe, also active in Italy with a full range of services, including Investment Management, Transaction, Consulting, Valuation, Property Management, Property Development
Office Market
Milan and Rome Vacancy and Take-up rates

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010 (parti)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Vacant Space (m²)</strong></td>
<td>550000</td>
<td>660000</td>
<td>800000</td>
<td>925000</td>
<td>825000</td>
<td>765000</td>
<td>860000</td>
<td>1106000</td>
<td></td>
</tr>
<tr>
<td><strong>Vacancy rate</strong></td>
<td>5%</td>
<td>6%</td>
<td>6%</td>
<td>8%</td>
<td>9%</td>
<td>7%</td>
<td>7%</td>
<td>7%</td>
<td>9%</td>
</tr>
<tr>
<td><strong>Stock</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>11686000</td>
<td></td>
</tr>
<tr>
<td><strong>Office Take-up</strong></td>
<td></td>
<td>379.000</td>
<td>214.800</td>
<td>232.600</td>
<td>223.300</td>
<td>272.200</td>
<td>277.500</td>
<td>314.000</td>
<td>220.200</td>
</tr>
<tr>
<td>(‘000 m²)</td>
<td></td>
<td>182.000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010 (parti)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Vacant Space (m²)</strong></td>
<td>510000</td>
<td>520000</td>
<td>550000</td>
<td>530000</td>
<td>600000</td>
<td>622000</td>
<td>622000</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Vacancy rate</strong></td>
<td>4%</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
<td>6%</td>
<td>6%</td>
<td>6%</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td><strong>Stock</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>9700000</td>
<td></td>
</tr>
<tr>
<td><strong>Office Take-up</strong></td>
<td></td>
<td>130.000</td>
<td>210.000</td>
<td>188.900</td>
<td>124.500</td>
<td>115.500</td>
<td>86.000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(‘000 m²)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: BNP Paribas Real Estate
### Office Market
### Milan and Rome Transaction Area Bands

#### Milan

<table>
<thead>
<tr>
<th>Area Band (m²)</th>
<th>Center</th>
<th>Semi Central</th>
<th>Periphery</th>
<th>Hinterland</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>500 - 1,000</td>
<td>37.491</td>
<td>21.867</td>
<td>36.930</td>
<td>4.954</td>
<td>101.242</td>
</tr>
<tr>
<td>1,000 - 3,000</td>
<td>130.150</td>
<td>112.943</td>
<td>123.354</td>
<td>61.050</td>
<td>427.497</td>
</tr>
<tr>
<td>3,000 - 6,000</td>
<td>99.300</td>
<td>147.200</td>
<td>161.880</td>
<td>104.300</td>
<td>512.680</td>
</tr>
<tr>
<td>&gt; 6,000</td>
<td>65.000</td>
<td>301.000</td>
<td>331.600</td>
<td>188.985</td>
<td>886.585</td>
</tr>
<tr>
<td>Source: BNP Paribas Real Estate</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Area Band number of transaction</th>
<th>Center</th>
<th>Semi Central</th>
<th>Periphery</th>
<th>Hinterland</th>
</tr>
</thead>
<tbody>
<tr>
<td>500 - 1,000</td>
<td>53</td>
<td>32</td>
<td>56</td>
<td>8</td>
</tr>
<tr>
<td>1,000 - 3,000</td>
<td>75</td>
<td>66</td>
<td>75</td>
<td>36</td>
</tr>
<tr>
<td>3,000 - 6,000</td>
<td>25</td>
<td>36</td>
<td>42</td>
<td>28</td>
</tr>
<tr>
<td>&gt; 6,000</td>
<td>7</td>
<td>25</td>
<td>33</td>
<td>20</td>
</tr>
<tr>
<td>Total</td>
<td>160</td>
<td>159</td>
<td>206</td>
<td>92</td>
</tr>
</tbody>
</table>

#### Rome

<table>
<thead>
<tr>
<th>Area Band (m²)</th>
<th>City Center</th>
<th>Greater EUR</th>
<th>Periphery</th>
<th>Periphery</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 500</td>
<td>10.290</td>
<td>5.281</td>
<td>0</td>
<td>1.521</td>
<td>17.092</td>
</tr>
<tr>
<td>500 - 1,000</td>
<td>15.907</td>
<td>5.200</td>
<td>0</td>
<td>1.388</td>
<td>22.495</td>
</tr>
<tr>
<td>1,000 - 3,000</td>
<td>46.831</td>
<td>19.773</td>
<td>0</td>
<td>12.225</td>
<td>78.829</td>
</tr>
<tr>
<td>3,000 - 6,000</td>
<td>33.220</td>
<td>31.340</td>
<td>13.548</td>
<td>9.705</td>
<td>87.813</td>
</tr>
<tr>
<td>&gt; 6,000</td>
<td>33.100</td>
<td>91.460</td>
<td>0</td>
<td>51.000</td>
<td>175.560</td>
</tr>
<tr>
<td>Total</td>
<td>139.348</td>
<td>153.054</td>
<td>13.548</td>
<td>75.839</td>
<td>381.789</td>
</tr>
</tbody>
</table>

Source: BNP Paribas Real Estate

Design to Users
jacopo.dellafontana@d2u.it
Take-up and existing stock
Market status

✓ Office take-up is still declining, vacancy rate is still raising

✓ Most attractive Area Bands (# of transactions) are in the 1.000 – 3.000 sqm range and across districts

✓ Smaller areas are more for city center, Larger areas are more for external locations
This research was conducted in June 2010 using a web platform (on-line questionnaire)

6 Questions were addressed to 330 Industry players, mostly operating in Milano and Rome and belonging to the following sectors:
- End-Users: Italian and multinational Corporate Companies’ Real Estate managers
- Investors, Developers: Asset and Development Managers of primary Real Estate Companies
- Industry Consultants: Designers, Agents, Property Managers

Results are based on 125 completed questionnaires (38% return)
Q2. Creating a building short list: “when choosing a building - price apart - how do you rate these following factors?”

- **good public transport infrastructures**
  - Very important: 25%
  - Important: 6%
  - Less important: 6%

- **building technical features**
  - Very important: 43%
  - Important: 51%
  - Less important: 6%

- **location**
  - Very important: 69%
  - Important: 32%
  - Less important: 7%

No significant differences between various groups responses.
Q3. Refining the choice: “For the same base conditions (price, location), which of the following additional feature - between the opposite proposed pairs - would positively influence your choice?”

<table>
<thead>
<tr>
<th>Feature</th>
<th>Blue Bar Percentage</th>
<th>Red Bar Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Choose specs and finishes installed/ready to take</td>
<td>83%</td>
<td>17%</td>
</tr>
<tr>
<td>Large floorplate/mostly horizontal layout</td>
<td>78%</td>
<td>22%</td>
</tr>
<tr>
<td>Internal qualities (e.g., efficient layout and easy reconfiguration)</td>
<td>78%</td>
<td>22%</td>
</tr>
<tr>
<td>Large capacity of building car park</td>
<td>71%</td>
<td>29%</td>
</tr>
<tr>
<td>Save on running costs (more initial investment)</td>
<td>71%</td>
<td>29%</td>
</tr>
<tr>
<td>Accessible suspended ceiling</td>
<td>65%</td>
<td>35%</td>
</tr>
<tr>
<td>Accessible raised floor</td>
<td>58%</td>
<td>42%</td>
</tr>
<tr>
<td>Offload fit-out cost to LL with higher lease (OpPex)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fit-out cost to be fully charged to end-user (CaPex) with lower lease cost</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

June 2010
Q3. Refining the choice - key features
Professional groups responses are different

<table>
<thead>
<tr>
<th>End-Users’s choice</th>
<th>Investor’s choice</th>
<th>Consultant’s choice</th>
</tr>
</thead>
<tbody>
<tr>
<td>1° large floorplates and large ancillary car park</td>
<td>1° choose specs / finishes</td>
<td>1° choose specs / finishes</td>
</tr>
<tr>
<td>3° internal qualities</td>
<td>3° internal qualities</td>
<td>2° large floorplates and save on running costs</td>
</tr>
<tr>
<td>4° choose specs / finishes</td>
<td>4° large ancillary car park</td>
<td>4° internal qualities</td>
</tr>
<tr>
<td>5° save on running costs</td>
<td>5° offload fit-out costs and large floorplates</td>
<td>5° offload fit-out costs</td>
</tr>
</tbody>
</table>

![Chart](chart.png)

1. offload fit-out cost to LL with higher lease (OpEx)
2. fit-out cost to be fully charged to end-user (CaPex) with lower lease cost

jacopo.dellafontana@d2u.it
Q4. Premium features:
“For which of the previously listed features would you be ready to pay an additional bonus?”

June 2010
Q4. Premium features: End-Users
“For which of the previously listed features would you be ready to pay an additional bonus?”

![Bar chart showing percentages of willingness to pay a bonus for different features. The features include:
1. Internal qualities (e.g., efficient layout and easy reconfiguration)
2. External qualities (e.g., nice façade or cladding materials)
3. Large capacity of building car park
4. Availability of agreed car parks nearby
5. Choose specs and finishes
6. Finishes fully installed/ready to take
7. Save on running costs (more initial investment)
8. Save on initial lease/deal (pay more on running costs)
9. Large floorplate/mostly horizontal layout
10. Small floorplate/mostly vertical layout
11. Offload fit-out cost to LL with higher lease (OpPex)
12. Fit-out cost to be fully charged to end-user (CapEx) with lower lease cost
13. Accessible suspended ceiling
14. Accessible raised-floor

- Internal qualities: 60%
- Large capacity of building car park: 24%
- Choose specs and finishes: 32%
- Save on running costs: 24%
- Large floorplate: 16%
- Offload fit-out cost: 16%
- Accessible suspended ceiling: 4%
Q4. Premium features: Investors / Developers
“For which of the previously listed features would you be ready to pay an additional bonus?”

- 1. Internal qualities (e.g., efficient layout and easy reconfiguration)
- 2. External qualities (e.g., nice façade or cladding materials)
- 3. Large capacity of building car parks nearby
- 4. Choose specs and finishes
- 5. Finishes fully installed/ready to take
- 6. Save on running costs (more initial investment)
- 7. Save on initial lease/deal (pay more on running costs)
- 8. Large floorplate/mostly horizontal layout
- 9. Small floorplate/mostly vertical layout
- 10. Offload fit-out cost to LI with higher lease (OpPex)
- 11. Fit-out cost to be fully charged to end-user (CaPex) with lower lease cost
- 12. Accessible suspended ceiling
- 13. Accessible raised floor
Q4. Premium features: Consultants
“For which of the previously listed features would you be ready to pay an additional bonus?”
Q5. Commercial and services
“How do you rate the following opportunities?”

- Onerous Lease break-out option
- Building property management services appointed to a leading service provider
- Nursery to be shared with other tenants
- Cafeteria / restaurant facilities to be shared with other tenants
- Good provisions of underground fire-rated deposit and archive spaces
- Multifunctional meeting facilities to be shared with other tenants

no significant differences between various groups responses

June 2010
jacopo.dellafontana@d2u.it
6. Marketing:
“Which of the following information would you like to appear on a building brochure?”

No significant differences between various groups responses
Take-up: Factors that make the difference
Research hints 1

✓ Large floorplates and customized fit-out solutions are favored from the market

✓ Efficient and easy reconfigurable spaces are much more valuable in a building than a fancy façade.
  (End-Users expectations are higher than Developers awareness)

✓ Raised floor and car parks are seen as a “commodity”

✓ Energy saving on running cost and a good building certification is becoming an essential requirement
  (End-Users expectations are lower than Designers awareness)

✓ Ability to offer different financial solutions are positively received
  (CapEx or OpEx, lease breakout option or free rent period)
Take-up: Factors that make the difference
Research hints 2

✓ Good Property and Facility management services have somehow to be part of the deal

✓ Neighborhood or Campus shared facilities (nursery, canteen) should be developed even on a cross-based properties to support the market

✓ From End-Users point of view “Commercial” Area is NOT an useful parameter in rating the building – Nett Usable is MUST see element

✓ Additional efficiency parameters like maximum floor capacity and running costs per workplace should become part of the vocabulary

✓ Detailed, technical specs, with typical floor plan layout should be used in place of general and ubiquitous description