

Survey Overview

In March 2011, BOMA International and the British Council for Offices surveyed their members to gauge their perspectives on the current conditions of the commercial real estate markets and future prospects. Given the recent global economic downturn, the two organizations were eager to assess their members' views on present and expected opportunities and challenges that the industry will face in the coming months.

The survey, conducted via an online survey tool, received responses from 391 participants, with 41% (161) of the respondents from the U.K. and 59% (220) from the U.S. The survey consisted of 15 questions, and included a variety of questions designed to gauge perspectives on the commercial real estate markets, overall economic conditions, occupiers' space needs and decision-making drivers, as well as more general attitudes toward the future.

The two nations are generally in agreement as to where the economy is, where it is going, and what is needed to get to full recovery. The U.S. displays more displeasure with its Government's policies than the U.K. respondents and green issues are slightly lower in the pecking order of American concerns.

Generally American respondents display a higher sense of optimism about the future than the British, who in turn conversely voice more confidence in the current demand for office space.

Is the economic recovery underway?

Either national stereotypes account for the fact that 60% of the optimistic Americans believe that the recovery is here already, as opposed to less than one half of the conservative British respondents; or the U.S. is a bit ahead of the U.K. in terms of recovery. This pragmatic scenario accounts for the fact that more than three quarters of respondents in both countries believe we are out of recession already or will be within 12 months.

Is the economic recovery underway?	
Yes	54%
No	11%
Not yet, but will begin within 12 months	22%
Not yet, but will begin later than the next 12 months	13%

Office demand will rise by late 2012..Probably

Whilst the American respondents were optimistic about the economic recovery, unlike the more reserved British, they have not seen immediate signs of recovery filter through to the office market. In the U.K., a total of 78% are seeing rising demand, with 46% having already seen rising office demand or expecting to within the 12 months (32%). Conversely, just 39% of the American respondents have seen rising demand, with a further 26% expecting it to come.

This difference of nearly a quarter overall may be attributable to the fact that while 68% of U.S. respondents felt that reduced occupier demand was not economic pressure but rather was a reflection of the modern occupier's mindset, which requires less space for their workers as technological advances and diverse working practices, including "hoteling" and telecommuting, become the norm. Less than one half

of U.K. respondents believed this to be the case.

Occupier’s Sentiments

Asked to rank a variety of factors that could influence demand for office space, around nine out of every ten respondents from both sides of the Atlantic believed that rental affordability would be the biggest driver of occupier’s choice of building over the next five years. There was also general agreement from respondents on the importance of workplace efficiency and lease terms and that corporate image, technology capabilities and workplace amenities did not figure highly in the occupier’s decision-making. Discrepancies occurred over the merits of staffing, sustainability and public transportation issues, with six out of every ten U.K. respondents judging them to be of high importance, with just a quarter of U.S. respondents selecting staff issues and around 40 percent selecting green and transport concerns, respectively.

The old adage of “location, location, location” dominates in both countries, with this being the most cited reason for occupiers selecting their buildings. Although survey respondents from both countries generally ranked building amenities of less importance as drivers of demand for office space, in narrative responses, respondents indicated that amenities such as cycle facilities, gymnasiums, and proximity to restaurants and shopping facilities would be important determinants in leasing decisions.

Please rank the following building features in order of importance to tenants, with 1 being the most important, and 9, the least.

Rank	1	2	3	4	5	6	7	8	9	10
Affordability/rental rates	67%	14%	6%	3%	1%	0%	1%	0%	3%	5%
Sustainability	1%	10%	9%	11%	13%	12%	16%	13%	9%	6%
Lease terms	15%	38%	14%	6%	8%	5%	3%	5%	4%	2%
Attraction/retention of staff	7%	11%	11%	13%	12%	8%	13%	15%	6%	4%
Efficiency of workspace	6%	12%	20%	21%	13%	11%	6%	5%	4%	1%
Public transport accessibility	4%	2%	11%	14%	17%	15%	12%	9%	8%	8%
Building operating/energy efficiency	4%	11%	17%	10%	18%	14%	14%	7%	3%	2%
Corporate image	6%	6%	8%	12%	10%	14%	11%	15%	10%	7%
Technologies (ie, wireless capabilities)	5%	8%	11%	12%	10%	7%	11%	14%	19%	3%
Other building features/amenities	5%	6%	6%	6%	11%	8%	5%	7%	16%	30%

Development Attitudes

There is accord that global developers will not have a key role to play in shaping the future markets and that specialist developers will. But the majority of U.K. respondents believe that

occupiers in partnership with developers are best positioned to be the developers of the future, while U.S. respondents believe local developers are best positioned. Occupiers in partnership with local developers was the second most popular response, among U.S. respondents.

Sustainability standards and climate change

While the U.S. respondents were fairly 50/50 as to whether the world needs a global standard for

sustainability, 65% of the U.K. felt it would be a valuable tool. Not surprisingly, the majority of those who did think a global standard would be of benefit felt it should stem from their own nation's, with a resounding 65% of Americans opting for the U.S. Green Building Council's LEED (Leadership in Energy and Environmental Design), and 53% of the U.K. putting forward the U.K.'s Building Research Establishment's BREEAM. Surprisingly almost three times as many Americans (14%) would prefer to adopt the Australian GREENSTAR standard as opposed to BREEAM, while 30% of U.K. respondents indicated LEED as a secondary preference.

More than 10% of both countries' respondents felt that an alternative was required with most of those opting for a hybrid of the best standards, which could be adapted locally when necessary. "The standard needs to be a global badge with local interpretation," (BCO) was a sentiment echoed on both sides of the Atlantic.

Respondents from both countries believe that climate change adaptation is more important than climate change mitigation. A small percentage of the U.S. respondents expressed skepticism about climate change in general, calling it "hocus," "bogus" and a "hoax." The loudest voices from the U.K., in contrast, felt that the legislation was insufficient and did not go far enough.

[Brief details on all three systems: BREEAM, LEED and Greenstar are set out below.]

Impact of the credit crunch

Neither side expects to fare any better from the credit crunch; both see the banks as the key instigators of the global economic woes, and they are not to be relied upon to get the economy going again. It was widely felt that the ability to finance new schemes would be limited—meaning moderate development, be it speculative or pre-leased. More U.S. respondents felt that their U.S. owners would face great difficulty in securing financing or refinancing, and that banks would call in loans and foreclosures would rise. Some U.S. respondents speculated that valuations would remain compressed for some time to come. Still others expressed concern that limited access to capital would have the greatest impacts on owners' abilities to fund tenant improvements and other capital expenditures, making it difficult to sign new tenants and retain existing ones. "Properties will be turned back to lenders and values will be reduced, but investors fleeing from other investments are artificially delaying this process," (BOMA).

Many in the U.S. felt that the credit crunch would curtail development, because of the more conservative underwriting standards, but noted that in most U.S. markets, there's not an oversupply of offices. In the U.K., however, it was seen that lack of oversupply of office stock could inflate prices in prime markets and skew the situation over the country as a whole.

For many, any lack of development would not be an issue as there would be limited demand for space anyhow. There was wide acceptance that occupiers would be looking to reduce space occupied and to use buildings more efficiently in terms of space per worker and utilizing technology.

In response to the question *What will be the biggest impact of the credit crunch on the property sector over the next five years?* One BCO respondent articulated the concerns of many:

"Constrained/lack of debt finance continuing to constrain supply of new/refurbished properties in a market of increasing demand. Therefore driving rents, for the best buildings, in the best locations, higher in a shorter time frame," (BCO).

One U.S. respondent corroborated this theory noting, “[It is] very tough in tertiary markets to get financing for anything but ‘best buildings’ that are well occupied.” That respondent suggested that we’ll see a bifurcation of “have” and “have not” buildings and markets.

Respondents from both countries indicated some positive signs pointing toward an increase in adaptive reuse and other efforts to create more efficient uses for existing space and more efficient buildings overall.

Worries for 2011...

Again there was concurrence that banks, unemployment, rental levels, low demand and a real fear of a lingering, or even double dip, recession were causing greatest concern in 2011. Government policy was also the cause of much consternation to the two sets of members, but for the opposite reason: “All the fat has already been cut, so there will be many more business failures - further damaged by government policy” (BCO), was a sentiment echoed by many in the U.K, who feared that Government spending cuts would prevent the economy from growing and would stagnate the market. For BOMA respondents, the sentiment was quite the opposite: “The lack of corporate expansion due to tax consequences of healthcare reform, out-of-control spending and government regulation,” (BOMA).

...and hopes

That there is ‘not much’ to be optimistic about in 2011 was a widely held perception by many of the recession-weary BCO and BOMA members. However there were many on both sides that felt the industry and its professionals have become perhaps more mature and wiser: “The ever increasing levels of understanding of the benefits of coming out of recession with lessons learnt” (BCO) and “the employees will be better for having gone through this - they may have more loyalty,” (BOMA).

Though not all agreed. “That nobody will say that the Emperor has no clothes, so we will continue to borrow from our grandchildren in the short term,” (BOMA) was the slightly tongue-in-cheek cause for optimism by one U.S. respondent.

Pragmatically, both sets of respondents predicted an increase in refurbishment work and there was general consensus that 2011 was going to be a lot better than 2010. Both countries saw Green issues coming to the fore, but more so the U.K. respondents.

Predictions for the next 12 months

Respondents were also asked to share a real estate or non-real estate prediction for the next twelve months, and their responses reflect the diversity of sentiment conveyed throughout the other questions in the survey.

With U.K. petrol prices at £5.70 (\$9.20) a gallon, BCO members can only dream of being afraid of paying the \$4 (£2.50) for a gallon of gas that many BOMA members fear is coming in 2012. Although the reasoning behind this—continuing tensions in the Middle East—was equally shared by both countries.

Many in the U.K. foresaw the increase in mergers and acquisitions that has begun already in 2011 with Jones Lang LaSalle’s purchase of King Sturge and the likely takeover of DTZ by BNP.

Fears about an ineffectual U.S. Government implementing misguided policies were widely echoed by

many Americans: “the dialogue [sic] in American politics will continue to be ill-informed and motivated by anxiety, not reason or facts; there may even be a major backlash as everyone on both sides has reached the boiling point,” (BOMA), although Donald Trump will not be the new President to save the country as some predicted.

Sportingly, respondents postulated that England will win the Rugby World Cup and the Yankees will win the World Series whilst the NFL Season will be cancelled. Surprisingly only one mention of the London 2012 Olympics, although this was an understated “there will be an under estimate of the impact of the Olympics.” (BCO)

A handful obviously thought Charlie Sheen might have a tad too much tiger’s blood in his veins and he will pass away.

Overall optimists won over the pessimists in the USA, “I feel that ‘America is too great for small dreams,’ said Ronald Reagan. Mediocrity is unacceptable in all areas if we are to bring America back to being a world leader in the eyes of the world.” (BOMA)

Whereas, although in the U.K. pessimists were greater in number, they did tend to look on the bright side: “It will be great summer weather wise, in the U.K. Good for all those that can no longer afford foreign holidays.” (BCO)

Conclusion

There is a lot of common ground between the U.S. and the U.K. Both nations are optimistic for the future and see emerging signs of market recovery. Sustainability remains a key issue and occupiers are setting the agenda with affordability viewed as the dominant issue for those seeking space. The general optimism is tempered by a number of economic, governmental and larger cultural factors, including concerns about government policies and directions; the interconnectedness of global markets altogether; and changing workplace practices and habits that may affect overall demand for space.

Industry professionals on both sides of the Atlantic undoubtedly will continue to monitor market conditions in their respective businesses. Time will tell whether or not their prognostications for the future are accurate.

About the BCO

The British Council for Offices (BCO) is the U.K.’s leading member organisation representing the interests of all those who occupy, design, build, own or manage offices in the U.K. Since inception in 1990, the BCO has provided thought leadership and best practices in all issues related to the creation and use of office space - through to its research, awards, conference and events programmes.



On the Web at www.bco.org.uk

About BOMA International

The Building Owners and Managers Association (BOMA) International is an international federation of more than 100 local associations and affiliated organizations. Founded in 1907, its 16,500-plus members own or manage more than nine billion square feet of commercial properties. BOMA International’s



mission is to enhance the human, intellectual and physical assets of the commercial real estate industry through advocacy, education, research, standards and information.

On the Web at www.boma.org.

Additional Information on Sustainability Standards Referenced in the Survey

The Building Research Establishment's Environmental Assessment Method (BREEAM) and it was first launched in the U.K. in 1990. It sets the standard for best practice in sustainable building design, construction and operation and has become one of the most comprehensive and widely recognized measures of a building's environmental performance.
On the Web at www.breeam.org

Leadership in Energy and Environmental Design (LEED) was developed by the U.S. Green Building Council (USGBC) in March 2000. It provides building owners and operators with a framework for identifying and implementing practical and measurable green building design, construction, operations and maintenance solutions.
On the Web at www.usgbc.org

Green Star is a comprehensive, national, voluntary environmental rating system that evaluates the environmental design and construction of buildings. It was launched in 2002 by the Green Buildings Council of Australia.
On the Web at www.gbca.org.au/