

RESEARCH

WINTER 2005/06

Survey of
Property Trends
Commercial Property –
Meeting the Needs of Business

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Introduction

As part of the regular CBI / GVA Grimley survey of property trends, conducted in November 2005, we questioned respondents on the ability of their operational property portfolio to meet the challenges of the continually changing business environment.

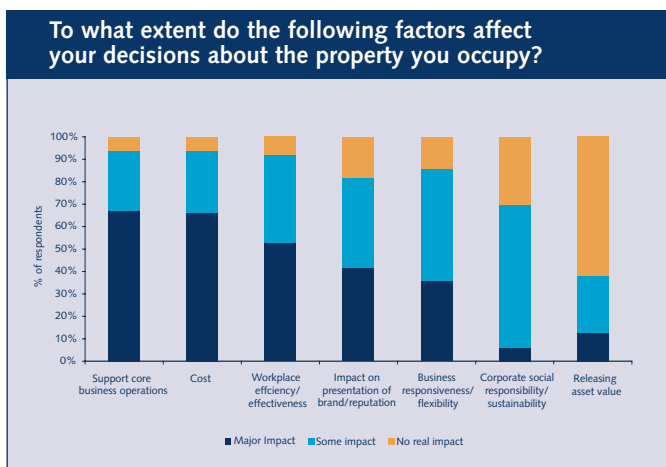
Do businesses have processes in place to assess the performance of the properties that they occupy?

65% of respondents reported having processes in place to assess the performance of the properties that they occupy, whilst 35% did not have such processes. However, the results varied sharply according to the business sector of the respondent. For the three manufacturing sectors (SIC 2-4), less than half of respondents reported having processes in place (ranging from 37% in SIC 2 to 45% in SIC 4). In contrast, 71% of respondents in SIC 8 (banking, finance, insurance and business services) reported having a process in place, whilst for SIC 6 (including distribution and retailing), this figure rose to 82%.

As might be expected, the size of the business also had an impact on the response. More than two thirds of businesses employing over 500 people reported having processes in place. For businesses employing 200-499 people, this fell to 60%, and for those with 50-199 employees, the figure was only 48%. For respondents with less than 50 employees, this figure fell sharply, with just 18% reporting having processes in place.

What factors are important when businesses make decisions about the property they occupy?

Respondents were asked to rate seven factors according to whether they make 'no impact', 'some impact' or have a 'major impact' on their decisions about which properties to occupy.



The ability of a building to support core business operations was, understandably, the most important factor, and was scored as having a major impact on decisions by 67% of respondents, and as having some impact by a further 27% of respondents. This was closely followed by cost factors, which was scored as having a major impact by 66% of respondents, and as having some impact by a further 28%. 53% of respondents thought that the efficiency and effectiveness of the workplace had a major impact (with a further 39% scoring this as having some impact).

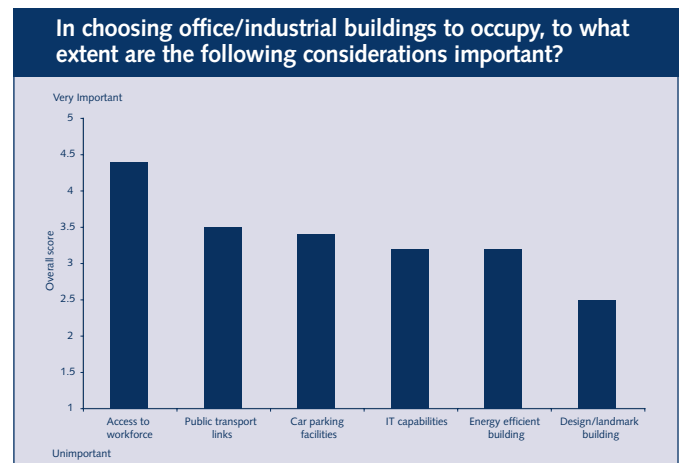
The way in which property impacts upon the external perception of the business was thought to have a major impact on decision-making by 41% of respondents, and to have some impact by another 40%. Meanwhile, issues around flexibility were rated as having a major impact by 36% of respondents, and some impact by 50%.

At the other end of the spectrum, issues surrounding Corporate Social Responsibility (CSR) and sustainability were only considered to have a major impact by 6%, although 64% stated that this would have some impact upon their decisions. It would therefore appear as though the notion of CSR is now well established when corporates take decisions on the property they occupy, with 70% of respondents taking this into account to at least some extent.

The ability to realise asset value produced the lowest overall score, with just 13% stating that it would have a major impact on their decisions, and only a further 25% stating that it would have some impact. This is the only factor of the seven which was not considered at all by more than half of the respondents.

What factors affect the choice of office and industrial property?

Respondents were asked to rate six factors in terms of their importance when choosing an office or industrial building (on a scale of 1 to 5, where 1 was unimportant and 5 was very important). Clearly, locational factors are the key to decision-making, with access to the workforce producing by far the highest score of 4.4, indicating a very high degree of importance. Public transport links were the second most important factor, scoring 3.5. The transport theme continues in the third most important factor, car parking, which scored 3.4.



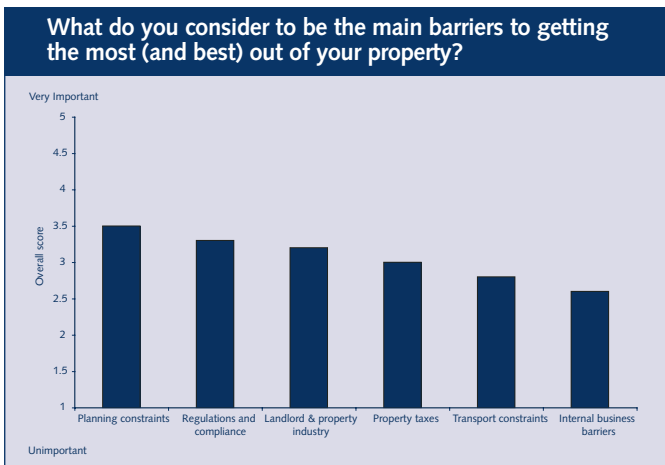
IT capabilities scored 3.2, indicating a moderate level of importance. A somewhat surprising result is that occupying an energy efficient building also scored 3.2. This could indicate that the Climate Change Levy (a fixed rate tax on energy use introduced in 2001) is having an impact on decision making, or that companies are taking wider environmental issues seriously. The design and external appearance of the building produced the lowest score, at 2.5.

What do businesses consider to be the main barriers to getting the most (and best) from their property?

Respondents were asked to rate six barriers to optimum property performance (on a scale of 1 to 5, where 1 was unimportant and 5 was very important).

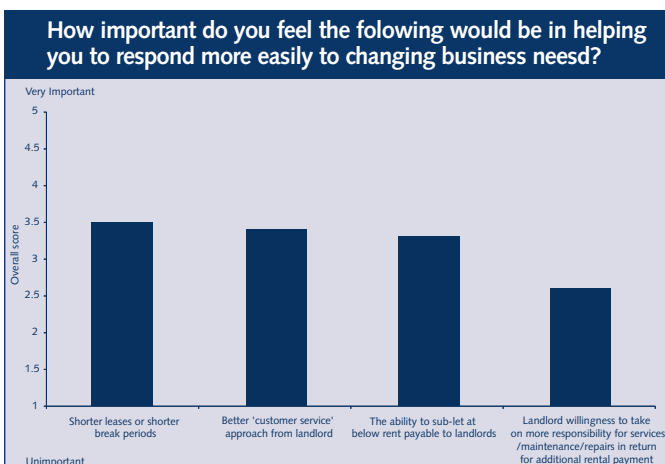
Planning constraints were considered the most important barrier, scoring 3.5. Regulation & compliance scored a slightly lower 3.3, whilst 'landlord and property industry' scored 3.2. Property taxes scored 3.0, whilst transport and internal business barriers were the least important constraints, scoring 2.8 and 2.6 respectively.

Overall, therefore, there were not significant differences between any of the constraints listed, and all were regarded as relatively moderate constraints.



What factors would help companies respond more easily to changing business needs?

Respondents were asked to rate four factors that could potentially help them to respond better to changing business needs (again using a rating where 1 is unimportant and 5 is very important). Three of the four options produced similar scores of 3.3-3.5, as the chart shows, indicating that they are moderately important (these were shorter lease/break periods, a better 'customer service' approach from landlords, and the ability to sub-let at below the rent payable to the landlord). The other factor – the willingness of landlords to take on more responsibility for services, maintenance and repairs (in return for additional rent) – scored a lower 2.5, indicating a somewhat lower level of importance.

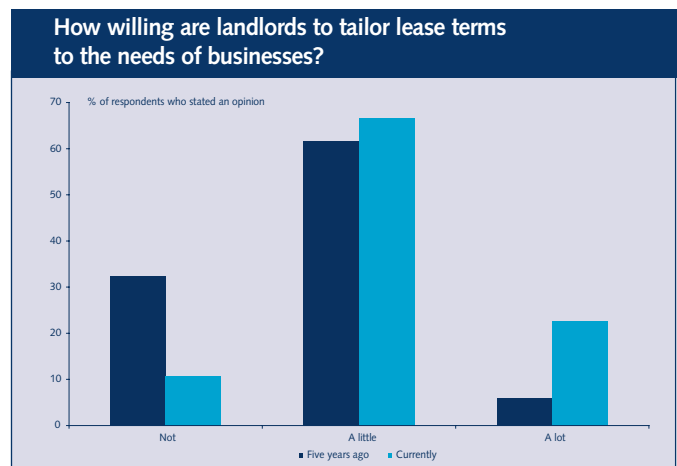


How willing are landlords to tailor lease terms to the needs of businesses?

Respondents were asked whether landlords are currently willing to tailor lease terms to the needs of their business (either 'not at all', 'a little' or 'a lot'). They were also asked their opinion on the situation five years ago.

The results indicate that landlords have become more willing to align lease terms with business needs over the last five years. Of those who expressed an opinion, only 11% thought that landlords are not currently at all willing to offer flexible lease terms, compared with almost a third (32%) believing this to be the case five years ago. Conversely, nearly 23% of respondents believe that landlords currently offer a high degree of flexibility, whilst only 6% believe that this was the case five years ago.

This is positive news for the property industry, as it indicates that landlords are becoming more flexible in the terms that they offer to tenants. It is also positive that two thirds of respondents believe that landlords now offer them at least some flexibility – lease terms are, after all, agreed as a result of a process of negotiation, and should balance the needs of the landlord and tenant.



Conclusions

Commercial property, by its very nature, is bound to act as a constraint on the ability of businesses to implement change. This stems not only from the obvious physical difficulties in adapting buildings or relocating from one area to another, but also from the need to resolve conflicting interests – for example the need of landlords for long-term security of income versus the need of tenants for flexible lease terms.

The overall results are therefore encouraging, as they indicate that businesses see the property they occupy as only a moderate constraint to meeting their changing needs.

The survey indicates that corporate occupiers perceive an improvement in the willingness of landlords to make lease terms more flexible, with the vast majority of respondents believing that landlords offer them at least some flexibility.

The survey also appears to suggest that issues to do with location (notably access to a suitable workforce) are regarded as higher constraints than those to do with the buildings themselves.

It is noteworthy that more than one third of the respondents do not have a process in place to monitor the performance of their operational property, even though property is regarded as a constraint to adapting to changing business needs (albeit a moderate one). This was particularly the case for smaller companies, and those in the manufacturing sector.

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