

QUANTIFYING THE COOL FACTOR IN REAL ESTATE

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Have you noticed that every time you open a trade magazine or business journal, you find a piece showcasing a company's "cool" real estate?

Of course, "cool" means different things to different people, and while there are many ways to pump up a property's wow factor, tenants may have drastically different visions when they tell real estate advisors they want their new space to have a cool vibe.

Transwestern asked its top tenant advisors from across the country, the vast majority of which have been in the business for more than 15 years, for their opinions regarding what clients really want when they ask for cool space. What was found through survey questions and follow-up discussion is

that cool real estate – like a snazzy sports car or the newest tech gadget – is nice if you can get it, but typically does not drive real estate decisions. **For most tenants, physical space first and foremost must prove functional, practical, and cost-effective; the cool factor is icing on the cake.**

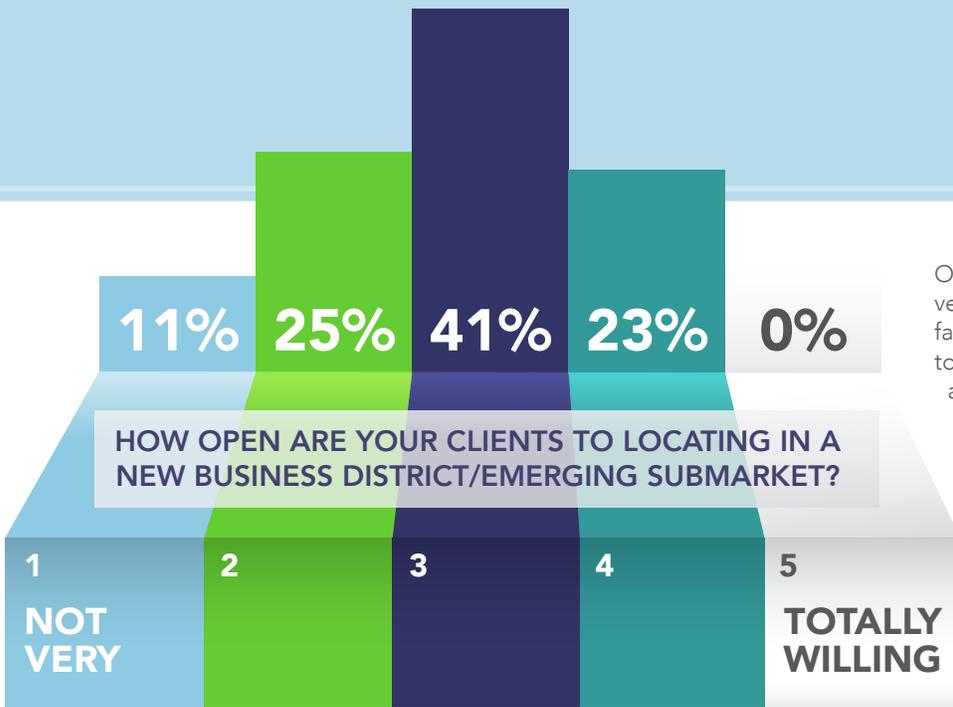
The responses of 45 survey participants to some of the questions addressing internal and external cool factors are included here, providing some insight into what occupiers of real estate may desire and how important these elements are when it's time to sign a lease.

Although a lot of attention is paid to up-and-coming submarkets in metros around the country, two-thirds of survey respondents felt that the property itself, rather than the submarket in which it is located, has the most impact on "the cool factor." However, in certain markets, such as Boston and Chicago, submarkets play a larger role and a cool building "in the middle of nowhere" will not achieve the desired impact.

WHEN IT COMES TO REAL ESTATE, WHAT HAS THE MOST IMPACT ON "THE COOL FACTOR"?

Responses indicated that the majority of clients view locating in a new business district or emerging submarket as a risky proposition, with zero percent of advisors indicating their clients are totally willing to be trendsetters in an up-and-coming market. For some clients, cool is a mindset, not a location, and therefore the risk is not warranted.



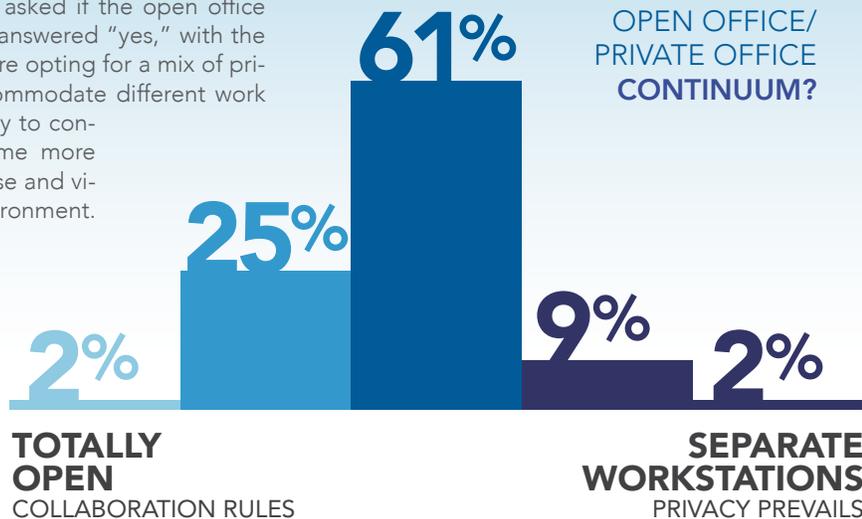


Only 32 percent of the advisors surveyed indicated that “outside the box” factors, such as a location’s accessibility to public transportation, good schools, and walkability to shopping and dining, were more important than factors “inside the box.” In other words, in-building conveniences such as an on-site cafeteria and a security desk still rank higher on tenants’ desired amenities lists than those offered by the immediate neighborhood, although this mindset is quickly shifting due to the attitudes and preferences of the younger generation.

When it comes to the “coolness” of the property itself, no topic has been debated more enthusiastically in recent years than the open office concept, with strong arguments voiced for and against this workplace design. When asked if the open office concept is a fad, 59% of the advisors answered “yes,” with the majority indicating that their tenants are opting for a mix of private offices and open spaces to accommodate different work styles and functions. This trend is likely to continue, as space planners have become more sophisticated in how they address noise and visual distractions in an open office environment.

In spite of this opinion, more than two-thirds of the respondents reported that communal space for relaxing and socializing – whether a breakfast bar, lounge area with sofas, or game room – is essential for attracting and retaining high-quality talent. This underscores the value placed on collaboration and social bonds within an office environment, even if it does not always extend to individual workspaces. And in some cases, adding communal space while increasing workstation density has resulted in lower overall space needs.

WHERE ARE TENANTS’ PREFERENCES CURRENTLY FALLING ON THE OPEN OFFICE/ PRIVATE OFFICE CONTINUUM?



FIRMS LIKE GOOGLE, MICROSOFT...

and a stable of smaller tech firms have captured the spotlight for the unique features built into their workspaces, such as slides to travel from floor to floor, swings in place of traditional chairs, and spa-like napping pods for rest and relaxation. However, when asked what concepts have the strongest appeal among the general corporate occupier population to bump up the cool factor, respondents leaned toward more mainstream workplace elements, such as bright colors, striking décor (e.g. themed conference rooms), or a recreation room with a pool table, putting green and video games.



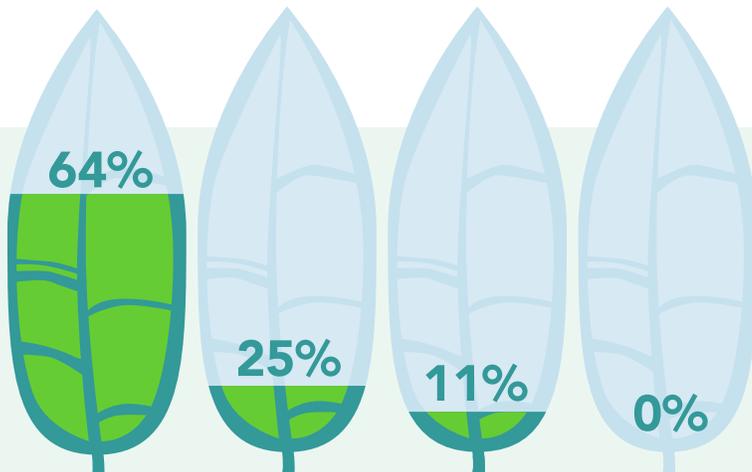
TWO REASONS FOR THIS CONSERVATIVE APPROACH:

1

These are relatively cost-effective features that are easy to integrate into space planning and offer benefits to a large segment of the employee population.

2

There is little to no hard data to date on how more whimsical design elements affect workplace productivity.



"NONE"

"1-5%"

"5-10%"

">10%"



IF ALL OTHER FACTORS WERE EQUAL, HOW MUCH OF A PREMIUM WOULD YOUR CLIENTS BE WILLING TO PAY FOR SPACE IN A LEED-QUALIFIED BUILDING?

SUSTAINABILITY

Sustainability initiatives are oftentimes cited as a way to increase the desirability of a property. Yet nearly two-thirds of respondents reported that if all other factors are equal, clients are not willing to pay a premium for space in a LEED-qualified building. This reinforces the fact that, while it may be cool to be green, advisors need to demonstrate the operational cost savings that result from these efforts.

Interestingly, the measures of return on investment are rapidly evolving when it comes to sustainability. It's no longer simply a measure of energy and water usage. A great deal of research is examining the ways "healthy" buildings affect employees' productivity. In addition, the younger workforce is more inclined to align their workplace with their values.

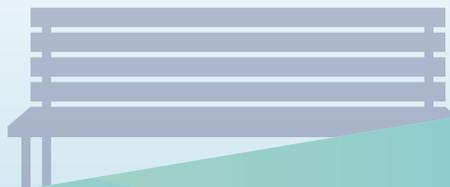
STYLE OF BUILDING

External building characteristics can also influence the cool factor of real estate and make a significant impression on a company's employees and customers. Respondents were asked to pick one building style that, from an office tenant's perspective, epitomizes "cool" today. More than half pointed to an industrial property conversion in an emerging market. Approximately one quarter selected a steel and glass skyscraper in the central business district. The rest were divided between a turn-of-the-century masonry property (12 percent) and an updated mid-century modern building (7 percent).

Regardless of property type, it was agreed that the ability to transform old to new subtly communicates to employees and customers that a company is creative and visionary.

Respondents then were presented a choice of four specific exterior features and asked to select which one best communicated "cool" from a tenant's perspective. An outdoor plaza with hardscape seating was selected by more than half of the survey participants. Approximately one quarter of the respondents selected custom design elements/artwork, and pointed to many companies' efforts to create a unique personality that distinguishes them from the competition. Green features, such as bike racks/electric car charging stations and lush landscaping followed with 12 percent and 10 percent, respectively. This highlights the fact that while tenants may believe sustainability initiatives are important, they are not necessarily the drivers of cool.

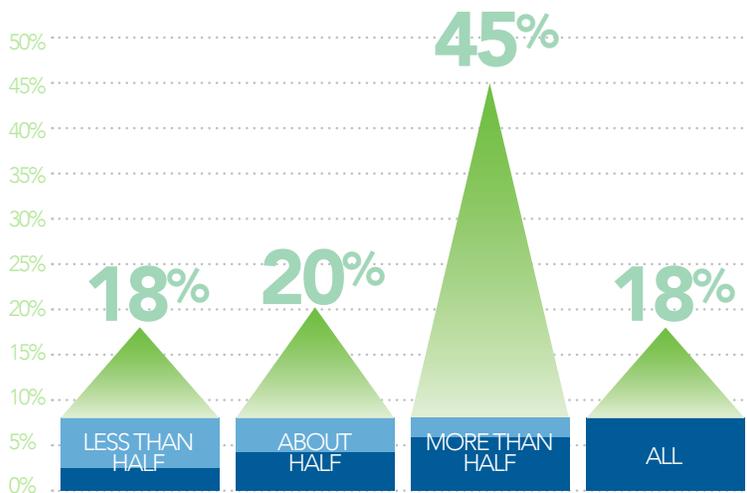
WHAT BUILDING STYLE COMMUNICATES COOL FROM A TENANT'S PERSPECTIVE?



COMPANY IMAGE

Most of the survey respondents indicated that they expect to complete a transaction within the next month. Based on their experience, 45 percent said that in more than half of transactions, the company's image is a significant factor in its location decision; 18 percent said image is a significant factor in *all* transactions.

IN WHAT PERCENTAGE OF YOUR TRANSACTIONS IS THE COMPANY'S IMAGE A SIGNIFICANT FACTOR IN LOCATION DECISIONS?



Perhaps even more telling is the fact that 60 percent of respondents believe that a company's real estate is equally important to or more important than marketing and advertising when it comes to communicating a company's brand. In fact, some advisors would go so far as to argue that real estate decisions have become part of a company's overall marketing program. So while there are limits to how much a company is willing to invest in ensuring its real estate portrays a certain image (in this case, cool), understanding how a company views itself and how it wants to be perceived in the marketplace is certainly a factor that savvy tenant advisors cannot afford to overlook.

ABOUT TENANT ADVISORY SERVICES

Tenant Advisory Services goes far beyond real estate transactions, helping companies get extra value from their real estate through a creative, disciplined approach that challenges conventional industry thinking. Whether for a single property or a global portfolio, our team takes a holistic view of every assignment, considering a host of factors such as business drivers, existing markets, growth strategies, logistics, productivity metrics, sustainability goals and cost savings opportunities.

With hundreds of tenant advisors throughout the country, Transwestern's experience spans office, industrial, retail, healthcare and other property types. By understanding how each client's real estate objectives fit within the larger goals of the organization, we're able to deliver better solutions that achieve bigger results – results that are measured by increased efficiencies, reduced costs and smarter workplace designs.

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