

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



June
2010

An Italian on-field research



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Aim of the research



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- ✓ 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

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



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Milan	2002	2003	2004	2005	2006	2007	2008	2009	2010 (partia
Vacant Space (m2)		550000	660000	800000	925000	825000	765000	860000	1106000
Vacancy rate	5%	6%	6%	8%	9%	7%	7%	7%	9%
Stock									11686000
Office Take-up									
'000 m ²	379.000	214.800	232.600	223.300	272.200	277.500	314.000	220.200	182.000
Rome	2002	2003	2004	2005	2006	2007	2008	2009	2010 (partia
Vacant Space (m2)			510000	520000	550000	530000	600000	622000	622000
Vacancy rate	4%	5%	5%	5%	6%	5%	6%	6%	6%
Stock									9700000
Office Take-up									
'000 m ²				130.000	210.000	188.900	124.500	115.500	86.000

Source: BNP Paribas Real Estate

Office Market

Milan and Rome Transaction Area Bands



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Milan					
Area Band (m²)	Center	Semi Central	Periphery	Hinterland	Total
500 - 1,000	37.491	21.867	36.930	4.954	101.242
1,000 - 3,000	130.150	112.943	123.354	61.050	427.497
3,000 - 6,000	99.300	147.200	161.880	104.300	512.680
> 6,000	65.000	301.000	331.600	188.985	886.585
	331.941	583.010	653.764	359.289	1.928.004
Area Band number of transaction	Center	Semi Central	Periphery	Hinterland	Total
500 - 1,000	53	32	56	8	149
1,000 - 3,000	75	66	75	36	252
3,000 - 6,000	25	36	42	28	131
> 6,000	7	25	33	20	85
	160	159	206	92	617

Rome					
Area Band (m²)	City Center	Greater EUR	Periphery	Periphery	Total
< 500	10.290	5.281	0	1.521	17.092
500 - 1,000	15.907	5.200	0	1.388	22.495
1,000 - 3,000	46.831	19.773	0	12.225	78.829
3,000 - 6,000	33.220	31.340	13.548	9.705	87.813
> 6,000	33.100	91.460	0	51.000	175.560
Total	139.348	153.054	13.548	75.839	381.789

Source: BNP Paribas Real Estate



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Take-up and existing stock

Market status



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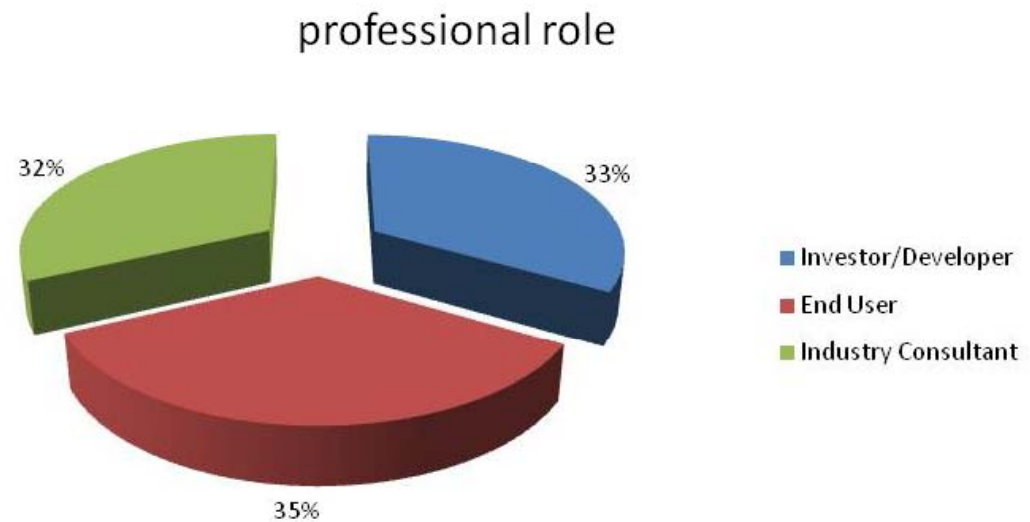
- ✓ Office take-up is still declining, vacancy rate is still raising
- ✓ Most attractive Area Bands (# of transactions) are in the 1.000 – 3.000 sqm range and across districts
- ✓ Smaller areas are more for city center, Larger areas are more for external locations

Q1. Research answering partners Profiles and Methodology



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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)

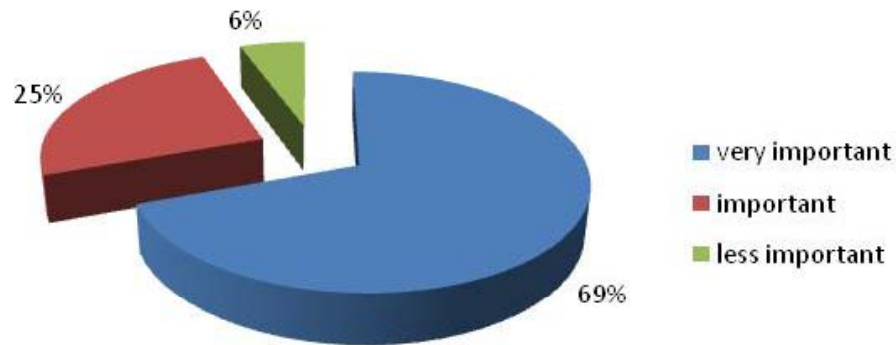
Q2. Creating a building short list:

“when choosing a building - price apart - how do you rate these following factors?”

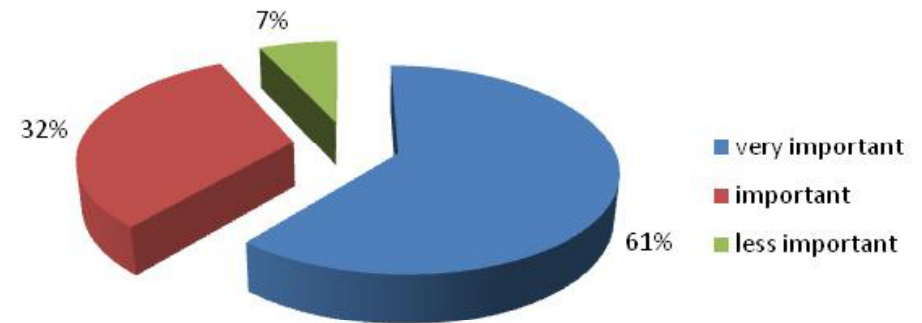


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good public transport infrastructures



location



building technical features



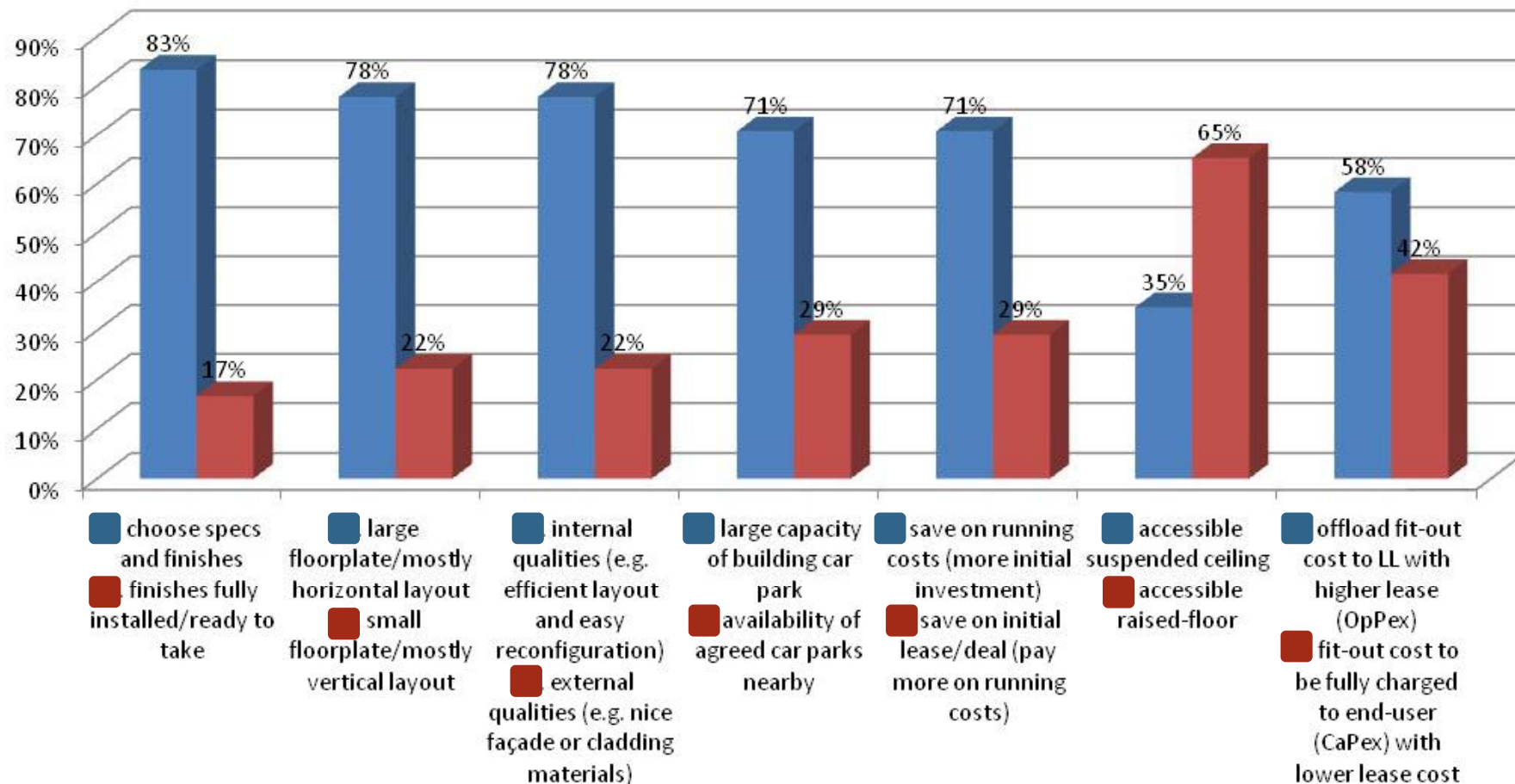
no significant differences between various groups responses

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?”



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Q3. Refining the choice - key features

Professional groups responses are different



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End-Users's choice

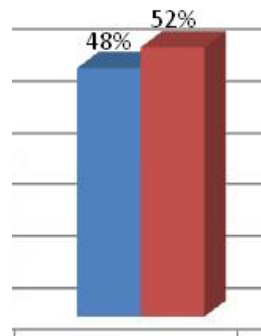
- 1° large floorplates and large ancillary car park
- 3° internal qualities
- 4° choose specs / finishes
- 5° save on running costs

Investor's choice

- 1° choose specs / finishes
- 2° raised floor
- 3° internal qualities
- 4° large ancillary car park
- 5° offload fit-out costs and large floorplates

Consultant's choice

- 1° choose specs / finishes
- 2° large floorplates and save on running costs
- 4° internal qualities
- 5° offload fit-out costs



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



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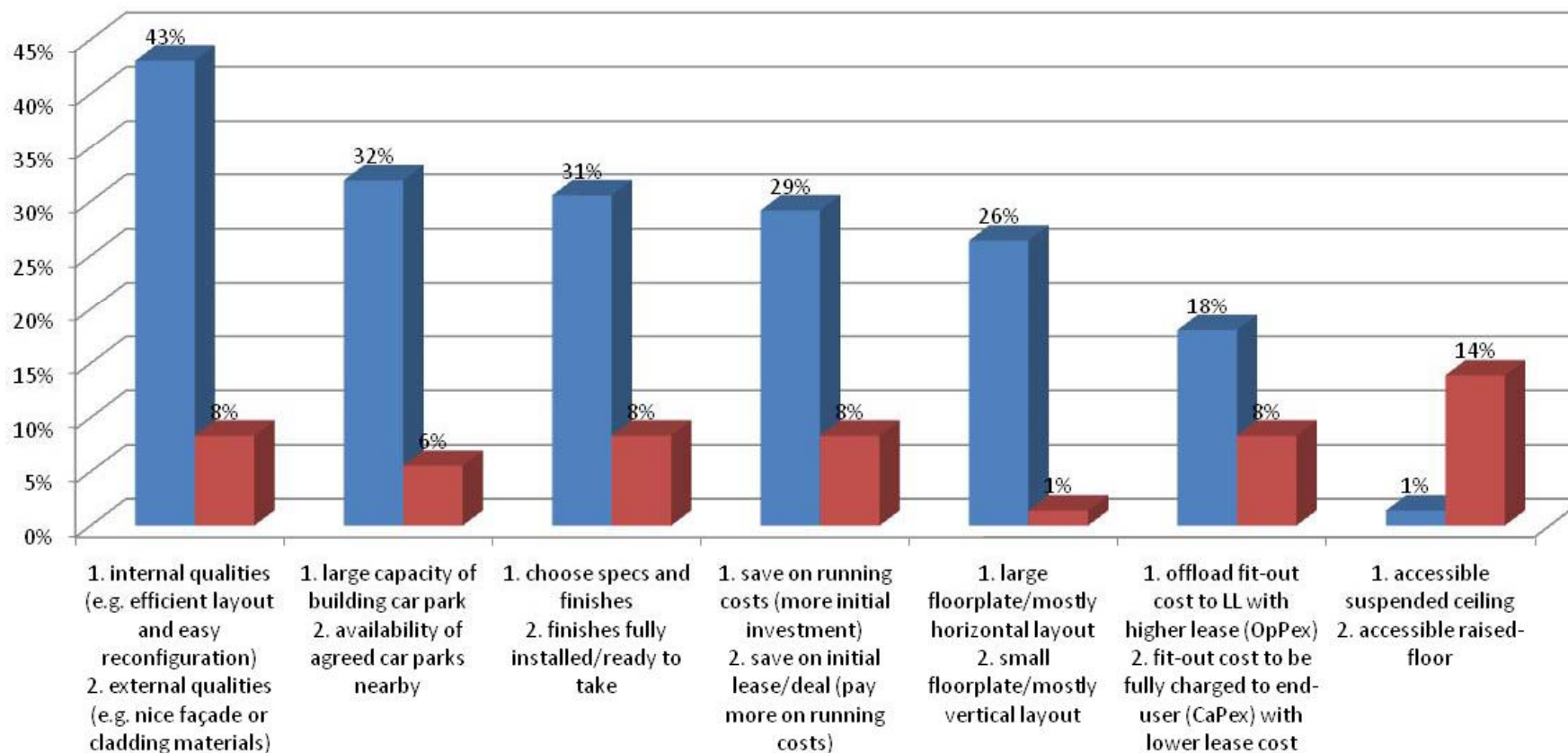
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Q4. Premium features: “For which of the previously listed features would you be ready to pay an additional bonus?”



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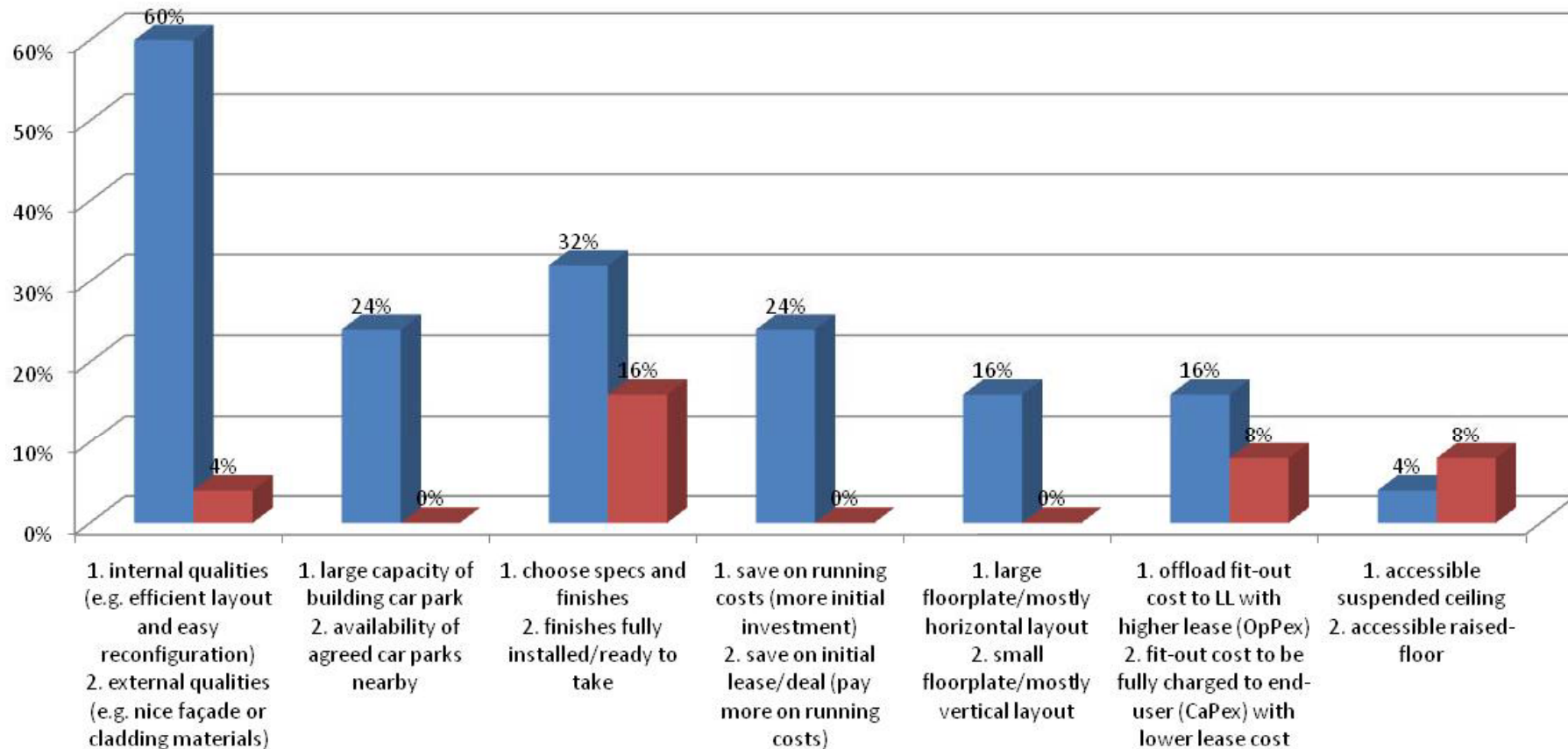


Q4. Premium features: End-Users

“For which of the previously listed features would you be ready to pay an additional bonus?”



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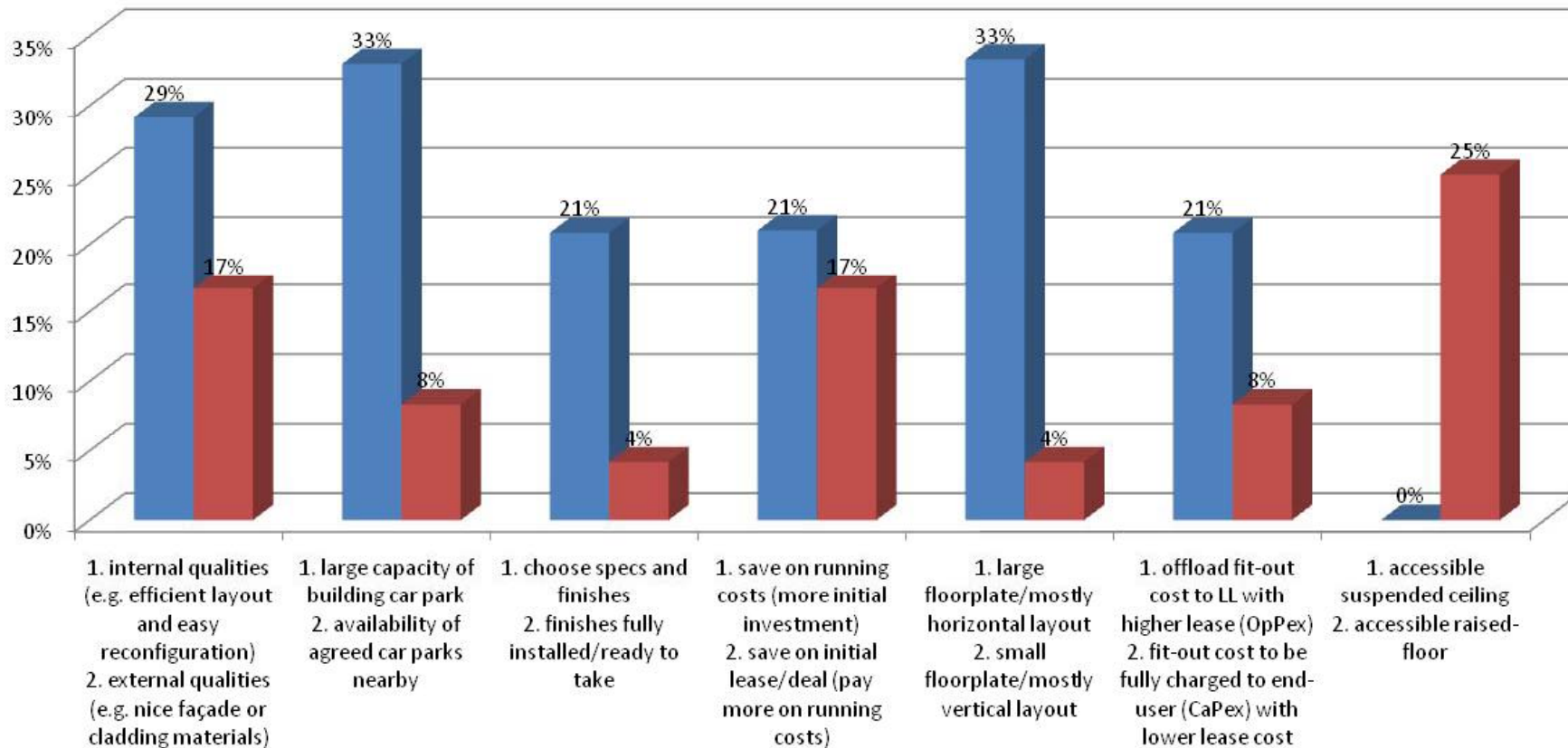


Q4. Premium features: Investors / Developers

“For which of the previously listed features would you be ready to pay an additional bonus?”



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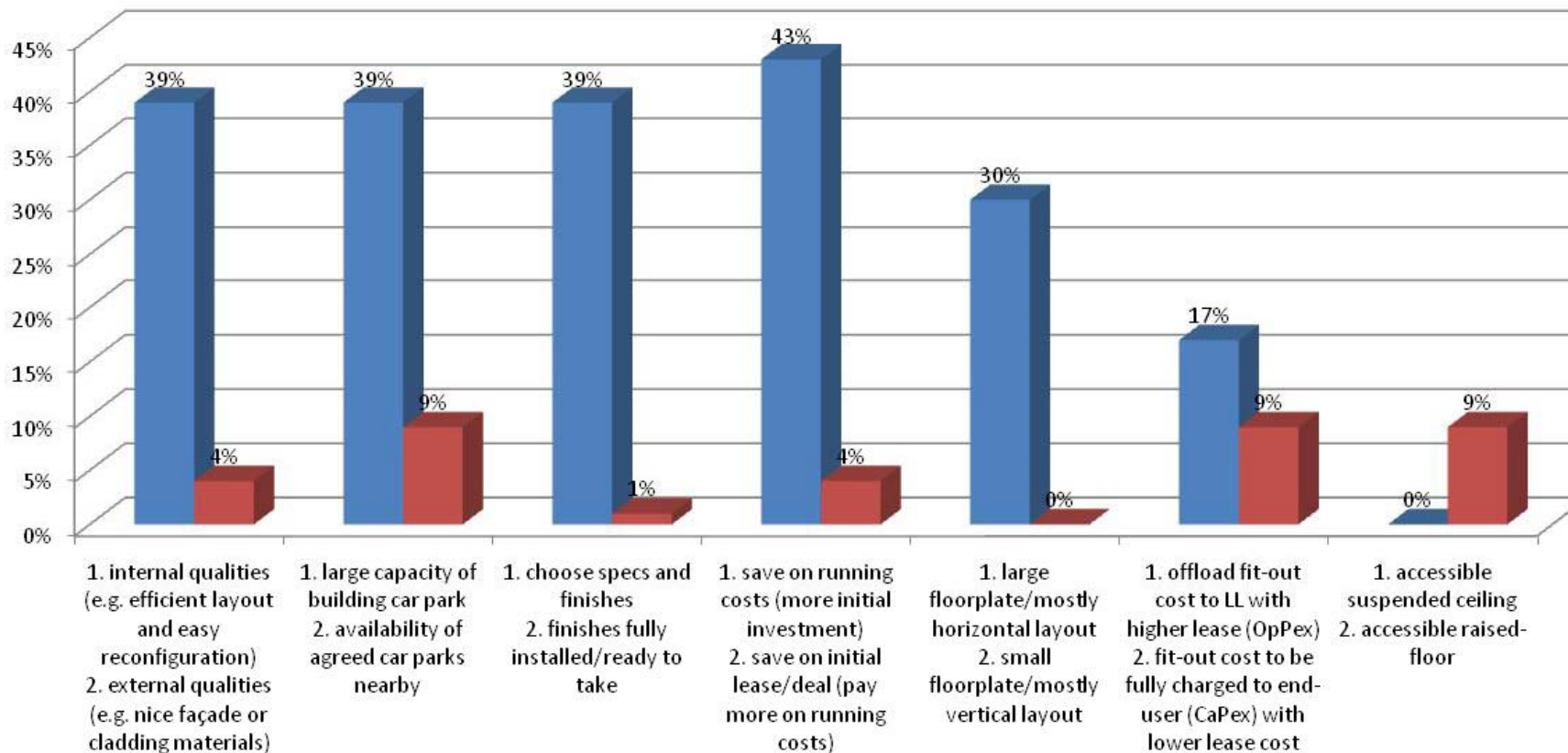


Q4. Premium features: Consultants

“For which of the previously listed features would you be ready to pay an additional bonus?”



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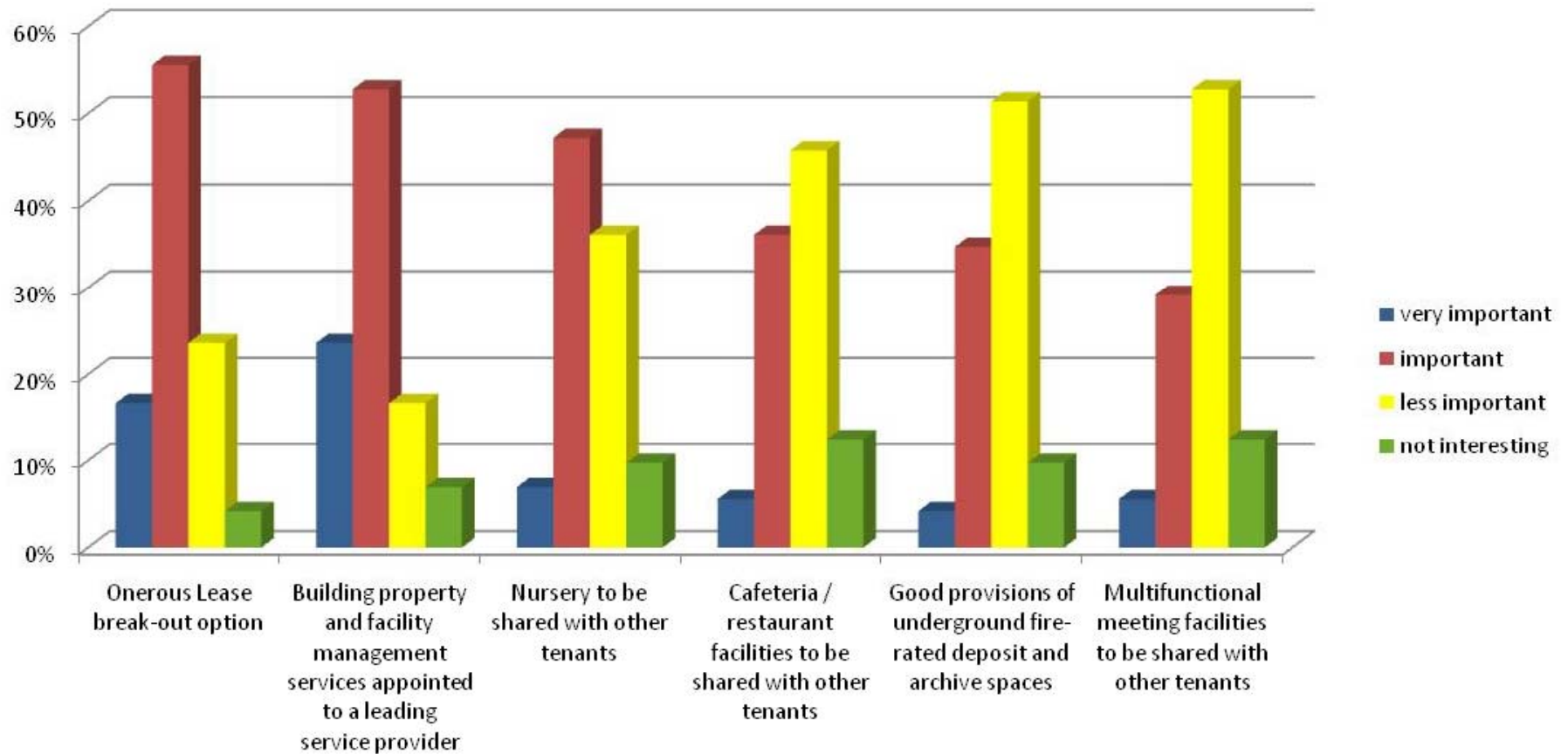
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Q5. Commercial and services "How do you rate the following opportunities?"



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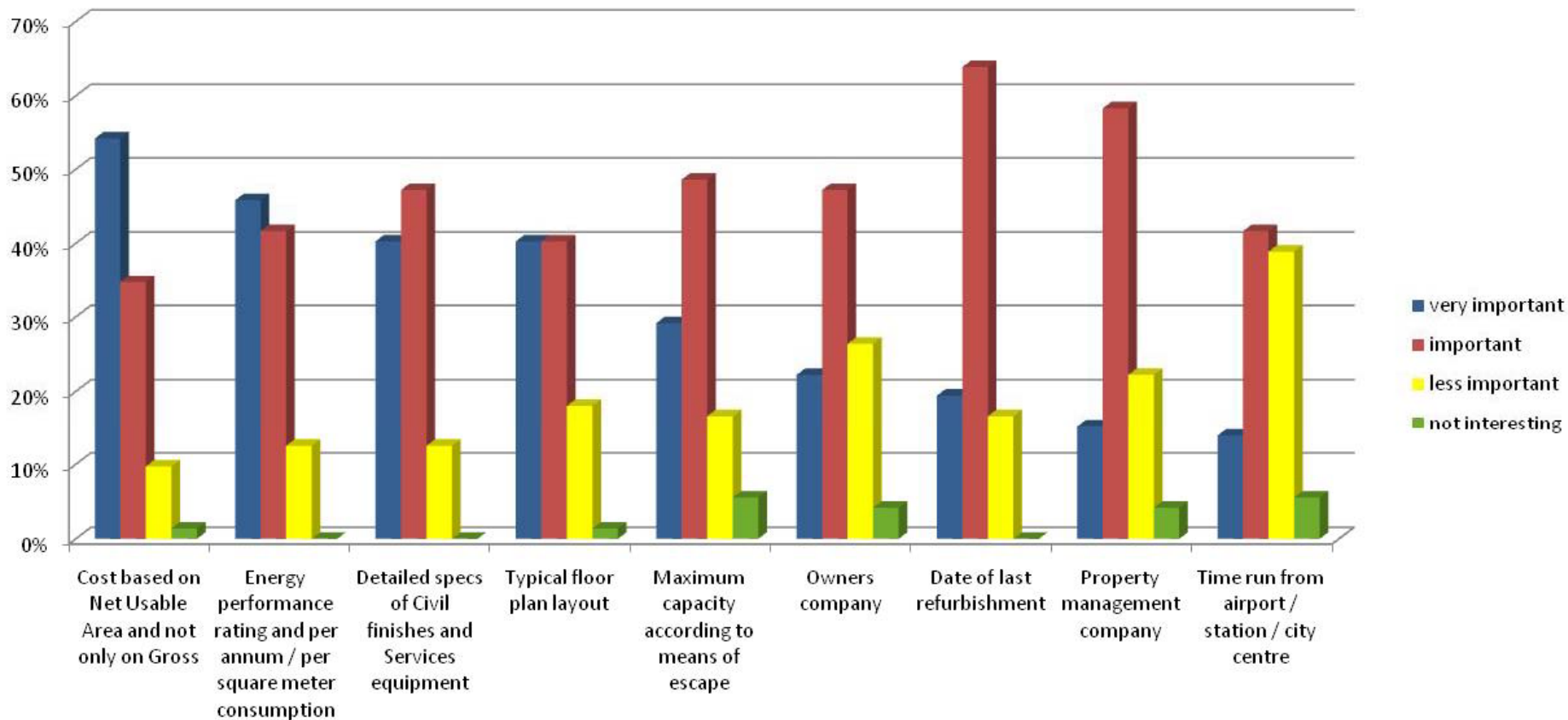


no significant differences between various groups responses

6. Marketing: "Which of the following information would you like to appear on a building brochure?"



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no significant differences between various groups responses

Take-up: Factors that make the difference

Research hints 1



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- ✓ 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



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- ✓ 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