

Evaluating office investments *for* attracting talent

Today's corporate tenants are increasingly utilizing their office space as a tool to compete for the best workers. Buildings that provide four key variables for attracting top talent rank highest in value for office investors.

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Investors are changing the way they evaluate office acquisitions as they recognize the role of talent in corporate America's real estate decisions. Achieving a mix of culture, amenities and work/life balance is key to drawing talent to companies.

The modern workplace is becoming a key differentiator in the market, helping top companies to bring in and keep the very best employees. According to *Work Design Magazine*, forward-looking organizations are rapidly merging human resource and real estate functions to create a formidable weapon in the war for talent.¹

But what specifically is attracting skilled workers to companies or markets? And how can today's office owners and investors leverage this momentum?

There are four key variables KBS uses when evaluating office properties and leveraging the proximity of talent pools in specific markets.

1 Location: Watch for continuing growth in secondary urban nodes

Location begins with focusing on strong office markets throughout the country with solid job growth, excellent infrastructure and proximity to major universities. Along with primary gateway markets, office growth is occurring in nodes within secondary markets with sustainable, growing economies and projected long-term growth. Examples include Austin, Raleigh, Salt Lake City and Portland, Oregon.

Proximity to transit plays a vital role in the location of office assets. Accenture Tower in Chicago, for example, is situated directly above Ogilvie Transportation Center, one of the main suburban train stations connecting downtown Chicago to the suburbs. This gives office tenants at the property direct access to city trains, buses and expressways.

¹ Marie Puybaraud, Why Real Estate and HR Are Better Together, *Work Design Magazine*, July 2018.

² Jillian Richardson, The Office of the Future is Like a Full-Service Hotel, Catalyst by Convene.



Another significant factor is walkability. Talent pools are attracted to areas where they can easily walk to dining, shopping, fitness facilities and daily-needs retailers during the workday. Walk Score is a valuable tool to use when assessing transit orientation and walkability in office investments. The platform scores over 20 million properties each day based on the expertise of its advisory board, which includes urban planning, environmental and technical experts from institutions such as the Sightline Institute and the Brookings Institution.

2 Amenities: Integrate offerings that promote work/life balance

Amenities in some office properties are becoming more luxurious and hospitality-like. In fact, Convene reports that the office of the future is akin to a full-service hotel with offerings including fitness and

wellness centers, swimming pools, concierge services, restaurants and even gourmet chefs on demand.²

While luxury amenities are appealing, today's office tenants are actually seeking something more fundamental: amenity offerings that help them with their everyday needs. As time is the most in-demand commodity, properties that offer time-saving options will best leverage this demand.

The Meier & Frank Building, a 16-story mixed-use property owned by a KBS client portfolio and Sterling Bay Development in Portland, provides tenants with a 15,000-square-foot amenity floor featuring a professionally operated spin/yoga/meditation room, a full fitness room with available personal training, showers and a bike storage facility equipped with 200 bike parking spaces, lockers and drying closets, which are ventilated compartments designed to dry clothing throughout the day. Tenants particularly appreciate this

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property's bike amenities because many Portlanders bike to work and can then safely store their bikes and dry off before the workday begins.

While many office property owners choose to provide a wide array of building features in order to stay competitive, it is possible to invest too much capital in amenity offerings. Focusing on the amenities that most tenants at each property want, and will use, is a more effective strategy.

³ Robert Carr, Data Links Sustainability with Office Tenant Satisfaction, NREI, February 27, 2015.

Quantifying amenity value

While premium amenities are a cornerstone of attracting top talent, how does the cost of providing these amenities compare to the returns they yield?

On performing a cost-benefit analysis on amenities:

Well-amenitized buildings help attract and retain top-tier tenants, which typically more than compensates for the cost of any value-added improvements.

On quantifying metrics, such as a WalkScore rating:

Establishing the premium is about what the whole experience is worth to office tenants. That experience — location, good real estate “bones,” the best amenities package in the city and well-executed building programming — creates a sense of community for the tenant that is difficult to quantify. However, it has the potential to generate strong occupancy and rental rates in a short period of time and appeals to existing tenants choosing to renew or expand their lease.

On deciding on amenities to add to properties:

The amenity must correspond to the specific needs of the tenants at that particular property and must have the potential to add significant value to the property. The new generation of talent moving up through the ranks is increasingly seeking environments where they can walk to great restaurants from work.

At 201 Spear Street in San Francisco, we recently introduced Gozu, an open-fire chophouse with a tasting menu that spotlights Japanese Wagyu beef, seafood and whisky. A dining experience like Gozu works in such a location and appeals to that type of tenant.

In Portland, where cycling to work is common and the weather is often rainy, a bike room with heated lockers is a great fit. At the Meier & Frank Building, we installed a bike storage and repair facility with drying lockers as part of the building’s “amenity floor.”

These amenities were selected because we know this is what existing and prospective tenants are looking for in these specific properties. Certain amenities make sense for certain properties in certain markets — the key is understanding each market, recognizing what tenants want and need, and then determining how much they would be willing to pay to have those amenities. There’s no simple formula for that — it is determined on a case-by-case basis.

On the applicability of high-end amenities to new developments:

Tenants are not always seeking a brand-new building. Many technology and creative firms prefer vintage buildings that have been upgraded with the latest amenities. We refer to these properties as “non-commodity assets.” Owners of older high-rise towers are staying relevant by adding amenity floors like we did at the Meier & Frank Building that provide a touch of culture and a place to relax. Older, retro buildings in great locations are often excellent candidates for modern amenities and are especially in demand.

A recent survey of more than 1,200 KBS portfolio property office tenants revealed that the most valued amenities include on-site dining and fitness offerings, overnight mail drop boxes, a conference facility or meeting center and recycling programs, among others (see Exhibit 1).

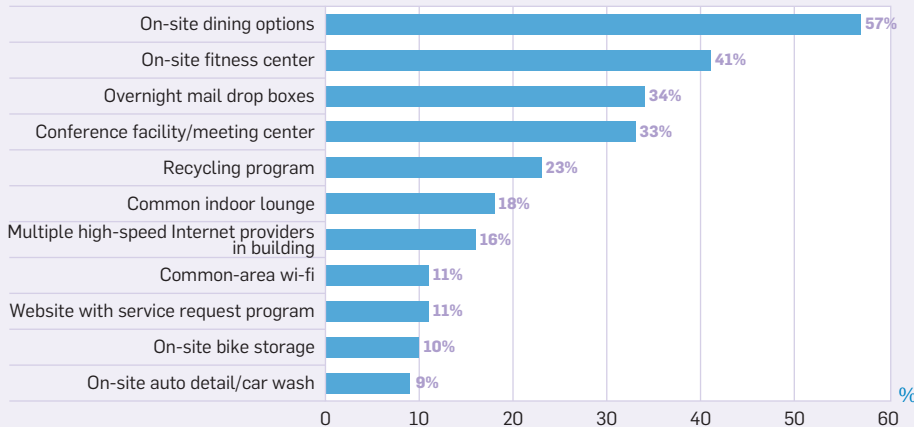
This research reveals that amenities that cater to tenants’ comfort, convenience and productivity are the most utilized, and it is these amenities that drive new and renewal leasing decisions. Knowing and understanding tenant preferences are essential when evaluating which amenities make the most sense for a particular property.

3 Physical property attributes: Focus on connectivity and sustainability

Connectivity is a necessity in modern office buildings, so much so that WiredScore was created to measure commercial properties’ connectivity levels. Buildings that meet a high bar for connectivity can achieve Wired Certification, which tenants are using as a metric to help determine a property’s desirability.

For example, Northland Center, a two-building, 465,000-square-foot Class A office park in the greater Minneapolis market, was awarded Wired Certified Gold status, indicating that it meets the international standard for cutting-edge Internet connectivity in office buildings.

Sustainability is another growing factor as tenants are increasingly concerned about climate change and protecting the environment. In fact, research shows that office buildings’ sustainability is directly related to tenant satisfaction.³

Exhibit 1: Most valued tenant amenities in office properties

Source: Kingsley Associates and KBS.

As office tenants make decisions about the space they will occupy, several sustainability certifications are increasingly garnering their attention, including LEED, BREAMM USA, Green Globes, WELL, Living Building Challenge, Zero Energy Building and Parksmart. These certifications are awarded to buildings that meet or exceed specific sustainability standards.

In addition, tenants are evaluating buildings' sustainability scores based on environmental, social and governance (ESG) factors, which assess the societal impact of their companies and helps determine their future financial performance.

4 Asset and property management: Community is key

The right management strategy can have a direct impact on tenant satisfaction and retention rates. While good managers respond quickly to tenant communications, excellent managers are proactive. This means conducting HVAC,

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electrical, plumbing and elevator systems checks before they are due, repairing and replacing roofs, upgrading restrooms and common areas, and refreshing flooring, lighting, carpeting and painting before they wear out or begin to look worn.

Beyond these basic requirements, tenants are also seeking a deeper connection with office ownership. This is a trend that will continue to grow in the years ahead. A proactive asset and property management strategy will address this need by engaging with tenants and integrating activities that create a sense of community within the building.

At Accenture Tower in Chicago, tenants and visitors are greeted by a personalized concierge and treated to weekly events such as “Sangria and Karaoke,” coupled with regular professional workshops and community-driven events that benefit local charities.

Activities can contribute to a shared positive culture, which in turn deepens tenants' connection to the property, helps them to attract top talent and increases the likelihood that they will renew their lease when the time comes.

Conclusion

Given the growing role of talent in real estate decisions across the country, vetting office properties on their ability to help tenants compete for talent in the current workforce is a sound strategy for future growth.

Paying attention to location — including market fundamentals in primary and/or secondary urban nodes, transit orientation and walkability — is key in partnering with tenants to compete for talent. In addition, amenities that support and promote work/life balance, market-leading connectivity and sustainability make a difference for these companies. Lastly, proactive, community-focused management remains critically important.

By evaluating and selecting the optimal combination of factors in office investment properties, investors can leverage the rising focus on talent in order to drive occupancy and support asset stability for the long term. ♦

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