

EXECUTIVE SUMMARY

Process Overview

BOMA International, in partnership with BOMA Canada, CBRE, the Property Council of New Zealand (PCNZ) and the South African Property Owners Association (SAPOA), recently commissioned Kingsley Associates to conduct the *2013 Global Tenant Survey*, a follow-up to a similar study conducted in 1999 by BOMA International and the Urban Land Institute. The survey was sponsored by Kimberly-Clark Professional, Mars Drinks, Rubbermaid Commercial Products and Waste Management. After working closely with these commissioning partners and sponsors to develop the survey questionnaire, Kingsley Associates programmed and hosted the web-based questionnaire on its proprietary survey system and provided specialized survey links and a sample instructional memo to each commissioning partner on March 8, 2013. Each commissioning partner then provided its respective link and memo to its members / employees, who then, in turn, delivered the link to primary contact persons representing tenants in office buildings they own / manage. The survey website was held open until April 15, 2013.

The questionnaire of the *2013 Global Tenant Survey* addressed tenant satisfaction (both overall and with various services and property features), property amenities, lease decision priorities, space use strategies and alternative work arrangements, attitudes toward green building practices, and important property and tenant characteristics (such as size, type, location, etc.). Kingsley Associates received 1,261 responses to the *2013 Global Tenant Survey*, including responses from tenants in the United States, Canada, South Africa and New Zealand. This report summarizes the results from responses received and provides comparisons across countries and selected markets within those countries. Following the question-by-question report, an analytical appendix is included that provides cross-tabulations of the results by various property and tenant characteristics.

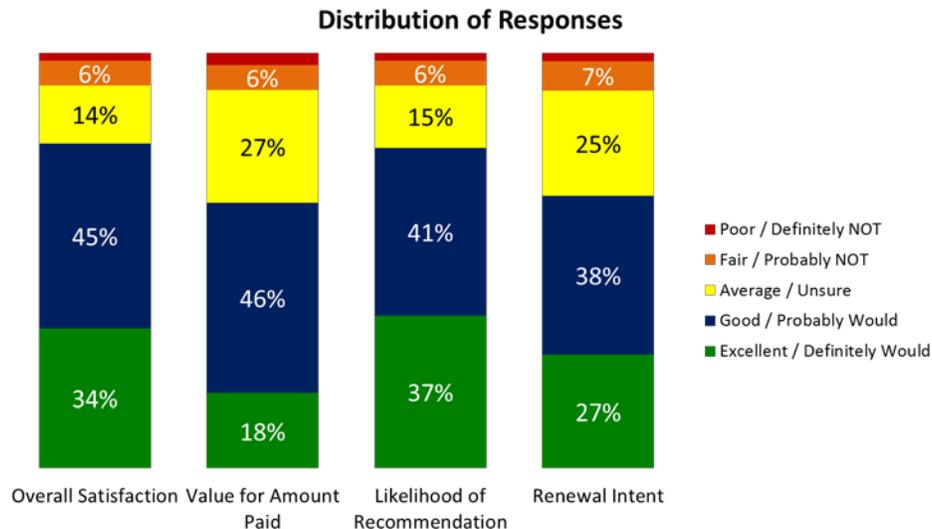
Note: Throughout the detailed report and appendix, results labeled "BOMA 2013" refer to the total of all respondents.

Tenant Satisfaction

Overall Satisfaction

On average, tenants responding to the 2013 Global Tenant Survey rated their satisfaction as a 4.04, or just over "Good" on the 1-5 scale where 1=Poor and 5=Excellent. Nearly 4 out of 5 (79 percent) of respondents indicated their satisfaction is either "Good" or "Excellent," while 78 percent responded that they "Definitely Would" or "Probably Would" recommend their building to a peer. In somewhat of a contrast to these results, tenants rated the value they receive for the amount paid at only 3.71, with only 64 percent indicating "Good" or "Excellent" value. A similar proportion (65 percent) responded that they "Definitely Would" or "Probably Would" renew their leases if they were to decide at the time of taking the survey. (Note: see Figure 1 below for the full distribution of responses to these questions.)

Figure 1

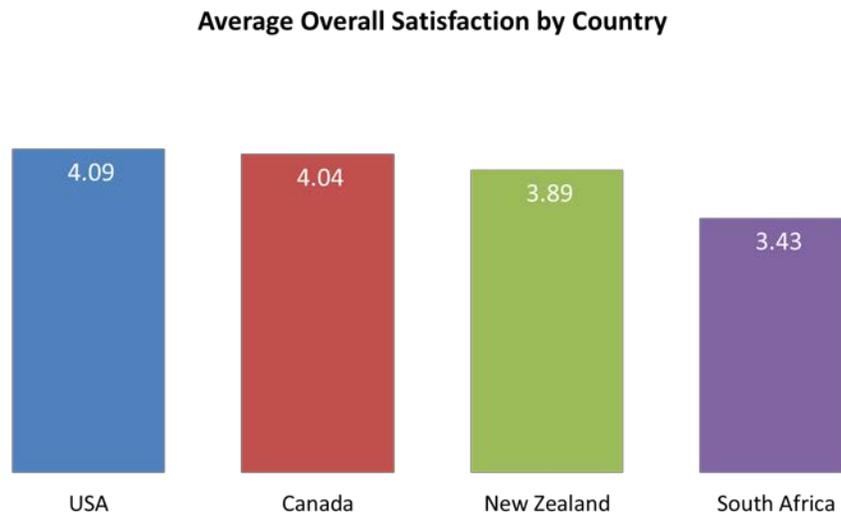


These four metrics vary similarly across various property and tenant characteristics. For example, overall satisfaction averages 4.14 at properties located in downtown or central business district (CBD) areas, but averages only 3.72 in secondary or "other" suburban markets. Not surprisingly, property class has a very strong impact on satisfaction. Tenants at trophy / Class A+ properties reported overall satisfaction averaging 4.78. Satisfaction at other Class A properties averaged 4.39, while the averages reported for Class B and Class C properties were 3.76 and 2.82, respectively. Satisfaction also varies by property type. Corporate or single-tenanted facilities (4.18), mixed-use properties (4.11), general multi-tenanted office buildings (4.06) and office parks (4.05) garnered the highest overall satisfaction ratings, while government facilities (3.71), flex / industrial buildings (3.68) and medical office buildings (3.61) received the lowest scores.

There are also differences in satisfaction across the countries represented by participants in the survey. Tenants in the United States reported an average overall satisfaction rating of 4.09, the highest among the four participating countries. The lowest average overall satisfaction rating

(3.43) was given by South African tenants. (Note: See Figure 2 below for a comparison of overall satisfaction across participating countries.)

Figure 2



Tenant size has an interesting, if not altogether consistent, relationship with satisfaction. Tenants between 10,000 and 25,000 square feet in size indicated the highest overall satisfaction (4.25), while those occupying 2,000-5,000 square feet indicated the lowest (3.95). Tenants occupying fewer than 2,500 square feet reported an average overall satisfaction rating of 4.01, similar to the 4.02 average for tenants occupying between 5,000 and 10,000 square feet. The largest tenants—those occupying more than 25,000 square feet—reported overall satisfaction averaging 4.14.

Many responding tenants reported their primary business at the location surveyed. Tenants in real estate (4.34 average overall satisfaction rating), nonprofit / religious work (4.24) and the food / beverage industry (4.23) were among the most satisfied, while those in construction, engineering or architecture (3.63) and medical / biotech (3.66) were among the least satisfied. It must be cautioned, however, that the relatively small sample sizes for each industry make it difficult to conclude with certainty that these results are representative.

The Importance of Service

One approach to understanding what most strongly impacts tenant satisfaction is to perform correlation analysis on the various rating questions asked in the survey. A strong correlation with overall satisfaction is one (though by no means the only) indicator of high relative importance for a given metric. Notably, of the seven metrics with the strongest correlations to overall satisfaction, five relate to services provided by landlords or their agents. Atop the list, with a correlation coefficient of 0.780, is satisfaction with property management, followed by overall quality of property at 0.740. Communication from management, maintenance / engineering service, the leasing process and accounting service are also among the most strongly correlated metrics. (Note: See Figure 3 below for the full list of correlation coefficients.)

Figure 3

Rating Area	Correlation with Overall Satisfaction
Property Management Overall	0.780
Overall Quality of Property	0.740
Property Management Communication	0.697
Maintenance / Engineering	0.678
Building's Health and Hygiene Features	0.670
Leasing Process	0.658
Accounting	0.639
Property Amenities	0.630
Heating and A/C	0.614
Lobbies and Common Areas	0.609
Restrooms	0.608
Waste Removal	0.607
Building's "Green" Practices	0.588
Exterior Appearance	0.582
Security	0.563
Recycling	0.559
Cleaning / Janitorial	0.554
Elevators	0.526

Key:

- Service Features
- Physical Features
- Health/Sust. Features

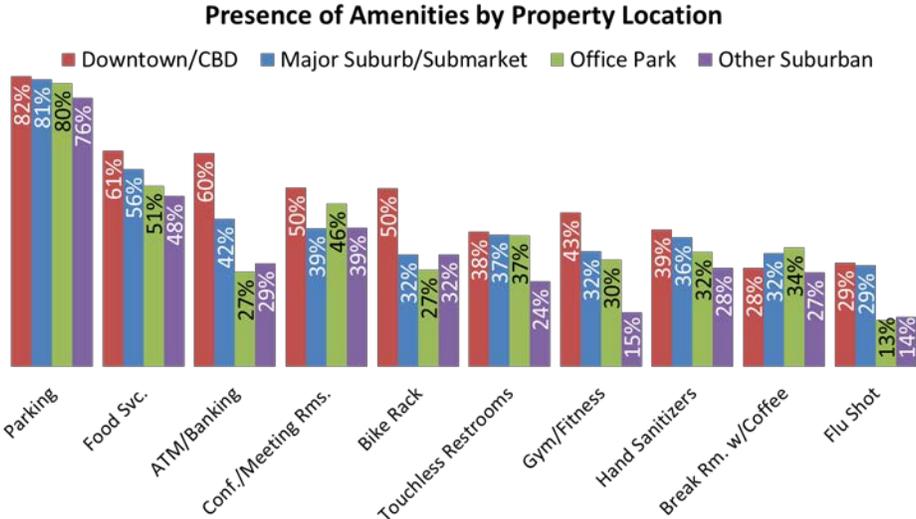
All the items on the list have a correlation over 0.500, which is considered to be strong. Of particular note is the strength of the correlation between overall tenant satisfaction and a building's health and hygiene features (0.670). This is noteworthy because its average satisfaction rating of 3.68 is the only one among of the five most strongly correlated rating areas to be below the "Good" threshold. This suggests that focusing on a building's health and hygiene features as an area of improvement would contribute to increased overall tenant satisfaction.

Property Amenities

Parking facilities (81 percent) and food service / restaurants (57 percent) are the two most common amenities identified by respondents as being present at their buildings. No other single amenity is present at the properties of a majority of respondents, though ATM / banking (48 percent), conference / meeting rooms (46 percent) and bike racks (40 percent) are also quite common.

Certain amenities appear more frequently in some countries than in others. For example, Canadian tenants are much more likely than others to indicate the presence of bike racks and hand sanitizing stations. Not surprisingly, practically all common amenities are present most frequently at Trophy / Class A and other Class A properties and less frequently at Class B and Class C properties. Also, nine of the ten most common amenities are present most frequently at downtown / CBD properties, with the only exception being that break rooms with coffee are more prevalent at office parks. (Note: See Figure 4 below for the breakdown by location of the ten most common property parks amenities.)

Figure 4

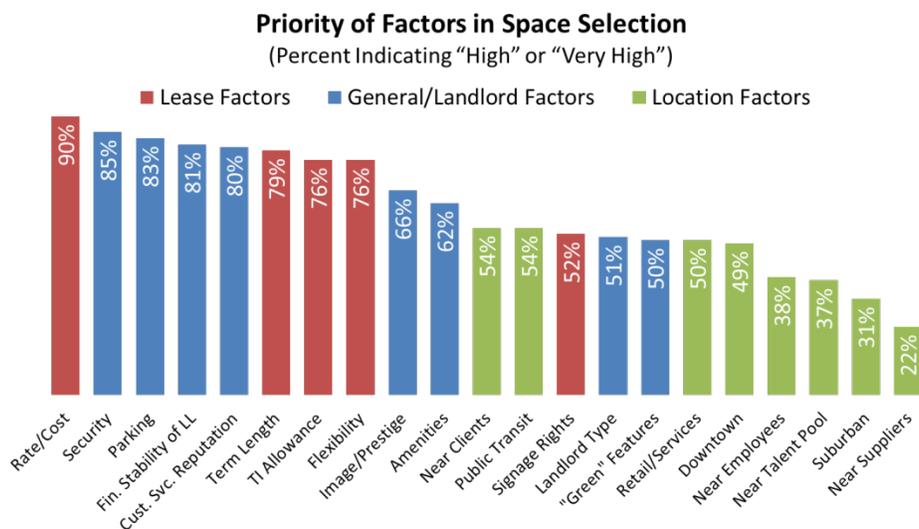


Amenities would seem to represent a clear opportunity to impact tenant satisfaction, as three of the most common amenities garner average satisfaction ratings far below the "Good" threshold. Specifically, satisfaction with parking facilities averages only 3.81, while fitness centers and food service / restaurants received average ratings of 3.77 and 3.68, respectively. By contrast, some less common amenities (present at the properties of less than 25 percent of survey respondents) received very high satisfaction ratings. Concierge service was rated 4.39 on average. Health / hygiene programs averaged 4.27, and secured document removal averaged 4.26. Car washes received an average rating of 4.13. If executed well, the addition of some of these amenities could offer an opportunity for property owners and managers to have "quick wins" with their tenants.

Lease Decision Priorities

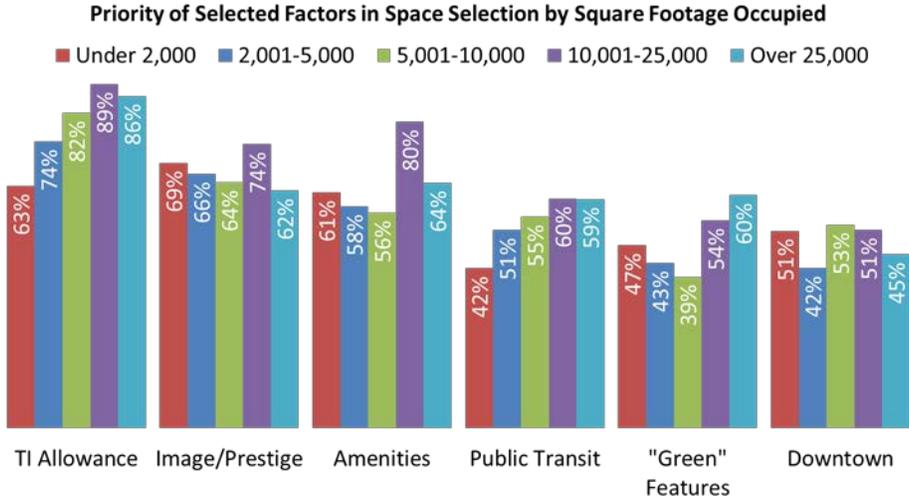
Tenants' top lease decision priority is no surprise: 90 percent of respondents indicated that they place "High" or "Very High" priority on rental rate / occupancy cost. Security (85 percent "High" or "Very High") and parking (83 percent) are next on the priority list, followed by the landlord' financial stability (81 percent) and reputation for customer service (80 percent). Lease-related items such as term (79 percent), tenant improvement (TI) allowance (76 percent) and flexibility (76 percent) are also "High" or "Very High" priorities for more than three out of four tenants. Perhaps surprisingly, specific location factors, such as proximity to clients, employees and public transit, as well as being located in a downtown or suburban area, were not cited as priorities with as great a frequency. *(Note: See Figure 5 below for a comparison of the lease decision priorities asked in the survey.)*

Figure 5



Tenant size (as measured by square footage occupied) has an impact on several of these decision priorities. For example, 89 percent of tenants occupying between 10,000 and 25,000 square feet (who represent 17 percent of all respondents) indicated that TI allowance is a "High" or "Very High" priority, compared to only 76 percent of tenants overall. This group of tenants is also especially interested in the image / prestige of a property (74 percent "High" or "Very High" priority, compared to 66 percent of all tenants) and the amenities present there (80 percent versus 62 percent). More generally, when it comes to location factors, proximity to clients appears to be a relatively higher priority for smaller tenants, while being located near public transit, retail / services and potential employees are relatively higher priorities for larger tenants. *(Note: See Figure 6 below for a comparison of selected leasing priorities across tenant size.)*

Figure 6



Differences in relative priority also exist across countries. Canadian tenants, in particular, were more apt to place "High" or "Very High" priority on being near public transit (71 percent, compared to 54 percent for all respondents), being in downtown location (59 percent versus 49 percent) and a building's green features (59 percent versus 50 percent). They were less likely, however, to place "High" or "Very High" priority on TI allowance (61 percent versus 76 percent), the image or prestige of a building (48 percent versus 66 percent) and property amenities (48 percent versus 62 percent).

Trends in Space Use

Space and Headcount Growth Expectations

Overall, 42 percent of responding tenants indicated that they experienced an increase in headcount in their offices in the past year. Thirty-seven percent indicated no change, while 18 percent noted a decrease and 3 percent were unsure. Looking forward, 39 percent expect to add headcount in the coming year, while 38 percent expect no change. Only 5 percent expect headcount to decrease. Seventeen percent were unsure.

When it comes to future space needs, 25 percent of respondents indicated that they expect to need more space in the coming year. A plurality (43 percent) expect no change, while 7 percent expect to need less space and 3 percent indicated they are moving out of their space. Twenty-one percent of tenants were unsure of their future space requirements.

There is no clear consistent pattern in tenants' plans concerning the ratio of square footage to employees at their locations. Over half (52 percent) expect no change, while another quarter (24 percent) are unsure. Similar numbers of tenants expect to increase (10 percent) and decrease (14 percent) square footage per employee. (Note: See Figure 7 at right for the breakdown of tenants' expectations concerning square footage per employee.)

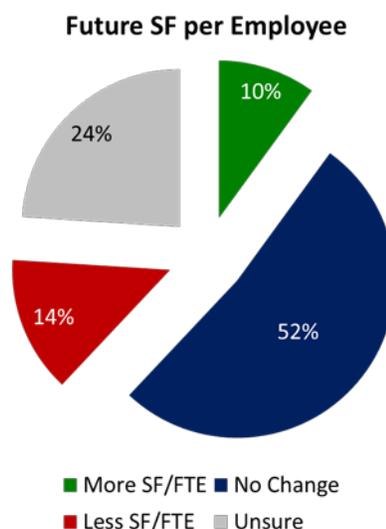
Expectations for future space needs are fairly consistent regardless of the current size of a given tenant's space. However, tenants occupying more space are much more likely to anticipate headcount growth. Approximately 35 percent of respondents currently occupying 5,000 square feet or less expect to add headcount over the next year. But at least 40 percent of respondents currently occupying more than 10,000 square feet expect growth. For tenants occupying more than 25,000 square feet, this proportion is 44 percent. It remains to be seen whether this growth will materialize and precisely how it will impact occupancy and rental rates, but it seems plausible that the "shadow market" (space that is leased by large occupiers but is either subleased or unused) may be on the verge of drying up.

Growth expectations vary as well across tenant industries. Accounting firms are among the most optimistic about needing more space, with 37 percent anticipating the need for more space in the next year. In terms of headcount growth expectations, 55 percent of consulting firms, 51 percent of technology companies and 48 percent of insurance organizations are expecting increases.

Alternative Work Arrangements

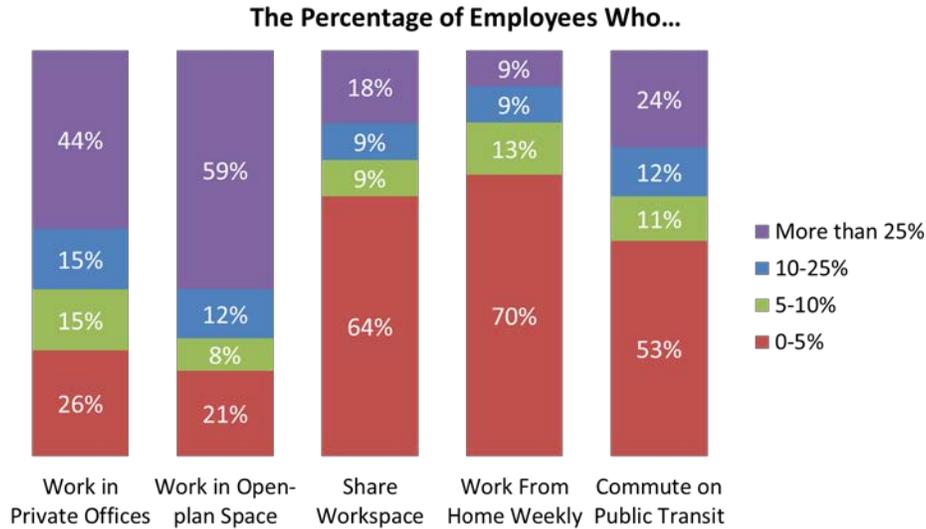
Respondents were asked to indicate the approximate proportion of their employee base that regularly engages in various work arrangements, including the use of private offices versus

Figure 7



cubicles, sharing workspace, working from home and commuting using public transportation. The responses indicate that, while neither has been widely adopted, twice as many tenants have 25 percent or more of their workforce sharing workspace than have that percentage of employees who regularly work from home. (Note: See Figure 8 below for a breakdown of the proportion of employees involved in each activity.)

Figure 8



These practices vary widely by market. For instance, 26 percent of tenants in San Francisco and 24 percent in Houston indicated that at least a quarter of their workforce shares a workstation with another employee. Only 4 percent of tenants in New York said the same. Contrastingly, only 3 percent of tenants in Houston indicated that a quarter or more of their employees work from home at least once per week, compared to 14 percent of tenants in San Francisco and 9 percent of all respondents.

Green Building Practices

Sixty-six percent of respondents indicated that environmentally sustainable building operations are either "Important" or "Very Important" to them, while 27 percent responded that they are "Not Important." Sixty-five percent indicated that they "Agree" or "Strongly Agree" that it is important for their employees to work in environmentally sustainable space. Majorities of tenants also responded that they "Agree" or "Strongly Agree" that green occupancy creates a positive image for their businesses' owners (57 percent) and a favorable impression among their clients (55 percent). Only 44 percent agreed (or strongly agreed) that green space is attractive to prospective employees.

Conclusions

Based on the responses received as part of the *2013 Global Tenant Survey*, the following conclusions can be made:

1. The features, services and amenities of office buildings are extremely important to tenants in the performance of their business within the spaces they lease. This is evident from the differences in satisfaction that exist across geography, location within the market, property class, property type and other building characteristics.
2. Customer service is critical to overall tenant satisfaction. Very strong correlations exist between overall satisfaction and property management, communication, maintenance / engineering, the leasing process and accounting service. This does not lessen the importance of the overall quality of a property or its features, as these are also strongly correlated with overall satisfaction. Rather, customer service affords a building with the opportunity to maximize the benefit of its features and amenities by keeping them functioning consistently and appropriately.
3. A focus on health and hygiene within a building can extend a strong customer service ethic. This area also holds a very strong correlation with overall satisfaction, but its own average satisfaction rating is relatively low. Furthermore, health and hygiene amenities are comparatively rare in buildings occupied by the survey's respondents, but they are rated highly when they are present. This presents a clear opportunity building owners and managers to increase overall tenant satisfaction.
4. The mere presence of an amenity at or near a building is not necessarily an indication of a positive influence on tenant satisfaction. Some of the most common amenities, such as parking facilities, restaurants / food service and fitness centers, receive average satisfaction ratings below "Good." On the other hand, respondents expressed relatively high satisfaction with some less common amenities, including concierge service, secured document removal, flu shot programs, car washes and health / hygiene programs. This suggests an opportunity for building owners and managers to achieve a "quick win" with tenants through improving the amenity offerings at their properties. This is ultimately a reflection of an attitude of customer service.
5. With a plurality of tenants expecting to see increased headcount in the next year and 25 percent anticipating the need for more space, tenants appear optimistic about the future. As they prepare for their next lease transactions, building owners and managers have the chance to generate value for themselves and for tenants by helping tenants optimize the way they use their space.
6. Increased efficiency in space use and alternative workplace strategies are clearly coming to the industry to stay. At the same time, there are indications that adoption will be slow and uneven across markets and tenant types. A blend of traditional and cutting-edge office space solutions will continue to be relevant.