HOW DO AUCKLAND COMMERCIAL PROPERTY INVESTORS ADDRESS THE CHANGES IN OFFICE TENANTS’ REQUIREMENTS?

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Confidentiality Statement

The author has agreed that all personal and company names of participants in this research are kept confidential. The data is collected through the process approved by Unitec Research Ethics Committee. The interview data is seen only by the researcher and supervisor of the project. Every effort has been made to prevent identification of any individual or group.
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Abstract

Office tenants’ requirements have changed over the last decade since they are looking for more flexible office environments in order to minimize their total occupancy costs. Office property investors need to understand the current tenant space requirements and accommodate these needs in their office portfolio investment strategies so that their return on investments can be maximized. This paper aims to explore the perceptions and strategies followed by large-scale property investors in order to address the recent changes in tenants’ requirements for office space and layouts, environmentally sustainable office buildings, and lease terms in the context of the prime office sector in the Auckland market.

The research is exploratory in nature and a qualitative research approach has been adopted. Semi-structured in-depth interviews have been conducted with four large-scale listed property trusts who are active players in the Auckland office market. The data was collected using a carefully design interview protocol to obtain an in-depth understanding of the property investors’ perceptions and strategies of meeting their office tenants’ requirements as well as their interpretation of the future market trends.

The findings of the study indicate that the main changes in office requirements encompass the needs of efficient and flexible office space and layouts, sustainability requirements, and preference for flexible lease terms. All the interviewed property investors perceived that short lease terms and efficient space usage are more frequently demanded by tenants. The green features of the office building are the least considered aspect, particularly under the current challenging market conditions. The strategies that all the property investors adopt are endeavoring to provide office premises which enable efficient usage of space, efficient operation and short lease term provisions. The property investors realize that the role of property investor is not only to provide physical premises but also services because the relationship between investors and tenants has been developed to a strategic partnership rather than the previous adversarial one.
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Chapter 1  Introduction

1.1 Background of the study

The property market is changing from a traditional supplier-driven business to a demand-driven business and therefore the tenant’s role in property as space-takers has become more significant (Rasila, 2010). Sayce et al. (2007) noted that there is now a greater responsibility on landlords to interface with their tenants more actively in order to maximize occupier satisfaction and retention and hence maximize landlords’ return on investment. Office tenants’ requirements for corporate real estate have changed in the recent years in response to the changes in their business practices. Cyclical changes in the market, globalization of businesses, advanced information technologies and changing corporate culture in tenant organizations have affected the way tenants carry out their businesses (Sullivan, 1996).

Many firms tend to have stable space requirements for their core workforce and more flexible space arrangements for their peripheral workforce. Particularly in the current market downturn, office spaces occupied by companies have shrunk significantly as they seek to introduce new work practices such as hot desking, hotelling and teleworking. In fact, in the New Zealand market, the average office area per person has decreased from 25m2 in 1995 to 20m2 in 2001 (Kennedy, 2001). There are even predictions that there will be limited number of office buildings in future property markets since people can work from any places with information technology support (Markland, 1998). He further claimed that a modern office building is not only the platform for business transactions, but also an “information factory where value is added to information for the benefit of customers” (p. 192). Markland’s definition illustrates that role of office buildings has changed from what was traditionally the case.

Tenants’ flexible work practices in the recent years have caused significant impacts on their preferred office layouts and tenure forms. Gibson (2003) suggests that tenants’ recent required flexibility from a property can be categorised into three main
areas – physical flexibility, functional flexibility and contractual flexibility. Physical flexibility refers to the design and layout of the premises with flexible specification such as small individual work spaces with more shared common areas. Functional flexibility refers to the range of business functions offered by the building as well as its proximity to customers and other business drivers. Contractual flexibility refers to the availability of flexible lease agreements which allow tenants to acquire or dispose of space as their space requirements change.

In addition to their preference for these flexible office spaces, many tenants, particularly government and large corporate tenants are showing an increasing interest in environmentally sustainable office premises. The global market for sustainable buildings is growing, albeit from a slow start, as awareness of the consequences of climate change begin to influence the corporate decision makers seeking new office accommodation. Thus, sustainability features in office property have become more important (Myers et al., 2008).

Within the context of the New Zealand office property market, some studies have observed the development of above changes (Collier International, 2011; Read, 2008). For instance, as Collier International states in their market report (2011) “a clear trend in New Zealand and around the world over the last decade or so has been diminishing office space, made evident through inclining office densities” (p. 5). The report also mentions that green office is becoming a more common practice in New Zealand.

The basis of success of any office investment is an understanding of integrated requirements and preferences of intended tenants combined with deep knowledge of industry trends and best practices (Chilton & Baldry, 1997). An ability to identify the continuous changes in tenants’ space requirements and respond to them by meeting those requirement changes in the office buildings is vitally important in an increasingly dynamic property investment environment. Property investors that neglect the changes in their tenant organizations’ work patterns, workforce and work environment are tend to find themselves at a disadvantage position (Schriefer, 2005).
Therefore, continuous changes in tenants’ office space requirements and preferences undoubtedly mean that existing buildings will consequently have to transform and new buildings to adopt such future business climate demands. No competitive organization can afford to be hampered by ill-fitting or unsuitable premises, their buildings must continuously adapt for everyday business requirements. However, many buildings today can be considered functionally obsolete as they can no longer meet the functional, economic and social requirements being placed on them by tenant organizations because of dramatic economic shifts, revolutionary technologies and emerging cultures (Chilton and Baldry, 1997).

There is very limited existing literature that examines property investors’ reaction to occupants’ changing space needs. It should also be noted that the limited available research on this topic have focused on international global office property markets such as the UK, US and some European and Asian countries. Even though anecdotal evidence suggests that New Zealand office tenants are also demanding more flexibility in their office spaces and lease contracts, no empirical research has been conducted so far to identify the changes in their office space requirements and how property investors incorporate those requirements changes into their office buildings. Therefore, this research attempts to address this research gap by examining how large scale property investors address the changes in tenants’ space and lease requirements and preferences in their new and existing office investments.

1.2 Purpose of the study

Accordingly, the main research question addressed in this research can be stated as follows.

“How do office property investors address the changes in office tenants' space and lease requirements and preferences in their office investments?”

In order to answer this research problem, the following specific research objectives are developed.
i. Identify the most significant changes in office tenants’ space and lease requirements and preferences from the investor’s point of view

ii. Explore how property investors address the changes in office tenants’ space and lease requirements in their office investments

iii. Explore the issues associated with addressing such changes in office tenants’ space requirements and preferences

1.3 Scope of the study

The research is confined to large scale, sophisticated property investors operating in the office sector in the New Zealand property market. Large-scale property investors own relatively comprehensive property portfolios, which are often in the prime end market. New Zealand listed property trusts who have invested in office property sector were identified as the most appropriate research participants of this research. Only property trusts were selected since they are generally well aware of the changes in their tenants’ space and lease requirements and preferences and have the financial capability to meet such changes in their new and existing office buildings. Due to their significance in the market and active management philosophies, Listed Property Trusts (LPTs) have the ability to change the operation of the market, its structures and practices to a great extent and thus assume a level of dominance in the market. Furthermore, their market power and rent setting strategies have a greater bearing on the development of property market trends. Consequently, results from the premium market and large scale property investors can present better research result for the research topic.

1.4 Significance of the research

1.4.1 Academic contribution

This research makes an academic contribution by addressing one of the significant research gaps in corporate real estate and property investment literature. Even though the existing literature has identified changes in office tenants’ space and lease requirements and preferences in the recent years, little attempt has been made to
examine how property investors address such changes in their office investments. Particularly, there has been no empirical research that examines the changes in tenants’ space and lease requirements in the context of the office sector in New Zealand and how landlords meet those changes in their office premises.

This research will particularly identify the main space and lease changes requested by tenants from the investors’ point of view, how investors change the structure and layout of their office buildings in order to meet those changes, how they address tenants’ preference for lease flexibility, the benefits of meeting such changes in tenants’ requirements, and issues associated with meeting those requirement and preference changes. The research will also contribute to an in-depth understanding of the behaviours of landlords and tenants in the prime sector in the New Zealand market in the context of the recent property cycles.

1.4.2 Practice contribution

Understanding the recent changes in tenants’ space and lease requirements and how property investors address those changes in their office investments is crucial for several parties involved in property investment, development and management disciplines. Firstly, the findings are important for other property investors or landlords since the findings will suggest the strategies and methods that can be used to address the changes in tenants’ space and lease requirements so that their property investments can deliver maximum returns on investment. Not being able to incorporate these changes in tenant space and lease requirements into their office properties will tend to increase the risk of investing in real estate for property investors. Understanding and meeting tenants’ space and lease requirements will also help landlords to develop good landlord-tenant relationships with the tenants’ in their portfolios.

Secondly, it is important for office tenants to understand how property investors or landlords respond to their requests for different space and lease requirements. Such understanding will help them when deciding their preferred office spaces and lease types, total occupancy costs, space specification and locational preferences. Such understanding will be important for them to behave strategically during the lease
negotiations and the entire leasing process. Through having flexible office layouts and lease contracts, tenants may be able to achieve considerable business and cost advantages.

Thirdly, property developers should also understand how property investors or landlords address tenants’ preference for more flexible physical specification of premises such as small individual work spaces with shared common areas, social spaces to encourage communication between employees, and easily accessible central locations in their current and future office developments. In addition, an understanding of various lease structures offered by landlords with flexibility options and the diversity of lease structures available in the market is important for property valuers in order to make sure that their valuation approaches accurately price such diversities in tenure forms. Legal professionals such as lawyers also need to understand different formats of lease agreements and various clauses in leases when drafting leases on behalf of landlords and tenants.

The findings will also be useful for property and facilities management professionals as they are expected to understand their tenants’ lease requirements, any changes in such requirements and how landlords address those changes in their buildings so that they can make sure that those requirements are met. Understanding occupiers’ changing space and lease requirements and how landlords incorporate them into their office buildings will be significant to the property market in general in order to determine how the market could respond to those changes.

1.5 Research methodology

Since the focus of this research is to obtain an in-depth understanding of how property investors address the changes in office tenants’ space and lease requirements in their office investments, the qualitative research design will be the most effective research methodology (Merriam, 2009). Qualitative methodology offers a deeper understanding of a particular context or setting to gain insights that are more accurate (Dyer & Wilkins, 1991) and is more suitable for locating the meanings people place on the events, processes, structures of their lives and their perceptions, assumptions, prejudgements and presumptions (VanManen, 1977). As
indicated earlier, the current state of knowledge of the research problem offers little support in answering the research problem addressed in this study. This implies directing the research design at capturing deep, contextual and in-depth understanding of the research problem. Therefore, the qualitative methodology will be considered as the most appropriate research methodology.

Semi-structured, one-to-one, in-depth interviews with property trusts operating in the New Zealand market were regarded as the most effective data collection method in this research. In-depth interviews are appropriate when it is expected to gain more detailed understanding of a particular construct within a particular context (Fontana and Frey, 2000) since the researcher is able to get physically and psychologically closer to the phenomenon. Individual in-depth interviews are particularly appropriate when the interviews are with professional people or with people on the subject of their jobs (Tull and Hawkins, 1993), which is the case in this study. Further to this, semi-structured interviews facilitated participants to answer the questions more freely and ensured a consistent coverage of the topics between the interviews. Therefore, the responses could be compared between participants.

The method of data analysis is thematic approach, in which the data was analyzed by themes. The data from interviews was recorded and transcribed. Themes were identified by the researcher from the raw data. The detailed data of different participants has been compared and consolidated according to the themes and sub-themes identified. This in-depth qualitative data analysis will provide critical and comprehensive findings to the research problem.

1.6 Structure of the research report

The report consists of five chapters. The first chapter provides background information to the research problem; explains rationale of the study, research objectives, significance of the research and limitations of the research.

Chapter 2 reviews property investment and corporate real estate literature relevant to the research problem. Main subject areas examined include, addressing tenants’ demand for flexible office layouts, addressing tenants’ demand for sustainable
buildings, and addressing tenants’ demand for more flexible lease contracts. Gaps in current understanding are then demonstrated.

Chapter 3 presents the qualitative research approach of this research. The data collection and analysis procedures of the research approach are explained, together with the issues of research validity and reliability, and ethical considerations in the research.

Chapter 4 presents the analysis of the findings of the in-depth interviews with property investors. The chapter discusses how property investors address office tenants’ changing space and lease requirements, benefits of meeting such changes to the investors and main issues faced by them when addressing such changes in their office portfolios.

Chapter 5 contains a summary and discussion of the results followed by an analysis of the significance of the findings, limitations and suggestions for further research.
Chapter 2  Literature Review

2.1 Introduction

This research aims to investigate property investors’ perceptions and strategies of addressing the recent changes in office tenants’ space and lease requirements. Tenants’ needs and preferences for office premises have changed in the recent years and the changing demands have had significant impact on property investors’ office space stocks and their investment decisions. In order to address tenants’ changing office requirements, it is essential for investors to obtain a thorough understanding of occupants’ contemporary office space requirements as well as the driving forces behind them. Therefore, the purpose of this chapter is to present the existing knowledge on the changes in office occupants’ requirements and preferences, the driving forces behind them, and property investors’ reactions to those changes.

To investigate the above objectives, a comprehensive literature review has been conducted. The remainder of this chapter is structured as follows.

2.2 Key Literature review

2.2.1 Recent changes in office tenants’ space and lease requirements

2.2.2 The driving forces behind changes in office tenants’ requirements

2.2.3 Property investors’ strategies addressing changes in office tenants’ space requirements and preferences

2.2.4 New Zealand’s office occupants’ space requirements and preferences
2.2 Key Literature Review

2.2.1. Recent changes in office tenants’ requirements

2.2.1.1 The recent changes in tenants’ office space and layout requirements

One of the most important issues facing the owners of office buildings in need of modernisation is the preparation of the office spaces, taking into account the requirements of potential tenants. Lizieri (2003) suggests that the changes to the way in which tenant organizations carry out their business activities have altered their property requirements and these changes have significant implications for the nature of building specification and configuration. Tenants’ preference for more flexible office environments and increasing computerisation of work processes led, at the end of the twentieth century, to the formation of new functional arrangements for offices.

The current requirements in occupants’ office space have changed because investors endeavor to optimize office space for the tenants. The changed office space aims to meet office occupants’ requirements of achieving companies’ commitments and goals in terms of productivity enhancement and competitive advantage improvement (Chilton & Baldry, 1997). Duffy (1997) found that the modern tenants’ space layout supports re-engineering of tenants’ organizations and reinventing in business process. “Re-engineering is driving not only how companies do their work, but the design of the space in which that work is done (Becker, 1995, cited in Chilton & Baldry, 1997, p. 187)”.

Compared with the traditional tenants’ office space, the major trend of office space has moved towards more intensified space and interactive team-work environment, which is illustrated in table 2.1:

Table 2.1 Traditional office vs. contemporary office space requirements

<table>
<thead>
<tr>
<th>Traditional office space</th>
<th>Contemporary office space</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard working place</td>
<td>More intensified office space</td>
</tr>
<tr>
<td>Cellular office layout</td>
<td>Quality space with open plan</td>
</tr>
<tr>
<td>No social interaction</td>
<td>More social interaction</td>
</tr>
</tbody>
</table>

(Duffy, 1997; Markland, 1998)
As Chilton (1997) concludes the new thinking requires new space layout and the main trends of occupants’ office space are:

- Integrated Working Space (IWS): the working space layout is more creative to integrate the working space physical environment, working process, workers, organization goals, communication, interaction, and space planning together.
- Team working space has replaced the conventional cellular office that focus on isolated and individual working.
- The space layout reflects the flattened management philosophy rather than the hierarchy one.

Moreover, the tenants’ space layout tends to be diversified to cater for the needs of various business activities, and working requirements. Recent office space layout can be categorized into four main categories, hives, cells, dens and clubs (Duffy, 1997; Haynes, 2008) and is shown in figure 2.1. In addition, Stiner (2005) study found that most current companies often combine those four office space layouts.

Figure 2.1 Office Layout
(Steiner, 2005, p. 13)
dynamically to adapt to the organizations’ types, job requirements and cultures.

Hive: Hive office layout is designed for individual working processes. Team interaction requirement is low (Duffy, 1997; Steiner, 2005).

Cell: Cell office layout is suitable for individual concentrated work where have little interaction, for example high autonomy employees such as researchers, lawyers or consultants, cellular offices or high partition offices is used (Duffy, 1997; Steiner, 2005).

Den: Den office layout is appropriate for group processes which require high group interaction but do not need high autonomous. Open-plan is often used (Duffy, 1997; Steiner, 2005).

Club: Club office layout is often applied for knowledge work transactions. The workers are normally highly autonomous and interactive. Consequently, both concentrated individual work and teamwork can adopt club office layout, for instance media company or information technology firm (Duffy, 1997; Steiner, 2005).

Furthermore, the office space tends to be intensified in recent years, which means the average office space per workspace is decreased. One research study shows that the average Sydney office space utilization was 20m2 in 2003 and the figure was reduced to 14m2 by 2005. The occupancy cost saving is around USD8,202 person for each year (Steiner, 2005). According to a study done by Colliers International in New Zealand, the average office area per person in 1995 was 25m2 whereas the figure changed to 20m2 by 2001 (Kennedy, 2001). The following table 2.2 illustrates the average space per workstation in some areas around world.
These developments in the property market have caused a decline in firms’ demand for larger buildings and an increase in demand for smaller buildings or parts of buildings (Lizieri, 2003). The current trend in corporate offices is to have fewer and smaller individual workspaces and a greater portion of the space dedicated to interactive activities between employees (Schriefer, 2005). Therefore the main function of the workplace is shifting toward intense interaction. Many tenant organizations are trying to maximize their office space by employing various space utilization strategies such as hot desking and hotelling. They tend to have more stable “home base” offices for their core workforce and more flexible space arrangements for their non-core workforce (Schriefer, 2005). For non-core workforce the workspaces are available on an as-needed basis, provide shared spaces or use a combination of these approaches.

Vischer (1996) also identifies important considerations in the design and planning of flexible physical specification, including provision of many different work areas, small individual work spaces with shared common areas, social spaces to encourage communication between employees, and easily accessible central locations for directors and other senior management. Focusing on the Birmingham property market in the UK, Dent and White (1998) also identify that as the office market improves with the increase in confidence for speculative development, units with larger floor plates are being sought for new business ventures which capitalise on

<table>
<thead>
<tr>
<th>Area/City</th>
<th>Average office space utilization/workstation</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>West Europe</td>
<td>16m2</td>
<td>year not given</td>
</tr>
<tr>
<td>USA</td>
<td>22m2</td>
<td>year not given</td>
</tr>
<tr>
<td>Dubai</td>
<td>18m2</td>
<td>year not given</td>
</tr>
<tr>
<td>Hongkong</td>
<td>13m2</td>
<td>year not given</td>
</tr>
<tr>
<td>Sydney</td>
<td>20m2</td>
<td>2002</td>
</tr>
<tr>
<td></td>
<td>14m2</td>
<td>2005</td>
</tr>
<tr>
<td>New Zealand</td>
<td>25m2</td>
<td>1995</td>
</tr>
<tr>
<td></td>
<td>20m2</td>
<td>2001</td>
</tr>
<tr>
<td></td>
<td>15.6m2</td>
<td>2008</td>
</tr>
</tbody>
</table>

(Colliers international, 2010; Kennedy, 2001; Steiner, 2005)
modern technology and productivity. Functional flexibility refers to the range of business functions that a building might support (Gibson, 2003). Accordingly, the availability to various non-core facilities such as cafeterias, childcare centres, gymnasiums has been a significant trend in modern office buildings.

2.2.1.2 The changes in tenants’ sustainable environment requirements

The sustainable office buildings would become more common practice among tenants because sustainable buildings not only provide quality interior environment but also improve the tenants productivity (Heerwagen, 2000). Current office occupants have shifted their emphasis from how to house the employees to the consideration of strategic corporate real estate portfolio. Many tenants aim to reduce their environment impact through their corporate responsibility (Wyatt, 2011). Occupying sustainable office buildings is a way to link tenants’ organization benefits, environment commitment, and quality working environment. Recognized as a strategic asset, sustainable office space assists occupants’ corporations to achieve their business objectives (Horgen 1999, cited in Heerwagen, 2000). Sustainable office environments have become the strategic thinking for most of the tenants’ companies now.

The tenants’ demand for green buildings is increasing rapidly (Einstein, 2007). Australia Green Building Council’s 2008 survey shows that around 10% of office building development in USA are green buildings and 30% in Australia (Miller & Buys, 2008). Similarly, Jones Lang Lasalle’s (2008) “Global Trend in Sustainable Real Estate” study revealed that sustainable interests and environment concerns have

*Figure 2.2 Expectations as to when sustainability will become a critical business and CRE issue*  
(Jones Lang Lasalle, 2008)
become a critical issue to consider by 40% of surveyed occupants, as illustrated in figure 2.2.

In addition, the majority of the large international corporates already had the formal sustainability statement in 2008, as a result they pursue sustainable building in their corporate property portfolio (Jones Lang Lasalle, 2008). Sustainability has been identified as the key element in office space plan by international occupiers (Jones Lang Lasalle, 2011c).

Moreover, the same research also indicates that all the occupants regarded sustainability as an opportunity rather than a threat (Jones Lang Lasalle, 2008), as shown in the figure 2.3. A survey done by Jones Lang Lasalle (JLL) demonstrated the same situation where nearly 50% of global office tenant respondents regard sustainability as their significant issue and around 25% of the survey respondents show they would have sustainability as the essential issue in the following years (Jones Lang Lasalle, 2008).

![Figure 2.3 Sustainability – an organizational threat or opportunity?](image)

(Jones Lang Lasalle, 2008)

Furthermore, occupants are willing to pay rental premiums for sustainable offices. Drawing upon JLL (2008) research, JLL (2011c) research further reveals that more and more global occupants are willing to pay a premium for sustainable office environments. As the graph below (figure 2.4) shows that nearly half (37%+12%) of the respondents were willing to pay the premium up to 10% in 2010. However, this
The figure in 2009 was 37%, which indicates an obvious increase in acceptance of green buildings.

![Figure 2.4 Occupiers are more willing to pay premium rent for sustainable](image)

*Figure 2.4 Occupiers are more willing to pay premium rent for sustainable*

(Jones Lang Lasalle, 2011b)

Wyatt (2011) identifies that the occupants interested in sustainable environments are mainly focus in three sectors, which are more willing to implement sustainable solutions to improve their energy consumption. The occupants encompass:

- Government occupants who have strong environment commitment
- Large corporations who endeavor to achieve company commitment to environment as well as improve or enhance their own companies’ brand image.
- Smaller corporations whose core business are related to environmental themes

However, the private organizations particularly smaller scale companies have more concerns regarding financial cost and detailed performance data. Similarly, Miller et al. (2008) argues that most tenants have the intention to discuss sustainability, however, they need more transparency information about cost, benefit and process.

Although recent research has explored the appeal of socially responsible property investment and energy efficiency in the commercial property sector, researchers have not yet sufficiently explored how investors address tenants’ demand for green star
buildings in their new constructions and existing buildings. Confirming this, de Francesco and Levy (2008) suggest that little attention has been given to understanding the full impact of sustainability on the property investment landscape. Examining the impact of sustainability on property investment, they identify the importance of considering the impact of green initiatives on the behaviours of key market players; developers (or asset creators), asset managers (which include real estate agents), and tenants (the asset users). De Francesco and Levy (2008) further emphasize that embracing green initiatives will make the buildings more efficient to both landlords and tenants and the establishment of green leases highlight how an effective engagement between property asset users (tenants) and property asset owners (landlords) results in effective sustainability outcomes.

2.2.1.3 The changes in tenants’ lease term requirements

A recent study in UK market reveals that there is a mismatch between tenants’ lease demands and what landlords offer (Crosby et al., 2003). Tenants call for changes in lease structure that are more flexible and shorter to meet the fast changing development of their business. The traditional institutional lease was 21-25 years long with five years review, which was the dominant lease pattern before 1980. However, with the economic cycle in the 1990s, the property market changed and the institution lease structure was not appropriate for the market in a recession, which involved decreased property capital values and rentals. The lease contract from the longer lease to more diversified short lease patterns (Gibson et al., 2000).

The contemporary lease structures have been changed significantly in recent years (Crosby, Gibson, & Murdoch, 2000; Lizieri, 1997). The major changes encompass shorter leases, break clause provision, new rent review way, right of lease entry and exit, lease pricing and repairing liabilities.

2.2.1.3.1 Lease length:
The lease length research conducted by Crosby (Crosby et al., 2003) in UK market reveals that occupants demand shorter leases to meet their short business horizon. As illustrated in figure 2.5, around 42% of office tenants demand a lease length of less than 15 years (Gibson et al., 2000). Gibson further found that UK tenants’ needs, particularly in terms of lease length, are mismatched with occupants’ existing office portfolios. The lease length issue has become the first concern for the majority of tenants (Crosby, Gibson, & Oughton, 2001), and the following figure 2.6 indicates the imbalance between the short leases desired by tenants verses the landlords’ offering.

![Figure 2.5 UK office occupants’ lease](image1)

*Figure 2.5 UK office occupants’ lease*

(Gibson et al., 2000, p. 12)

![Figure 2.6 Average proportion of portfolio by tenure and length of commitment current vs. desired](image2)

*Figure 2.6 Average proportion of portfolio by tenure and length of commitment current vs. desired*

(Gibson, Hedley, Procter, Fennell, & Consult, 2000, p. 11)
2.2.1.3.2 Assignment and sub-letting:

Crosby et al.’s research shows that occupants in UK expect limitations in assignment and sub-letting can be lifted and a better covenant can be provided by landlords (Crosby, Lizier, Murdoch, & Ward, 1998). The issue of assignment and sub-letting is recognized as the second important problem for tenants, which is one compensate provision for short leases requirements and that re-emphasizes that the lease length is a problem in UK lease structure.

2.2.1.3.3 Rent review type and period

Recently, the rent review patterns have changed. As illustrated in the research done by Crosby, the original standard review interval of five years has been dropped to three years since 1997 (Crosby et al., 1998). In addition, according to the further research done by Crosby in 2003, the UK’s occupants called for up/down review to coincide with market fluctuation. The previous up-ward only review pattern is not appropriate for the office property market. The tenants demand for both upwards and downwards rental review (Crosby et al., 2003).

2.2.1.3.4 Break clause

Office tenants expect to have more flexible break clause control over the lease term. The fact in the market is that tenants’ business horizon is normally shorter than lease length (Crosby et al., 2003). However, in UK market, break clauses and some other clauses in the lease contract often make it easy for landlord to decline the break. Thus Crosby et al. conclude tenants need more flexibility to operate break lease as well as a reasonable break timing (Crosby et al., 2001).

2.2.1.3.5 Rental premium

Crosby et al.’s research (2003) shows that the UK tenants have more willingness to pay rental premium or extra as the expense for the more flexible lease terms. The study is survived 139 tenants in UK market and indicates around 30% of the survived tenants expressed that they are willing pay extra round 5-10% for the break leases or flexible leases operations.
2.2.1.3.6 Repairing and maintenance

Crosby et al. (1998) state that the repairing and maintenance liability in UK is stable and a full repairing lease is still the dominant style in the market. However, Gibson et al. (2000) argue that a full repairing and insuring obligation is unfair for tenants, which is already out of date with the current lease situation, particularly for short leases. Hence, there is a call for a clear division of responsibility between landlords and occupants.

Since many landlords tend to decide the appropriateness of lease structures mainly by concentrating on the financial aspects of leases, the lease forms that landlords bring to negotiations are growing more burdensome to tenants and contain more objectionable provisions by tenants. There is a growing literature that suggests that many landlords attempt to enforce strongly pro-landlord lease forms, with the intention of enhancing their profit margins. In particular, concerns have been expressed in the UK property market that landlords do not serve their tenants appropriately and have an adverse impact on tenants’ business through giving insufficient choice and being inflexible (Crosby et al., 2001). Such lease contracts create issues and have long-term negative effects on good landlord-tenant relationship and well performing lease contracts.

The review of the literature reveals that tenants’ expectations from lease contracts have changed significantly over the last decade as a result of the changes in their working practices and many tenants are not satisfied with the lease options offered. It also identifies the most significant lease provisions tenants demand more flexibility with. The existing literature also reveals that many landlords do not make commercial property available on the terms sought by tenants and many tenants are not satisfied with the provisions of their lease contracts.

2.2.2 Key drivers affecting changes in office tenants’ office requirements

Office requirements have a close relationship with patterns of occupants business management practices (Chilton & Baldry, 1997). In recent years, business management theory has been changed. The new “management by objective” theory
has replaced the conventional dominant scientific theory, which directly leads to the tenants’ organizations change, and further to the office space requirements (Markland, 1998). The new trend of office layout under “management by objective” presents a radical change in tenants’ office, which is based on team work requirements whereas the previous “scientific theory” emphasized that office layout was characterized by presenting work process and showed organization hierarchy (Szarejko & Leszcynska, 2006).

Lizieri (2003) concludes that several driving forces have led to changes in tenants’ space requirements, including globalization, information technology, reorganization and flexibility. Particularly, in the current more dynamic and highly competitive environment, tenants must retain more flexibility to adapt to the fast changing economic environment. This accelerates the tenants’ needs for flexible requirements particularly in space and lease terms, which have been the major concerns for most of occupants (Gibson, 2003). Moreover, within the present market context, the relationship between landlords and tenants is changing, which also directly impacts the tenants’ office requirements.

In addition, with the increasing environment awareness and the gradual acknowledgement of its benefits to business success, sustainable environment pursuing is the driving force for the tenants’ green offices requirements.

2.2.2.1 Changes in tenants’ organizations management theory

Since the early twentieth century, occupancy of office space had been governed by Frederick Taylor’s scientific management theory (Pitt, 2008). Taylor’s principles had enormous influence on physical space layout. Office buildings were constructed under Taylor’s theory featured with the typical features of hierarchy, supervision and dehumanization (Duffy, 1997).

In recent years, office space layout has changed with the new “management by objective” theory that has replaced the conventional scientific management philosophy from the 1990s (Markland, 1998). Management theories keep developing with the progress of society and obtain innovative results that also stimulate the
changes in office space layout. The main feature of the management theory emphasizes the whole organizations’ objectives and advocates team spirit. Consequently, the occupants’ office layout is more flexible and less hierarchical (Markland, 1998). The following table 3 illustrates the differentiation between tradition and contemporary office layout.

Table 2.3 Traditional office layout vs. contemporary office layout

<table>
<thead>
<tr>
<th>Traditional office layout</th>
<th>Contemporary office layout</th>
</tr>
</thead>
<tbody>
<tr>
<td>Based on Frederick Taylor’s scientific management</td>
<td>Based on Management by objective theory</td>
</tr>
<tr>
<td>Standard work place</td>
<td>More intensified office layout</td>
</tr>
<tr>
<td>Cellular structure grid</td>
<td>A number of planned zones</td>
</tr>
<tr>
<td>Optimized standard working way to achieve the maximize productivity.</td>
<td>Open-plan layout, which represents the single-state organization culture</td>
</tr>
<tr>
<td>Workers were treated as the standard unit</td>
<td>More consideration of employee's satisfaction, health work/life balance and productivity (Pitt, 2008)</td>
</tr>
<tr>
<td>Conduced dehumanization work</td>
<td>Social interaction</td>
</tr>
<tr>
<td>Supervision was needed to watch people’s work because they could not be trusted.</td>
<td>More flexible physical layout (Markland, 1998)</td>
</tr>
<tr>
<td>Conventional office space standards rely on hierarchy structure (salary/grade)</td>
<td>Flatter structure layout (Chilton, 1997)</td>
</tr>
</tbody>
</table>

(Duffy, 1997; Markland, 1998; Pitt, 2008)

2.2.2.2 Changes in tenants’ working practice

New working practices reduce the tenants’ total office space and also enhance the efficiency of space utilization (Lizieri, 2003). New working practice includes hot-desking, home-working and non-territorial space, which enable tenants office space to be more intensification and flexible. A recent research undertaken by Schriefer in 2005 indicates that innovative working patterns have a significant impact on occupants’ space requirements, which will essential for investors’ office building design. In order to align with the occupants’ organization innovation of efficiency, the working practices adopt by tenants has become more flexible and collaborative (Schriefer, 2005), which directly influences occupants’ office space needs. Schriefer
(2005) finds that with the information technology support, the working norm has changed. Teleworking, tele-center and virtual office make use of the advance telecommunication technology to allow occupants’ employee to work in shared space, more intensified space or from home. Therefore, as the improvement of efficient usage of office space, the new working practice reduces occupants’ organization overhead cost as well.

Gibson (2003) points out that new working practices enable the work to carry out at the most appropriate job location, which reflects the space flexibility requirement is essential. As shown in the figure 7, the new working practice enables tenants to undertake different job tasks at the locations where is most suitable for the job tasks and features (Gibson, 2003). For instance, job locations can be categorized into following types that is govern by working practices whereas in traditional office working practice an individual person does task at the isolated space (Gibson, 2003).

- Open plan areas for general administrative work.
- Meeting rooms for team activities
- Cellular spaces for concentrated work
- Social spaces for internal networking

(Gibson, 2003, p. 18)

Therefore, as concluded by Haynes that the changing patterns of tenants’ working

![Flexible working diagram]

*Figure 2.7 Flexible working requirements*

(Gibson, 2003, p. 19)
practices have deep impact on their workspace procurement strategies, which stem from occupancy business processes and activities and eventually increase occupants productivity (Haynes, 2008).

2.2.2.3 Core periphery property needs

The research conducted by Lizieri in 2003 shows that tenants concentrate more on their core business to improve corporate competitive advantage (Lizieri, 2003), which has a profound influence on occupants’ tenants’ space needs. Because the uncertainty of the economic situation and increasing competitive in the market, tenants have to be flexible to cope with the fast changing market. Lizieri (2003) found that corporate must focus on quality management and core business development to enhance flexibility. The core business strategies lead to the changes in occupants’ working practices, organizations downsizing, outsourcing and delayering, the tenants is on the trends of “reorganization and smaller, leaner company” (Sullivan, 1996, p. 12).

Therefore, the core-periphery workforce strategies requires core-periphery occupancy space solutions (Lizieri, 1997). The office space requirements are divided into core and periphery spaces needs. Core space is often designed for companies’ long-term usage that might be long lease features. Periphery space tenure are adopted for some flexible working demand or one off project, which is often on flexible basis (Crosby et al., 2003). Crosby el al. research result reveals that around 60% of the tenants organization space is for core business and 40% for peripheral needs. As concluded by Sullivan (1996) that with the core-periphery work space strategy adoption and downsizing in the tenants’ organizations, tenants aim to maintain their corporates’ core work load to achieve the high efficiency operation of business (Sullivan, 1996).

2.2.2.4 Space flexibility and lease terms flexibility

As the economic cycle fluctuated, business practices in occupants’ organizations have experienced significant changes, which have had impact on office space needs and preferences. Flexibility has been become the main theme for business practice and corporates to cope with the dynamic and fast changing business environment
From the aforementioned analysis of tenants changing needs, office occupants’ needs have been seen a certain numbers of changes, particularly lease term changing, sustainable change and office layout change are paramount. Those changes reflect how corporations are endeavoring to tailor office space to cope with business development, enhance competitive advantage and achieve their business goals (Schriefer, 2005).

The flexibility interpretation can be categorized into corporate perspective level and a property’s flexibility which refers to occupancy lease flexibility and space flexibility associated with their working practice (Gibson, 2003). Space flexibility is essential to meet the occupants’ business needs. Space flexibility allow for the provision of various working spaces that meet the tenants’ different functional needs which often required for intense interaction and communication among staff. For instance, individual space, collaborating working space, meeting room, quite working space are common tenants space needs for contemporary offices. In addition, integrated with information technology support, flexible space can accommodate tenants’ needs of new working practice. Gibson’s (2003) research reveals that more and more employees are actively demanding the balance between work and life. Many employers would like to provide flexible working employment to achieve key staff retention and enhance staff satisfaction. The hotelling, hot-desking, satellite office has become a trend in office space which not only meets the tenants needs to accommodate various activities but also enhances efficient usage of space and adapts easily to changing working patterns (Schriefer, 2005). Contractual flexibility, time flexibility and locational flexibility also allow tenants’ office space to be responsive to cater for the flexible employment practices.

Moreover, during the economic downturn, the tenants’ demand for flexible office leasing is increasing (O'Roarty, 2001). Occupants are aware that the office property is playing a predominant role in business profitability and they expect more flexible lease terms. This trend may not return back to the original long lease trend in a more buoyant economy because the traditional institutional lease cannot fulfill occupants business needs any more. Further, occupants give more consideration about finance flexibility in terms of occupancy cost and timing control of entry and exit (Gibson,
As illustrated in figure 2.8, the flexible lease is anticipated to be one of the tenants’ future occupancy strategies (O’Roarty, 2001).

Consequently, the flexibility requirement in office space and lease term enable the organization to adapt the fast changing environment (Gibson, 2003). Lizieri (2003) states that as the current environment is dynamic and competitive, the uncertainty in this environment requires corporations to be flexible so that they can maximize the resource usage including capital and human resources.

### 2.2.2.5 Sustainable office environment awareness

Over the last decades, the increased awareness of environment and climate changes has made sustainability the main theme internationally. Sustainability has become the first priority both for social and economic development (Newell, 2008). Sustainable building is emerging in office building sector to support the common sustainable objectives, protection and providing best benefit for people, society and planet (Einstein, 2007). For occupants in office buildings, a sustainable office environment
has been considered by tenants as corporate strategic thinking, which assists office occupants to achieve corporate success (Heerwagen, 2000).

A sustainable office environment has a profound impact on the occupants organizations’, operation cost reduction and resources efficiency (Heerwagen, 2000). Heerwagen (2000) summarizes that the impact caused from sustainable building to tenants can be categorized into two aspects, tenants’ corporates strategic performance and human resources development as illustrated in figure 2.9.

Waytt (2011) concludes that the added value of sustainable office to tenants is divided into financial and non-financial aspects. In relation to corporate strategic performance, a sustainable working environment has a significant influence on a tenants’ organization effectiveness, occupancy cost reduction and productivity enhancement and thus the company’s image promotion. A sustainable office environment improves employee well-being and has become an important strategy to attract intelligent workers. Thus, in order to reduce corporations’ turnover costs, occupants have more interest in choosing sustainable buildings to attract high quality knowledge workers (Heerwagen, 2000). In addition, a sustainable office environment achieves energy cost savings for tenants, which also reduces the occupancy cost as

![Diagram of Sustainable Design](image)

*Figure 2.9 Potential impact of sustainable design (Heerwagen, 2000)*
well. Presently more and more tenants try to reduce operation cost through energy saving and consider green building as an effective way to achieve that objective (Jones Lang Lasalle, 2011c). Miller’s (1998, cited in Heerwagen, 2000) research found that tenants gas cost declined 7%, water cost reduced 65% as well as the electricity cost saving 18% in green buildings. Moreover, the research conducted by Miller among buildings occupants shows that a sustainable office environment improves corporate productivity, which presents a positive competitive advantage through having a green office environment (Miller, 1998, cited in Heerwagen, 2000).

A sustainable office environment enhances tenants’ corporate image. More and more occupants choose sustainable buildings as their business accommodation, which play an important role to promoting their corporate image. Makower (1994, cited in Heerwagen, 2000) reveals that the occupants who have good environment records have a higher reputation with the public and good relationships with governmental legislation department. Hence, providing sustainable office environment requirement is a prevalent trend among tenants, particular large company, government tenants and small firms whose business are related to environment sustainability (Wyatt, 2011).

From a human resource development view, a sustainable office environment enhances employee retention, satisfaction and the attraction of high quality knowledge workers (Heerwagen, 2000). Heerwagen (2000) finds that sustainable working spaces have very positive impact on office indoor environment quality. Green office environments reduce sick building syndrome, improve human health, personal productivity and individual staff working satisfaction (Heerwagen, 2000; Jones Lang Lasalle, 2011b).

**2.2.2.6 Property market cycle influence – new relationship between landlords and tenants**

The relationship between landlords and tenants is influenced by market cycles (Lizieri, 2003). During economic downturns, it has been seen that the power shifts from landlords to tenants. French (2010) finds that previously the party who is on the booming cycle dominates the market. However, during the late 2000s, the philosophy has been changed with both landlord and tenant parties having both
opportunities and requirements. French summarized the new trends in office property market as follows:

- Investors expect to increase capital value for the holding properties
- Tenants seek to reduce rental and meet occupancy requirements
- New investors expect to find out good covenant for longer lease
- Tenants who own property try to release capital from property and lease back

(French & Jones, 2010)

Those new emerging demands and requirements interact with each other and formulate new lease activity. The research conducted by French and Jones (2010) also reveals that landlords and tenants have greater willingness to negotiate. Landlords tend to accept side agreement and even outright surrender to keep current occupancy rather than have a vacant asset.

2.2.3 How do property investors address the changes in tenants’ office requirements

There is very little literature regarding investors’ perception and strategies of addressing office tenants’ space needs changing. Therefore, there is a gap existing within current academic research related to investors’ reactions and attitudes. It is anticipated that this research can add more information to this limited resources.

2.2.3.1 Investors’ perceptions and strategies of lease term changing

Investors’ attitude to lease length has been changed gradually since 1990 as investors began to consider flexible leases. During the early 1990s, with the tenants demanding shorter leases, investors have had to reconsider the standard lease length and even accept shorter lease contract. But investors still regard short leases as higher risk strategies compared with conventional institution leases (Crosby et al., 2000). Recent trends also show that investors, particularly large landlords now consider flexible leases as they see that flexible leases could enhance asset value as well (Crosby et al., 2003). In addition investors’ investment horizons tends to be shorter and investors are more prepared to accept flexible leases. However, the investors’ attitude depends
on a proper valuation approach to evaluate the shorter or flexible lease asset (Crosby et al., 2000).

Responding to the current occupants-led market and shorter lease requirements, investors implement several strategies. Within the current economic context, the purpose of investors is to maintain the existing occupancy to ensure cash flow through offering lower rental level. (French & Jones, 2010). Meanwhile, landlords find that maintaining longer term cash flow with lower rentals has more investment benefit than leaving the building in vacancy. Therefore investors untaken following strategies to retain existing tenants (Crosby et al., 2003).

- Acceptance of a side agreement that is not required in a full rent.
- Surrender current lease with higher rental to offering shorter lease to tenants.
- Offering incentive to tenants (French & Jones, 2010).
- Providing flexible leases through direct lease activity or joint venture with service office

(Crosby et al., 2003)

2.2.3.2 Investors’ attitude and strategies to lease changing

During the past five years, sustainability has been integrated closely with property investment and its importance and benefits has been realized by investors globally (Newell, 2008). Newell’s (2008) research finds that the importance level of sustainable building is increasing quickly among the major property investors in UK. For instance, Hemeres, Land Securities, Birtish Land in UK and Investa, Mirvac and GPT from Australia have already involved in sustainable property investment. Further, some famous pension funds such as Liberty Property Trust, Igloo Regeneration Fun and Hines Green Building REIT also regard sustainable building investment as a favorite priority (Newell, 2008).

This research also reveals that some leading Australia property investors regard sustainable building investment as a critical issue and undertake strategies to cope with sustainable needs from tenants. Investa, recognized as one of the leader of List
Property Trust in Australia, adopts green lease to meet tenants sustainable requirements. Firstly, Investa works closely with tenants to ensure that energy saving methodology is applied in office fit-outs. Then, within the green lease, both investors and tenants have criteria to meet sustainability. Thirdly, Investa will refund the additional outgoing of energy bill if the energy consumption saving exceeds the target setting according to ABGR rating (Newell, 2008).

2.2.4 New Zealand office property market

Office has been become an essential sector among social and economic growth (Markland, 1998). In New Zealand, the office building sector is playing a predominant role in local economics. According to NZ Statistics, total building consent value in December of 2010 is around $332 million, and the office sector is one of the major contributions to the commercial property market.

In the New Zealand property market, the Auckland office property market is dynamic and diverse with a close relationship with economic cycles as well. The New Zealand economic has slowed since 2008 due to the global Great Recession. By the end of 2008, after five quarters of contraction, the domestic economic has shown five consecutive quarters of growth. Within the macro economic situation nationally, Auckland office market is stable with a 14% vacancy rate that is a slightly increase from 13% of second quarter of 2010. Office rental in Auckland has decreased 2%. As the eased tenant demand, landlords have to keep the incentive level at 10-17% so that they can sustain the current occupied tenants and avoid high vacancy in properties (Jones Lang Lasalle, 2011a).

2.2.4.1 The changes in New Zealand office tenants’ requirements

2.2.4.1.1 The changes in office space layout

Office occupants require quality office space that enhance both corporate and individual productivity and efficiency. Currently office tenants regard efficiency as the first priority. They require a large office floor plan that can provide more working area with the same building facility area (Kenndy, 2001). Further, a large floor area
is efficient for tenants as it can be sub-divided according to tenants’ organization needs.

Office tenants need more efficient floor spaces to reduce operation costs (Birchfield, 2003). Efficiency has been identified as one of the most important corporate goals for tenants. Occupants are endeavoring to reduce the waste area in an office and maximize efficiency of the space utilization, which also lowers operation cost. The intensified office space provides more working stations and leads to the reduction of the average space usage per person. JLL research result shows that New Zealand office space per person has decreased from 25m$^2$ in 1995 to 20m$^2$ in 2001. Showing that office tenants still can maintain low level occupancy cost per person if the rental increases (Kennedy, 2001).

Office occupants demand office spaces that cater to staff needs while providing a pleasant workplace. Office tenants need amenity facilities in the office building and investors are having more consideration for tenants and recognizing human resources values (Birchfield, 2003). The emerging of office amenities is a significant strategy for tenants to attract employee and achieve staff retention, which eventually leads to productivity enhancement. For instance, the Colliers Auckland office has a large café area with an advanced model of plasma screen and internet access where social interaction occurred among staff and clients. Moreover, some other facilities are also provided for tenants such as showers, bicycle storage and changing rooms and in-office squash courts. The purpose of those facilities is to provide tenants with a pleasant working environment which meets various staff needs (Kennedy, 2001).

2.2.4.1.2 The changes in lease terms

Tenants demand negotiable flexible lease terms. Tenants expect flexibility in leasing to allow them to expand or downsize their space quickly and easily (Birchfield, 2003). Occupants also require for shorter lease and flexibility elements in lease contracts. Meanwhile, tenants have more awareness of leasing liability after the lease transfers to others (Read, 2008)
2.2.4.1.2 The changes in sustainable environment

The tenants demanding for green building is increasing quickly (Read, 2008) and they are willing to pay higher expenses for occupying green buildings. Tenants are now increasingly realizing that the office building has a significant impact to their business. They are demanding more sustainable building from investors. According to the survey done by JLL among Asia Pacific in 2007, around 80% of occupants agreed that green building is an opportunity to them and 64% of tenants are willing to pay higher rents to occupy green buildings. Comparing with 2006, this figure is almost six times higher (Jones Lang Lasalle, 2007).

Moreover, New Zealand has initiated legislation to mandate sustainable building programmers among government tenants. The New Zealand government requires that from 1st July 2007, all A-grade office buildings that accommodate government tenants must achieve 5-star green building rating and 4-star for B-grade building. The mandate from the government delivers the clear message to the occupants that green building will become New Zealand standard practice in the future (New Zealand Green Building Council, 2007).

2.2.4.2 New Zealand office property investors’ perceptions and reactions to those changes

2.2.4.2.1 Sustainable Building

The majority of investors have a positive perception of sustainable office building. According to the survey conducted by Myer among New Zealand property investors,

![Figure 2.10 New Zealand property investor perception of sustainable buildings](https://example.com/image)

*Figure 2.10 New Zealand property investor perception of sustainable buildings*

(Myers, Reed, & Robinson, 2008, p. 8)
more than 65% of the investors expressed a positive attitude to sustainable buildings development, as shown in figure 2.10. They recognized green building is the international future market and that green building can meet occupants needs. This has the potential for good market return to landlords (Myers et al., 2008). From the investors’ perspective, green building could have following benefits that attract landlords’ interests.

- Higher net revenue return
- Enhanced brand
- Improved tenant retention
- Higher rent
- Differentiated position of asset
- Shorter letting up period
- Reduced operation cost
- Increased market share
- Mitigation of future regulatory impacts
- Efficient reporting to stakeholders

(Myers et al., 2008)

However, a certain number of private investors have concerns regarding the proven financial return which influences their green building investment decision. Currently government incentive policies indeed encourage the property industry to develop sustainable building. Private sector investors still have hesitation except with government tenants leasing. They have less consideration for the environment and health, instead, they have more concerns with the connection between firm financial return with higher capital investment in green building.

In the New Zealand office property market, some investors have taken the risk and invested in green building projects. However, many of investors still hesitate with the investment due to the uncertainty, which influences their decision.

2.3 Summary
In an overview the literature, large amount of research has been done on occupants’ requirement changings, preference and market response. However, there is very little literature regarding property investors’ strategies, reactions and attitudes towards those changings, particularly in New Zealand. There is no academic literature directly related with property investors’ perceptions and perceptions. Instead, property investors’ reaction, attitude, market response and strategies are mentioned as part of information in researches of occupants’ changing needs, office demand and supply relationship analysis, working place changing, sustainable office demand and working practice research. Thus, the comprehensive literature review reveals that there are three major changes in tenants requirements as concluded in the figure 2.11.

![Figure 2.11 Summary of literature review](image-url)

Using the findings of literature review, a conceptual framework for this research was developed and is outlined below in figure 2.11. This conceptual framework identifies the most significant space and lease requirements requested by office tenants. This research will identify how property investors address those requirements in their new and existing buildings. Interview participants will also be provided an ‘other’ option where they can identify any space and lease requirements requested by tenants. The research will provide an in-depth understanding of how property investors address
these space and lease requirements in their new and existing buildings, the benefits of addressing them from the investor’s point of view, and the issues they encounter when meeting these requirements.
Chapter 3  Research Methodology

3.1 Introduction and overview

The literature review reveals that the changes of tenants’ office requirements encompass three main aspects, office space and layout requirements, environmental sustainable office needs and lease terms changes. These changing requirements have had a significant impact on the strategies that property investors’ adopt. Therefore, the purpose of this research paper is to investigate the strategies followed by large-scale property investors in order to address the recent changes in tenants’ space, green office and lease requirements in the context of the prime office sector in the Auckland market.

The main research question of the study is “how do Auckland commercial property investors address the changes in office tenants’ requirement”, which is divided into three sub-research questions.

- What are the recent changes in office tenants’ space and lease requirements?
- What are the key drivers behind office tenants’ space and lease requirement changes?
- How do the property investors address the changes?

The aims of a research is to find out the research questions’ answer and provide the deep view of the research questions through the existing research theory, findings and analysis within the current research environment context (Fellows & Liu, 2003). The appropriate research methodology selection can help the researcher to identify the research variables within the context and analysis their impact to the research topic. Therefore, the selection of an appropriate research methodology is essential for any research.

Research is a process of investigation to conduct searching work related to a research topic and then draws conclusions. The type of study, the researcher’s impact on the study, the method of data collection and interpretation as well as the level of the data
analysis, are closely integrated with research design, therefore, sufficient consideration to those aspects should be provided during the stage (Cavana, Delahaye, & Sekaran, 2001). Accordingly, this chapter is structured in the following sub sections in order to address the fundamental aspects of the entire research design.

- 3.1 Research methodology
- 3.2 Data collection method
- 3.3 Sampling
- 3.4 Data analysis method
- 3.5 Ethics consideration
- 3.6 Summary

### 3.2 Research methodology- Exploratory research: qualitative

This research is an exploratory study that will explore the strategies that property investors adopt in order to address the recent changes in tenants’ space and lease requirements in the context of the prime office sector in the Auckland market. Exploratory research is adopted when the researcher has little knowledge or no relevant information from the previous research on a similar issue (Cavana et al., 2001). Exploratory research assists the researcher to get a better understanding of the research topic that has no experiences referred to (Cavana et al., 2001).

According to the thorough literature review in the previous chapter, very little research has been conducted to investigate property investors’ strategies and reactions towards changings of office tenants space requirement needs. The same situation has occurred in the Auckland office property market research. Thus, the research background determines the study is an exploratory research.

The nature of exploratory research determines qualitative methodology is the most appropriate research approach for this topic, because the data tends to be verbal basis and focuses on subjective experience, meaning and conversation (Naoum, 1998). There are three main factors determining the qualitative methodology is the most appropriate method in this research, which encompass the characters of research data,
nature of research and effectiveness of the research (Marshall & Rossman, 1999; Naoum, 1998). The three factors are illustrated in the following paragraphs.

The main characteristic of data in the research is language basis that is typical qualitative research data feature. Qualitative research data emphasizes meanings and understandings that can only be described in a verbal manner (Naoum, 1998). Cavana (2001) defined “qualitative research places emphasis on understanding through closely examining people’s words, actions and records rather than assigning mathematical symbols to these words, actions and records” (p. 134). This research aims to explore subjective perception of Auckland property investors rather than taking an objective stance. The emphasis of the study is Auckland property investors’ strategies that address the changes in office tenants’ space and lease requirements. During the investigation, property investors’ perceptions and understanding of recent changes in tenants’ requirements will also be examined. Thus, the research is language-based and seeks respondents’ personal experience and view in order to investigate respondents’ perceptions, beliefs and interpretations of the researched phenomenon(Cavana et al., 2001).

Qualitative research is in subjective nature, because it is to investigate “a deeper understanding of the participants’ lived experiences of the phenomenon” (Marshall & Rossman, 1999, p. 60). In this research, the information gathered from property investors is based on their personal experience interpretations and decisions, which are personal views and subjective attributes. Therefore, the nature of the research matches the nature of qualitative research.

Further, qualitative research approach is the best way to research this topic because qualitative research design allows more in-depth analysis of the investors understanding and experience. The characteristics of qualitative research are information richness and diversify data that allow the researcher to have deep investigation and collect sufficient deep data (Marshall & Rossman, 1999). In this research, this character is essential in this researcher, which enables researcher to have a deep investigation in property investors’ strategies addressing the changing of office tenants’ space needs and lease requirements. Through qualitative research,
required quality data can be gathered from property investors’ interview. Consequently, qualitative research design is the most effective research design in this case.

According to the research methodology selection for the research, the entire process of the research conduction is demonstrated in table 3.1
Table 3.1 Research process of the study

<table>
<thead>
<tr>
<th>Stage 1</th>
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</thead>
<tbody>
<tr>
<td>• Preliminary Literature survey</td>
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<tr>
<td>• Probe research gaps and identified problems</td>
</tr>
<tr>
<td>• Literature survey and identify research objectives,</td>
</tr>
<tr>
<td>• Developed research questions</td>
</tr>
<tr>
<td>• Determine methodology determined and finalized research methods</td>
</tr>
<tr>
<td>• Define target population and survey samples identified</td>
</tr>
<tr>
<td>• Design data collection instruments</td>
</tr>
<tr>
<td>• Select data analyzing techniques</td>
</tr>
</tbody>
</table>

QUALITATIVE APPROACH – Semi-structured, one-to-one, in-depth interviews

<table>
<thead>
<tr>
<th>Stage</th>
<th>Data Collection</th>
<th>Data Analysis</th>
<th>Output</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>• Property investor – 5 interviews</td>
<td>• Themes and patterns were identified</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Theme will be analyzed for each unit and then formulate the final general theme description.</td>
<td>• Explore property investor perception</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Explore property investor reaction and strategies in details</td>
</tr>
</tbody>
</table>

Stage 3

Conclusion

Compare and conclude property investors’ reactions and strategies that address the office tenants’ requirements.
3.3 Data collection method – interview method: semi-structured interview

The research method used in this research is interview-based research method. As the research purpose and type have been determined, the research method can be defined. Because of the type of expected data from the investors and its subjective features, interview method is the appropriate research method for this research.

The interview method is mainly suitable for the following situations:

- The interview participants have similar characteristics
- The research requires interpersonal contact between interviewer and interviewee.
- The research topic needs explanation about the collected data rather than simple “yes” or “no” answer

(Naoum, 1998)

The interview research method can obtain primary data from the desired respondents while the data is collected from the sample population. The interpersonal interview is carried out in a face-to-face situation. The researcher asks questions to the interviewee to investigate their opinions that are relevant answers to the research topic (Naoum, 1998).

In this study, the researcher will conduct face to face interview to seek Auckland property investors’ strategies, perceptions, and reactions to the changes in tenants’ requirement. The data required will be collected through the interpersonal contact between the researcher and interviewed investors. Through the interviews, it is possible to compare the viewpoints of investors to outline the investors’ strategies that they have adopted to address the issues.

Meanwhile, the interview method has three positive impacts on this study, which helps to achieve better research result. Firstly, interview is the best way to investigate the answer. The strategies and reaction of Auckland property investors only can
obtain through the face-to-face interview rather than the observation. Secondly, the property investors can provide their historical information as comparison, which were their previous strategies and attitude towards tenants’ space needs and lease requirement. Thirdly, the researcher controls the interview questions, which lead to the research objectives effectively (Creswell, 2009).

3.3.1 Semi-structure interview

The semi-structure interview is selected as the best option for the research. Interview research method is identified as the most appropriate research approach for the research, which theoretically can be categorized into three types, unstructured, structured and semi-structured interview (Naoum, 1998). The interview forms selection will depend on the flexibility and form manner requirement. A structured interview is often used for the pre-prepared questions in a fixed sequence in which the probable answer is also pre-determined. However, a structured interview has little possibility to allow researcher to probe more details or deep meaning from investors. An unstructured interview is conducted without any pre-established questions in which the opinion, beliefs, and attitude are obtained with fully flexible interview. Compared with structured and unstructured interview, semi-structured interview is in more formal manner than unstructured interview and a certain open questions style also enables the in-depth interview with the participants (Naoum, 1998).

Semi-structured interview, a person-to-person in-depth interview, will be conducted with selected property investors in the later stage to collect data. In-depth interviews allow researcher to obtain the special data from interviewees that cannot gather from observation (Merriam, 2009). Through the face-to-face interview, property investors’ strategies, interpretation of current changings as well as their opinion can be investigated. Moreover, semi-structured interview has more flexibility to interview the candidates. During the semi-structure interview, the interview will follow the pre-planned process and the in-depth questions can be explored by certain flexibility. Particularly in this research topic, the researcher’s probing is essential to find out the investors perception and strategies that address the tenants’ space needs changing and lease requirement. Through the face to face interview, the investors’ body
language also can be analyzed with the verbal communication, which has impact on their response (Fellows & Liu, 2003). Consequently, semi-structure interview enables researcher freedom to probe more in-depth questions regarding investors’ opinion. A semi-structured interview is the most appropriate method for this research.

3.3.2 Data collection instrument – interview protocol

During the semi-structured interview, the interview protocol will be used for asking property investors’ questions regarding the strategies followed by property investors in order to address the recent changes in tenants’ space and lease requirements in the context of the prime office sector in the Auckland market. The investor’s response will be recorded during the interview process and transcribed later. The detailed sanitized interview data will be present in appendix II. The following chart (figure 3.1) demonstrates the data collection process.

Figure 3.1 Data collection process of the study
The questions in the protocol are categorized into four main sections as illustrated in figure 3.2 and a final overall questions, which are closely related with sub-research questions and most of the questions are in open-end style.

![Figure 3.2 Interview Protocol](image)

In order to achieve the better quality data, the interview questions are designed carefully by researcher while the questions are constructed with appropriate wording, clear, precise and simple (Naoum, 1998). Therefore the interview questions designed for the research follows the basic rules stated by Kumar (1996) to ensure the study’s reliability and validity.

- Avoiding the leading questions during the interview
- Avoiding the vague questions
- Avoiding the biased questions
- Avoiding the questions that seek commercial sensitive information
- Interviewer is in neutral stand to collect investors’ opinion and response.
- Interviewer needs to listen carefully, and record the interview answer accurately.

(Kumar, 1996)

3.3.2.1Interview - section 1: ice breaker questions

In sections 1, some ice breaking questions regarding property investors’ company will be asked. It is essential that the researcher can move smoothly towards the main questions (O’Roarty, 2001). The ice breaking questions section will provide a
transition period for both the researcher and property investors to build rapport before the main body of the interview. If the researcher starts with the very sensitive questions, the investors may consider uncomfortable and the interview process may get into a difficult situation. Therefore, the purpose for the first section is to build up rapport between interviewer and interviewee so that the whole interview process can be conducted under a warm and friendly situation. The investors general information particularly strategy regarding tenants needs addressing will be asked, which encompasses target customer of property investors, the strategies aligned with the target tenants as well as the changes that investors experienced.

3.3.2.2 Interview - section 2: space layout changes

This section interview questions are aimed to obtain property investors’ strategies addressing their tenant space layout changing requirements. The questions will be used to obtain the data of

- The changing requirements from tenants regarding their space layout needs
- Investors’ interpretation for the driving forces of those tenants’ space layout changes
- Investors’ strategies towards various tenants in terms of their space layout changing
- Investors’ long term strategies to address tenants space layout needs changes

3.3.2.3 Interview - section 3: sustainable office requirements

Section 3 interview questions seek property investors’ strategies that address tenant sustainable office environment requirements. The purpose for the questions in this section is to collect the following data.

- The most important green features that tenants demand for
- Who are the target tenants for green office buildings
- Investors’ interpretation for the driving forces of those tenants’ space layout changes
- The current tenants’ willingness for rental premium for green office requirement
• The strategies that investors adopt to cope with tenants green building requirement
• The barrier that hinder investors to invest green building
• Investors’ strategies for further green office building investment

3.3.2.4 Interview - section 4: lease term requirements

This section questions aims to obtain the investors’ opinion for the tenants’ lease changing. The objective of this section is to gather the following data from investors.

• The tenants changing requirements for lease structure
• The lease covenants that tenants demand for flexibility with
• Investors’ interpretation for the driving forces of those tenants’ space layout changes
• The investors’ strategies to address tenants lease structure changing in recent year
• Investors’ future strategies to cope with the expected new changing lease requirements

3.3 Sampling

The sample population of this research is property investors and the sampling frame is the group of large-scale property investors. The samples are large-scale property trusts who are the main market players in the context of the prime office sector in Auckland property market.

The sample selection for the research is essential which can represent the research population. Sampling can be categorized into two main types, probability, and non-probability sampling. In this research, the selection of the participants is one of the non-probability sampling, purposive sampling. “The sample is confined to specific types of people who can provide the desired information, either because they are the only ones who possess it, or because they conform to some criteria set by the researcher” (Cavana et al., 2001, p. 263). The expected data for the research questions will be collected from the property investors who are in large scale and have a certain
office property investment’s experience. In order to obtained the desired research answer, those property investors who are the specific group of population are identified as the relevant target invested group. The sample selection meets the setting criteria of the researcher. Therefore, the sample selection in the research is purposive sample.

Meanwhile, according to the research’s feature and methodology adoption, purposive sample is appropriate for this research. The selected property investors have the common characteristics that are homogenous. The common features of the participants are that they are large investors and have abundant office property investment’s experiences. They are active players in Auckland office property market. They can represent the investigated target population for this research.

In Auckland commercial property market, there are nine large-scale Listed Property Trusts (LPTs) who are the key players in commercial property investment in Auckland, including retail, office and industry. Among the nine property trusts, seven of them have office property investments (Collier International, 2011). It is anticipated that four of property trusts will be selected from the short list, which means that 60% of the population will be investigated. The reasons of selecting the LPTs are that their significant market positions and active management philosophies enable them have the ability to change the operation of the market. Therefore, it can be assumed that the four property trusts are in the position of dominance among Auckland office market.

3.4 Data analysis method: thematic analysis

The purpose of qualitative data analysis is to reveal the real meaning behind the phenomenon (Naoum, 1998). In this research, the researcher will collect and interpret the data. The overlap of the data gathering and analysis is an important strength for the research. That allows the researcher to have a further probe of the data information (Cavana et al., 2001).

The data analysis method selected for this research is thematic analysis. The researcher will record and interpret the data collected. The themes and sub-themes
are identified from the raw data material and literature reviews. The pre-planed semi-structured interview questions are used to investigate the specific issues of the themes. The pre-designed questions in fact are an outline of the research blueprint, in which the anticipated outcomes are explored.

However, the investors’ answers may vary from those expected when planning the questions. That will require the researcher to analyse the data carefully and identified any additional themes and sub-theme from the contents. The data analysis in this research is concluded as figure 3.3, which can be categorized into four main stages and illustrated in the below paragraphs.

![Data analysis process](Creswell, 2009)

**Figure 3.3 Data analysis process**

(Creswell, 2009)
3.4.1 Organizing and preparing raw data

The raw data will be organize and prepare for the further data analysis. The interview with property investors will be recorded by tape. Then the data will be transcribed form the record tape to the document, which is form the raw interview data resource. Because the questions have already been structured into the intended reporting themes, the raw data will be substantially ready for analysis (Cavana et al., 2001; Kumar, 1996).

3.4.2 Editing data

The raw data will be scrutinized while the possible errors from interview participants will be minimized. The researcher will read through again the notes taken from the interview and have thorough understanding of the contents. (Cavana et al., 2001; Kumar, 1996).

3.4.3 Coding the data

Coding the data is essential step in thematic analysis process, which is a process of labeling and filing the data with a term. When the researcher reads through the data transcript, the theme may already pre-determined or they emerge from the data context. The researcher will develop the theme coding system by highlight the contents to identify the theme among the context. A term will be used to represent the various themes during the interview questions design. Those coding terms represent the central meaning or explaining the data properly (Cavana et al., 2001; Kumar, 1996), for instance, codes will be used for each of tenants space requirement changes, green building requirements and lease term changes.

After the coding for the data, the code word will be recoded and clustered if there are any similar topics. Meanwhile, the sub-theme is identified during the coding process where the researcher read again of the theme file to check the sub-themes relationship, the sub-theme will be combined or split base on the meaning they represent. Then the research makes the final decision for the theme category and assembles the data under the each theme or sub-theme.
3.4.4 Data analysis

Those themes are in five to seven categories, which represents the multi-aspects of the data and are supported by the data (Creswell, 2009). The researcher will interpret the data, the answer from different property investors can be compared and concluded.

3.5 Ethics consideration

Creswell (2009) defines the “ethics in business research refers to the application of a code of conduct or expected societal norm of behavior while conducting research” (p. 21). The ethics behavior covers the entire research process (Creswell, 2009). Therefore, in this research, ethics issue is thoroughly considered at research start stage, data collection stage and data analysis stage.

Ethics consideration for the research starts from researcher who should begin the research in a good faith (Cavana et al., 2001). It is essential that the research select the appropriate studied topic to research. The researcher considers the research will contribute academic value to the existing Auckland office property market and provide one more academic research particularly focus on the investors’ point view to investigate how they address the tenants’ requirement changing.

As the research needs the participants to involve to complete, there are several ethics issue will be considered during the data collection. Firstly, the researcher respects the participants in the research. The research endeavors to avoid any risk caused to target property investors. The research will give thorough consideration of participants’ needs and benefits. Secondly, the informed consent form for participants is developed and sent to property investors by the researcher to sign before the commencing of the research. In addition, the researcher will consider any possible harm caused to the investors, for instance, how to protect the information confidentiality and participants’ privacy and prepare to avoid those risks before the interview.
During the data analysis, the research will protect property investors’ anonymity, the participants’ name, role and sensitive information will be dissociated. Meanwhile, the researcher aims to conduct accurate data analysis without personal bias.

3.6 Summary

This topic has very limited literature available from the existing data resources and no similar experience can be referred with, therefore, the study is an exploratory research and a qualitative approach to explore investors’ strategies and perceptions. The research question’s feature and expected data determines semi-structured interview is the most appropriate method to conduct data collection. In semi-structured interview, the researcher allows to explore the in-depth questions with investors so that the research objective can be more effectively. Meanwhile, in order to obtain sufficient data, the sampling are selected from Auckland large scale property trusts and companies who have abundant office building investment experience and a certain large economic scale in the context of prime office property market. The interview data will be analyzed with thematic approach in which the three main themes are consistent with literature key findings, space needs changes, green building requirements and lease term changes.
Chapter 4  Data Analysis and Findings

4.1 Introduction

The main purpose of this study is to investigate the strategies followed by large-scale property investors in order to address three recent changes in office tenants’ space and lease requirements in the context of the premium office sector in the Auckland market. The main changes identified and examined in this research are tenants’ requirements for flexible office spaces and layouts, environmentally sustainable buildings and flexible lease contracts. Anecdotal evidence suggests that similar to the trends in other global office markets, New Zealand office tenants’ space and lease requirements have also changed in the last few years. An ability to identify the continuous changes in tenants’ space requirements and respond to them by meeting those requirement changes in the office buildings is vitally important in an increasingly dynamic property investment environment. In order to obtain a thorough understanding of property investors’ strategies towards meeting their office tenants’ requirement changes, semi-structured, one-to-one in-depth interviews were conducted with four large scale listed property trusts operating in New Zealand. Due to their significance in the market and active management philosophies, Listed Property Trusts (LPTs) have the ability to change the operation of the market, its structures and practices to a great extent and thus assume a level of dominance in the market. This chapter presents the results from the semi-structured in-depth interviews with listed property trusts.

The in-depth interviews particularly identify the main space and lease changes requested by tenants from the investors’ point of view, how investors address those changes in office tenants’ space and lease requirements, the benefits of meeting such changes, and issues associated with meeting those requirement changes from the investors’ point of view. The remainder of the chapter is structured as follows.

- 4.2 Data Analysis and findings
- 4.2.1 Background information of the listed property trusts
4.2.2 Investors’ strategies and perceptions of addressing office tenants’ space and layout requirement changes

4.2.3 Investors’ strategies and perceptions of addressing green feature requirements

4.2.4 Investors’ strategies and perception of addressing the changes in tenants’ lease requirements

4.3 Conclusion

4.2 Data analysis and findings

Data analysis is based on thematic approach, and table 4.1 sets out the main themes and sub themes identified during the process of interpretation of the investor interview information. This chapter discusses each of these factors in more detail with explanatory comments on the findings of the interviews. A number of quotes have been included to further explain each factor. Detailed sanitized interview information is presented in appendix II.
Table 4.1 Themes and Sub-themes

<table>
<thead>
<tr>
<th>Number</th>
<th>Main Themes</th>
<th>Sub Themes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Background information</td>
<td>Space efficiency</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Space flexibility</td>
</tr>
<tr>
<td>2</td>
<td>Office tenants' space requirement</td>
<td>Main drives for space change</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Layout changes</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Integrated workspace</td>
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<tr>
<td></td>
<td></td>
<td>Teamwork</td>
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<td></td>
<td></td>
<td>Amenity</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Future expectation</td>
</tr>
<tr>
<td>3</td>
<td>Green features requirement</td>
<td>Main green features</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Strategies for addressing green features and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>the associated barriers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Tenants willingness for rental premium</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Future expectation for green building</td>
</tr>
<tr>
<td>4</td>
<td>Lease terms requirement (lease type)</td>
<td>Short and flexible lease requirement</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Break clause provision</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Rental review type and period</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Assignment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Major issues associated with lease term requirement</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Future expectation for lease term</td>
</tr>
<tr>
<td>5</td>
<td>Overall comments</td>
<td></td>
</tr>
</tbody>
</table>

4.2.1 Background information for the property trusts

Four property managers attached to 4 property trusts in New Zealand were approached by the researcher and all agreed to participate. The participants were chosen on the basis of the significance of their property trust in the commercial property market, structural characteristics and sectoral structure of the portfolios and the relative size and geographical distribution of the portfolios. All interviewees held senior managerial level positions within their respective organizations and had extensive experiences of property investment and management. Their titles in their organizations ranged from the General Manager to Commercial Portfolio Manager. All of them held the ultimate responsibility for property related decisions in their
entire property trust in New Zealand. Table 4.2 profiles the participants and their organizations.

Table 4.2 Profiles of the interviewed landlords participants

<table>
<thead>
<tr>
<th>Interviewee</th>
<th>Job Title</th>
<th>Value of the commercial portfolio ($ M)</th>
<th>Total NLA managed (m²)</th>
<th>Type of commercial properties owned</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>General Manager Property Manager of Commercial Portfolio</td>
<td>$ 700</td>
<td>218,205</td>
<td>Office, industry, retail</td>
</tr>
<tr>
<td>2</td>
<td>General Manager</td>
<td>$ 1,980</td>
<td>382,132</td>
<td>Retail, office</td>
</tr>
<tr>
<td>3</td>
<td>General Manager</td>
<td>$ 1,200</td>
<td>265,757</td>
<td>Office</td>
</tr>
<tr>
<td>4</td>
<td>Managing Director</td>
<td>$ 100</td>
<td>N/A</td>
<td>Office and industry</td>
</tr>
</tbody>
</table>

(Source: Listed property trusts’ annual reports, statistics by 31st March 2011)

These property trusts have large exposure to commercial sector and own a significant portion of high quality office stock available in the Auckland and Wellington markets. Most of their office buildings are located in prominent sites in the Auckland and Wellington CBDs and the majority of their tenants are large-scale corporate tenants or government tenants. The property investors interviewed emphasized that the good central location and high quality of their office buildings attract those customers. In return, the tenant mix in those buildings offers good lease covenants that ensure that these property investors have high and consistent income streams. As explained by one property investor

“The investment value of the building was influenced by tenants’ strong financial covenant and the ability to pay the rent and good rent. They are the blue-chip occupiers. And some other tenants would like to cluster themselves to these prestige tenants” (PI 2).

To secure good quality tenants and be successful in the office market, it is essential for property investors to have proper strategies to cater for their tenants’ changing requirements. As a result of these listed property trusts’ greater market power and the dominance in the market, financial strength and the ownership of comprehensive property portfolios characterized by high quality buildings and tenants, these
landlords are in a strong position to identify and meet the changes in their tenants’ space and lease requirements.

4.2.2 Investors strategies and perceptions for addressing office tenants’ space requirement changes

All the property investors have observed that the office space requirement has changed during the past ten years, which encompasses space efficiency requirement, space flexibility, and that further are reflected into the layout changes in office space, integrated workspace requirement, teamwork space requirement, and amenity provision for office tenants. Property investors perceived that instead of only focusing on the building appearance in ten years ago, current office building investment and design have more emphasis on the internal space design, including high efficient space usage, premier and secondary space design, and comfortable environment, adapting tenants fast changing business requirement. As property investors 2 demonstrates the changes

“[Ten years ago] People design the building perhaps around the external appearance and then the internal dimensions of the building were afterwards considered. Now the building is designed from inside to outside and great facility of the building” (Property Investor 2).

To secure the good quality tenants, improve the office portfolios’ occupancy, all the interviewed property investors are trying to ensure their strategies for office building investment are catering for such tenants needs.

4.2.2.1 Property investors’ strategies for space efficiency

In recent ten years, one of the fundamental changes in office space is space efficiency requirement from tenants and has been observed by the four property investors. All the property investors indicated that the tenants are looking for greater efficiency usage of the office space so that they are capable to accommodate more staff into the certain tendency than previous traditional office space. As mentioned by one investor, ten years ago, large partition office, probably 40m2 for one office, is
the prevalent style in office space whereas nowadays the same area can have the capacity for two or three staff members (PI 3).

It is noticeable that all the property investors emphasized that big open floor plan design is the main strategy addressing the needs of efficient space usage. They perceived the open plan office will sustain the trend for modern office space because large open floor plate is efficient than smaller one. Two property investors further explained that in order to achieve space efficiency, the large floor plate design will consider several aspects, premier space, secondary space design, space grid, shape of the floor and efficient service core design. As property investor four explained:

“*It is a bit technical, floor plate efficiency is very technical, [it] comes down [to the] distance from the court to the window, the number of column, shape of the floor then the space plan looks different fit out, shape of desks and so on*” (PI 4).

During the design of premier space and secondary space design, they aim to provide the most efficient space to tenants with good natural light penetration.

“You don’t want to have poor light penetration and ends up with large area in central with low natural light and that is the least desirable area” (PI 2)

Similarly, the floor area around the service core is also design into the most efficient way. For instance in the building A (owned by PI 2) the bathroom and lift are designed in the corner of the building and along one edge of building perimeter so that the entire lobby is as compact as it could be without the distraction to the utility and amenity (PI 2).

Regular floor plate shape is considered more efficient than irregular design. “*Our regular shape floor plate usually a bit of user friendly and efficient*” (PI4).

One property investor emphasized that the building space grid is also important for the space efficiency, which is a standard grid in the particular building. Each dimension of the building can be multiple or divisible by the grid dimension, hence everything can be installed in every efficiency way. For example, in the building A
the ceiling grid and light setting exactly align with the building space grid and that provides high efficient space layout for tenants fit out their office.

4.2.2.2 Property investors’ strategies for space flexibility

One of the property investors’ interviews indicates space flexibility is closely related with space efficiency, which indirectly enhances office space efficiency. Therefore, space flexibility strategy is another important strategy to improve the space quality. The relevant strategy covers the flexible and easily maintained ceiling space, column free floor plate as well as flexible duct system for air condition system.

The property investor emphasized that flexible ceiling space can effectively reduce tenants’ fit out cost, which is also quite convenient for tenants to move within the building or change the fit out in the future. Within the ceiling space, there are many perimeter channeling, data and power cable, so they endeavor to design the ceiling space as flexible as it could be. For instance, they adopt catenary system for lighting, which installation is as easy as the three-pin plug. Tenants can easily plug or unplug the lighting when they move the place (PI 2).

Column free office space is another strategy adopted by the property investor, and the column free space allows tenants more portion of net lettable area, which they previously need to pay the rental on.

“The traditional floor plate normally have column around here and there, tenants have nightmare to work fit out around these column. It is very difficult” (PI2)

Nowadays, most of property investors have more consideration from flexible space perspective to provide the most flexible office area to meet tenants high efficiency needs. Nowadays the large office plate is column free, so the net usable area is significantly improved, which also reduce tenants’ rental expense. This strategy not only meets tenants’ space needs but also attracts more tenants’ interests.

4.2.2.3 Property Investors’ strategies for addressing layout changes

All the property investors mentioned that the obvious layout change in office is moving away from the traditional heavily partitioned office layout to more open plan
environment. Accordingly, their main strategy towards the need is to provide high efficient and flexible office floor plate to tenants through the aforementioned well-designed large open space, efficient core, and good natural light penetration. Within the office floor plate, the office area is divided into nice quality reception area, meeting space, break our area, and big open office area.

“We provide the opportunity for them to be efficient as much as possible” (PI 4)

Moreover, except providing quality open office floor, one of the property investors emphasized that noise control is essential when they provide large open plan. To address the noise problem, high noise reduction coefficient ceiling tile and other sound absorbing materials tend to be used in recent year for the office building. For instance, the tile they used for the building B (owned by PI 2) is NCR 0.8, which can soak up the noise rather than the old ceiling tile reflects the noise. Thus the open plan office now is more quite than a few years ago.

All the investors further explained that the traditional cellular office layout has significantly reduced in the recent ten years. The combination with club type has become more popular in recent year because tenants require for more interaction among their staff and more communication is needed.

“On this floor, no one has office, the CEO doesn’t have office, we provide completely open plan on the whole floor plate” (PI 1).

“No office. The only partitioned areas were for meeting external clients. This is such a market moving away from traditional office layout towards open plan” (PI 2).

However, all the investors expressed that the internal layout fit out is often done by tenants themselves, which is often closely related with tenants own business operation. Depending on the commercial terms with tenants, landlords could provide various incentive amounts which are often used as fit out cost by tenants or help them fit out.

“We are addressing this by providing efficient and flexible space in right size and configurations and tenants fit out the space” (PI 2).
“Depends on the terms of lease, rental or tenants covenants. Stronger tenants covenants, longer lease, you gonna pay more money for tenants” (PI 3).

From property investors view, they endeavor to provide the building in flexible and efficient as possible as they can with large open floor, column free, higher height between floor and ceiling, efficient building services, to enable tenants to adopt various layouts as they desired.

Although the property investors have similar opinions for the strategy of addressing the layout changes, they hold different opinions for the tenants category who are interested with the layout changes. One property investor expressed that most of the tenants have the requirement for layout changes so that they can achieve cost saving. The other three investors thought that large tenants and professional services provider are predominantly towards open plan except solicitors, HR business, and other people who often deals with confidential information and needs privacy.

4.2.2.4 Property investors’ strategies for addressing integrated workspace requirement

The majority of the property investors stated that they experienced integrated workspace requirement from tenants. Two of the investor further explained that they have realized the building has been becoming more variety and significant role in addressing tenants working environment requirements. In order to create such top quality working environment for tenants, they are now going beyond the traditional office tower model, and listen to tenants requirement to develop the building with more variety, which is more tailor-made solution for tenants with high technology support. As DTZ Kerslake states in the management “there are no “one-size-fit-all” design solutions. Workplaces should reflect an organizations’ value and individuality but also consider the needs of staff, from physical well-being to social and motivational factors (Birchfield, 2003).

For instance, building C (owned by PI 2) is designed with very avant-garde concept in architecture and tailor design for a particular tenant according to tenants requirement for balance between fashion and function. The office building is in 6-level with a numbers of unique space area within the building, which is not only
designed for different activity based work but also aims to create the interesting and exciting environment for the tenant. There are a certain number usage of atrium, many exposed stairs, walkways, bridges and so on. The investor aims to provide flexible, dynamic, and exciting place for tenants to work in to accommodate tenants’ needs for new working practice, changing culture, and various working manners.

“The building has no dedicated workstations, staff comes to office in the morning and decide where in the building they are going to work for the day. Team will coordinate with each other in the particular area of the building. By the end of working day, everything is packed up and no one leaves particular station” (PI 2).

“During the day, people’s moves change, they move from the different part of the building to the other and a certain part of the building are encouraging creative activity and the other part of the building may focus on process and might the other part of the building focus on communication” (PI 2).

This property investor pointed out that current New Zealand office property market is shifting towards customized building, which can meet particular tenants’ requirement and needs and this trend is becoming prevalent. Anther property investor has similar comments

“We need to be quite flexible and complying with a lot of tenant at this moment. Given them exactly what they ask, rather than force them into the spaces that was not quite suit” (PI 3).

4.2.2.5 Property investors’ strategies for addressing teamwork

All the property investors have noticed the teamwork requirement needs from tenants. Two of the property investors perceived that teamwork space arrangement is tenants’ responsibility. However, the other two property investors interview indicated that the space in the building is facilitate tenants to achieve better teamwork environment. Therefore, the strategy addressing teamwork requirement can be broken down to efficient floor space provision, good lighting system, good air-conditioning system that cater for a few of people working long hours, very comfortable floor space arrangement as well as the protection of security for people.
Also, one of the two property investors stated that in the case of tenant doing fit out, they sometime recommend architecture who are familiar with the buildings and know how the building works to help the tenants to do the office layout design. The property investor emphasized that together with all the facilities the layout including teamwork space is a complete system, which is “complex science” (PI 4).

Therefore, although teamwork is one particular space requirement of tenants, in order to service and support the space needs, landlord still needs to carefully design and plan the building in many areas so that the needs can be catered effectively.

4.2.2.6 Property investors’ strategies for addressing amenity

All the property investors emphasized that amenity provision is one of their important strategies to meet tenants’ philosophy of people focus and staff well-being. “The office is trying to make more home environment for them” (PI 4). Three of the property investor mentioned that amenity is a strategy to attract large size tenants because the tenants are more sophisticated than a few years ago and they have more focus on their staff. As a result, they provide gymnasium, childcare facility, café, as well as the restaurant. One of the property investor explained that the prevalence of amenity in the office building is to meet the tenants’ changing working culture, i.e. meeting culture and new approach from customer relationship.

“There are a lot of meetings now, even formal meetings might be held in café, even with clients. It is nice environment rather than meeting at formal environment. It is good actually to break that. And try to build rapport with other party. It is a bit casual but it’s part of relationship setup. You want to have those facilities in the buildings” (PI 1).

Another property investor stated that tenants’ office space are becoming intensified and multi-functions, they are trying to create more user-friendly public spaces or semi-covered casual area for break out.

One property investor clearly expressed that they have seen their successful applications in one of their office building. They will try to introduce more and more amenity to other office buildings, which will include café, sittings design, retail
facility, artwork, restaurant, hotel style lobby even taxi rank and one site facility management staff. The property investor emphasized that those facility prime objective is to cater for tenants needs, but in fact, they already go beyond their responsibility.

“Landlord need to realize that we are just another service provider, provide office space, and all the services going with it, so landlords need to move from adversarial and contractual mentality to the clients’ service provider. The culture changes, the landlords are slowly going to change” (PI 2).

That reflects that some investors now consider more for their role and they have realized that they are not only providing the physical space, but also they are another service providers.

4.2.2.7 Property investors’ perception for the main drives of space changes

The interviews with all the property investors indicated that the main drives for the space requirement changes encompass the following aspects,

- High efficient usage of office space
- Operation cost saving both landlord and tenants
- Fit out cost saving for tenants
- Good communication flow among tenants’ staff

4.2.2.7.1 High efficient usage of office space

All the property investors mentioned that office tenants are demanding high efficiency office space where the tenants can achieve the most effect layout to meet their required density. As Property Investor 1 mentioned in the interview

“They (tenants) move open plan because actually they can fit more people on the floor. Intensifying, you can do that easier with open plan environment” (PI 1).

“Once upon a time, the density of tenants is 20m2/person, and now the population density is 15m2/person. Some special cases they have 10m2/person, the customer on level 15, they are 13m2/person” (PI 2).
Therefore, intensification is the current trend among the tenants when they lay out their office. And this demand has been becoming one of the main drives to call for landlords’ to provide efficient office space to address the requirement. As the result, landlords adopt the aforementioned detailed space strategies, efficient design of building core, primary and secondary, more large open area to cater for tenants space requirements.

4.2.2.7.2 Focus on total occupancy cost saving

All the property investors pointed out that reducing the office operation cost especially under current market situation is tenants desired target, which directly accelerate the high efficiency and flexibility spaces needs.

“No one likes to pay more rent than they need to, they downsize. Every business is looking at the cost and how to cut them, for any business the rent is a big number in annual charge, so they can save 20-30% of rental charge by doing that” (PI 4).

“When we building the building A, tenants from the old style building, they have 20% space less than previous” (PI 2).

“Efficiency drives cost saving is what most of occupiers are looking for” (PI 3).

“When they (tenants) look at people per square meter, they can look at reducing the occupancy cost” (PI 1).

As conclude by Collier international (2010), occupancy cost has become the second largest expense for tenants organizations, they are trying to make best use of the office premises to support their goals of enhancement for employee productivity, retention and satisfaction.

4.2.2.7.3 Fit out cost saving

One of the property investors indicated that fit out cost saving is one drive force for office space requirement. The office space will be fit out again after a certain year occupied, either done by tenants or by landlords. To minimize the changing cost is very important especially for tenants. When the office building has better efficiency
and flexibility, the fit out cost can be kept as low as possible. Particularly for large tenants, they occupy less floors if they occupy efficient floor plate. The tenants can reduce the sharing facility in their office, for instance, the receptions can be consolidated down to 1 or 2 receptions, more sharing of meeting facility. They could consolidate to one location rather than spread out to several floor levels. “All the things like photocopy or kitchen, quite expensive part of fit out instead to spread out to 10 floors, they are reduced” (PI 2). Consequently, the fit out cost are tremendously saved.

4.2.2.7.4 Good communication flow among tenants’ staff

The property investor further pointed out that good communication flow is another trigger factor for space efficiency requirement. When the tenants compact to less floors, it is better for the staff’s communication and connectivity.

“You can see someone in the other side of the floor you want to communicate with rather than meeting someone downstairs. Connectivity, communication as well as the visual connectivity, the physical connectivity are very important” (PI 2).

“In most of the business, tenants are going to the open plan environment because it creates better communication within teams.” (PI 4)

4.2.2.8 Property investors’ perception of future trend for office space and major issues

All the property investors have a very common view that efficient space usage is still the future trend of office space and expressed that they are more willing to listen to tenants’ voice than before. As tenants undertake new working practice and have more staff focus, the layout of the office will tend to be more variety, which is a combination of traditional cellular type with club type layouts. The office spaces will develop towards more efficiency, comfortable and diversity.

Two of the property investors emphasized that campus style office building is emerging and will be the popular style. Campus space is characterized by low rise, clustered around by 2-3 buildings, university campus style, big floor plate, which large size tenants have more interests in and demanding for than smaller tenants’.
Moreover, property investor two further explained that campus style office building tend to be more specialized design for tenants that are more customized and accommodate tenants particular needs better, and they perceive the building like Building C is an very good example. It is a tailor made solution for an individual tenant. This kind of office building shows more tenants’ identity, provides better security, and adapts tenants working practice effectively. It often occupy large site, the outdoor environment is in high percentage, therefore, tenants have more break out areas and external space.

Meanwhile, two of the interviews with property investors indicated that under the efficiency and flexibility drive of office space, investors also need to consider the building service system to accommodate high population density in the future office. For instance, with tenants intensifying, office tends to be high density, high efficient air conditioning is need to address the increase heat load. High density also call for efficient lift system and advanced IT technology support. The building must have the capacity to accommodate the new requirement from tenants fast development speed, such as large-scale perimeter duct system and standby power generator.

“It is our role to provide the best platform for people to do their business from. The platform is in many areas, from big floor plate, there are other important things the support, services and backup all sorts the stuff that landlord is providing really make a good offering one” (PI 2).

“It will be all about continuing to refine the buildings’ performance and deliver greater value for money and amenity for those customers”(PI 4).

“This is really just learning and learning what they (tenants) are found and want in the future. We stay very close of their times and understand how their businesses step” (PI 4).

During the interview, some property investors indicated that the major problem they encounter when they address the space needs is accommodating tenants in the contiguous floors because under current market situation, securing tenants is their first priority. Meanwhile, another property investor pointed out that investors’
reputation and credibility are quite essential as tenants now have more preference for the investors who are willing to do the good maintenance to building and commit to long term growth.

4.2.3 Investors strategies and perception for addressing green feature requirement

The interview for this section attempt to obtain property investors’ strategies addressing tenants’ requirements of green building and their perception of current and future green building demanding. As the impact of challenging market situation, green building demand is slightly drop compared with a few years ago, property investors’ strategies have more consideration for the more efficient operating of the buildings with green features rather than only green rating pursuing.

4.2.3.1 Property investors’ perception of main green features and major issues

All the property investors indicated that energy efficiency and water efficiency are the major green features demanded by tenants. Majority of the investors identify cost saving is the major drive for green features demand because they explained that green features are close related with cost saving. As one property states that, “they (tenants) are looking for reducing the energy consumption. There is cost saving associated with that” (PI 4). They all perceived that those green features are more direct and obvious for tenants, and effectively reduce operating cost. One property investor further mentioned that sustainable environment conscious is another main reason for green feature or green building demand. Another property investors stated that sustainability statement among tenants business is one of the drives.

Although most of their perceptions for the influence of the green building to landlords are positive, some of the interpretations of the influence are different. One of property investors believed that landlord will indirectly benefit from the tenants’ reduced opex by way of potential higher rental in future even in net lease conditions. The investor stated that “tenants get immediately benefit of lower opex charges, overtime, they give us more scope to growth the end line of rental” (PI 4). Conversely, another property investor point view is that it is hard for landlord to benefit in net
lease situation. “The hard one on the net lease market is tenants paying operational expense, the landlord pays the capital cost and tenants get the benefit” (PI 1). On the other hand, the property investor agrees that green building still benefit landlord in terms of valuation point view when the demand in green buildings increases.

“The reality of valuation point view, if there is demand for sustainable buildings, and focus on the buildings, they should had less vacancy, and bit quite more tenants. Because demand, the yield would be lower, so the value would be higher. You would got better value for the building” (PI 1).

However, two property investors express their concerns respectively for the green star rating process in terms of the cost of achieving it and time consuming. One of the property investors further explained that they have green initiatives, but they need more proof to convince the payback down the stream. In his point of view, the property investor has more preference for green features upgrading in the portfolio rather than green star rating. Another property investor also expressed the concern of the cost that “it is very expensive to get rating because of the number of the consultancy and cost time” (PI 1).

4.2.3.2 Property investors’ perception of tenants categories of green buildings

All the property investors indicated that although most of the tenants have interests in green building, large organizations and international based tenants have more demand for green buildings. Two of property investor further explained that even though the government tenancy is no long compulsory to occupy green star building, they still focus on green building if the building is a new design-and-build. They perceived that the main reason of those tenants preference of green building is that those tenants’ stronger environment commitment and environment ethics, in which Green buildings align with their company philosophy.
4.2.3.3 Property investors’ strategies for accommodating green features

4.2.3.3.1 Energy efficiency

The interview with four property investors indicated that energy efficiency is one major green feature they focus on, which their strategies emphasize on efficient air conditioning, vertical transportation system, lighting and glazing of curtain wall. Air conditioning is a major energy consumption system, therefore, all the landlords expressed that high efficient air-conditioning has replaced the old fan coil system, for instance, chill beam air-condition system, VAV system. Those air-conditioning systems have more fresh air production and provide healthier environment to tenants with lower energy consumption. The vertical transportation system moves towards destination lift system, like micononic lift system.

“it automatically determines how many people wants to go to certain floor and group the lift. So that’s saving on power and provides rather than lifts shooting up and down the buildings all the time. It is more efficient” (PI 4).

“Some new lift system doesn’t use any electricity at all because they go down and generate electricity, then the electricity can be stored. And landlord are keen to do that, they are trying to make the building efficiency” (PI 1).

“The destination lift system typically take 25-30% more lift capacity” (PI 2).

Lighting system in the office buildings adopts low energy high efficiency tubes to reduce the energy consumption. One of property investors expressed that in order to achieve better natural light penetration, they conduct carefully space design for new buildings. Meanwhile, another interviewed property investors introduced that to reduce energy waste, they make use of high technology glazing to reduce transferring of energy.

4.2.3.3.2 Water efficiency

All the property investors expressed that they also focus on addressing water efficient usage. The strategies include main water supply management and rainwater harvest system. In order to management main water supply system more effectively,
more water meters and taps are installed. In some buildings owned by the interviewed property investors, the rainwater is harvested from the roof and stored in the large tank, which is used for the office building flushing system. Meanwhile, one property investor mentioned that they would reduce non-permeable space and plan to set up roof garden for some of their office buildings.

“The roof garden acts as the extension tank for the storm water. In the heavy storm, storm rainwater actually retain on the site and water the plant, loading up the storm water system and the rest discharge to the harbor” (PI 2).

4.2.3.3.3 Waste management and other green features

All the property investors’ strategies also include recycle program running throughout the office buildings to achieve effective waste management. “Tenants now recycle very high percentage of the waste, the amount of waste going out the building are much reduced” (PI 2). In addition, the materials used in the building aim to achieve environment friendly and healthy indoor environment, the detail strategies include low VOC paints application and the materials used in the building that must be recycled.

One of the property investors further explained some other strategies regarding public transport supporting. The property investor provides bike storage and shower facility in some good location office building so that tenants can encourage their staff to reduce private car usage. However, another property investor perceived that there is no strong demand for those facilities although bike storage and shower facility are part of the green star rating.

4.2.3.3.4 Green lease

One of the property investor mentioned that Green Lease is becoming a very common lease schedule between the property investor and their tenants. The purpose of the green lease is to achieve common commitments of the landlord and tenant to promoting the environmental sustainability of the building (Gully, 2011).
Both the landlord and tenants will follow the agreed green works principle and green plan to provide the information regarding energy usage, water usage and waste management and so on, the target for each category will be set up in the green lease and the consumption will be monitored and assessed.

4.2.3.4 Property investors’ perception of tenants willingness to pay rental premium

All the property investors stated that tenants are not willing to pay higher rental under current weak market situation. One investor explained that the higher rental premium is determined by dozens of different reasons, green building could be one factor, but it is not the only factor to make decision for higher rental.

“The fact of the market is a reasonable challenging position. We got pretty weak conditions. A bit of vacancy around is far more influential on rental charge than green building features” (PI 4).

Three property investors perceived that although they cannot have rental premium for green building to cover the investment cost, they still believed that they will get pay back in long term.

“I thought we would automatically reap the reward by tenants wanting and staying in the building and more tenants would like to pay extra for staying here” (PI 2).

“You secure you tenant and might be for longer period. We spend more money on our building cost, long term it is benefit” (PI 1).

“It will be green building that will get better payback” (PI 4)

Compared with the other three property investors, one property investor has a certain concern for the proof of pay back, however, the investor still expressed that they expect the efficient running of the building with low opex cost can allow them more space to increase rental in future.

4.2.3.5 Property investors’ perception of green building future trends

Three property investors clearly indicated that green building is the inevitable future trend because tenants’ environment awareness will enhance and they need to
demonstrate their focus on sustainability and the premise they occupy will be part of the commitment. One property mentioned that a lot of international real estate funds and sovereign funds only invest green buildings.

However, they also perceived that the current market situation is weak and tenants cannot afford it. Thus, the emphasis on green building at this moment is slightly diminished but it is still the key issue. In the new building design and construction and existing building’s refurbishment, green initiatives are still reflected in terms of efficient usage of resources.

“As an investor, we would favor to buy green buildings than non-green one” (PI 2).

“It will always be the different degrees of sustainability incorporated within buildings, but in the fundamentals it will be yes” (PI 4).

Compared with these three property investors, another property investor indicates his concern with the green star rating. The property investor expressed that he need to be convinced around green start rating and the real pay back of green building to landlords. Therefore, in his point view, he prefers achieving some obvious green features such as energy efficiency rather than obtaining green star rating for their buildings.

4.2.4 Investors’ strategies and perception of addressing lease terms changes and major issues

The interviews for this section aim to obtain the data how property investors’ cater for tenants lease requirements as well as their point of view regarding the lease terms’ changes. The finding of the interviews reveals that the lease terms tend to be short and flexible compared with a few years ago. Most of the property investors are willing to accept and adapt the changes.

Those four property investors have similar lease type, net lease type in Auckland and gross lease in Wellington. Both BOMA and ADLS are the major lease documents adopt by the investors. They also point out that large tenants tend to have long lease whereas smaller tenants require short lease.
All the property investor perceived that all the tenants required for flexibility in lease term because tenants business may change in the future, they need flexibility in the lease term. However, one property investor explained that large tenants demand more flexibility in the lease term. Because large tenants are in large scale, they often consider the lease solution very carefully and there is a dedicated team to make decision for the issue. Therefore, they need the ability to terminate lease and the greater flexibility for space contraction and expansion. Compared with this property investor, another property investor’ point view is small tenants demanding more flexibility because they are often in short lease and they need greater flexibility.

The major issues that four property investors encounter are how to understand tenants’ requirement completely and formulate good relationship with tenants rather than contractual relationship. In addition, to cater tenants’ lease term requirement, how to change to be flexible to accommodate tenants ‘needs is critical for investor to secure their tenants.

4.2.4.1 Property investors’ strategies of addressing short and flexible lease

All the property investors indicated that the fundamental change in lease term tends to shorter and more flexible because tenants business changes quickly and they need to adapt to their business changes. As property investors, all the interviewees expressed that their strategies are to accept the short lease requirement and provide to tenants.

“People doing business particularly in the particularly time like this, very difficult for people to plan to exactly what is going to be in a few more years. So we recognize and accept 3, 4 or 6 years lease” (PI 2).

“6-9 years will be our leases. We typically want minimum of 6 years lease” (PI 4).

“The average lease terms of these days are 3-6 years. You are not really (be able to )see beyond 6 years” (PI 3).

“On average, 5 years then we need to run on new leases” (PI 1).
Three of the property investors are willing to provide 3-6 years lease whereas another property investor prefers 6-9 years. The property investor further explained that smaller tenants tend to be the shorter lease term while the large tenants normally in 9-12 years.

4.2.4.2 Property investors’ strategies of addressing break clause in lease term

Break clause provision is the option that all the property investors include it within the lease agreement with tenants to address tenants short lease requirement. The property investors further indicated that they will adopt different solutions to compensate the loss of lease break or mitigate the risk, which depends on the detail commercial deal. One of property investors has no penalty but they agree the tenants to take longer lease as compensate. Another property investors have some penalty for the lease break, tenants need to pay back a certain amount of incentive that landlords offered before. One of the property investor perceived that break clause is same as lease renewal and that could be recognized as better value.

4.2.4.3 Property investors’ strategies of rental review type and period

All the property investors perceived that CPI rental review type and fix rental structure are the dominant rental review types. Two of property investors mentioned that they market review is used sometimes. Thus, rental review is in mixed method. The rental review period could be annual or two years or three years, which depends on the lease length. All of the property investors further explained that CPI is more favorable both by landlords and tenants. Firstly, CPI rental review is the type that already has in-built growth, in which the landlords still can have rental growth during the market flat situation. Secondly, CPI rental review avoids going through the rental review process, prevent expensive market valuation, no argument between landlords and tenants, and easy for tenants to do budgeting. Meanwhile, two property investors also mentioned that they are moving away from “hard ratchet clause” to “soft ratchet clause”. When market goes down or collapse, the rental could go back to commence rate but not lower than that rate.
4.2.4.4 Property investors’ strategies of addressing assignment

The interviews with four property investors shows that all of the investors agreed to provide assignment provision to address tenants’ needs of breaking lease add for exit. One of the property investor explained that assignment and sub-letting is not acceptable a few years ago. However, in order to address tenants’ demand of more flexibility in lease term, property investors have changed their attitudes and agreed the assignments in recent year, which must be within the reasonable scope. Consequently, to ensure the assignment and sub-letting is in good quality, property investors have a certain restriction for tenants to follow.

Firstly, the sub-letting tenants’ quality and covenant should be as good as the existing tenants. As stated by property investor three that “we are happy they sub-lettings as the quality of sub-letting and sub-tenants is acceptable” (PI 3). In order to guarantee the sub-letting quality, property investors further explain that they will have the relevant commercial test for those assignee. The aims of the test are to research sub-letting tenants’ nature and covenant quality. “They must be reliable, in respectable nature and the covenant is no less than the existing tenants” (PI 2). Meanwhile, property investors have a certain limitation for tenants’ category for the sub-letting. For instance, they do not accept education type tenants to occupy because they are high traffic tenants and have more influence to the other tenants in the same building. Furthermore, the property investor requires the subletting rental level is no less than market level. The purpose of the strategy is to protect investors’ benefit during the rental review time and prevent any devaluation of the building in the long-term view. Finally, the original tenants are still liable in the sub-letting lease.

4.2.4.5 Property investors’ strategies for addressing tenants’ expansion and contraction

Two of the property investor indicated that one of the important strategy of lease terms changes is provide the rights to tenants to expand or contract.

“The biggest cost for us is to lose our tenants, so we want them continue to be our customers” (PI 4)
Property investor two further explained that they recognize tenants as their business partner, and as landlord, they are provide an appropriate platform business to support the partner. They perceive that the relationship with tenants is essential, and tenants’ growth will bring investors growth. Therefore, they provide “right size” solution for their tenants so that they can secure the good quality tenants within their portfolio. Similarly, to cater for the expansion and contraction needs, property investor four also provide “first right refusal” to tenants to make choice on the adjacent floor once it is vacated. If tenants need to change the building, the property investor try to accommodate them into their another building.

4.2.4.6 Property investors’ expectation for lease changes

All the property investors have the common comments that the lease terms tends to be more flexible and short in the near future, and as investors, they need to be flexible in the lease term strategy to accommodate those tenants’ needs particular in current market conditions. Three property investors explained that tenants are looking for greater flexibility in lease terms, also, they need flexibility of expansion and contraction of office space.

Two property investors stated the strategy must be focus on securing good quality tenants to ensure the income stream. They mentioned that landlords are trying to understand tenants requirement well and be flexible to accommodating their needs. Consequently, their strategy would be more flexible and variety in the lease structure, tenants’ scales, and lease review method. For instance, the lease structure can include mix lease term structure within their portfolio, including long-term lease, short terms lease. As tenants size, they are willing to have multi-floor tenants and part floor tenants. For lease review method, they are quite flexible for market review, fixed review or CPI review.

One property investor predicted that the incentive to tenants would keep the large percentage until the market climb up. He explained that under present market condition, tenants constrain with cash flow, therefore, tenants expect landlords’ incentive fully cover the cost of fit out. The incentive now on the market is around
two months per year. However, with the market booming in the future, the incentive would be reduced.

In contrast to the other three investors, one property investor expected that the lease term will resume back to long lease when market is upturn. However, he emphasized that long lease only would be happen until the market is really sustain the recovery.

4.2.5 Property investors’ perceptions for the current office market and their near future strategies

As shown in table 3, two of the interviewed property investors perceived that space requirement are the most frequently demanded changes by tenants whereas the other two property investors identified short lease term changes are the most demanded. It noticeable that all the most of the property investors perceived that green building is going to be the future direction for office buildings, however, under current weak economic situation; they also realized that green building would be the last factor considered by tenants. Consequently, it is anticipated that green building will keep current status. As described by property investor 4

“Green building thing is icing on the cake. It is really something nice for them but not the number one” (PI 4).

Table 4.3 Most frequently demanded changes by tenants

<table>
<thead>
<tr>
<th>Property Investor</th>
<th>Space requirement</th>
<th>Green building requirement</th>
<th>Lease term changes</th>
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<tbody>
<tr>
<td>One</td>
<td>2</td>
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All the property investors’ future strategies can be summarized as two main areas. The firstly main strategy is listening to tenants voice and understanding their initiatives for space requirement changes so that investors can offer a tailor-made package solution.
“The offering of the building to tenant is not just physical offering, it is completed around package, between special offering and services and commercial services. It is not just space, not only property management. It is actually pull these together and will be around the package as you can. It is completed offering. And I think the fundamental change gonna move to space service rather than space provider” (PI 2).

Another strategy is to invest in the buildings that are more efficient and flexibility in space and operation to adapt tenants’ business fast change speed.

4.3 Summary

The interviews sections are closely related with three main sub-research questions, which aim to explore the answer for the main research topic. Through the interviews with four large scale property investors, the major property trusts’ strategies and perceptions have been analyzed and compared so that the general strategies and opinion of large scale property trust can be formulated.

The interviews revealed that the property trusts perceived that the tenants’ requirements have changed in three main areas, space requirement, green features needs, and lease terms changes. The focus on the quality of space, the flexibility of the space and adapting to tenants working practice are the main drives for the space changes. In addition, cost consideration is also one important drive force. The environment commitment will have more influence on the space requirement as well. However, comparing with space needs, lease term requirement, sustainability demand is slightly dropped under current challenging market conditions.

The property investors strategies now have more consideration of tenants’ needs and requirements to keep up tenants’ demand and accommodate the needs. They are trying to be more flexible in the strategies and provide office building as efficient as they can. “It is not just space, not only property management, it is actually around the package as you can. It is completed offering. And I think the fundamental change moves to space service rather than space provider” (PI 2). The interviews reflect that property investors’ strategies have moved from just physical offering to the completed package in terms of space provision, and commercial services.
Chapter 5  Discussion and Conclusion

5.1 Research overview

This study investigates how Auckland commercial property investors address the changes in office tenants’ requirements. Over the past few years, the Auckland commercial market has changed in terms of the tenants’ space requirements, sustainable environment needs, and flexible control over office lease terms because tenants need the office premises to cater to their business development’s requirements. As Kennedy (2001) stated that “senior executive and property managers are looking for quality office space which increases individual efficiency and delivers measurable cost-effectiveness for the enterprise” (Kennedy, 2001). Consequently, the strategies that property investors adopt need to address those new changing demands.

The main purpose of the study is to explore the strategies that large-scale property investors follow in order to address those three main changes in the context of the premium office sector in Auckland market. The strong financial abilities and dominant market positions of large property investors’ enable them have abundant office property investment experience and they have more chance to involve in more complex investment and experience various tenants’ requirements. Therefore, the perceptions and strategies of those large-scale property investors can provide good reference to the other property investors in New Zealand.

In order to explore the research topic thoroughly and provide a deep view of the research question, the main topic is sub-divided into three sub-research questions. The sub-research questions encompass

- What have been the recent changes in office tenants’ requirements?
- What are the key drivers behind the changes in office tenants’ requirements?
- How are the property investors addressing the changes?
The research is an exploratory study and the research methodology is qualitative approach. As the emphasis of the study is the strategies of large-scale property investors adopt to address the office tenants needs changes. The semi-structured in depth interviews have been conducted with four-selected large-scale property trusts. The data has been collected through the designed interview guidance, which is close related with the sub-research questions. The entire interviews have been recorded and transcribed. The data analysis method is thematic approach, in which the interview data has been categorized and compared according to the themes and sub-themes.

5.2 Discussion of the key findings

After the comprehensive data analysis, the summary of key finding is concluded and compared with literature reviews in this section, which is also responding to the research topic. The discussion and conclusion will be undertaken based on the three main themes that have identified from the interview data: the needs of spaces changes, sustainability environment and lease term changes. In addition, the property investors’ perceptions of the changes of tenant’s requirements, the relevant drive forces and their strategies will be discussed under each theme.

5.2.1 Key findings of how property investors address the changes in space requirements

The key findings indicated that the changes of office space in Auckland premium office market match the major findings of the literature review in most aspects.

5.2.1.1 Property investors’ perceptions of the changes in space requirements

All the property investors perceived that the change in space efficiency is the fundamental aspect in Auckland office space requirements. Tenants are looking for greater efficient usage of the office space. The space flexibility requirement is perceived by some interviewed property investors as another important demand that has an impact on tenants’ space efficiency and quality. These perceptions are similar to the Stenier’s research article findings, in which Stenier indicates that the office space has shifted to more flexible and intensified (Kennedy, 2001). The office space
changes are further reflected in Schriefer’ research in US market “the trend in corporate offices today is to have fewer and smaller individual workspaces and a greater portion of the space dedicated to interactive uses in an array of functions and sizes. The main function of the workplace is shifting toward intense interaction” (Schriefer, 2005, p. 224).

Moreover, the interviews reveals space efficiency and flexibility are closely related with the demand for integrated workspace, teamwork space, and amenity facility provision. Stenier describes the high performance office building featured with effective space in terms of integration of the architecture design, construction, usage, maintenance and engineering (Steiner, 2005). The interviews of this study indicated that all the property investors noticed that tenants required for integrated working space that are good quality in terms of tailor-made low-rise office buildings, a good balance of building function and architecture design, dynamic working environment and creating sense of tenants’ ownership with advanced information technology support.

Two property investors perceived that tenants need the office space to support increased communication flow but the other two property investors expressed how teamwork practice has only limited influence to the office portfolio and teamwork is only the tenant’s internal needs. From this point, the finding in Auckland premium market is different with Schriefer’s research finding. Schriefer clearly indicates in the research at US office property market that nowadays the office space is optimized to cater for more team interaction and collaboration (Schriefer, 2005). Lizieri’s (2003) research survey in UK prime office market reveals a similar situation to that were in Auckland. Lizieri found that a significant number of UK companies adopt new working practice, however, around 30-40% of tenants expressed that teamwork has no influence to their office space requirement (Lizieri, 2003). Moreover, all the property investors emphasized that tenants’ demand for amenity provision has increased in recent years.
5.2.1.2 Property investors’ perceptions of the drive forces of changes in space requirements

The interviews with four property investors revealed that there are four major driving forces behind space changes: efficient usage of office space, occupancy cost saving, reducing fit out cost and good communication flow requirements. Most of investors’ perceptions correspond with the findings in the literature review. Studies conducted by a number of different researchers revealed that the changes in office space requirements are driven by the needs for efficient space utilization, social interaction, flexible physical layout and single-state organization culture presenting, which can all finally be attributed to the contemporary philosophy of tenants’ origination management (Duffy, 1992; Markland, 1998; Pitt, 2008). The interviews revealed that tenants nowadays measure office occupancy cost by each workstation rather than according to the traditional calculation of total occupancy cost. As they try to obtain the most efficient support of the office premise to the business operation, they are looking for the most efficient office layouts, maximum net lettable areas, and good flexibility of the office space to suit for fitout changes. As Duffy (n.d., cited in Markland, 1998) states, “Organizations must drive down occupancy cost if they are to survive global competition” (p. 194). However, such changes in working practice were only perceived by one property investor as being the driving force for such changes in space usage. Another property investor further explained that the depth of the New Zealand office market is limited, and the new working practice is accepted by only a few tenants. Conversely, in international research studies, changes in working practice has been identified as among the major driving forces for this shift in countries such as the UK and US (Haynes, 2008; Lizieri, 2003; Schriefer, 2005).

5.2.1.3 Property investors’ strategies of addressing the changes in space requirements

All the property investors emphasized that the most important strategy for property investors catering for space changes is a large open floor plan with a good design of the primary and secondary space in an office building, space grid and efficient service core. Markland (1998) pointed out in research conducted in UK that team-orientated tenants have strong requirements for open floor plans. The purpose of the
strategy is to provide highly efficient office spaces that cater to tenants’ various layout needs, working practices and that also provide more lettable areas. Collier International espouses exactly the same interpretation of current investors’ strategies: “Open plan office environments have had a rise in popularity, in part due to cost savings through reducing office requirements and allowing for a higher office density” (Colliers international, 2010, p. 19).

In addition, the flexible space needs are addressed through column free design and easily maintained ceiling spaces. In recent years, with the emerging tenants’ demand for customized design office, some property investors began to adopt the concept of campus style office to cater for integrated working space needs, which may be the further stage of the balance of function and fashion. As Szarejko et al. point out in their research the modern multi-function office building is new trend, which is associated with different function needs and meeting tenants various needs (Szarejko & Leszczynska, 2006). Amenity facility provision is a prevalence strategy among the interviewed property investors to address tenants’ needs of premise catering for changing working culture and office culture. They provide good cafeteria area, comfortable seating, artworks, gymnasiums, bike storages, shower facilities even childcare centers to cater for staff well-being, which is responding to tenants people-focus management philosophies.

5.2.2 Key findings of how property investors address the changes in sustainability requirements

The key findings indicated that the changes of sustainability requirements in Auckland premium office market match the major findings of literature review in most of aspects.

5.2.2.1 Property investors’ perceptions of the changes in sustainability requirements

The data of interviews revealed that all the property investors perceived that green building would be one the future trends of tenant’s office requirements. As JLL (Jones Lang Lasalle, 2011b) states that “Companies that occupy office space around the world consider sustainability as a key factor in their space occupancy plan” (p. 1).
However, the interviews in the Auckland prime end market revealed that some tenants were interested in occupying the buildings with some important green features rather than green star rated buildings. The main green features that tenants concerned with are energy efficiency and water efficiency, which are more obvious and related to the tenants’ operation costs. The property investors indicated that international companies and large organizations are major tenants who have a strong demand for green feature buildings. Meanwhile, with the current weak market influence, tenants showed low level of willingness to pay rental premiums. This finding is contrast with the JLL (2011) global research result, in which the report indicates tenants’ increasing willingness to pay rental premium (Jones Lang Lasalle, 2011b).

5.2.2.2 Property investors’ perceptions of the drive forces of changes in sustainability requirements

All the property investors commented that the main drives for green features buildings are the tenants’ green environment conscious and awareness, their focus on staff’s well-being and satisfaction and operating expense saving through efficient usage of resources, such as energy and water. Tenants try to reflect their organizations’ individualities, environment sustainability commitments, and staff-focus philosophies in their office space. Green feature office buildings can be operated efficiently with lower operation expense, which is an obvious and direct impact on tenants’ benefits. The healthy environment in the green feature building could increase tenants’ staff satisfaction, and then they can achieve staff retention. The finding of drive forces of requirements for a sustainable office environment match with the literature of global studies, for instance the relevant research in UK, Australian and New Zealand office property market show the similar results (Jones Lang Lasalle, 2006; Newell, 2008; Wyatt, 2011).

5.2.2.3 Property investors’ strategies addressing the changes in sustainability requirements

In the context of current economic situation, all the property investors expressed that they would keep reflecting the green initiatives in both the new building and existing
building refurbishment to meet tenants’ demand of green office environment. The majority of the interviewed investors mentioned that they would invest in green buildings for new office buildings. For existing office buildings, they would consider how to upgrade and operate it more efficiently after refurbishment rather than making them green-star rated. The green-star rating buildings exactly comply with the NZGBC requirements for all the green features, which match the sustainability requirements of all tenants. For the key features in an existing building, their strategies are to focus on energy efficiency, water efficiency, waste management, and materials to ensure the office building can be operated effectively and provide healthy working environment for tenants. In addition, the interviews reveals that a green lease has become prevalent lease agreement by majority of the property investors in recent years, in which both the landlords and their tenants will comply with the common commitment of efficient usage of energy, water, waste and so on.

5.2.3 Key findings of how property investors address the changes in lease term requirements

The key findings indicated that the changes of lease term requirements in Auckland premium office market match the major findings of literature review in most of aspects.

5.2.3.1 Property investors’ perceptions of the changes in lease terms

All the property investors perceived that tenants lease term requirements have changed and tended to be shorter and more flexible. The property investors realized that the tenants demand more control over the lease terms. They required break clause provisions in lease contracts, various and flexible rental review method, and periods, and assignment provisions so that they have more flexibility controlling the lease agreements. The changes in needs and trends in lease term in Auckland office market match with the literature findings. Bird (n.d., cited in, Birchfield, 2003) , Colliers Auckland commercial leasing manager, states that “The cheapest rent is not necessarily the best solution….flexibility in leases to grow or shrink their space in response to business drivers at the time”(p. 52). In both Crosby et al. and Gibson et al. studies in UK show the similar situation. The studies revealed that the lease in UK
office market has shifted away from the long lease to a diversified short lease pattern and the relevant lease term control provisions are required by tenants.

5.2.3.2 Property investors’ perceptions of the drive forces of the changes in lease terms

Most of the property investors perceived that the fluctuation in tenants’ business investment is the major factor leading to short leases and more flexible leases. Nowadays tenants tend to have shorter business horizons and it is difficult to commit to long leases. Moreover, some property investors thought the current office property market is a tenant-led market, so tenants have more bargaining power over the lease terms. The macro economic situation is still weak so it is difficult for tenants to predict the business situation in long term. Therefore, they need short lease or flexibility to terminate the lease. Birchfield points out that business life cycle has changed to be shorter in recent years, it is difficult for tenants to predict the future of five years later (Birchfield, 2003). The literature finding in UK market further revealed that the needs of core–periphery property have impact on lease length requirement. Although there is no property investors commenting on core-periphery property needs in this study, some of the investors still emphasized that most of tenants even those tenants whose businesses are growing are still downsizing in the current market condition. This comment may reflect the focus in core property needs among Auckland tenants, which eventually influences the lease length of tenants’ office.

5.2.3.3 Property investors’ strategies addressing the changes in lease terms

As the tenants’ demand of short lease and more flexibility control over lease terms, all the property investors accepted and provided short lease to tenants. From the interviews, the dominant strategies of lease terms length in Auckland premium office market is 3-years or 6-9 years lease, 9-12 years lease can be accepted by some large tenants. Meanwhile, the property investors also provide break clauses for tenants to cater for the lease-breaking requirement. Regarding lease review method and period, all property investors’ strategies tend to be flexible and provide mixed method such CPI method, fix rental review structure. They are moving away from the hard ratchet clause to a soft ratchet clause. All the property investors offer assignment provisions
as well if the tenants break the lease. In order to secure the tenants and avoid lease breaking, the property investors offer tenants the right of expansion and contraction. As there is very limited literature regarding investors’ perceptions and strategies available, it is difficult to compare with the existing literature.

5.3 Limitations of the study

There are very limited literature related with the investors’ point view in terms of the perceptions and strategies for addressing the changes in office tenants’ requirements. The researcher has to seek and filter some information from the intertwined literatures regarding tenants’ interpretation. In addition, there are very few literature related with New Zealand market whereas most of the academic research studies are about UK office property market. Therefore, during the study of the topic, the UK’s literature are used as the major references.

The study mainly focused on premium office market and explored the point of views of large-scale property trusts. That may limit the information relevance to B and C property sectors that accommodates more middle to small size tenants. In the premium office market, the investors often have more strong economic scale and large property portfolios. Compared with those large scale investors, middle and small size property investors investigation are neglected in this research. Moreover, the major tenants in premium office are normally high-end professional services providers and they often have good financial covenants. Therefore, the strategies for addressing the needs of tenants in other categories may be different.

The study is limited to office market in Auckland. Auckland, as the largest city in New Zealand, is identified as the target region to conduct the study. The Wellington market is another important office market with a significant numbers of government tenants may add additional information to the research.

5.4 Future study

A future study can focus on the B grade and C grade office property market sectors. As the finance scale and target customer of those investors are different, the property
investors may contribute more additional information from different angle. That will be helpful to understand the New Zealand office property market more thoroughly. Similarly, further study can include Wellington or other major NZ cities.

Moreover, tenants are looking for more customized design office building to meet various space needs, and this is the new trend emerging in New Zealand. A new case study research can be conducted in some of the campus style office buildings to evaluate post occupancy in the new type office buildings.

The interviews revealed that the market is weak, and as a result, investor strategies have been influenced by the market cycle because tenants’ office procurement strategies have been constrained by the factor. In addition, the relationship between investors and tenants has changed. It is worth to do similar further study to investigate investors’ perceptions and strategies after the market fully recovered.

5.5 Conclusion

The findings of the study have answered the research questions and provided references for the other property investors. There are three main changes perceived by large scale property investors in Auckland. They are the changes in tenants space requirements, sustainability environment needs, and lease term requirements. In the current weak market context, all property investors perceived that short lease terms and efficient space usage are more frequently demanded by tenants whereas the green feature of the office building is the last considered aspect.

The property investors’ strategies of addressing space requirements focused on catering for the needs of space efficiency and flexibility, which further relate with tenant’ needs of integrated work space, teamwork and amenities. In order to meet tenants’ green features demands and operate the building more efficiently, the property investors’ strategies emphasized upgrading the existing building in some major green features such as energy and water efficiency management. The majority of interviewed investors indicated green buildings are still the new building procurement direction. The third important major strategy is to accept short lease term and provide the right of more flexibility control of the lease term to tenants.
The interviews further reflect the property investors’ attitudes to tenants. They recognized that they are the service providers rather than only physical place provider. They aim to offer an efficient platform for tenants to conduct their business, thus, the offering of office space is as tenants demanded. In addition, property investors are trying to build up partner relationships with tenants instead of the previous adversarial relationship. Those strategies and perceptions help them to secure the good quality tenants in their portfolio, particularly in the current slow recovery stage in the market of premium office property. These are essential to ensure the investors keep high occupancy rate and income stream to overcome the market challenge.
Reference


Appendix
Appendix I: Interview Protocol

Research Question:

How do Auckland commercial property investors address the changes in office tenants’ requirements and preferences?

Section 1. Background information

a. Which kind of tenants are your target customers for the office buildings in your portfolio? Could you explain the reasons for targeting those customers?

b. What are the major changes that you have made to your property investment portfolio?

Section 2. Addressing changes in office tenants’ space requirements

2.1. Have you experienced any changes in tenants’ requirement for office space during the last decade?

a. Is any particular type of tenant requiring these changes?

b. In your opinion, what are the main drivers for the changes in tenants’ office space requirements?

c. How are you responding to those changed requirements?

2.2. The literature review has revealed there are some other tenants’ space requirements changes which you have not mentioned above. May I check with you whether you have experienced any of these requirements? If so, how have you catered for those requirements?

a. Layout change

i. I found tenants have experienced certain layout changes, have you noticed any of these layout changes? If so, what are they?
ii. What types of tenants have the strong demand for the office space layout changes?

iii. Which kind of office layout arrangements do you have in your buildings to address tenants various space needs?

iv. How are you addressing the problem?

b. Integrated Workspace – IWS concept refers to a system that combines the nature of the physical settings, information technology, and the nature of working patterns and organizational culture. These strategies have been developed as workplace design solutions to enhance operational efficiency and reduced occupancy cost.

i. Have you experienced those requirements? If so, what are they?

ii. What types of tenants have the strong demand for the changes?

iii. As an office property landlord, what is your strategy to cater for your tenants’ IWS needs?

c. Teamwork space -- Interactive teamwork is becoming very important in office tenants’ organization and they require suitable space layout to support this arrangement.

i. Have you experienced this requirement from your tenants?

ii. What types of tenants have the strong demand for the changes?

iii. As an office property landlord, what is your strategy to cater for your tenants’ teamwork workspace needs?

d. Office space efficiency -- In order to cut occupation costs, tenants are trying to increase office space efficiency by increasing the number of staff within the same office area.

i. Have you experienced this requirement?

ii. What types of tenants have the strong demand for the changes?

iii. How do you address this tenants’ space need in your portfolio?

e. Amenity -- In order to attract tenants with high caliber workforce, investors are offering the amenities available in the building such as cafeteria in the ground floor area.
i. As an investor, how do you cater this tenants space needs in your office portfolio?

f. Do you face any major issues when you are trying to address tenants’ demands for different layout arrangements? If yes, what are they? How are you addressing those problems?

2.3. Are you expecting any other changes in tenants’ requirement for office layouts in the future?

a. If yes, what are they?

b. What is your long term strategy to cope with such potential future space changes in tenants’ layout requirements in your new office property developments?

Section 3. Addressing changes in tenants’ building sustainability requirements

3.1. Have you noticed or experienced any difference in office tenants’ demand for environmentally sustainable office premises?

a. If yes, what are the most important green features that office tenants demand?

b. In your opinion, what are the main reasons for the changes in these requirements?

c. What are the main types of tenants who are demanding the green office building in your portfolio?

d. How are you responding to those changed requirement?

e. What are the main barriers for addressing those most common green element requirements?

f. Do you charge a higher rental for tenants in a green building compared to tenants in a similar non-green building? How much rental premium roughly tenants are prepared to pay to be in a green building?
3.2. What kind of future changes do you expect in tenants’ green-building awareness and how do you expect green-building market? How will you address this change in your future investment?

Section 4. Addressing changes in tenants’ lease requirements

4.1. Have you experienced any changes in tenants’ requirement for specific lease conditions in the last few years?

   a. If yes, what are the major changes?
   b. Is any particular type of tenant requiring these changes?
   c. In your opinion, what are the reasons for these changed requirements?
   d. How are you responding to those changed requirement?

4.2. The literature review I have done has given me a list of potential changes. Tenants may require some of which you have not mentioned. May I check with you whether you have experienced any of those requirements and if so what are they and how have you addressed them?

   a. Lease type
      i. What lease type do you mostly use in your commercial lease negotiations?
      ii. What is the reason for that?
   b. Short lease terms -- The literature indicates that in recent years tenants organizations’ investment horizon tends to be short, which leads to tenants demanding short lease lengths to meet their business needs.
      i. Have you experienced any changes in tenants’ demand for short lease terms?
      ii. If yes, how do you address this lease requirement change with your tenants?
   c. Break clause for exit -- Due to the inter relationship between lease length and breaks, tenants may have more requirements for break clause for exit. How does your company address the issue?
d. Rent review type and period
   i. Have you experienced any changes in tenants’ demand for rent review type and period in the recent years?
   ii. What is your current rent review type and period?
   iii. How do you address this lease requirement change with your tenants?

e. Assignment and sub-letting
   i. Have you experienced any changes in tenants’ lease requirements in terms of assignment and sub-letting covenants in their leases in the last few years?
   ii. If yes, what are they?
   iii. How do you address this lease requirement change with your tenants

f. Willingness to pay a rental premium
   i. Do you think that tenants are willing to pay a rental premium in order to have more flexible lease covenants in their leases?
   ii. How much more percentage of rental premium are tenants roughly prepared to pay?

g. Do you face any major issues when you address office tenants’ demands for different lease requirements? If yes, what are they?

4.3. Are there any other changes in tenants’ lease requirements that you would expect to experience in the market, especially when it is in the recovery stage? How would you address such changes in your future lease agreements?

Section 5. Overall comments

a. From the aforementioned three main changes in tenants’ space and lease requirements in the recent years, in your opinion, which change is the most frequently demanded by your tenants?
b. What is your opinion on the other changes that you could expect to experience in terms of tenants’ demand from the leased premises in the near future in addition to the changes we discussed so far?

c. What are your strategies to cater for those additional changes or challenges that you may face in the future?

d. Are there any other comments you would like to make?
Appendix II: Sanitized Interview Data

Section 1: Background Information

1.1 Which kind of tenants are your target customers for the office buildings in your portfolio? Could you explain the reasons for targeting those customers?

Property investor 1: When we look at target tenant, it is obviously sectors is important to not to get tenants from one sector, e.g. If you have tenants from finance sector, the finance industry, after the recession then you really risk of things like the downsizing, finance company they could have actually gone or gone to the liquidation as well. One is diversifying; the other thing is then look for tenant covenant, so the quality of that tenant what is baking behind them. So for the like of within our portfolio, we got 285 tenants cross the 3 sectors, 44% of that income comes from top 10 tenants, So you actually got a range of tenants paying, but key income is pretty well-protected. So tenant covenant is important just on the quality of those earnings and sustainability of those earnings.

Property investor 2: Professional service occupiers, but in different size or market part. The other tenants are predominantly professional service provider, government tenants for Wellington, financial and legal services. They [tenants] create profile for themselves, creating desired working environment for employee, help to located them in the good quality prime location that will help to recruit quality staff, and retaining staff. They often have great ability than B or C property. We had very few problems with our tenant because their tenant nature we targeted, they all offer good financial covenant and whereas you will find that when you are down to B to C grade, the tenants lease term are much shorter. Their financial covenant is not strong. And some other tenants would like to cluster themselves to these prestige tenants.

Property investor 3: Our biggest tenants are law firms, we also have a quite number of IT tenants, such as biggest Australian company called II Net. And we have a quite number of small professional service provider companies. Because we want to target customers in the central location.

Property investor 4: We have excessive 200 customers. We do accommodate large to small but our largest customer will be ANZ, but we have BWC, bank of New Zealand, State of Insurance, Vodafone, huge international brands, large occupation. It is our quality and location of buildings that attract those customers rather than targeting them, such as finance service industries, corporates service, professional services like accounts, lawyers. We are trying to do is to make sure they have good quality income streams, regular income streams. Those are the entities we know they will pay the rent, they typically will end up to rent for longer term with 9-12 years rather than say 3,4,5 years, might be for other properties, so it’s a particular focus on that sector which is income security.

Section 2 Addressing changes in office tenants’ space requirements
2.1 Have you experienced any changes in tenants’ requirement for office space during the last decade?

**Property investor 1:** What’s change more than ever is there is much more cost focused. The other thing is they want to maintain lease term flexibility especially international tenants. They will say – we don’t know what happened in the market, we don’t want you to sign another new 10 years lease, you might stay where you are and get 3 years lease extension rather than going into new building, you might get the incentive of new fit out but you need to commit for 10 years because people still don’t know the size of business within NZ. They will stay shrink, if they go to small and take long-term lease then within 2-3 years, they are going to make large premiums. There is a lot of that. The other thing is structure and incentive, what we have seen is, incentive for office is about a month free for a year commitment, 2 months, sorry, 2 months free, rent-free, net rent-free for 2 months. So if you get 6 years lease, you will get 12 months incentive. That will basically pay for the fit out. What landlord is doing is structuring those to be tax effective, so we will normally take the ownership of that fit out and we will depreciate it.

**Property investor 2:** The fundamental changes I observed during the last a few years, 10years is the great focus on the spatial efficiency in the buildings. Previously people design the building perhaps around the external appearance and then the internal dimension of the building were afterwards considered. Now the building is designed from inside to outside and great facility of the building. A lot more efficiency use of floor through better design, a lot more open plan, a lot more working station based sitting and still different type vary the changes for people to get away from the work stations.

It seems very expensive to put the building at the first place, the lays out is so efficiency and is very very worth to long occupy. There are some advantages for them, the cost of fit out are markable less. Instead have multiple receptions, you probably has consolidated down to 1 or 2 receptions. You can have a lot sharing facility like meeting facility, you don’t need to spread out and they perhaps consolidated down to one location. The visual connectivity, the physical connectivity is very important. The requirement of building services are changing dramatically. Overall the capacity so that tenant can increase the population in the buildings. Once upon a time, the density of tenants is 1:20, and now the population density is 1:15, some special cases they have 1:10. You need to use compacted air condition system to cater for that but you also need high portion fresh air. So the demand for the air condition system, fresh air and tenants demand for the moving away from cheap system like Fan coil system, hydraulic system towards VAV system, which has more fresh air production system so the better health environment. Flexibility: When over the years tenants change the fitout, the cost is high. To minimize the change cost is important to them. So the tenants are looking for the buildings that re flexible and easy to change fitout around it.

**Property investor 3:** Yes. We have seen the general requirement from tenant for more efficiency of the usage of space. They want to put more people in less space. So we have seen a lot re-design to accommodate more efficiency use of the floor
space. Now you can see far more efficiency, a lot of open plan, and the other thing is
the amenity. Even business doing fairly intensive.) in open plan spaces, but they still
want break out areas. So you could see a lot of large staff areas, called breakout areas,
not only the cafeteria, really like the area sitting on the couch and reading newspaper
with big TV, it is a casual and interactive space for the staff. It is no like the old
lunch room, it takes a lot further.

**Property investor 4**: Tenants in our buildings are always looking for greater
efficiency, so they would fit for more people into certain tendency than previous. So
for our building, modern buildings are more efficient. They can get more people per
floor, more people per square meter, they always look for that efficiency which
means they might pay same rent but get better productivity out from previous offices.
I think they always look for value for money in terms of operating cost single
building so portion of obvious a building’s cost is rental occupants pay on top of that
pay expense costs. So good quality building and modern buildings, tend to have
better operating costs.

**a. In your opinion, what are the main drivers for the changes in tenants’ office
space requirements?**

**Property investor 1**: On the tenants side, the tenants say – Hi I want flexibility. On
the landlord side, they are saying – Hi we need to make the tenant demand, so we
need to provoke flexibility, but how do we have continuing cash flow?

**Property investor 2**: Main drives:

- the focus on the total occupancy cost, keep it as low as possible
- Much more focus on the environment of their staff
- Focus on the lost term cost saving as well: over the years, when tenant fitout
  again, the cost can keep as low as possible
- I noted the changes move to more and more hotdesk layout, tenant recognized
  the diversity factors, up to the 20% of the staff are not be at the desks and be
  out the building in meetings or travel, that result the tenant design 20% less
  of the office space. So yes, I have seen the market trend works like that.

**Property investor 3**: Cost. Well there are 2 things, cost but also to attract high
quality staff. I think the companies need to hire high quality staff. Good business
companies want to attract staff with good quality and well-presented office
environment.

**Property investor 4**: Efficiency is one of the key things. Effectively efficiency
drives cost saving is what most of occupiers are looking for. They are looking for a
combination of high quality environment, but good value for money and so the more
efficiency the buildings are, the better. The large floor plates are desirable because
you can get business in single floor possible rather than maybe two floors.

**b. How are you responding to those changed requirements?**
Property investor 1: So what we are looking for is cash flow. Landlord are focusing on cash flow. Tenants are focusing on flexibility. But the other things is they might pay higher rental cost to have flexibility. But I don’t like doing that because they need to watch the expenses, the reality is it’s the balance of long term and short term cost.

Property investor 2: So the core of the building, the services core, are made as efficiency as can be. The floor plate is designed around the core with the most efficiency to allow the tenants to lay themselves. The lobby is as compact as could be without distract of the utility, and amenity. Then we look at the building floor plate design base on several things

- Spatial efficiency
- Natural light penetration
- Premier space and secondary space design
- Space grid design

Flexibility: So there are a lot of perimeter channellings, power, data cable round, in ceiling space, we try to make the ceiling space more easy maintenance as possible. We try to make the ceiling space more easy maintenance as possible. In the ceiling space, we called catenary system, all the light plug into the catenary system, which almost like 3-pin plug. So the tenants moving from here to there, it is very easy and cheap to unplug the light and move to over there. So those thing create the flexibility around the space and try to reduce the moving cost in the future. Simply with air condition system, we are trying to use flexible duct in the air condition system to make the easy modification to do. Back to the floor plate, the traditional floor plate normally have column around here and there, tenants have nightmare to work fit out around these column. It is very difficult. So we now develop building with column free space, so from flexibility perspective, tenant just lay themselves out of the space.

Property investor 3: When the space becomes vacant, we general have the fit out fairly recently and pretty good order. We generally demolish and gut the floor to open space starts again. So we pretty much do it with raw now. As far as new tenants coming in, we present blank space and design as they want and cooperate those things. I think the other things are around common areas, the arrival is important for tenants, the lift, lobby and so on. We are certainly making changes as efficient as we can, the power efficiency such as sensing lighting in bathroom, more efficient air condition system, water usage, all sorts things.

Property investor 4: By means of owning the building and good efficient floors, by developing buildings like this. That does match the current best practices in terms of floor plate efficiency, air-conditioning and operating system that are cost effective savings. You need to look forward to how to operate in the future, building like this as example, we have here what is called chill beam air-conditioning …. The lift system you see are Micononic lifts, you call the lifts rather than pushing button and the lifts coming down, it automatically determines how many people wants to go to certain floor and group the lifts. So that’s saving on power. Floor plate efficiency is very technical comes down distance from the court to the window, the number of
column, shape of the floor then the space plan looks different fit out, shape of desks and so on. So what we are doing is not what are saying our building is not …, it is efficient and flexible, so a large floor plate is be more efficient than small plate. Our regular shape floor plate usually a bit of user friendly and efficient, the other things, you could have the most efficient floor plate, but it still needs to have strong location, in terms of outlook to harbour or proximity to all these other things that are critical.

2.1 The literature review has revealed there are some other tenants’ space requirements changes, which you have not mentioned above. May I check with you whether you have experienced any of these requirements? If so, how have you catered for those requirements?

a. Layout change

**Property investor 1:** So open plan is something being around for quite a while, open plan environment, instead of fitting out with everyone has the offices. It’s the open plan with nice meeting room, nice reception area. We have nice quality reception area, meeting space, but rest of spaces are open plan. On this floor, no one has office, the CEO doesn’t have office, we completely open plan on the whole floor plate. They can fit more people in the floor, and they can look at things like number of people per square meter. Intensifying, you can do that easier with open plan environment. So now most of tenants prefer this way. Probably those large size tenants, the legal and accounting firms are standard, and then where fits in where other firms are. But certainly legal and accounting, financial service are key one in those area driving that. we will provide financial and we will provide money to them to do it but they will do what they want. We don’t, as landlord, we will not dictate how they should operate their business. The tenants will have their own architects. We may recommend architects for smaller firm but all large companies have their own architects, their own team and in the situation of government tenant, they turn up with their one, they got some negotiation, they got their technical person to go through the building, so they have their own team of experts to look after.

**Property investor 2:** Over the last 10 years, it has been seen the market move away from that to the point where only the legal practices still continue themselves layout in cellular type. Almost all the other professional office occupiers break down their layout to the point where the cellular configuration within the fit out might be reduced to less than 10%. still large tenant and high end services provider. Professional services people who are obviously predominant very much towards open plan. Only the solicitors continue their cellular fashion office.

- Providing large open space
- Efficient core
- Good natural light penetration

So ceiling tile now used has very high NRC (Noise reduction coefficient) rating. The tile here is NRC 0.8, and soak up the noise rather than the old tile reflect the noise. So when you go to the open plan now, they are lot quieter than year ago. Lots of sounds absorbing materials tend to use in these days to lower the noise level. But if you design the building in flexible and efficient as possible with big open floor and
column free space, higher floor to ceilings, also the base of the building services, are at the high quality level, enable people to adopt the variety different layouts they choose. The hard fit out of office space is done by tenants not by owner. Often by the way of incentive to tenant, we give the money as incentive and they often to use it in office fit out, and in the vast majority, they do the fitout themselves, they design themselves and installed.

**Property investor 3:** I have seen combination for these really. And we have seen a lot club style. IT tenants like more club environment. It doesn’t suit all tenants, such as law firms, they need privacy for a lot staff, so it is necessary to have partition office. Normally the very senior staffs have private office, but 90% of the staff are in open plan office. We do these by going back to the start and involve our designer early to work with tenants closely after. (Do you provide financial support?) We do this as well, depending on the deal. We would pay for the large portion of cost of fitout. Or we design and tenants pay for it. Depend on the terms of lease, rental or tenants covenants. Stronger tenants covenants, longer lease, you gonna pay more money for tenants. Two-year lease, no guarantee, we reluctant to spend money on that person. The other things we do is try to be pre-emptive, if space still vacant, we actually fitout by ourselves, take to the point where we might put a kitchen, one meeting room, and reception and leave the reset is empty. The rest can be designed soon when someone comes in. So what we do is leave 90% there. Tenants is hard to imagine, it is difficult to find the best space (layout) and imagine what they could end up with, we try to remove the risk we take 90% away from them. Some tenants we do the design and fit out for them, depend on the deal.

**Property investor 4:** You will see different layout system, just the nature of the business as much as efficiency of the building. We provide the opportunity for them to be efficient as much as possible. The big philosophy change for many businesses they’ve gone in 10 years from office based environment to open floor plan environment. And then there is still significant variation in there. It depends very much on the nature of the business. It is more towards that which has the mix of everything. See some floors you may well find certain portions of like that, in other portions are. We are probably like this but in the reality, we have very large open meeting room spaces, very large communal kitchen, and lounge area. So it looks more like lounge cut-type of …, the trade-off is that is not what whole floor looks like that. Key tenants for layout: Financial services tenants like banks, accountancy firms. Those that have the office might be used to deal with a lot of confidential information could be HR businesses, could be law firms those sorts of things. But in the main most of the business gone to the open plan environment because it creates better communications within teams. That’s the necessity of those. We don’t dictate them how they should operate. Our responsibility is to provide them the best quality floor space. It is commercial arrangements. Sometimes they will pay higher rent and we will help them fit out but it will still be their responsibility to figure it out. Other times, nothing. We don’t do anything more than giving them access to the building.

**b. Integrated workspace**
**Property investor 1:** To integrate the space, we need to look at taking space. This is not case but we will provide unless they get particular it focus. So they won’t even bring that in, they won’t take those people to see the landlord. Really up to tenant, how they operate. To integrate the space, we need to look at taking space, they won’t even have IT people to look at it. They will say – hi look, this if room is size of what we need to go. This is not case but we will provide unless they get particular it focus. So they won’t even bring that in, they won’t take those people to see the landlord. Really up to tenant, how they operate.

**Property investor 2:** It is becoming necessary to go beyond the traditional office town model, and develop the building are more variety. And a good example is the building c. It has a numbers of unique spaces within it. There is less special efficiency focus and more emphasis on creating more exciting spaces, lots of usage of atrium, lots of exposed stairs, walkways, bridges, all sorts of things. All creates interesting and exciting environment for the tenants. How with things like connectivity, communication etc. It is very special and individual design for the tenants. And the shift of the market, the market at this moment shifts toward customized buildings for the tenants particular needs.

Small tenants by natures tend to be less focus on specific working practice, whereas the larger companies are more focus on their culture, their behaviour and productivity and creativity. And as a result, they tend to be seek to work accordance with the new working practice.

**Property investor 3:** Yes. We do. That what we do now, we sit down with them and our designers and tell us what they want. You do really need to be quite flexible and complying with a lot of tenant at this moment. Give them exactly what they ask, rather than force them into the spaces that wasn’t quite suit. Cross broad really. All business tenants have the requirements to meet specific needs. Certainly IT tenants are probably doing more interesting fitout, more interesting use of the space. Law firms are still quite traditional and they haven’t deviated too much from the traditional format whereas IT completely fashion design. Through the finishing, signage design and colour scheme, even though the furniture and carpet. They hope their brands are presented. You know some edge tenants want to expose the services, no grid ceiling and just hang the lighting like this. Traditional firms want you have ceiling in and traditional lighting. But you gonna to be flexible to change spaces for the members suit to.

**Property investor 4:** Yeah. We do. We produce high quality buildings, maintain to very high standard but they are not character buildings of sense among that type, got demand scenario of we are high landlord who provide good quality buildings, good lobbies, good building services and it’s up to the tenants how they individualize their work space and drive their own culture and technology benefits.

c. Teamwork space

**Property investor 1:** Basically we give them the space, give them the concept layout, how it can work, then up to them to the architects work on team what they will have
on the floor, they will say – Hi, this works well for us because we will have this team here, that team there. So the tenant does that, and landlord doesn’t that.

**Property investor 2:** Those sort of club layout are more orientate towards teamwork and more communication between staff. We address this through the efficient space. And the building c is probably the next stage.

**Property investor 3:** Yes, that’s the sort of thing we talk about. People like the more casual and relax environment, people can sit around coffee table, not necessary sit around the formal broad room environment, they can sit on the couches and kick the idea around. Tenants: Whole ranges of them. Through the space efficiency, accommodating with design and what they want. They involve probably very early and you will sit down with tenants and designer to design what they want. I think the landlord attitude is driven by the status market right now. For the next foreseeable future, short term it will like that. The medium and long term you get the environment with occupancy and vacancy is very low, landlord will find themselves the position to start the terms again. I think landlord is pretty compliable.

**Property investor 4:** All our tenants do this I think. It’s standard scenario with all occupiers now. They are very team focused. They need to use the building space to facilitate that. So that come down to offering very good natural light, good lighting, good air-conditioning systems. They made their own floor experience very comfortable, good quality after-hours, protection of security so people can work for longer hours and be comfortable to doing that. Access after-hour ability to, for example, put air-conditioning system on, they only deals with one zone instead of whole floor so cost can be reduced. These are all about buildings, so we can cater to 2-3 people working long hour zone project versus whole floor being light from midnight to 6am. You could have part of availability someone needs to do that.

d. Office space efficiency

**Property investor 1:** It is not only space efficiency, it is actually occupation cost, and it might not be space efficiency, building efficiency. It is level of water usage, it is new focus on water, waste and energy and what they means bottom line. It is quite bit of money, it cost difference to run the building. Cost quite different compare with rental part. Certainly, in large organization they can work OK. As soon as you can play computer then people can find where you are anyway, that’s fine. Depends on the type of work, the problem of NZ is we don’t have deep market.

**Property investor 2:** Refer to question 2.1

**Property investor 3:** We have seen broadly across whole rage tenants and whole range businesses. So one of the least reluctant to change to the new direction is law firms. No one like pay more rent than they need to, they downsize. Every business is looking at the cost and how to cut them, you know for any business the rent is a big number in annual charge, so they can save 20-30% of rental charge with doing that. Addressing strategies: Get back to clean and plain space, involve the designer early to come out the most efficient design layout. Certainly use designers early in the process, and some tenants have no designers and we will engage designers for them,
quite often at our cost to come up with the floor plan suit them. They do not understand space efficiency, so try to help them through the process.

**Property investor 4:** Refer to question 2.1

e. **Amenity**

**Property investor 1:** GYM, café are in the same building. Within the close area, it is more of – say for our staff, we have these amenities in the building. As investor, you also need to consider about these requirements. If we are looking to buy a building, we will what’s the facility and amenities around that location because it you don’t have good public transport, then how staff gets there. All those sorts of things. There are a lot of meetings now, even formal meetings might be held in café, even with clients. It’s nice environment rather than meeting at formal environment. It’s good actually to break that. And try to build rapport with other party. It’s a bit casual but it’s part of relationship setup. You want to have those facilities in the buildings as well. And different approach from customer relationship.

**Property investor 2:** We try to introduce more and more amenity to our buildings. The good example here is having café at ground lobby, but more than that, we are trying to make the lobby of the building rather than simply a place through which to enter the building. We are trying to make it in all convincing amenities through things like café, sitting, retail facility trying to make more keen to hotel lobby, which is therefore the overall amenity of the building occupiers and again building is a good example. There are areas for quite meetings, coffee on you own reading newspaper, tremendously of artworks, again, as a form of amenity for tenants. Tenants can often wonder around and enjoy the artwork on display.

Amenity is not just café in lobby, it is about whole gambit. They carter for tenants needs, yes, it is even go further of that. We provide service on top of the typical landlord typically provide. We shouldn’t limit our self to amenity just being for physical offering, but also for services and so on. The relationship between tenants and landlord 20 years ago are typically adversarial and contractual and today we are trying to treat out tenants as clients. Landlords need to realize that we are just another service providers, provide office space, and all the services going with it, so landlords need to move from adversarial and contractual mentality to the client’s service provider. The culture changes, the landlords are slowly going to change.

**Property investor 3:** Amenity: We own the office tower but we also the surrounding, 450 bay carpark, a childcare center and gym, supermarket open shortly. The strategies for this property is to try to create a bit like city inner park environment, we got all the amenity and green lane something like that. We got more on site in CBD. Again, try find a difference a place to compete really. Advantage Tenants may look around the city and our building is better presented and the on site amenity is listed. But we can’t do that for all locations. One of the thing we believe strongly is carpark, we aware that there is no good size on site car parking, we believe people want to park in the building.
Property investor 4: The other thing I think increasingly over the past 10 years is all about amenity. Not all buildings have communal walk the shelf…these staff can go for walking around and come back to use. Things like soon we will be working on a café coming in here so it’s the café it’s the retail offer of proximity to all of those things, restaurants, the people can , they can use the benefits there the occupancy and enjoy rather than walking out in the rain to get a cup of coffee or something like that. I think people work here for 8 hours are boring, you have more amenities dynamic. Other amenities might be break out spaces, TV and bean bags, if you will consider because they are working in highly concentrated environment and they can go out for 10 minutes to have a cup of coffee and being quite lay-back environment. So it is a mix absolutely, but the core thing is that company are probably intensifying the use of working space, then creating more user-friendly public space or semi-covered , lunch room, you might recall lunch room in our break out area and TV, coffee machines and things (more intensified and multi-functions), multi-functions (club social interaction).

f. Do you face any major issues when you are trying to address tenants’ demands for different layout arrangements? If yes, what are they? How are you addressing those problems?

Property investor 1: The tenants are more interested who the landlord is. If you go to Wellington, there are a lot of individual owners, it is not well maintained, because they won’t spend money on the buildings, so it attracts tenant very hard for the managing agent. So what you need to do is have credibility as landlord, tenants are now being selective for the buildings they will go. And they want to know who the landlord is. Because that is important to know they commit to long term growth, and financial stable.

Property investor 2: Because market can change, and crucial time in relationship of landlord and tenant are rent review time. And renew time for lease, very simple, if you have good relationship with tenants, you look after tenants well and have done the right thing, you fix the problem, maintain the building well, and the building is generally in good offering, the chance for the secure of rental review that are more favourable to landlord are much more increased.

Property investor 4: The hardest thing is trying to fit often market try to accommodate tenants on contiguous floors, floor 1, 2 and 3 rather than floor 1, 2 and 5. That is probably the hardest thing, I do not think otherwise have any particular issues. Our building are as I said pretty efficient rather than meeting any tenants requirements, any tenants haven’t been able to do what they want to do. We will try to relocate the tenants, try to switch tenants around, move them between the buildings. That’s a very big process of shuffling tenants around. We can do because we have large portfolio.

2.3 Are you expecting any other changes in tenants’ requirement for office layouts in the future?

Property investor 1: Campus are more particular, more specialized type. Stand alone buildings. The smaller size building is just for them rather than a large building.
More identity, they can have security, branding, the way they operate and work as the a company comparing with a lots office in the building. You got the opportunities in New Zealand, some cities like New York, it already built. They also can have the green features.

So we always pick where the demand would be. But like we say the market is not very deep, you can’t afford to go too far one more away the other. You worked with tenants. When our building is developed, it developed specifically and cater the tenant then off. The demand is there.

**Property investor 2:** I think the trend towards more buildings tailored around the individual tenant working practices. It becomes more pronounced. At the moment, buildings have tailored to meet specific tenants working practices and must become much more prevalent in the next 5-10 years. It is arguably that moves to low rise, campus space type building. Hot desk and hotelling: again come back to flexibility and efficacy drive, the population tends to be higher. The building services need to have the capacity to cater for the density. So we certainly design our building for maximum population of 1:10. Advanced IT technology support is also required. we do provide as much capacity and flexibility as we can to facilitate the vertical and horizontal reticulation of the data. So we provide large risers up through the buildings. So the tenants can take the data from the demarcation point in the basement up through the risers and round the building through the perimeter duct system.

**Property investor 3:** I think the trend will continue to be more efficient, and I think the interesting trend at this moment is change of sort of the club type layout and more variety in different working spaces. People go to office and sit into cubical day long, staring the screen, you know they are trying to stimulate staff and give them more interesting way to spend the day rather than parking in the cubical. Strategies: Being flexible and design what tenants want, we look at our building where we can even improve the fabric of building to get more lighting, space, how we quick move people around building things like new elevator, so consistently improve the offer really. Provide better services like any business.

**Property investor 4:** Probably greater relying on technologies, we need to be looking into at big operates more meeting rooms, office, more amenity café spaces, continue focus on open plan requirements, higher number of people per floor, better air-conditioning system, like this chill beam, better natural lights, more efficient lifting, those sorts of things. Will be all about continuing to refine the buildings’ performance and deliver greater value for money and amenity for those customers.

We got conferences, study tools, we see what is happening in the latest generation, buildings and architects we are trying to keep ahead of what it is. This is really just learning and learning what they are fond and want in the future. We stay very close of their times and understand how their businesses step. Their businesses are changing, it’s just part of what we do every day.
Section 3 Addressing changes in tenants’ building sustainability requirements

3.1 Have you noticed or experienced any difference in office tenants’ demand for environmentally sustainable office premises?

a. If yes, what are the most important green features that office tenants demand?

**Property investor 1:** The good thing of sustainability is that about energy, water, waste. Obviously there is focus with sustainability as well but the sustainability focus is drop back priority. It is not a driving force any more. Before that, we’ll say – Hey, we want to send be lease for sustainable. Now it would be – look at, we want to be flexible. We need to look at cost, we want sustainability as well but it is not priority. It is not going to pay any more for it. It will cost more. Tenant focuses on staff. The cost and environment, but the cost will continue a focus. Sustainability and efficiency will become more of an issue because actually we are getting new rating system. Building efficiency is level of water usage, it is new focus on water, waste and energy and what they means bottom line. It cost difference to run the building. Cost quite different compare with rental part.

**Property investor 2:** Tenants is really concerned about energy usage, water usage, recycling system in place.

**Property investor 3:** We had. I think the most obviously ones are power efficiency. But in our part of market, a we don’t offer green star. Our tenants not really expected. Because they know that will become to the price. So what we trying to provide is efficiently operating buildings. That we really see the benefit that the operating cost is coming down. So if you keep your opex lower and you got more scope to increase the rent, tenants are happy to be in the building you the Efficient building. Tenants didn’t waste money on power, water and other accessories. That’s the strategy we release to make our buildings efficient. But we certainly don’t have the desire head towards green star rating for our properties. Over time, that gives us more scope to growth the end line rental. The opex is cheapest. It benefits everyone. The inefficient building wastes money.

We haven’t got retrofitting as far as green start ratings in our buildings, we won’t just because cost. But we are certainly making changes as efficient as we can, the power efficiency such as sensing lighting in bath room, more efficient air condition system, water usage, all sorts things. But that the long way short of green star rating. But it still save money for everybody. I still wait for convincing of green star rating argument actually stacking up because the cost achieving it, tenant won’t pay for it. You can be efficient for your building without green star ratings.

**Property investor 4:** Yeah. Mostly they are looking for reducing the energy consumption. There is cost saving associated with that. It is very much positive sustainability issue. It is more about efficient use of resource, reducing the use of private vehicles, therefore proximity to the public transport, provision for being able to bring bikes to work those types of things, it’s the operating of air-conditioning
system and clean air, it’s power consumption, it’s those sorts of things. Glazing, the quality of glazing.

b. In your opinion, what are the main reasons for the changes in these requirements?

**Property investor 1:** What they say is tenants that they have thick days that they are able to attract staff because staff want to work for them being in that location and its branding for them as far as their image for their company. So they can pay staff less because people want to work for them. Big brand image and market influence to people. Tenant is a lot more sophisticated and focused on staff. That’s the change. The cost and environment, but the cost will continue a focus. I think it is philosophical alignment saying – environment is important and we should be looking for efficiency, the using of resource efficiency, efficiently.

**Property investor 2:** And landlord are keen to do that, they are trying to make the building (efficiency). Sustainability is on the palace. If the building is efficient, from cost point view, then maybe you can charge more rent. So less cost and more rents. And the reality of valuation point view, if there is demand for sustainable buildings, and focus on the buildings, they should had less vacancy, and bit quite more tenants. Because demand, the yield would be lower, so the value would be higher. So get more rental, the yield lower, you will have better value for the building. So the commitment has been there for some time tenants themselves.

I think it absolutely conscious. Everyone today need to be environment sustainable, also we have very high emphasis of ensuring the materials go into the buildings, whether it the base building itself or subsequent fits out. That should be done environmentally friendly, for instance, all our carpet are recycled, paints: all the paints are low VOC paints

**Property investor 3:** I think these are visible, they can see that, the lighting should not be on for day long, likewise water, so those are obvious target for people saving money by changes. And these reduce the occupancy cost. That is good for everyone. It save money for landlord as well. Because automatically it is reflected in the high rental for us and keep operating cost down.

**Property investor 4:** I think number of them have sustainability focus of their own businesses. That’s important. I think number of them are also cost conscious, can see the potential benefits in those sorts of elements.

c. What are the main types of tenants who are demanding the green office building in your portfolio?

**Property investor 1:** I think all tenants are but larger organizations actually made the certified commitment to it. Even the government.

**Property investor 2:** interestingly predominantly international base tenants, NZ base tenants in the current market are not terrible environmentally minded, are more bottom line mined
Property investor 3: again, we probably seen cross broad, no one sector necessarily requires feature more than the others. There might be some other people portfolio do have green star buildings, but for us, there is not huge part tenants demand for us. For us, the tenants come to our buildings because green features, they come us because well-quality and presented with competitive price.

Property investor 4: I think every tenant now would be interest in understand what sorts of sustainability function that our building are, might not be a big decision maker in the end, but they are interested to know.

d. How are you responding to those changed requirement?

Property investor 1: Green lease: What we have done now is design the lease that actually provide a benchmark, so even from the existing building, that enables the landlord to tenants: “Look, you own these green features. Green lease is a deem to you, and means you commit it, and you work with me (landlord) to try to achieve better energy, efficiency, water, and you work with me for waste, we try to coordinate with all tenants. So you basically have a community to work on sustainability of building.

New building is easy – you can work with tenant. But even with existing one, it’s about to look at efficiency and try to coordinate with tenant to achieve something about that.[For retrofitting]It’s more as we are looking at doing things at the building, what we are going to replace with? What kind of benefits we can – we might pay more capital, but where is the benefits? In Wellington market, it is Gross Lease, so any savings on operational expenses you get goes to the landlord, so this real fundamental benefit for the landlord to actually say – if I put more efficient air-conditioning system, it might cost more, but because I am one Gross Lease, I got benefit directly. The hard one on the net lease market is of tenants paying operational expenses, the landlord pays the capital cost and tenants get the benefit. That’s the hard one. The (tenant) landlord spends extra capital, the tenant gets the benefit. They will not pay extra rental necessarily. So the Gross-Lease situation makes really good sense.

We might not be a full retrofitting, and might be just replacing a chillier, then considering what chillier we are going to replace with and what are the benefits for the tenants and landlord for the long term rather than short term.

Property investor 2: We start to concern environment ethics, and we had this building rated as 5 green stars in design that means if we carry out the initiatives we identified for this building, actually we put them physically in place, this building would be rated 5 green stars as built. The sort of initiative we proposed here are things around energy efficiency, rain water harvest, reduce the amount of non-permeable space on in the buildings’ site. For instance, on rain water harvesting, we harvest the rainwater on the roof of the building to run the cooling tower rather than topping up the building’s cooling tower from the main water supply. We are going to plant out the podium roof, which is a large area, the roof garden, it act as the extension tank for the storm water. In the heavy storm Rainwater actually retain on
the site and water the plant, loading up the storm water system and the rest discharges to the harbor. Energy efficiency we talk about grey water recycling, using grey water in the building and lighting goes to modern low efficiency tube, when refurbish floor of the building, we change the ballast with electrical lights which is much lower energy usage. We store new modern technology low energy high efficiency tubes. So much energy efficiency and materials only use recycle and low VOC materials. There are a lot measures proposed to the air condition control in the building and improve the building management system. Recycling for instance, we no longer have waste compacter in the building, now we have recycle program running through out the building. Tenants now recycle very high percentage of the waste, the amount of waste going out the building are much reduced.

**Property investor 3:** The real efficiency will through power, water, waste, air condition, lift. Water meters for a lot different areas, and the sense lighting for bathroom and stairwell thing like that. That is the main thing.

**Property investor 4:** We are keeping pace of technology. so economically we need to understand how we can re-cope those costs, so to release, does it cost more to do this, maybe there is cost saving or we might get more rent, it is complex equation.

e. What are the main barriers for addressing those most common green element requirements?

**Property investor 1:** Cost. With the consult in process to get the award, it takes cost and long time as well. Cost and Time.

**Property investor 2:** Cost is the main barriers, invest cost. For instance, the water harvest system doesn’t make sense financially at all. It is hugely expensive to do. You gonna build collection system on the roof and you need to have reticulation system that is for the water from the roof to the basement, providing the tank, pump, you can see the payback period will be years and years, just makes no sense. But you can’t just base every environment decision purely on cost.

**Property investor 3:** That is really a question about front cost and cost benefit. What the cost on day 1, because all these thing put the water meters come to the reasonable capital cost, sense lighting, just a matter of being comfortable there is return on capital day 1, being convinced that. There is mirror to do that and there would be a saving down the track. We got initiative in our mind to do, but we are not convinced produce a saving down the stream. It is hard to justify road to check.

**Property investor 4:** Refer to question d.

f. Do you charge a higher rental for tenants in a green building compared to tenants in a similar non-green building? How much rental premium roughly tenants are prepared to pay to be in a green building?

**Property investor 1:** Tenants don’t want to pay any more rental but they want to go to all building, so again you will lease the building but you won’t always get the money back. But as landlord as well, you are looking long term and not short term. We will prefer to invest more on green building long term for future profit. Because
of the demand, if there is the demand, we will be more likely to secure the tenant. It will be less vacancy. If you design well, it will cost less to run, and these other benefits. It is part of evaluation model. People will pay more for premium for a sustainable building but you actually get back that way.

**Property investor 2:** We don’t directly charge on rental. But over the time, as people become more conscious about environmental sustainable matters, I thought we would automatically reap the reward by tenants wanting and staying in the building and more tenants would like to pay extra for staying here. But in this particular market at this moment, you can’t. We don’t see rental premium between green buildings and non-green buildings. So they are pretty much in the same rental rate. Now there is real financial imperative to do green building unless you have tenants come long and see what you have built the building and have to be 5 stars then there is a chance to charge premium rental and recover the cost.

**Property investor 3:** We don’t really. We hope by running the building with low opex cost, the cost over time allow you to do that. But that is not things that you say you put sense lighting, water meters, you charge higher rental. That is long term pay off. I think at this moment, you just need to do competitive price.

**Property investor 4:** It is not purely of that. It is not the situation of that – we charge higher rental. The market rental for this building will be different for that building for a dozen of different reasons. One of these will be this has the features in it that commands premium. The tenant is prepared to pay more. Part of that is we made greater investment. What we are trying to do is that we try to provide environment for customer, it’s not about the $ they pay rent, it’s about say – if they will be our customer for 6 years, it will be non-green building, maybe there is a customer for 9 years, it will be green building, that’s will get that better payback. So part of it might be higher rental, part of it might be longer lease terms. It is just property investment is not about A+B=C, it’s wide combination of things.

3.2 The literature review shows that there are some key green features pursued by tenants, which are used to evaluate and assess green building in NZ, while you have not mentioned before. May I check with you whether you have experienced any of these requirements? If so, how have you catered for those requirements?

**Property investor 1:** Energy efficiency. Energy efficiency of large chiller. What we will do is we will monitor all these elements and we will set benchmark and standard for our efficiency we should be doing. And then what we will do is to upgrade and look at how they will improve these elements. It might be sensor lighting for the common areas. A lot of all these things are all under monitoring as well. Water, waste. Replacing the chiller, you look at the efficient one, you look at way you operate. That might be get a large size chiller, but needs to be operated less, because it is large size chiller. So that’s the way you can do it.

Water efficiency may be water harvest, which is collecting rain water then use that flush the toilet system. Bike-storage and share facilities that is part of rating system. I
don’t know there is always a demand. Problem is NZ is always spread out, we’ve got lots of bikes parks, but not as many as bikes you think you will need. But in Wellington, public transportation is very good. If everyone uses public transport, we don’t have the demand of car park.

**Property investor 2:** Refer to above

**Property investor 3:** the big thing probably the change of air conditions getting involved water cooling tower on the roof of building which carry disease and so on, people get away from that. Technology leads to better environment. People like to see the lights, stair well, and the bathroom, just don’t stay on, burning all day long, the sense is activate when people just walk in and turn off when (people) walk out. Same as water usage. Water meter, flushing, taps and so on. Because people can see these, they are visible ones, certainly some old air conditions are heavily power usage, far more efficient air conditions these days can bring power bills down. The tenants really ask for power and water efficiency. That are two main features they are looking for. (how about waste?) Well, tenant actually aware it, they down which is recycle and not recycle one.

**Property investor 4:** You might find about collecting rain water reuse in the building. The typical water efficiency, probably this is far greater measurement of water usage these days which ourselves greater efficiency, wastage, yeah, we probably just reuse the water. Waste management. We just have the recycling system for separation of material. That’s us as building owners, but also individuals, encouragement of individual occupiers to have recycle system. Encourage the way waste was collected. You know as we’ve done as a supervisor, we’ve put things in this building. we’ve got dedicate bike brakes, and showers, might not be so much but when you got the train station, bike brakes, reducing the use of private vehicles, therefore proximity to the public transport, provision for being able to bring bikes to work those types of things.

**a. What kind of future changes do you expect in tenants’ green-building awareness and how do you expect green-building market? How will you address this change in your future investment?**

**Property investor 1:** Every building including refurbishment we do, we will look into it but the market is only so deep. It is more on the refurbishment, we will ensure that sustainability element as we are going for major refurbishment. Mainly refurbishment. If there is any opportunity, generally new building, we will certainly do that. We certainly got the opportunity to join this side in Wellington, but main area will be in refurbishment. There are only so many new buildings developed. So the main focus for everyone is actually say – how do you operate the building and when you refurbish, take particular focus on sustainability.

**Property investor 2:** I think it will inevitable become a much more consideration for tenants to occupy the buildings in Green. Just under the current market, people can’t afford any extra. This not imperative. But when the market improve and people aware around the environment issues, I think it will become huge important. But it is
not for this moment. Give another 10 years, it will be necessary and inevitable to become more important.

I could not tell how much the more expensive it is, but I can tell you as an investor, we would favor to buy green building than non-green one. This is (demonstrable) trend internationally that building are green rated are seen by investors more desirable, for instance say, a lot of massive real estate fund internationally, they only invest green buildings. A lot of sovereign fund only invest green buildings. As the result, they are willing to pay more extra to buy green buildings.

**Property investor 3:** The trend continue towards more efficiency, I certainly believe that. I am still being convinced around green star rating and how real the needs for that and with the sort of cost benefit for landlords to do it.

**Property investor 4:** One of the things is that younger workers are far more focused on sustainability and so company will need to be able to demonstrate their focus on sustainability. And the premise of occupiers will be strong part of that. The other side of this is that the workforce in NZ generally far more used to public transport or non-car based transport, so provision for access to walk, bike all sort of things are good opportunity equally have building located in transport cubs. So people can actively use public transport could be very big positive. And then other things I think just efficient use of resource around air-conditioning and lights electricity usage, after hours those sorts of things.

**Section 4 Addressing changes in tenants’ lease requirements**

4.1 Have you experienced any changes in tenants’ requirement for specific lease conditions in the last few years?

**Property investor 1:** I think that [green lease] covers 4.1. if you have a look through that, it identifies that key issues. So it is more to ensure there is a mechanism for tenants and landlords to have conversations regarding sustainability.

**Property investor 2:** The fundamentally change is trends towards short leases. Very few tenants prepare to commit for 9 -12 years whereas a few years ago, they are happy to have 9 or 12 years lease. Tenants now really commit for 6 years. So they prefer short leases, more flexible leases, the ability to break them, early termination ability and the ability to expand or contract their space. So they need expand and contraction rights. Trends around the requiring the visibility of the cost of running the building, the trends of audit the operating expense of the budget and so on. Large tenants by nature are sophisticated people, they consider the combination solution very carefully, they got a team of experts who think the issue through very carefully. So large tenants demand this ability to contract and expand, their space demand short leases, the ability to terminate and all sort of things whereas small tenants tend to not think about that because do not have the same degree adviser to consider.

**Property investor 3:** Yes. Under the function of the market, tenants want short terms, short and more flexible terms. So we have to adapt this to being accepted for that degree because the market is market. We also seen move a lot of tenants
towards CPI based rental review mechanism, fixed incremental type review mechanism. So both party get certainty, tenants do not worry a big market movement, they can budget on slow but steady incremental lift rental over time roughly coincidence with inflation, so big trend towards that.

**Property investor 4:** Fundamentally, there is arrangement of lease terms between 6 and 12 years, and that’s the term of lease conditions. I guess that clients have to in some ways came to understand what’s the cost will be over the term of lease. They might enter into the structured review of provisions rather than relying on market so they know where the rent will change to every 2-3 years rather than having a market valuation. Tenants may shift to CPI or they might have a great step to say 3% premium something like that, so it doesn’t necessary change may not pay less or more but gives great certainty of budgeting. Many tenants start with their break clause they might be interested in 12 years lease they might be able to break up in 9 years, the business changes, they need to give reasonable notice to do that. Just greater flexibility in the lease terms.

**4.2 The literature review I have done has given me a list of potential changes. Tenants may require some of which you have not mentioned. May I check with you whether you have experienced any of those requirements and if so what are they and how have you addressed them?**

**h. Lease type**

**Property investor 1:** Auckland Major in net lease. It is different from what’ve done in Wellington – Gross lease (landlord pays the operating expense).

**Property investor 2:** We use variety but all are net lease base, BOMA or ADLS lease type. We tend to use building in Vero in Boma lease, this building use Boma. We are pretty relax for different forms.

**Property investor 3:** ADLS, in addition, our standard and their standard. Some tenants want gross lease, they try to keep rate, insurance cost get away from them so they pay gross lease. We see the appreciate for that which we try to reserves as possible.

**Property investor 4:** 6-9 years will be our leases, net lease. In Auckland there is greater lease than in Wellington.

**i. Short lease terms**

**Property investor 1:** So what we might do is to say to tenants – you sign up a 6-year lease, but you can only commit for 3 years, so what we have is a break-clause, so you can break in year 3 but there may be a penalty payment. So you have the ability to break, we will give the incentive as such of as 6 years term but you will pay back 3 years’ incentive if you break. So there is a penalty there, the tenants won’t do it unless they really need to do it. And landlord knows that he is actually going to get some money back if they are. There is actually a stick there. On the other side of the way you structured, they need to give you 12 month notice or 9 month if they wish to break. Then you have early notice they will be breaking. The tenants want flexibility.
They want short lease terms. If the tenants come to say – we can only commit for 3 years, then they can only commit for 3 years. Likewise, you put break clauses like – we will do a transaction, but we will provide incentive to fit out the space. But if you break in year 3, you need to pay the penalty.

**Property investor 2:** We provide short lease and flexibility. We can recognize the needs for short leases and accept people demanding short leases. People doing business particularly in the particular time like this, very difficult for people to plan out exactly what is going to be in a few more years, so we recognize and accept 3 years, 4 years or 6 years lease. We give tenants breaking provisions, might be penalty to be paid. For instance, we agree 6 years lease, we give the ability to break for 4 years if they ask of course, the penalty will be paid to compensate us for the part of lost. We definitely provide expansion and contraction right to our large tenants. We have no penalty but we agree they take longer lease terms. So there must some cons and pros things. There are must be something to compensate. It does come back to recognize we are service provider and tenants do need expand or contract, some big tenants have the ability to drop and expansion, that comes no penalty. We give them the rights and simply recognize that we need to be partner with them for business. We provide the platform for them to do the business. They grow we grow with them, they got contract we help them with that. We often provide tenant the “right size” solution. So the advantage for the tenants is the growth is catered for. And we keep the tenants in the buildings and portfolio for longer. If we do not have the right size solution, the tenants may look for the buildings there. So right size solution allow us have greater chance for renewing. So we can keep them in long term.

**Property investor 3:** Refer to 4.1 We provide less incentive for fit out, rent free, you normally doing lease like this, the longer the lease term, the more we willing to give the tenants the upfront by way of contribution of the fit out cost. Or for rental free period. The shorter the lease term, the less we give them. So that is how we adjust by short term deals. The average lease term of these days are 3 to 6 years. You are not really see beyond 6 years. And most come to start with 3 years.

**Property investor 4:** Yeah. Again case by case. We will typically want minimum of 6 years lease. A lot of our corporate clients, big clients, any tenants occupied thousands of square meters of floor, they might spend millions of dollars on their fit out, or their desk, or computers anything about that. So they are not going to spend millions of dollars to move in 2 years’ time. They are going to want a long term over which they were. So the smaller tenants, the shorter of lease term, they will require greater flexibility. But a multi-floor tenancy will be typically 9-12 years lease and minimum we would have is 6 years. We might have small lease and shorter lease, that will be we are comfortable to re-lease the space to someone else or comfortable to get that tenants to expand.

j. **Break clause for exit**

**Property investor 1:** Likewise, you put break clauses like – we will do a transaction, but we will provide incentive to fit out the space. But if you [tenants] break in year 3, you need to pay the penalty.

**Property investor 2:** Refer to 4.1
Property investor 2: Sometimes we’ve done that. (addressing) You just look at the assignments, I mean 6 year lease break clause is 3 year example, exactly same as 3 years plus 3 years lease after the renewal 3 years. Just depends on the terms of the deal, break clause sometime can be presented a bit better to the value and the market.

Property investor 4: We have full flexibility. If we have great tenant, they say, look we got all these big plans, but we really only can rent two years – we look at their business, we will sign it to lease for two years.

k. Rent review type and period

Property investor 1: 1/3 of our portfolio is on fixed or step increased, most of on CPI, that will be on annual. What we will do is instead of market review, we will do a CPI (consumer price index). With a market like this, we put in place when market is going up. Now though the market is going down or pretty flat, last CPI is 5%, we got 5% increase on our 1/3 of our portfolio in the last year.

The CPI is good way to ensure the rental growth. We could, most of us got base ratchet, but can’t go below the commence lease rents. Or full ratchet can’t go below previous year. So there is a mixture. Certainly our review type, we want to mix between market and fixed or agreed because we know where we are and tenants know where it is, and review period, annual 1, 2 or 3 years are standards. It is very expensive value, or argue. That takes that costly and argument process by agree mechanism.

Property investor 2: Typically it would be 2 or 3 years depending on the length of lease. If short lease, we do 2 yearly, for longer lease, we review 3 yearly. We have move away from full “ratchet clause”. We move towards soft ratchet clause where is pin back the commence rate. The rental review provision we put in the majority is fixed rental reviews. We say the rental increase 2.5% each year, so it is just mechanical calculation. There is no need go to rental review process, estimating market rental review like that. They know their rental will go like that (204, 209), it fixed so they can plan their financial plan. They know the CPI will continue the trend the long year with 2.5 or 3% incurred. We like it because it got in-built growth, with the market flat in a few years, we get a little bit growth. And it good for advise party, you don’t go through the rental review process where two sides argue what the market rental is. So fix rental review structure (or CPI rental review) become more and more common.

Property investor 3: We have quite few CPI rental review type and a quite few annual basis. That’s the sort structure we preferred at this moment. no arguing. Each time come for rental review, no valuer, no going arbitration to figure the number, you just give government’s stats, this is cpi, this is the rental, it is simple. We don’t have one standard lease term for all our tenants, it is deal by deal, some deals might get CPI, some get CPI+2% every year, and we got another market every 3 years with soft ratchet(54), just depends on the deals. The better tenants covenant may negotiate better lease terms.
Property investor 4: We have mix as I said before. Some about rent review types – CPI, some are totally structural review, some are market. Just a real mix. (Review period: 2-3 years. 2 or 3.

1. Assignment and sub-letting

Property investor 1: The property law act(PLA) is limited the ability of landlord to say no to tenants to assigning. You don’t want the be a professional organization when you got students swim through the building. You need to be quite clear and structure those in lease on day one and say these type of business are not allowed in the building, from the 1st day, you will sign the clear agreement with tenants. We are closely with solicitor and we closely ensure we understanding documentation and standard process to ensure we keep pretty tight. So tenants have the ability to do it, but you need be able to control.

Property investor 2: Once upon time you can say no assignment and sub-letting. But now you have to accept, because tenants need more flexibility at this stage. We accept. The only thing under subletting, we insist that the subletting is at the market level rather than lower than the market level. Otherwise it is very hard when you come to the rental review time or valuation time. The building will be devalued. We do have commercial test for assignee, they must be reliable, respectable nature and the covenant is no less than the existing tenants. We require the covenant is equivalent to the existing tenants.

Property investor 3: We seen those last few years. When tenants needs change, they shut down the division. We are reasonably accommodate on that as long as the landlords have the opportunity to recruit sub tenants, but you know, the original (head)tenants still stay liable for the under lease. So you till get them the guarantee if have assignment to sub-tenants. We are happy they sub-letting as long as the quality of sub-letting and sub-tenants is acceptable. And as long as they still on the hook under the lease as well. We are general against language school, education type which use high traffic users.

Property investor 4: You know we are open to assignment or subletting as long as the tenants coming in is of good quality. we are collecting the income stream, the benefits of those investors, our responsibility is to make sure income stream are as strong and regular as possible.

m. Willingness to pay a rental premium

Property investor 1: None of them want to pay. So what do in break situation though, the premium all in the penalty. The cost is in premium, not in the rental. They don’t want to pay rental premium. If they do pay premium rental, they only take about 5% above market, not very high above market. Tenants don’t want to pay rental premium even though you have feasibility.

Property investor 2: most of tenants recognize the requirement, arguably they can get small premium rental for flexible lease terms. A little bit, not much. There is no science calculation for that. Tenants tend to pay a few more percentage for that. Very small.
**Property investor 3:** Not right now. They won’t pay more, it is the function of the market right now. The landlords get the rent as used to get, we don’t have extra terms, we are not able to charge more rents because of the terms, unless very short terms.

**Property investor 4:** Possible. I mean. Comes back, again what’s the cost of it? Tenants came to us and said – we want to take the space for two years and we need these works done, we need to be conscious about how we will cover the cost. If the tenants came to us and said, we only need 2 years lease but we are actually, the reason we want 2 years because we want the 3 times of the size. Then we might be reasonable flexible in that instance. we might get a building with quite amount of vacancy, and we got a lot of lease expiring over the next year. We might say – we’d better to have someone for 2 years then deal with vacancy in 2 years’ time than hangs out for 6 years lease and had a vacant. So we just have to preserve our own flexibility.

n. **Do you face any major issues when you address office tenants’ demands for different lease requirements? If yes, what are they?**

**Property investor 1:** You need to be flexible. You can’t at this particular market. There are not a lot of transactions undertaken. You can’t be too intransigent you have to be flexible. You have to accept such provision. You have to accept the market is the market, and you need to work with tenants. That is good. It is positive, you went to work with customers.

**Property investor 3:** Not really, as commercial reality, we have to and get used to accept short lease terms, and giving more incentive, but this the way CBD office market has been through the last 3 years. But that will change again and it has changed already.

**Property investor 4:** It is understanding customer needs, why do they want that flexibility. We will try to say – why do you want only 2 years, are you going to expand, are you going to contract, are you going to relocate? Then we will try to solve around that problem. They may have the provision prepared time relinquish one of those floors if their business shrunk. Equally, some of our major clients have what we call first rights refusal, if tenants have the floor level 6, 7 and 8, they might have the first rights refusal to level 5 or level 9. The floors are beside them, if those tenants vacated, that tenant will be the first option to use one of those floors. So we will try to cater that way for our tenants to expand or contract. So for tenant wants huge flexibility, the ability to drop floors, pickup floors, or whatever, the rent or flick that, you will point out the tenancy. – I want the flexibility one month notice to move out then there will be a penalty for that. We are trying to recompense our financial cost. We are not saying we want fully compensate to us for our re-leasing, but it is difference to have it to do it in year 6, now we have to do it in year 2.

4.3 **Are there any other changes in tenants’ lease requirements that you would expect to experience in the market, especially when it is in the recovery stage? How would you address such changes in your future lease agreements?**
**Property investor 1:** We got certain provisions we always cover that. And now we’ve been involved with property council of NZ and we develop new office lease. But the market is not strong enough to adopt the new document. But we would adopt the lease when it go forward. The document have more details and clearer like rental review etc. More opex wash up to tenants, actually give clarity and transparency. The lease obligation are clear of the parties.

**Property investor 2:** The key thing for current market is demand more and more flexibility. The tenants seek large percentage incentive for doing fitout. Tenant are very capital constrain at current market situation, they have to invest to their business. So in this market, it is rare to find tenants to pay for their fit out. They expect the fit out are fully is paid by landlord. That is one factor drive up the incentive. The cost of the hard fit out is more than we typically offering as rental holiday. So incentive in the market at this moment, different for different ethics classes, but they typically are 1.5 or 2 months per year lease, so if a tenant offer 6 years lease, you probably face offering them 12 months incentive. And that 12 months incentive often are taken as cash for the hard fit out. So that something is worth to remember in this market. With the market going up, this incentive will reduce.

**Property investor 3:** But I do still think the trend towards better efficiency and building means better use of more efficient space, very efficient service in buildings, anything can save tenants and landlords’ money can continue to push the direction. Presentation, competitive from landlord side you see some landlords are willing to spend money to improve the buildings, and keep them work comprehensive smart, we do well. I think automatically the terms star length again as the market upturns. But I think it won’t happen until you see really sustain the recovery in the office market. Certainly the market vacancy drops, terms start to stretch again.

**Property investor 4:** Greater flexibility, I think tenants want greater flexibility, they want to be able to hold core premises for good solid period time and have some flexibility about whether they can get some more space to lease. The idea will be we have flexibility lease term that doesn’t purge us from overall financial returns. But the reason why we have large portfolio is so that we have vacancy, it doesn’t materially impact our income pace. So we can drive greater flexibility, if we can secure very large tenants on very long leases, then that protects us in terms of length of income, we can be more flexible perhaps in our rest of lease structure. Equally, we have a couple of long leases, then we can have a number of short leases. The owner of the individual building doesn’t have that flexibility while with us, we have big portfolio of buildings, we can do that.

**Section 5 Overall comments**

a. From the aforementioned three main changes in tenants’ space and lease requirements in the recent years, in your opinion, which change is the most frequently demanded by your tenants?

**Property investor 1:** lease change, sustainable and layout changes
**Property investor 2:** In very recent year, the flexibility around lease term is probably the most frequently required. Space efficiency, then green buildings.

**Property investor 3:** Layout, that is one save the most of the money. And also proof the working environment for staff is well. Then is lease terms. Last one is green buildings.

**Property investor 4:** It’s space efficiency – I think probably the strongest one. Lease term and then green buildings. I think green building thing is icing on the cake. It is really something nice for them but not the number one.

b. What is your opinion on the other changes that you could expect to experience in terms of tenants’ demand from the leased premises in the near future in addition to the changes we discussed so far?

**Property investor 1:** Healthy and safety expectation. We do the independent report of our buildings. So just make sure healthy and safety environment. Also we look at seismic, seismic loading and rating the buildings. Tenants want to know that. These are two main drives. Tenant require to know safe environment and from their view, they will to know what the rating it is. They want the engineer report on the building.

**Property investor 2:** New change in recent year: tenant becoming more focus on the quality of space, the flexibility of the space, whether suit their working practice, They all start to become the key drivers. Cost would become the second consideration, but will be closely second. Then environment consideration will start to take much more influence. But I think the actual physical suitability of the space in efficiency, tenants desire working practice would be the main driver for the future.

**Property investor 4:** I think it will continually cost out case. There is no doubt about that. Until economic health of our economy, wider economy, we are going to look for sure that they get value for money for their building. So that will be rent and operating costs. I think it just better services proposition from their building I understand. May to feel with their part of business rather than something, someone simply pay their rent.

c. What are your strategies to cater for those additional changes or challenges that you may face in the future?

**Property investor 1:** the market don’t move quickly, so I don’t think big change in the horizon. The market is flat, you won’t get new changes come through. When economic goes quickly, people want to do new things, it will grow more.

**Property investor 2:** To move to the ownership of the building, are more keeping with tenants space requirements. So I think in time we own less buildings like B grade, because they are old style buildings, we move towards Building A and C.

**Property investor 3:** we just mentioned two types landlords. One is spending money on the buildings, and keeping them efficiency and upgrading the facility, making looking good, keeping space smart. That comes as cost. We certainly that category spending money to keep the building smart. There are another way won’t spend
money but they will suffer for the consequence. So we believe that you got building looking 100% particular in this environment, there are many tenants look for space, if your building have very good fit out and very smart, with another building down the road with the landlord say I gonna do this, do that and paid this.

**Property investor 4:** Refer to the above sections.

d. Are there any other comments you would like to make?

**Property investor 1:** N/A

**Property investor 2:** The offering of the building to tenant is not just physical offering, it is completed around package, between special offering and services and commercial services. It is not just space, not only property management. It is actually pull these together and will around the package as you can. It is a completed offering. And I think the fundamental change gonna move to space service rather than space provider.

**Property investor 4:** I think goes back to what we talked about flexibility, we have to be flexible. There is no one size fits all. It is not like we used to be, you enter into 9 years lease and take it and leave it. We got to be flexible to our customer needs. What we are trying to do is keeping those customers as long as possible. We need to be very strong financial focus. We know that a good happy customer will be happy to continue to pay their rent and not to go to another client’s building. That’s the ultimate we want.