What if you build it and they don’t come?

by

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Executive Director. Asia
CB Richard Ellis

17th March 2011
Introduction

CB Richard Ellis - 25 years in Asia

Nigel Smith - 20 years in Asia Leasing, Marketing and Designing Office Buildings

- Ping An IFC Shenzhen 2015
- Taipei101 Taipei 2004
- ICC 2009
- Guangzhou IFC Guangzhou 2010
- Two IFC Hong Kong 2003
- Bank of China Tower Hong Kong 1990
- China World Tower, Beijing 2010
Introduction

CBRE Transaction Database covers 32 industry sectors:

<table>
<thead>
<tr>
<th>SOFTWARE / INTERNET</th>
<th>FOOD</th>
<th>BANKS</th>
<th>GOVERNMENTAL</th>
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<tbody>
<tr>
<td>INSURANCE</td>
<td>TELECOM</td>
<td>INDUSTRY</td>
<td>RECRUITMENT</td>
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<tr>
<td>AUTOMOTIVE</td>
<td>AUDIT</td>
<td>AIRLINES</td>
<td>SERVICES</td>
</tr>
<tr>
<td>CONSTRUCTION / REAL ESTATE</td>
<td>ENGINEERING</td>
<td>LAW FIRMS</td>
<td>SERVICES</td>
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<tr>
<td>ADVERTISING</td>
<td>DISTRIBUTION</td>
<td>PHARMS</td>
<td>SERVICES</td>
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<tr>
<td>HEALTHCARE</td>
<td>PUBLISHING</td>
<td>EDUCATION</td>
<td>IT / TECHNOLOGY</td>
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<td>IT SERVICES</td>
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<td>AERONAUTICS / DEFENSE</td>
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<td>COSMETICS / HOUSEHOLD</td>
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<td>CHEMICALS</td>
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<td>FASHION / RETAIL</td>
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<td>MEDIA</td>
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Introduction
This Time Last Year we said that...
This Time Last Year

- In the light of the GFC

- Corporates were re-thinking their Real Estate Strategies

- Reduced profits
- Increased regulations
- Constant change
- An uncertain future

- Cost Containment
- Organizational efficiencies
- Corporate Strategy Shifts
- New real estate strategies
And that they were focusing on:

- Their core businesses
- Being more flexibility and adaptability
- Raising service levels to their customers
- Greater transparency and openness
- Greater innovation
So a year later…

What are the new occupier trends

What will make them move?
New Trends

- With the end of the GFC

There has been a **Shift** in the way developers, occupiers and investors approach office buildings.
The old adage of ‘Location, location, location’…

...now no longer works
### Development Trends
- **1970’s** = suspended ceilings
- **1980’s** = raised floors

<table>
<thead>
<tr>
<th>1990’s</th>
<th>2000’s</th>
<th>2010’s</th>
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<tbody>
<tr>
<td>1. Location</td>
<td>1. Design</td>
<td>1. Environment</td>
</tr>
<tr>
<td>2. Specifications</td>
<td>2. Specifications</td>
<td>2. Sustainability</td>
</tr>
<tr>
<td>5. Management</td>
<td>5. Location</td>
<td>5. Management</td>
</tr>
<tr>
<td>7. Sustainability</td>
<td>7. Facilities</td>
<td>7. Facilities</td>
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</tbody>
</table>
This is because of:

<table>
<thead>
<tr>
<th>New Imperatives to Improve Processes and Reduce Waste</th>
<th>Constant focus on increasing efficiency and managing change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality improvement methodologies (e.g. Six Sigma) are less useful in employee-customer encounters with volatile human dimensions. New methodologies are needed.</td>
<td>Source: Harvard Business Review</td>
</tr>
</tbody>
</table>

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<thead>
<tr>
<th>Demographic Shifts</th>
<th>Impacts on customer behavior and the composition of the workforce</th>
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<tbody>
<tr>
<td>Nearly one in three American workers will be over 50 by 2012.</td>
<td>Source: The Economist (February 2010)</td>
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<table>
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<tr>
<th>An Uncertain Future</th>
<th>Stronger focus on risk management</th>
</tr>
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<tbody>
<tr>
<td>4 out of 5 managers think of risk in terms of negative outcomes only, instead of as the distribution of all possible outcomes.</td>
<td>Source: Harvard Business Review</td>
</tr>
</tbody>
</table>

Source: CBRE, USA
Changes in the workspace are occurring

More Generations at work

- The workforce includes four distinct generations. Baby Boomers, Gen X, Gen Y and Gen I. The recession is making a grey workforce greyer.

Employees desire flexible work accommodations

- Regardless of generation, there is a common demand across all demographics for greater convenience, choice, and comfort in regard to how, where, and when work happens.

Societal demands to conserve

- Buildings account for 72% of electricity consumption and 39% of CO2 emissions in the U.S forcing many to adopt more distributed models for how and where people work to better compact their overall environmental footprint.

Source: CBRE, Workforce Study
The traditional office environment is not the exclusive, or even primary location where work happens.

“The average knowledge worker is at his or her desk just 40% of the time”
GARTNER GROUP
The ‘new breed’ of occupiers are looking to enhance their quality of life:

- 41% say they are working harder and longer hours in order to succeed.
- 48% say they are looking harder for better investments.
- 33% believe ‘ambition’ is a key trait to have nowadays.
- 42% think having a ‘long term vision’ for oneself is important.

Source: BBDO Voices, China
Being fueled by optimism through economic satisfaction:

- They are feeling more
  - financially secure
  - career-focused

Source: BBDO Voices, China
But there is also emotional dissatisfaction:

But they are also feeling more

- stressed
- time-poor
- disillusioned

Source: BBDO Voices, China
For the 2nd Year In A Row
China Registered the highest stress levels in Asia
New Trends

- As pressure mounts…
- Multi national corporations are looking at ways to **balance their workforce** within the real estate domain

The New “Triple Bottom Line”
New Trends

- **Inspiration** is the key to attracting occupiers
  
  - widen their vision
  - stimulate their creativity
  - attract highly qualified talent
  - uplift people’s spirit at work
Building a Reputation
Today’s occupiers want a relationship

So that they can
• Enhance employee satisfaction
• Build their image
• Competitive advantage

This means
• Adaptability
• Focus
• Achieving corporate objectives
Occupiers want:
- A tailored design
- Flexible lease terms that suits their business
- Sustainable management
- To be respected

Developers want:
- Better tenant mix
- Higher rents
- Better investment values
- Developers should do this to their advantage.

- By leveraging the brands of these ‘pedigree’ corporate occupiers.
- Relationships are being built around reputations
  - Personal
  - Company
  - Real Estate
- And form partnerships

“ Our goal is to foster a relationship between the tenant and landlord based on trust. At the very least, it’s about giving the tenant peace of mind, but more than that, we want tenants to feel valued and have a genuine sense of belonging.”

Herron Tower, London
CBRE Appointed Marketing and Leasing Agent
And one of the simplest ways to attract an occupier...

...Is to listen and gain their trust.
The New Design Mantra
The New Mantra

- Last year there was the ‘Wow factor’
  - Dynamic and Beautiful
  - Interesting and iconic
  - Symbols of a city
  - A focal point of art and people
  - A Destination
The New Mantra

- But also the overall **impression**
  - Landscaped Gardens
  - Large lobbies
  - Secure lift lobbies
  - Stunning views

China World Tower, Beijing, CBRE Appointed Marketing Consultant
The New Mantra

- Not just from the outside
- But also from the inside

1. 3 way office lobby
2. High efficiency of 91 - 94% lettable
3. 14.67 m bay depths
4. 9 m columns distances
5. 1.5 m mullions
6. Showers
This year there is the ‘Now Factor’
- Fast direct lifts
- Mobile connectivity
- High speed telecommunications
- Unlimited power supply
- The Vertical city
And more often than not - what they can do for the environment

<table>
<thead>
<tr>
<th>ENERGY</th>
<th>CARBON</th>
<th>WATER</th>
<th>WASTE</th>
</tr>
</thead>
<tbody>
<tr>
<td>30%</td>
<td>35%</td>
<td>30-50%</td>
<td>50-90%</td>
</tr>
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</table>

- Greater efficiency and immediate cost savings
- Lower CO2 with long-term environmental benefits
- Cost savings and conservation of resources
- Lower disposal costs and reduced environmental impact
Ultimately show the occupiers how they can:

- Attract and retain staff
- Be more efficient
- Feel important

...because “from small acorns grow large oak trees”
Going Green Does Make Financial Sense
The Corporate occupiers are committed.
And rental rates are **rising** in the USA

Source: CBRE Research, USA
The trend is not stopping
The benefits are clearer

- Decreased Operating Costs: 93% (2009), 93% (2010)
- Increased Building Return on Investment (ROI): 71% (2009), 71% (2010)
- Higher Tenant/Customer Retention and Renewal: 64% (2009), 64% (2010)
- Increased Building/Asset Value: 64% (2009), 64% (2010)
- Greater Productivity of Building Occupants: 36% (2009), 62% (2010)
- Increased Tax Incentives: 39% (2009), 35% (2010)

Source: CBRE Research, USA
Not to mention occupier satisfaction

Source: CBRE Research, USA
Why?

...simply because they are more productive.

Source: CBRE Research, USA
Marketing ‘The Difference’
Marketing the Difference

- If developers, occupiers and investors are smart -
  - These are all value add items
  - With a premium attached

This can create ‘Competitive advantage’
### Marketing the Difference

- But only if the benefits are **clear and tangible**

<table>
<thead>
<tr>
<th>Factor</th>
<th>Features</th>
<th>Strengths</th>
<th>Weaknesses</th>
<th>Opportunities</th>
<th>Threats</th>
<th>Key Differentiators</th>
<th>Benefits</th>
<th>Unique Selling Points</th>
<th>Key Messages</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Location</strong></td>
<td>CBD</td>
<td>Proximity to trophy buildings; Exposure to main thoroughfare &amp; Western Corridor</td>
<td>Could be perceived as fringe</td>
<td>To cater for financial and professional companies</td>
<td>Disruption from the redevelopment of the old Central Market</td>
<td>Only Grade A Supply in 2008</td>
<td>Provides contiguous space</td>
<td>YES</td>
<td>Scarcity, opportunity, rarity</td>
</tr>
<tr>
<td><strong>Accessibility</strong></td>
<td>Subway Bus Taxi Car</td>
<td>Adjacent to Ifc and HKL portfolio and Mid-levels escalator via footbridges</td>
<td>Restricted vehicular drop-off in front; Congested traffic on Des Voeux Rd</td>
<td>Footbridge linking Hang Seng Bank HQ and Ifc-HKL portfolios</td>
<td>Ground floor pedestrian congestion</td>
<td>Future footbridge</td>
<td>Convenience; comfort</td>
<td>NO</td>
<td>Connected</td>
</tr>
<tr>
<td><strong>Building Design</strong></td>
<td>Main Lobby Curtain wall</td>
<td>Sense of space created by atrium; Fiber optic lighting on curtain wall; unique identity</td>
<td>1st Floor Lift Lobby; No visibility from Ground</td>
<td>Signage</td>
<td>Pedestrian congestion</td>
<td>Branding opportunities for anchor tenants</td>
<td>Profile</td>
<td>YES</td>
<td>Image</td>
</tr>
<tr>
<td><strong>Office Design</strong></td>
<td>Shape Ceiling Height Efficiency Column location</td>
<td>Rectangular floor plate; ideal size for professional companies</td>
<td>Ceiling height could be considered low by financial companies; Column location</td>
<td>Indicate similar ceiling clearance as Exchange Square</td>
<td>Anchor tenants need to take 5+ floors</td>
<td>High efficiency</td>
<td>More employees per floor; visibility</td>
<td>NO</td>
<td>Efficiency</td>
</tr>
<tr>
<td><strong>Specifications</strong></td>
<td>Power Air-conditioning Vertical transportation Tacticals</td>
<td>Will compete with HKL portfolio</td>
<td>Perception (old building)</td>
<td>Rebrand</td>
<td>Concern expressed from financial sector</td>
<td>Power, raised floor</td>
<td>Technically sound</td>
<td>YES (raised floor)</td>
<td>Over provides</td>
</tr>
<tr>
<td><strong>Facilities</strong></td>
<td>F&amp;B Shops Service facilities</td>
<td>On-site restaurants &amp; shops</td>
<td>Relatively small retail arcade</td>
<td>Raising the brand of the building, meeting the needs of the occupiers</td>
<td>Perceived distance to other outlets</td>
<td>Boutique</td>
<td>Convenience; comfort</td>
<td>NO</td>
<td>Convenience</td>
</tr>
<tr>
<td><strong>Management</strong></td>
<td>Health Security Safety</td>
<td>International Grade A standard; customer care</td>
<td>Pedestrian flow</td>
<td>Value-added services</td>
<td>Perception</td>
<td>Boutique</td>
<td>Personalised</td>
<td>YES</td>
<td>TLC</td>
</tr>
<tr>
<td><strong>Environment</strong></td>
<td>Views Image</td>
<td>Sea views; Escalator</td>
<td>People pollution</td>
<td>Footbridge, accessibility</td>
<td>Further delay of Central Market redevelopment</td>
<td>The area will undergo transformation</td>
<td>Upgraded environment</td>
<td>NO</td>
<td>Enhancing Central</td>
</tr>
<tr>
<td><strong>Ownership</strong></td>
<td>Single Ownership</td>
<td>Sound financial background; Experience</td>
<td>Multiple geographical portfolios</td>
<td>Flexibility to structure innovative deals</td>
<td>Portfolio landlords</td>
<td>Boutique</td>
<td>Customer focus</td>
<td>NO</td>
<td>Reliability; Trust</td>
</tr>
<tr>
<td><strong>Summary</strong></td>
<td>Extension of Central; Connected to Ifc and HKL portfolio</td>
<td>Congestion</td>
<td>Only Grade A Space in 2008</td>
<td>Perception</td>
<td>Naming rights</td>
<td>Contiguous space</td>
<td>Boutique Design</td>
<td>Convenience</td>
<td>Value Profile</td>
</tr>
</tbody>
</table>
Because marketing is about changing perceptions
Making a connection to the audience
Focus on what is important

CBRE Appointed
Marketing and Leasing Agent
The core of branding is the **Brand Pyramid**

- **Product Attributes**
  - Tallest building and icon in GZ
  - CBD *great* location
  - Art environment: Image, Design

- **Functional Benefits**
  - Living environment offer premium grade office location, quality and facilities with Lifestyle elements: shopping, food, entertainment.

- **Emotional Rewards**
  - Inspired, Innovative, Authentic
  - Business Partner
  - High prestige; Inspire and stimulate;
  - Expand workers life and force and energy;
  - Vitality and inspiration

- **Core Essence**
  - The workplace that elevates inspiration

Source: BBDO, HK
You do this by “building a picture”

- Creating value
- Matching the product to their needs
- Turning cost to advantage
• But there is still a problem looming

• The over supply of high quality buildings
Because they all offer the same features and benefits

...So how do you differentiate your building?
The New Era of Advertising
And you can not simply attract the best tenants by location, marketing or even branding.

You now need to be more visible.
- And talk to them in a **language** they understand
The New Era of Advertising

- Take for example the banking sector:

- Over a decade ago as their sector began the evolution of globalization transforming their industry from

  - Patrons to customers
  - Boardrooms to open plan
  - ATM’s to airport advertising
  - To media advertising
The New Era of Advertising

- Real estate will be the same

- Advertising taking the lead - not just marketing

- Corporate occupiers are
  - Sophisticated
  - Smart
  - Connected
  - Can tell the difference

- ‘Shout it from the roof tops’
Why?

1. They are the same industries who have been leveraging the power of advertising for years

2. They know how effective advertising can be when building trust
The New Era of Advertising

● This is an opportunity to ‘talk to the occupiers’ in their language - out on the battlefield

1. Financial institutions: 40 - 50 %
2. Professional Service Providers: 15 - 25 %
3. Other Int’l Corporations: 10 - 25 %

\[ \{ \begin{array}{l}
4. Real state Developers (if HQ): 5 - 10 \\
5. Insurance: 10 - 20 \\
6. Government: 5 - 10 \\
7. Mining/Energy: 5 - 10 \\
8. Other: 10 - 15 \\
\end{array} \]
- And the results...

- ICC in HK spent US$4,500,000 over 3 years for 2.5 million sm, 13% of the annual rent roll

- Morgan Stanley
- Credit Suisse
- Deutsche Bank
But it is not just about one medium. It’s now about a series of Integrated Messages

• Collateral
• Newspapers
• Magazines
• Outdoor advertising
• Events

Global reach…local marketing
And Finally -
When Will They Come?
Marketing Time Line

**Pre Completion**

- **Step 1** Research and Consultancy
  - Duration: 3 Months

- **Step 2** Development Design Consultancy
  - Duration: 3 Months

- **Step 3** Marketing Strategy and Plan
  - Duration: 3 Months

- **Step 4** Marketing Collaterals and Events
  - Duration: 3 Months

Ongoing research. Duration 12 months

Total duration: 12 Months

**Post Completion**

- **Step 5** Leasing Strategy

- **Step 6** Marketing Plan

- **Step 7** Leasing Implementation

Total duration: 24 Months

Total duration: 24 Months
Standard Commitment Rates in T2 China Cities

- 10% - on completion
- 25% - + 6 months
- 45% - + 12 months
- 65% - + 18 months
- 85% - + 24 months

Case study – Shangri-La, Chengdu
Quick fixes can be

- Aligning your building to the target occupiers
- Leverage your and their reputations
- Build the “Wow” and deliver the “Now”
- Differentiate in your marketing
- Build a brand that is unique
- Do not be afraid to advertise
- Commit for the right reasons
The key to success

1. People
2. Community
3. Environment
4. Sustainability

…Value is in ‘their perception’