



Tenant Retention

A Short Survival Course for Landlords

by Cliff Bowman

When an office tenant declares his intention to move, all hell breaks loose. His options are awesome. He can stay put in his existing building; move to another building but stay in the same office colony; leave his office colony either partially or entirely and then pick a new one. (In Toronto he has 27 to choose from). And finally, choose between 5 and fifteen buildings in the colony of his choice.

This may appear to be a happy tenants' market but it is not. Economic pressures have perverted the whole commercial real estate industry, inverting the situation of five years ago when the chaos of having insufficient office space meant tenants leased anything they could get. Then and now tenants and landlords all too often end up not getting what they want.

For us in the real estate industry, economic pressures mean an eroding tenant base and no choice but to retain the tenants we have through focused and deliberate marketing efforts.

Personal Service

To retain those tenants, we have to recognize that personal service is king. I don't know if you have noticed, but as the recession deepens people are becoming much nicer, at least, the people who want your money. People who would not give you the time of day now send you nice letters. Even the banks are turning on the charm.

A tenant you depend on for your livelihood must be treated very well. The bird in the hand is worth 300 in the bush. But sending fresh flowers is only the beginning. We must develop strategies to maintain a relationship on a variety of fronts.

If a landlord loses a tenant it's his own fault because he did not know and/or could not meet the tenant's value

needs. Often it is stated that

"I lost the tenant because I couldn't match the deal he was being offered down the street where the space was being given away. How can I compete with that?"

If your tenant is looking for cheaper space, find it for him in his current building or perhaps in another building you own but keep him!

If someone across the street will make



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almost any deal to get your tenant, match him, but calculate and show the value of your space in such a way that you have got the advantage. This is marketing value-for-value. Assign a value, either positive or negative, to absolutely everything in the deal. This means, in the case of a lawyer considering a move to the suburbs, pricing out the extra cost of couriers. Such things as elevator times, parking and courier charges are hugely important to tenants who bill their hours.

Or: What is the cost of after-hours building usage? How many staff will the tenant lose with the move and how hard and expensive will it be to replace them? How can you evaluate comfort?

Blaming the building

The next step is to develop intelligence regarding various tenant profiles and how they conduct their businesses. Tenants are not all the same. Buildings suit certain types better than others and it's not just a matter of size although size is not a bad place to start.

Typically, a tenant's perceived space requirements go unchallenged because it's rarely in the brokers' interests to question them. But the landlord must understand how tenant's use their space.

Take a 5000 square foot user. We used to think of that as representing 25 people on average. But that could represent anywhere from 10 to 30 people depending upon the tenant's business. Depending upon their type of work, they will use space very differently. Studies have shown that management consulting firms use 243 sq. ft. on average per person; corporate lawyers 281; Japanese banks 170.

A tenant who is making do with less or more space than is appropriate, is probably unhappy and he's probably blaming the building.

All the features of a given space -- windows, core configuration, parking, even elevator speed -- will impact differ-

ently on your tenants. Lawyers greatly value windows in their office, it is a status necessity. Engineers typically couldn't care less. Japanese banks like large open spaces so they can watch their people work. Many Japanese managers sit among their staff in open areas. To them, columns are places for people to hide out of view. Lawyers want fast elevators because time is money in a very real way to them. Businesses whose employees stay put are usually indifferent to elevator speed.

The importance of understanding how companies use space, what the variable impact of, say, daylight is has arisen in response to the high cost of office space. The cost of office space to tenants is only in second place after the salaries they pay.

An intimate knowledge of your tenants' feelings, who is happy and who is not, and why, is absolutely critical to the remarketing of your building. If your building has been around for a while it has developed a reputation about what is wrong with it, which may or may not be true. Find out, and listen carefully. The brokers and the competition may be spreading different tales from those told by departing tenants. Who is right? Find out.

On a one-to-one level, there is a great deal to be done. Re-acquaint yourself with your three most important contacts in each of your tenant companies. Even if the tenancy is only a month old. Over a period of less than a year, all the players can change, either because your staff or the tenant's will have moved on. The result: your one-on-one relationship comes adrift.

***Every contact
with your tenant is
a marketing exercise.***

Pay close attention to how the liaising is being done. If your leasing team is skilled and highly trained in client relations and your property manager is only an expert on HVAC, then the leasing team should deal with the tenant. Every contact with your tenants is a marketing exercise, a courtship, the result of which, you hope, is the renewal of the lease.

Have focus group interviews conducted

with your tenants; tenants who were exposed to your building but who chose to locate elsewhere; previous tenants and brokers who both brought and didn't bring deals to your building. They should rank your building against all the criteria which is common to you and your competitors, including all the building management issues.

Every time we conduct tenant focus groups, I learn something new about tenants' needs and their perception of reality. One recent study for instance concluded that daycare should not be downtown. That flies in the face of the views you hear in the media.

***Dealing with
unhappy tenants***

The result of focus group research is a report card on more than just the building. It will inevitably reflect on how you the landlord is doing. In fact, more than you might think reflects on the landlord. For instance, the conventional wisdom holds that if your tenants don't like your columns, nothing can be done. But ask yourself, why are my tenants focusing on the columns?

Perhaps their space is planned improperly. Perhaps they are the wrong tenants for the space. Maybe the broker told them the columns were a problem because the previous tenant thought they were. Is your tenant breaking up his space into boxy little offices which don't fit the planning module?

Perception may be 95% reality but that does not mean it is a fixed reality. Addressing the perceptions of a tenant not only makes the tenant feel better but may solve problems for other tenants as well.

What is more, if you can solve a few problems for a particularly unhappy tenant, his general malaise may come unstuck. And then, before you know it, he is back in your arms again. Once you have conquered a difficult problem, make sure the word gets out to your other tenants, the brokerage community and prospective tenants. Be aggressive about reaching all three of these markets.

***Facilities management
studies***

It is most advisable to conduct facilities management studies for every existing tenant over 20,000 square feet with more than four years left on the lease. Large companies are becoming increasingly sophisticated about facilities management as they come to appreciate the massive direct and indirect costs of office space.

***Marketing the
landlord's covenant***

Another area that should be addressed is the covenant of the property manager/developer/landlord. Time has tarnished the developer. The high flyers such as Trump, who seemed to be so enviable in the early 80's have become the objects of scorn. In many people's eyes, the buildings themselves are examples of arrogance.

Developers are viewed much like sports stars, with the general public taking a smug self-congratulatory interest, not in how well they perform, but increasingly, in how much they are losing.

None of this is reassuring for the tenants who, in addition to following the affairs of their landlords in *People* magazine, read about the restructuring of their debts in the financial papers.

Increasingly developers, both good and bad, are being tarred with the same brush. And this includes financial institutions because of their bad real estate loans.

To counteract the bad press, the landlord's covenant must be marketed aggressively. And this is yet another reason for the landlord to connect with his tenants frequently.

***Corporate
Marketing Centres***

Corporate marketing centres are one vehicle for this communication. These are an offshoot of the project marketing centres but these centres do more. This new generation of marketing centres serve a number of functions. They are designed to pre-lease space in future projects, re-

lease space in existing buildings and finally, attest to the strength of the landlord. Besides the logic of the economies of scale, these corporate marketing centres can be seen as three-dimensional corporate brochures.

Since developing the idea originally, we at Cliff Bowman & Associates have honed it down to a series of individual war rooms or simple theatres designed to mount many different productions, using different props and sets. Unlike the individual project marketing centre, it targets the existing tenant on the premise that if the landlord has to lose him, let it be to some other space in his existing building or to another project within his portfolio.

In conclusion, keeping your buildings occupied requires you to bone up on your tenants' particular office requirements; maintain an on-going dialogue with your top three tenant contacts in each firm and continue to demonstrate to them why your building represents good value. You have no other options.

This article is excerpted from a speech delivered by Cliff at the 1991 ICI at the Urban Development Institute Conference in Toronto.