

SUMMER 2015

Amenities: A Hot Commodity



440 S. LASALLE ST., CHICAGO, IL: TENANT LOUNGE

“Owners should expect to allocate approximately 10 percent, and those who are trying to attract highly sought-after tenants should look to reserve 12 percent or more.”

To attract and retain the best and brightest talent in today's commercial real estate market, building owners and tenants are focusing more on amenities than ever before. As a guest blogger for Convène, Thomas Vecchione, principal of the international architectural firm Gensler, wrote: “Office spaces that engage employees by creating unique experiences create value and function as a strategic business asset rather than just a workspace.” (“Creating Value Through Placemaking,” November 3, 2014.)

In the past, approximately 3 percent of portfolio space was committed to features like gyms and on-site dining. Today, owners should expect to allocate approximately 10 percent, and those who are trying to attract highly sought-after tenants should look to reserve 12 percent or more.

FIRST IMPRESSIONS MATTER

Just a few years ago, recession-era investors were focused on keeping costs down, operating efficiently, and delivering low bottom lines to potential tenants. An uncertain economy steered companies toward frugality. Now, however, builder-grade materials and construction methods that favored cost savings have given way to differentiation through quality. The first things visitors see and touch can dramatically shape their opinions of an asset. An attractive property anchored by an open, inviting lobby with lots of light and a bright color palette stands out before one even sets foot inside. Moreover, developing a brand and logo for the building gives it an identity—something that visitors take with them and are reminded of later—which is currency in today's marketplace.

Amenity benefits come in the form of increased rents, higher quality tenants, deal velocity, improved tenant retention and higher listing prices both in the leasing and investment sales markets.

UPPING THE AMENITY ANTE

A standard set of options defined many office buildings from the previous real estate cycle: basement gym, bicycle rack, parking garage, high-speed Internet, and maybe a rooftop deck. Now, these are just starting points. Incentivized to take less space and provide greater benefits to employees by an array of market forces, tenants are expecting more from the buildings they choose. Usable shared resources are big-ticket items. Fully equipped, professionally staffed fitness centers are quickly supplanting spare-corner weight rooms. Buildings and tenants frequently partner with fitness vendors and health insurance companies to subsidize membership rates. Paired with secure, weather-protected bicycle locking facilities, easy-access showers, and rentable lockers, building users are presented with healthy lifestyle solutions without having to leave the office.



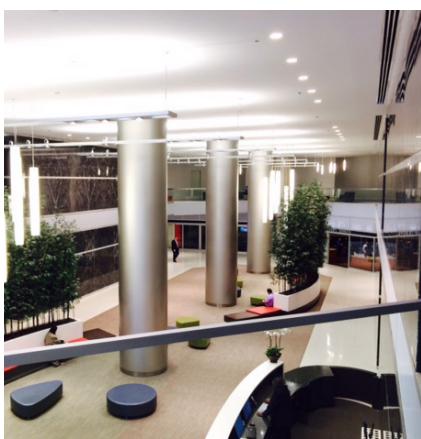
440 S. LASALLE ST., CHICAGO, IL: (LEFT TO RIGHT) CAFETERIA, MODULAR CONFERENCE FACILITY, AMENITY FLOOR ELEVATOR BANK, LOBBY TURNSTILES

DESIGNING MICRO-COMMUNITIES

The technology industry jumpstarted the idea of developing exciting in-office experiences and placemaking more than 10 years ago. Since then, it has been adopted by the creative industry and is quickly becoming mainstream. In areas that emphasize the live, work, play lifestyle, tenants often collaborate to develop a bustling ecosystem. Many retailers provide discounts to office users, helping to create more complete communities. Private tenant lounges offer inviting areas to decompress or hold meetings outside of the office environment. Complimentary WiFi, casual seating, café settings, gardens, and televisions or gaming are all becoming popular. These spaces complement modular building conference facilities, which may be easily booked through an online system or concierge. Add in healthy-eating options and cafes offering coffee or smoothies, and the main ingredients for a successful modern office are in place.



1 S. WACKER DRIVE, CHICAGO, IL:
TENANT LOUNGE



1 S. WACKER DRIVE, CHICAGO, IL:
LOBBY OVERLOOK

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STANDING APART FROM THE COMPETITION

An amenity package can make a statement that differentiates a building from the competition. Tenants are not only looking for spaces that impress them; after the shine has worn off, the day-to-day experience can significantly influence their decisions. If security is a concern, the tenant journey should begin with efficient visitor registration, fast, high-caliber turnstiles which ease congestion and create a tactile sense of quality.

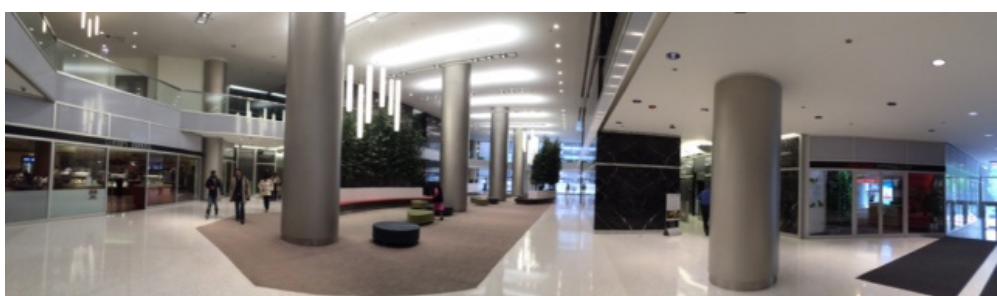
Next, high-speed elevators that arrive promptly are constant reminders to tenants that their needs are taken seriously. Elevator cabs that match lobby décor are a hallmark of thoughtful design. In addition, high-rise buildings are ideal for destination dispatch systems, optimizing the ingress and egress process. While Captivate-style screens help pass the ride between floors, a cellular distributed antenna system is a welcome addition to anyone attempting to travel to and from the office without interrupting a business call because of a loss of signal. Freeing tenants from the virtual tether of a communication tower is not necessarily a mission critical objective, but it is exactly the type of memorable detail that a highly mobile workforce appreciates.

COST IS A FACTOR

Owners should be aware that building improvements come with several costs. Renovations are not cheap. An eight-figure budget for a complete lobby and amenity overhaul in an A or B Class office tower would not be unrealistic. In addition, capital expenditure projects increase value on annual tax assessments. It is also becoming standard practice to devote an entire floor—normally the same level as the management office—to amenities. These amenity plates cut into revenue-generating suites; however, amenity benefits come in the form of increased rents, higher quality tenants, deal velocity, improved tenant retention and higher listing prices both in the leasing and investment sales markets.

A comprehensive amenity package can create premium value if executed in a way that is meaningful to the target demographic. Just one factor in an extremely complex market, investors should also be mindful of traditional real estate canon: location still matters, public transit is the only way to travel for large portions of the workforce, and one size does not fit all.

As the workforce places more value on choice in working environments, investment in a unique amenity set can make the difference between an energetic, productive campus and unused vacancies. Forward-looking owners cannot afford to not consider these options.



1 S. WACKER DRIVE, CHICAGO, IL: LOBBY