



EUROPEAN LISTED PROPERTY COMPANIES

– PROGRESS TOWARDS CUSTOMER FOCUS

Study commissioned by EPRA and conducted by RealService

September 2012

EXECUTIVE SUMMARY

Owners and managers of property within the real estate sector take many forms, ranging from property funds, property companies, REITs, institutions and individuals. The traditional relationship between these property owners and their tenants has been typified by a remote and sometimes confrontational relationship. However, evidence suggests that the real estate industry is in transition. This “old model” typified by an investor-led focus, rather than customer (occupier) focus, is being replaced by a “new model” where property owners recognise the financial and reputational benefits to be gained through working closely with occupiers.

This research study looks, for the first time, at the annual reports and accounts of the top 50 European publicly listed property companies and measures evidence of customer focus in published statements.

This report brings attention to an under-researched aspect of the listed property sector. With the increasing focus on income returns, the report highlights opportunities for further research to better understand the link between customer service and occupier retention, vacancy rates, income returns and brand value within the listed property sector.

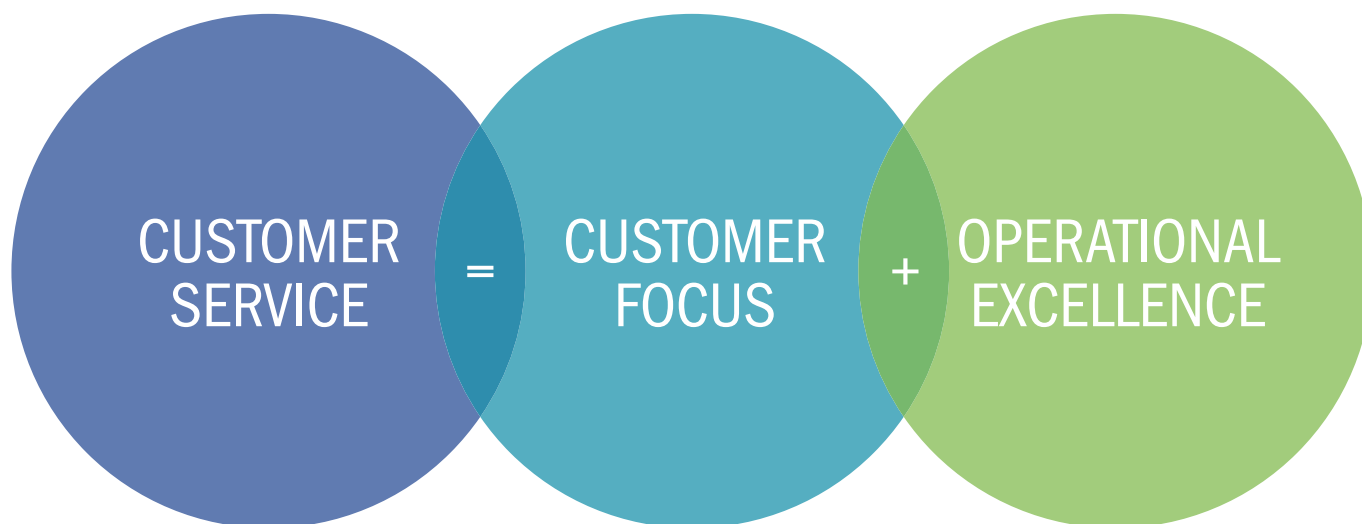
Key highlights from the study:

- > **The listed property sector today increasingly resembles a modern customer facing industry with a strengthening focus on excellence in product and service delivery.**
- > **43 of the 50 largest property companies (86%) have embraced the customer (tenant) focused approach to property ownership and management to some degree.**
- > **13 companies (26%) have made significant progress, 12 (24%) have made material progress and a further 36% have begun to take their first steps in this direction.**
- > **The remaining 7 (14%) of companies promote their primary focus as being on the investor.**
- > **Progress has been led by companies in Scandinavia and the UK but evidence of customer focus can be found across Europe.**
- > **The degree of customer focus is unrelated to market capitalisation.**
- > **Diversified property companies and office-sector specialists tend to be more occupier-focused in their statements, while retail sector specialists tend to be more consumer-focused.**
- > **The potential exists to standardise service performance measures and to establish benchmarks which will enable investors to make more informed decisions about which companies to invest in.**

INTRODUCTION

What is Customer Service?

For the purposes of this research study, customer focus has been defined using the following formula:



In other words, great customer service is the output of clarity of understanding about customers' needs (customer focus) and the ability to respond and deliver a responsive service every time (operational excellence).

Customer Focus is a key ingredient in the mix but only part of the above equation. In our review of published documents, we have looked for evidence to identify:

- Whether the company sets out to treat its tenants as customers?
- How clearly stated is the customer service strategy?
- What published evidence there is of customer service performance?

It is a recognised limitation of this research study that the analysis has largely been based on published statements of intent rather than evidence of achievement. This suggests the need for more quantitative research to measure satisfaction with customer service and operational excellence.

Why Customer Focus?

Listed property companies are moving away from the traditional landlord-tenant relationship, often characterised by confrontation, towards a more dynamic customer focused and collaborative approach. Increased engagement between landlord and tenant, product innovation, flexibility of service, and increased awareness of occupier needs is evidence of this approach. Ultimately this approach can have real benefits in, what RealService calls, the 3 R's of real estate:

REVENUE

RETENTION

REPUTATION

Single versus Multiple Stakeholders

It is important to note that for business success, it is best practice for a listed property company to adopt a wide and multiple stakeholder framework, where relationships between stakeholders are identified and an appropriate emphasis is placed on the needs of each one.

For practical reasons, this study treats the occupier, the company that pays rent and occupies space, as the primary customer.

The hierarchy of stakeholder importance will vary between real estate sectors and over time. For example, in the retail property sector the primary customer has traditionally been seen as the shopper or consumer but increasingly it is the retailer that is foremost in the minds of retail sector specialists.

RESEARCH METHODOLOGY

Sample

The top 50 listed property companies and REITs in Europe (based on market capitalisation as of June 2012) were analysed.

Data Sources

Only information from publicly available documents (sourced from company websites) has been reviewed for this study. i.e. annual reports, sustainability reports, corporate responsibility reports and general corporate information published on websites.

Data Analysis

RealService developed a scorecard to enable companies to be rated in a consistent way and according to the prevalence of customer focused concepts within their published reports.



KEY FINDING – 01 FOUR STAGES OF CUSTOMER FOCUS EVOLUTION

RealService has identified **4 stages** in the evolution of a customer focused approach:

The spread of listed property companies is shown below.

52% of companies are “Leaders” or “Converts”.

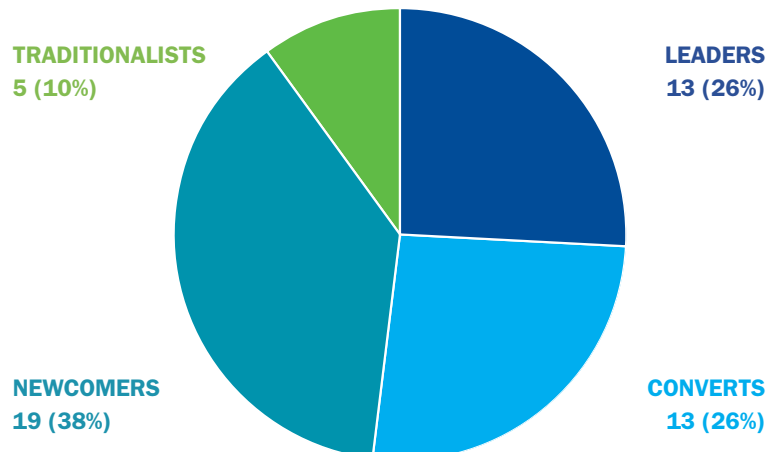
A further 38% are classed as “Newcomers”.

This indicates that the majority of companies show awareness of the importance of customer focus.



4	LEADERS
3	CONVERTS
2	NEWCOMERS
1	TRADITIONALISTS

Fig. 1. How customer focused are listed property companies?



STAGES OF CUSTOMER FOCUS EVOLUTION – LEADERS

“Leaders” recognise the tenant as a primary customer and key stakeholder, placing customer focus at the heart of their business strategy and fully incorporating it into all aspects of the business. This can be from assessing client needs before a new development, to responding to service requests and engaging on environmental issues. They understand that customer service, corporate responsibility, business ethics, sustainability and business strategy are not independent entities, but complementary components of their management models.

Annual Reports include prominent statements of customer service strategy as well as aspirations for further improvements. Crucially, they follow this up with evidence of achievement in the form of case studies and service performance results.

SPONDA

01 CASE STUDY Sponda plc

Sponda’s mission statement is set out on the front page of its annual report:

“Profitable growth based on a strong customer focus while taking environmental perspectives into consideration”

Later, it expands stating: “Sponda’s goal in its customer relations is to achieve an interactive partnership rather than a unilateral landlord-tenant relationship. By establishing a new process to support the development of the customer experience, Sponda aims to gain a competitive advantage and identify the best ways of working from the customer’s perspective.”

Sponda also acknowledge customer choice, the need to be flexible in the service it offers and the benefits that this approach will bring.

Customer satisfaction is measured using an annual survey, and used, together with interviews, to create a “[Customer Experience Management process strategy](#)” with clearly stated customer experience targets.

STAGES OF CUSTOMER FOCUS EVOLUTION – LEADERS



02 CASE STUDY British Land plc

British Land's goal to "exceed customers' expectations" is backed by a clearly worded aspirational statement:

"We aim to be the partner of choice for occupiers, understanding and anticipating their needs and helping them to achieve their objectives by providing modern, flexible accommodation in the best locations... We aim to build a brand which sees prospective occupiers choose our space because it is owned and managed by us"

This is driven by financial rather than altruistic aims:

"Excellent customer service combined with outstanding buildings in prime locations maximise our occupancy rates and enhance our financial performance."

British Land is proactive in working towards this goal and commissions regular customer surveys and reports a range of measures of achievement, including customer satisfaction, value-for-money, responsiveness and understanding of customer needs.

It also collaborates closely with occupiers on the development of its corporate responsibility strategy, as well as environmental sustainability.

STAGES OF CUSTOMER FOCUS EVOLUTION

– CONVERTS

“Converts” understand the potential benefits of a customer focused approach, but are not as far along long the path as leaders. Although importance is placed on customer focus, it is not yet fully integrated into all aspects of business strategy. Some areas may be stronger than others.

Their customer focused approach is not made as explicitly clear in published documents. Customer service strategies are often implicitly rather than explicitly stated. They may have higher aspirations, acknowledging that further improvements in customer service are both possible and necessary.

“Converts” may publish service performance results. These usually take the form of an irregular or one-off analysis rather than a detailed annual statement. They have also begun to engage with customers on environmental issues.



03 CASE STUDY

Wihlborgs Fastigheter AB

Wihlborgs Fastigheter has recognised that its customer satisfaction results show room for improvement and therefore has set out clear goals for customer focus:

“Increased customer satisfaction is also one of the areas that has been identified as a business opportunity for Wihlborgs”.

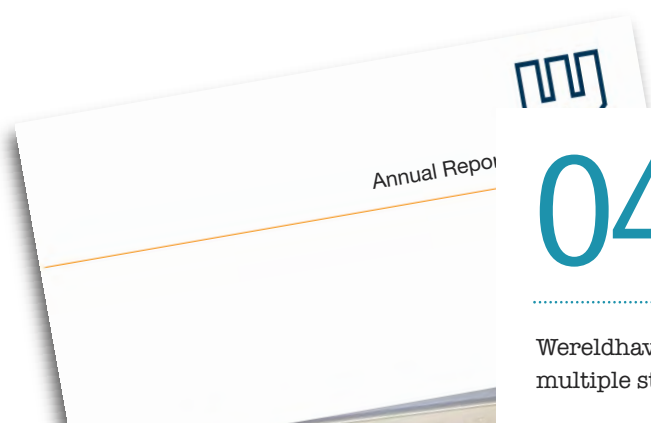
It also aims to:

“Strengthen customer relations by active commitment and a high degree of service to create the conditions for long-term rental relationships and actively cultivate the rental market to acquire new customers and reinforce our brand, to become the preferred choice for customers.”

STAGES OF CUSTOMER FOCUS EVOLUTION – NEWCOMERS

“Newcomers” tend to grasp the customer focus concept but do not yet show much evidence of implementation. The majority make reference to customer relationships, environmental engagement and an ethical approach to management but do not express any formal customer service strategy or targets.

Some are aware of the potential for improvement. They may also have taken the first steps towards customer engagement on environmental issues. They do not publish service performance measures.



04 CASE STUDY Wereldhave NV

Wereldhave do not refer to the tenant as a ‘customer’, but do acknowledge multiple stakeholders, and the importance of engagement with them.

“(we) improved our relationships with all stakeholders such as shopkeepers, customers, local government, retail associations and neighbours”

Environmental sustainability seems to be the area in which they are most customer focused:

“Tenants increasingly attach importance to sustainability and now also take initiatives themselves. Wereldhave is pleased with these developments and encourages sustainability suggestions from its tenants.”

STAGES OF CUSTOMER FOCUS EVOLUTION

- TRADITIONALISTS

“Traditionalists” do not recognise the tenant as a customer in published statements and do not show any great consideration to the occupier in their strategy. Instead, they focus on acquisition and sale (or rental) of property for maximum return, placing financial optimisation at the forefront and focusing on the shareholder as the primary stakeholder.

“Traditionalists” focus on managing buildings as “objects for sale”, rather than business environments in which they provide a service to occupiers.



ANNUAL REPORT

EXAMPLE

Traditionalists

Examples of Traditionalist statements:

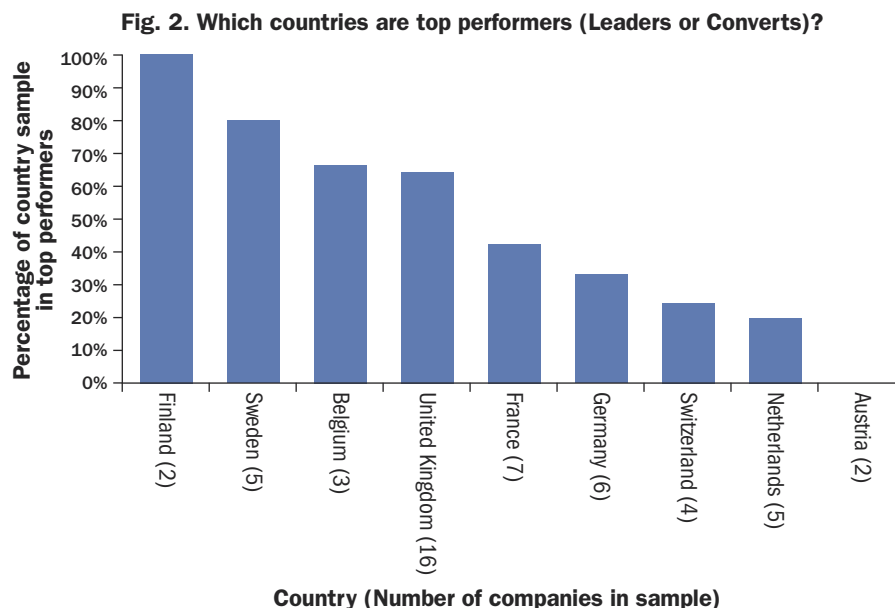
“We continue to focus on asset management initiatives within the portfolio to enhance value and improve rental returns”

“The Board believes that realising and distributing profits, as well as building a portfolio that will show capital growth as the property market recovers, are key to creating long-term shareholder value”

KEY FINDING – 02 CUSTOMER FOCUS ACROSS EUROPE

The Scandinavian countries seem to be at the forefront of customer focus, with the majority of the companies sampled being “Leaders” or “Converts”.

Belgium and the UK follow, each with 66% and 63% respectively of companies in these two categories.



KEY FINDING – 03 COMMUNICATION OF CUSTOMER FOCUSED APPROACH

RealService reviewed published documents to identify how customer focus is communicated.

The results are shown in Figure 3.

Most property companies explicitly acknowledge their responsibility to multiple stakeholders alongside the traditional focus on the investor.

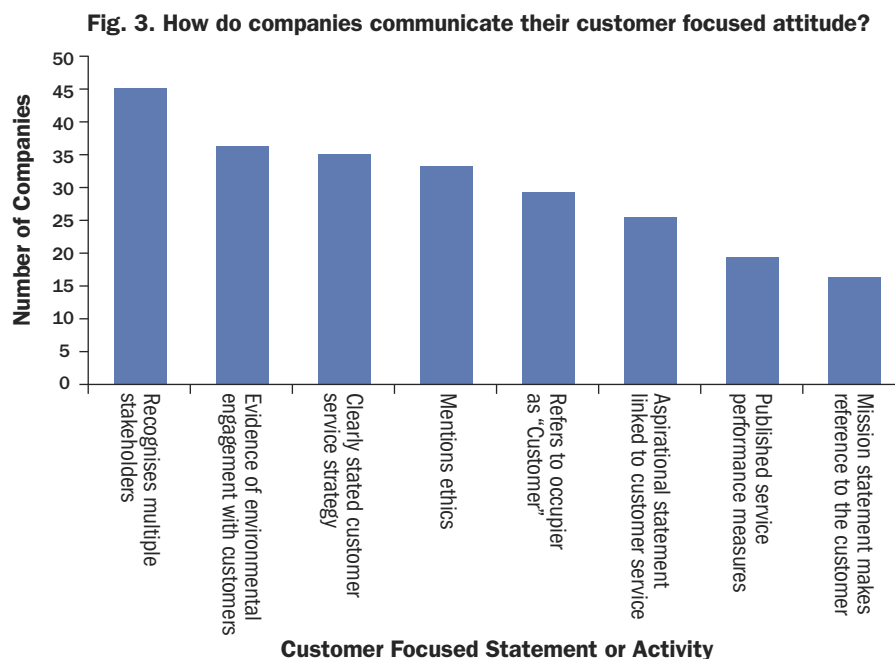
75% of companies state some form of customer service strategy, often including reference to ethical business. However, only 34% of companies put this strategy at the forefront, mentioning their customer focus in their mission statement or similar text.

About 50% mention an aspiration for continual improvement in customer service, although these tend to be those companies who are already significantly customer-focused.

Only 40% of companies publish service performance measures, with very few including any detailed data on customer

satisfaction or retention rates.

Most companies embrace customer focus in relation to environmental sustainability. 72% of companies engage with customers on environmental issues. Most frequently, this involves subjects such as “green leases” and energy reduction.



KEY FINDING – 04

INCLUSION OF CUSTOMER FOCUS KEY CONCEPTS

RealService has identified a series of customer service concepts and looked for examples of the use of these concepts and language in published documents.

The results are shown in Figure 4.

The majority of the sample includes words referencing the importance of a close relationship with the tenant customer.

For example,

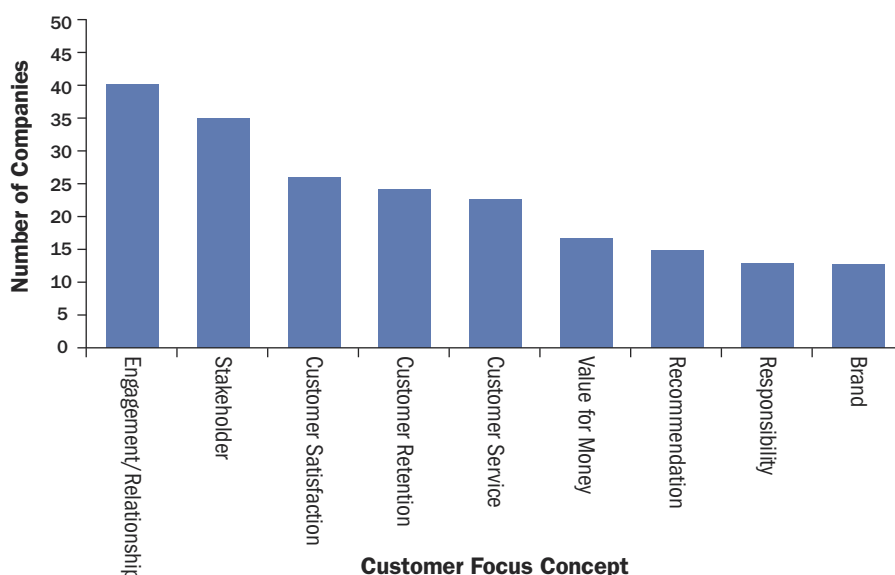
- “engagement”
- “communication”
- “active management”
- “trust”
- “transparency”
- “collaboration”

This suggests that even if companies do not explicitly state their customer strategy, they do still have some grasp of the concepts; however this could just be “customer wash”.

The low frequency of reference to the concept of “value for money” contrasts with business-to-business and business-to-consumer communication outside the real estate industry.

The concept of “brand” and “brand value” is also not often referred to and suggests that the potential for a property company to develop a brand as a “landlord of choice” is not widely recognised.

Fig. 4. Which customer focus concepts do companies acknowledge?



CUSTOMER WASH

The language of customer service is easier to acquire than it is to implement.

It can take minutes to acquire but years to introduce best practice and to deliver measurable improvements in customer service.

It is important to note that this study looks at only publically available material and so considers only the public persona of the company – how the company chooses to present itself. With the exception of published service performance results, there is no easy way to tell if customer-focused language is “customer wash”, or backed up by genuine customer-focused strategy.

What is published is also self-selected and it is very unlikely that a company will publish customer feedback or performance scores that do not present it in a favourable light.

RealService suggest that EPRA has a key role to play in encouraging clear reporting guidelines for customer service performance.

KEY FINDING – 05 COMPANY SIZE AND CUSTOMER FOCUS

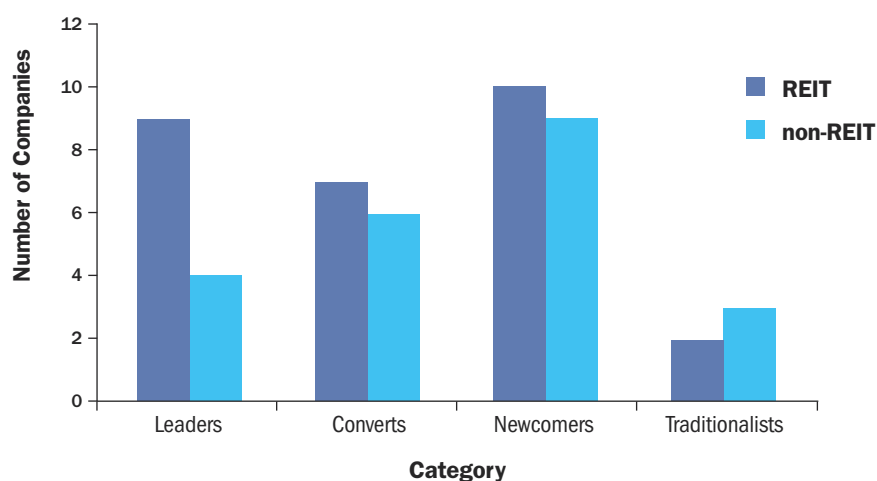
There is no correlation between company size (market capitalisation) and level of customer focus. This suggests that bigger is not necessarily better when it comes to customer focus, and that size is not a barrier or constraint to adopting a customer focused approach.

KEY FINDING – 06 REIT STATUS AND CUSTOMER FOCUS

It would be expected that REITs, with their heightened focus on maximisation of income-returns, would be among the first to recognise the importance of occupier engagement and a single-minded focus on occupier needs.

This study has identified that 69% of “Leaders” have REIT status. In the “Converts” and “Newcomers” categories, 53% of companies are REITs. This contrasts with the “Traditionalists”, where only 40% have REIT status.

Fig. 5. Is there a relationship between REIT status and customer focus?

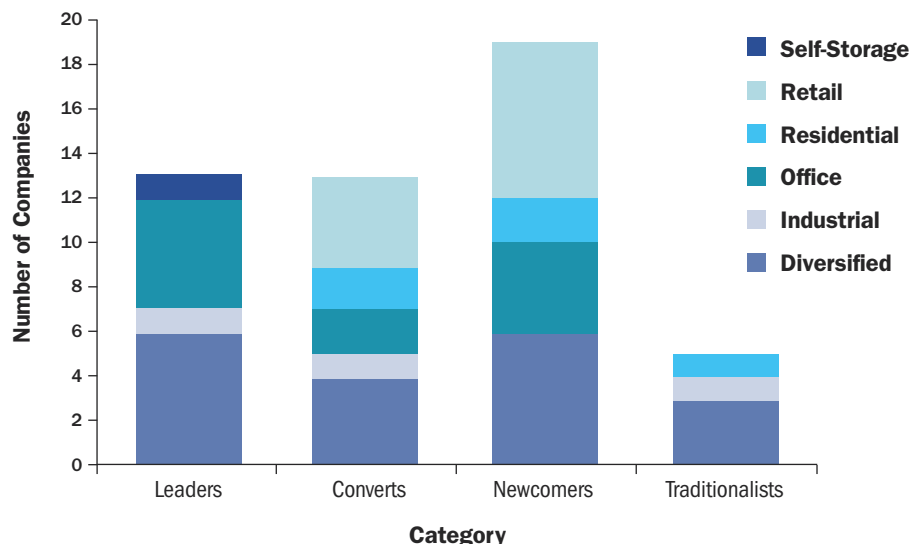


KEY FINDING – 07 PROPERTY SECTORS AND CUSTOMER FOCUS

Diversified property companies and office-sector specialists are more occupier focused, whereas the retail sector is more consumer focused.

We have identified that many retail specialist property companies tend to communicate a strong consumer focus and it has been difficult, within the scope of this study, to identify if this is matched by an equally strong customer (tenant) focus.

Fig. 6. How do different property sectors perform?



RECOMMENDATIONS FOR FUTURE RESEARCH

This study is a pioneering one which raises a number of questions for further investigation:

- What is the evidence of operational excellence within the listed property sector?
- How can the adoption of best practice in customer focused property ownership and management be measured and benchmarked?
- How do customers of the listed property sector perceive the service they receive in comparison with the non-listed sector?
- Will customer focus strategies enable sector-specific listed property companies to produce better returns than diversified companies?
- What role can EPRA play in setting reporting guidelines for service performance including customer service, customer focus and operational excellence?



ABOUT EPRA

EPRA was established in 1999 and now represents over €250 billion of real estate assets – 90% of the market capitalisation of the FTSE EPRA/NAREIT Europe Index.

EPRA's mission is to promote, develop, and represent the European public real estate sector. Its members constitute property companies, investors, advisors and academics in the real estate sector. EPRA provides effective and continuous leadership in matters of common interest by publishing research and encouraging discussion of issues impacting the industry both within the membership and with a wide range of stakeholders, including the EU institutions, governmental and regulatory bodies, and business partners.

www.epra.com



ABOUT REALSERVICE

RealService is a London based real estate customer service specialist founded in 1999. Our services include customer satisfaction research, consulting and benchmarking. We are proud that our clients operating across Europe include many of the pioneers in the customer focused approach to property ownership and management. These include REITs, private property companies, fund managers and property advisors.

RealService founded the RealService Best Practice Group in 2004, a not for profit 20+ strong member group, which encourages the property industry to improve service standards to occupiers through the sharing of best practice and benchmarking. RealService is a co-sponsor of a new research doctorate at University of Reading looking into the link between customer service and property performance.

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