

INCOME PROTECTION Big listed property owners are discovering that adopting the customer-focused philosophy of successful retailers boosts retention and leasing, as Howard Morgan explains

The Tesco example

When I started in business over 10 years ago, I was told that I was mad to imagine that the real estate industry would embrace customer service. But could our industry be the only one on the planet where looking after customers is not good for business?

Ten years later, many of our clients – including several major listed property owners – now call their tenants ‘customers’ and are fully embracing the notion that treating tenants as valued customers makes good business sense. It’s the kind of philosophy that has driven retailers like Tesco and Zara to success.

Certainly in reputational terms, we can measure that these landlords are winning the increasing support of their customers. They also say that it is paying back in terms of faster leasing, stronger retention and industry recognition.

Despite this quantum leap in approach, the real estate industry still has a long way to go to catch up with the rest of business in its approach to customers. This is evidenced by the UK Occupier Satisfaction Survey 2010, published recently by Property Industry Alliance and CoreNet Global UK. It reveals that occupiers rate their level of satisfaction at below 50%. Just imagine the outcry if our big supermarkets offered such poor service!

This presents a challenge and an opportunity for the investment management community – do you try to embrace customer service and use this as a point of differentiation or do you follow the traditional landlord and tenant model?

We are working with a small but growing group of investment managers who do care how they are perceived by their occupier customers. However we also regularly hear from occupiers of their frustration with invisible landlords and poorly directed asset managers. Which side of the fence are you on?

As the big listed property owners have discovered, treating tenants as valued customers boosts retention and leasing. A US case study shows that retention rates are 8% percentage points higher when occupiers are satisfied with customer service. Forward-thinking organisations can now put to good use a whole new set of sophisticated skills, tools and techniques that have been developed over the past decade to make the task of managing retention and leasing easier. If the investment community isn’t careful, it could find itself being left behind.

This calls for a change in thinking about where resources are invested. For example, most investment managers will admit to having sizeable budgets for marketing and leasing to cover letting fees, brochures, websites, incentives, etc, but many will look at you blankly when asked about their budgets for customer retention. They appear to place more emphasis on bringing new occupiers in than retaining the customers

already in place, which is surprising when you consider that it’s a lot more costly to win a new customer than to keep one.

Time and time again, our research with occupiers reveals that the most important thing that drives satisfaction is regular and open communication with their landlord. Yet this is precisely the area that many investment managers outsource, preferring to focus on the ‘high end’ activities of strategy, stock selection and deal-making.

A simple way for investment managers to boost retention is to develop direct relationships with their occupiers. Our research shows that occupiers aspire to have a similar quality of relationship with an investor-owner as they

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would with a listed property company. Occupiers are too often frustrated by the use of intermediaries such as property managers who often do not have clear delegated authority to make decisions and represent the client effectively.

I would argue that investment managers need to ‘manage the managing agent’ most effectively. To delegate does not mean to abdicate responsibility for managing performance. This means making sure you have accurate feedback on the level of service provided to occupiers and on the timeliness of key functions like service charge management and approvals.

Earlier, I referred to a number of sophisticated skills, tools and techniques available to make the job of retaining customers easier. One example is what we term the ‘Early Warning

System’ – a risk management tool that helps landlords and investment managers to maximise retention by calculating a ‘risk profile score’ for every occupier ahead of lease break or expiry, identifying which are most at risk of defection before it’s too late.

At the vanguard of this intensive care approach to customer/occupier retention are the 20 leading owners, managers and investors of the RealService Best Practice Group (RSBPG) – a not for profit benchmarking and best practice group that includes the likes of British Land, Land Securities, SEGRO, DTZ, GVA Grimley, Grosvenor and PRUPIM.

Backed by the British Property Federation and founded in 2004, the group’s mission is to improve customer service to occupiers through benchmarking and the sharing of best practice, and in so doing gain a better understanding of the link between improved customer service and performance.

The RSBPG’s lead initiative is the Best Practice Index (BPI), a scorecard that helps to measure how well each member organisation is following best practice in customer-focused property management. It’s a great way to ensure that each of your asset managers and managing agents is focused on customer service. Another ground-breaking initiative has been the launch in July 2010 of the Service Charge Compliance Index (SCCI), which shows the extent to which 11 of the UK’s leading owners and managers are complying with the requirements of the RICS Service Charge Codes for commercial and residential properties.

So investment managers, the next time you interview an asset or property manager here are five questions you could try asking:

- Have you adopted the British Property Federation-backed RealService Best Practice Index?
- What systems and processes for providing customer service make you stand out from your peers?
- What is the level of customer satisfaction in each of the portfolios that you manage?
- How does this level of satisfaction compare with your peers?
- What is the level of customer retention in the portfolios that you manage?

There has never been a better time to make sure that you and your advisers are using the best tools available to maximise retention and leasing. The answers to these questions

will help you distinguish between those who talk a good game and those who can truly deliver a customer-focused service.



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