

An admirable philosophy

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Why can't property put a value on occupier loyalty, asks Howard Morgan



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By **Howard Morgan**

What is the Value of Loyalty?

My younger daughter has decided to study philosophy at university. Like me, she is always asking: 'Why?'

Did you know, you can study the philosophy of everything from religion to science, music to painting, but not real estate.

I have been giving a lot of thought to one of the big, unanswered 'philosophical questions' in our industry: if occupiers equal value, do satisfied occupiers equal more value?

On the face of it, the answer has to be 'yes'. Ask Sir Terry Leahy, CEO of [Tesco](#), the question, 'Do satisfied shoppers equal more value?' and you will get a straight answer.

So why can't I get a straight answer to the same question in our industry?

The UK Occupier Satisfaction Index, which is sponsored by the Property Industry Alliance and CoreNet Global UK, and was published in June, reveals that only 37% of occupiers 'feel valued' and only 10% think service charges represent good value for money. Can any industry with such relatively low levels of satisfaction be optimising value?

The recently published [Strutt & Parker IPD Lease Events Review 2009](#) has some sobering findings. For example, an office property with a lease expiry has a 50:50 chance of being left vacant, and one in three break options are exercised. This begs the question: are the assets of a property owner that can demonstrate it performs better than this [Benchmark](#) – more valuable?

Some occupiers argue that loyalty to a building owner or manager is misplaced because a building can change hands overnight. Would an asset for sale with a continuing 'management contract' with a recognised high-quality property manager be more attractive and of more value?

Goodwill good to go

Property valuers say you cannot measure occupier loyalty and therefore the concept of goodwill does not apply to commercial property. Can that be true?

So are property owners and managers that are working to develop a 'service brand' that is valued by the occupier market wasting their time?

Why does this matter? If the UK is perceived to be a high-cost, poor-service environment, then businesses will choose to locate in those international locations where value for money is better.

I would argue the same applies to competing property owners. In our firm's research with occupiers, we are increasingly hearing they want to do business with people they trust and who will be around for the longer term.

Turning the argument on its head, imagine the effect of a new law that gave occupiers the right to break their lease when a building changed ownership or property manager. I suspect customer service would shoot to the top of the boardroom agenda and valuation debate.

What do you think? Email letters@propertyweek.com

Postscript :

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