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**UpClose with** *By John Salustri*  
May 19, 2006

**CoreNet Global's Eric Bowles**

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For all the talk of service a space provider can muster, a recently published study seems to indicate that, at least in one area, responsiveness to tenant need is less than it could be. According to Valuing Flexibility in Leasing, [a study released by CoreNet Global](#) at that group's April summit in Philadelphia, respondents don't feel they have the cooperation of their building owners when it comes to building flexibility into leases. It's an oddity not only from the service aspect but also from the profitability angle, since most corporate tenants said they'd be willing to pay a bump-up for the privilege of expanding or contracting easily. What makes matters worse though is that, while tenants need it and owners can profit from it, no one seems to know what flexibility is worth. Or at least, so said Eric H. Bowles, the Atlanta-based director of global research for the organization, in a recent exclusive interview with GlobeSt.com.

**GlobeSt.com: This is actually the second survey in a series. What's the grand scheme here?**

**Bowles:** We broke the topic of flexibility into two pieces--the first was overall context--what it is and how it fits into corporate real estate. The first project focused on flexibility in general. But we focused on leasing, because that's the area that's most important to people in corporate real estate. Workplace flexibility and other areas of flexibility are important and the same techniques can apply, but leasing is at the top of the list.

**GlobeSt.com: How many people did you survey for the new project?**

**Bowles:** We administered the survey through our Expert Survey Panel--approximately 80 people with expertise in portfolio optimization and flexibility. Of those, 50 people responded so that's a 60% response rate from a very select group.

**GlobeSt.com: When we talk about flexibility are we speaking mostly of expansion or contraction?**

**Bowles:** I expected it would've been tied to extra space. But that's not what I found. Actually flexibility was equally weighted between expansion and contraction, so users need both to meet business needs.

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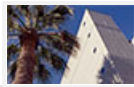
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***GlobeSt.com:* To what extent is it still true that people in the C-suite don't really get the message that leases are a strategic-planning tool?**

***Bowles:*** That might be true to an extent, but the trend is changing and the C-suite sees the opportunities associated with real estate both as a way to enable the business to be successful and also as an asset to be managed as any other asset in the business.

***GlobeSt.com:* And building owners and brokers are responding?**

***Bowles:*** We were surprised that so much emphasis was put on landlords as the barrier to getting the flexibility that was needed. Building owners have everything to gain from a financial standpoint; if they understand flexibility they can price it and increase their return. The brokers may be part of the bottleneck. If the owner is willing but the broker says no we don't provide that, it may inhibit the transaction as well.

***GlobeSt.com:* So what's the solution?**

***Bowles:*** The big problem is that neither the user nor the owner has the tools to value flexibility, so they don't have the pricing tools in place to determine exactly how much to charge or be charged. There are cases where the landlords are concerned with the risk of vacancy or the impact of cash flow. But for large, diversified property owners, their vacancy rates tend to reflect the market anyway. They're able to manage that risk across a portfolio and can actually look at this as a way to enhance yield. Clearly from the tenant's standpoint there's a desire for flexibility and a willingness to pay for it.

***GlobeSt.com:* How much over and above?**

***Bowles:*** About 25% of the people who responded to our survey would pay more than a 5% premium for flexibility in lease-contract terms and another 68% said they would pay "something." There was a separate survey done by Boston Consulting Group, wherein 55% said they'd pay between 1% and 9% and an additional 45% said they'd pay between 10% and 19%. So the vast majority would pay something. But the real question is how much because with a range between 1% and 19%, it makes a difference as to where you fall in there.

***GlobeSt.com:* How do you answer that question?**

***Bowles:*** One of the big surprises was the lack of tools to value flexibility. For tenants willing to pay that 1%, sure they'll take all they can get. But at 5% or 8% they might not do that. Most companies don't have the information to know what kind of flexibility they have, how it's been used and what they've paid for the lack of flexibility in the past. One of the keys is for tenants to make changes in their IT departments so they can gather information on how flexibility exists today and track the costs for those times when they've had to create flexibility that wasn't in their contracts. On both the landlord and tenant side, tools and education are the key things.

***GlobeSt.com:* What about such concepts as swing space and hoteling? Do corporate users still speak in those terms?**

***Bowles:*** There are leaders in the area of flexible space utilization. Ernst & Young, Cisco, Steelcase are all leaders in that direction and all for different reasons according to their business. But the common thread is to provide space their people can use the way they need it. In Manhattan, E&Y has space to support the worker who's at a client's all day and wants to stop by the office to get some work done. They have peak demands for small amounts of work space at certain times of the day. Steelcase has a variety of spaces for collaborative meetings. They've dramatically increased the use of their space and at the same time decreased the amount of space associated with any given person.

***GlobeSt.com:* Isn't that a wash?**

***Bowles:*** It's actually a huge benefit. You're probably looking at space reductions per

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