

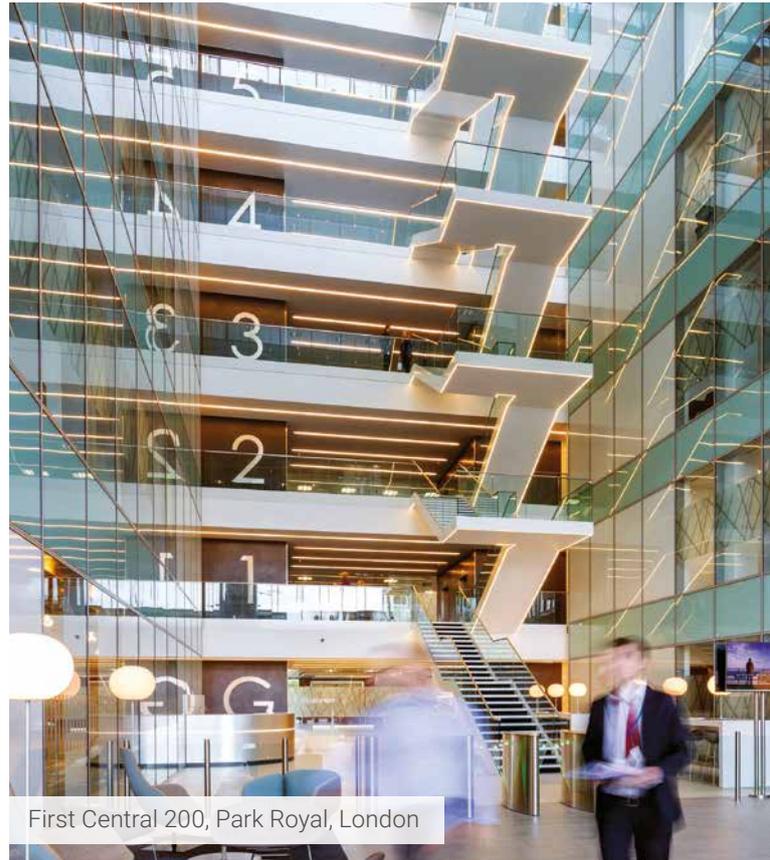
Measuring the service element in real estate



Mark Tyson

Head of Property Operations,
LGIM Real Assets

Mark is responsible for relationships with our Managing and Facilities Agents, covering over 800 properties across Real Assets funds. This remit includes occupier experience, rent and service charge collection, day-to-day management of our multi-let assets and health & safety compliance.



First Central 200, Park Royal, London

Responding to the demand for better-serviced buildings

For too long, many real estate owners have placed inflexible, long-term contracts at the centre of their relationship with occupiers. That's all starting to change. In order to increase the much-needed element of service across our real estate platform, we believe what is needed is a relationship based on collaboration and an alignment of interests between landlords and tenants. Health and wellbeing, flexible communal spaces and buildings that perform consistently are several areas where, we believe, asset owners can work with occupiers to help them achieve their goals.

Introducing the Mercury model

As part of our new approach to property management and in response to the increased demand for better-serviced buildings, in 2019, we launched the Mercury model. As an operating model it removes the barriers between us as the asset manager, our occupiers and those responsible for the building operations. By providing a more data-led, agile service, the model places as much importance on facilities management as it does on property management. Furthermore, by using building user feedback in real time – both positive and negative – in combination with building performance data, the model responds quickly to the changing needs of occupiers.

In summary:

- The Mercury model is designed to meet the needs of occupiers and users alike.
- A proven metric, the Net Promoter Score, or NPS, provides us with clear data on satisfaction levels from our building users which is easily comparable to similar metrics used in consumer-facing industries such as hotels.
- The more satisfied a customer, we believe, the greater the chance of reduced vacancy rates and the greater the possibility of charging premium rents.

The use of the Net Promoter Score in the Mercury model

The Mercury model makes extensive use of the Net Promoter Score. The Net Promoter Score (NPS) is a proven metric used to gauge customer loyalty, satisfaction and enthusiasm by asking questions such as 'on a scale of 0 to 5, how likely are you to recommend this ...' Ultimately it is a predictor of business growth – when a company's NPS is high we know that we have a healthy relationship with our occupiers. By

contrast, the reverse is true when the score is low. Popular among many consumer-facing organisations, we have demonstrated that the NPS can also be applied to the real estate sector.

Against a background of shorter, more flexible leases, receiving important customer feedback with the aim of retaining clients is, we believe, a key differentiator in property selection. That said, we acknowledge the difficulty of gaining and maintaining a positive NPS. This is on account of the scoring process (1-5) only becoming positive when a 5 is awarded and where 4 is neutral. Achieving the top score is challenging as, traditionally, feedback is triggered by a negative experience.

Our objective when we started the model was to gain a positive NPS within three years across our multi-let office portfolio. We aimed to do this by using feedback loops, whereby gathering both positive and negative feedback helped us create a better, more responsive customer service.

The model in action

Incorporating feedback from the employer and employee.

- In September 2019, we adopted the NPS to our first office-occupier survey prior to the model roll-out later that year
- We targeted the senior person responsible for the lease so we could take a snapshot of how the organisation in question felt about both the property and, as importantly, about us as investment managers
- The survey contained around 12 questions with the final question being 'would you recommend this property as a place to work?', scored from 1 to 5, with 5 being 'very likely'
- To link the results to outcomes for each of our funds, we weighted these results based on the area occupied by these businesses. This ensured a smaller occupier with positive feedback didn't distort the overall outcome which may have contained dissatisfied customers looking to exercise a break clause or not renew their leases



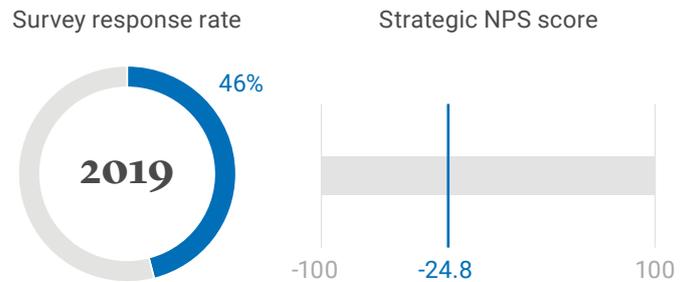
Having heard from the employer, we were then keen to receive feedback from the employee. To achieve this, we worked closely with a specialist partner to develop a QR code-based poster for receptions, communal areas, lifts and toilets. Again, using a scoring system of 1-5 enabled us to measure 'sentiment' on a monthly and quarterly basis to identify any disconnects between building users, the

How to calculate the Net Promoter Score (NPS)

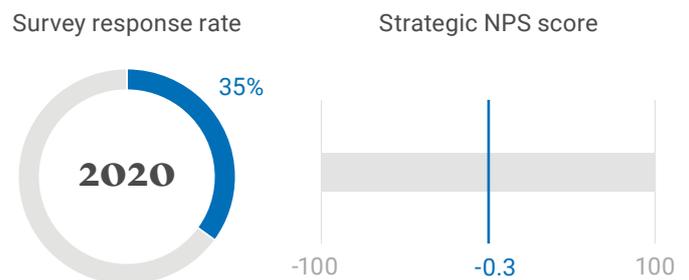
The Net Promoter Score is calculated as the difference between the percentage of Promoters (those offering positive feedback) and Detractors (those offering negative feedback). The NPS is not expressed as a percentage but as an absolute number lying between -100 and +100. For example, if there are 55% Promoters and 45% Detractors, the NPS is +10. The strategic NPS is weighted by the area occupier so as not to give a distorted result.

Outcomes

- In 2019, the office occupier survey response rate was 46% and the weighted strategic NPS score was -24.8 (compared with the 2018 survey which had a 12% response rate when conducted by the managing agent).



- When rerun in November 2020 the office occupier survey response rate was 35% and the weighted strategic NPS score was -0.3 which was a significant improvement with many buildings making huge changes from a negative to a positive NPS score.



- Furthermore, the 213 QR code poster submissions in 2020 across over 20 multi-let office properties in the UK led to an overall, unweighted, sentiment score of +44 in Q4 2020.



COVID-secure

The QR code approach, across 13 of our properties, also helped support the government's COVID-secure¹ measures. Of the 33 submissions received in 2020, 78% provided the highest score of 5 (i.e. feeling very safe).

The model in practice



First Central 200, Park Royal, London

First Central 200, Park Royal, London was the first office building to adopt the Mercury model in July 2019. This property has swung from -52.0 in July 2019 to +29.6 in November 2020. Acting on the QR code feedback, alongside the implementation of proprietary technology has, we believe, been critical to this success. Demand Logic and IEQ (Indoor Environmental Quality) sensors, which are monitored remotely and measure air quality, humidity, noise and light, give the occupiers additional confidence regarding how the property is being managed.



Lotus Park, Staines

Lotus Park, Staines – this property has swung from -48.1 (in 2019) to +58.5 (in 2020) reflecting the improved occupier relationships and service received since the adoption of the Mercury model in November 2019.

The initial roll-out of property level QR codes has demonstrated that our building users will provide both positive and negative feedback, respond to changes delivered by our teams and provide praise for key individuals whom they value at a local level. This has translated into our operational and asset management teams understanding our occupiers' needs more clearly and improving regular lines of communication. The move to a neutral strategic NPS score in 2020 (a 24-point improvement) demonstrates these feedback loops and other measures within the Mercury model are leading to an improvement in occupier satisfaction.

Next steps

Going forward, we'll use the culture and tools created within the Mercury model to:

- Identify new ideas
- Introduce new technology such as building apps and air quality monitoring
- Keep track of feedback to evolve the space to suit our occupiers' emerging needs

We believe this will keep us ahead of the competition and, with the use of our strategic and sentiment scores, we will be able to quantify our performance and identify areas for further improvement. In 2021 we are targeting a positive NPS for our multi-let offices and aim to demonstrate a clear link between retention or extension of relationships through the Mercury model. We will also be extending NPS to our retail occupiers.

'You can't manage what you can't measure' is a quote sometimes attributed to one of the world's most famous management consultants, Peter Drucker. While the authorship of the quote is open to debate, one thing is for certain. As property ownership, rightly in our view, becomes more about service delivery, such feedback is crucial to understanding what is going well and what is not. Acting on this feedback quickly and collaboratively is even more important. Shorter lease lengths and more competition mean a greater potential incidence of higher vacancy rates, so a proactive and rapid approach to gathering feedback is paramount. We firmly believe our innovative operating model will improve outcomes for both investors and occupiers.

1. COVID secure is the government's approach to ensuring property in the UK has the appropriate risk assessments and measures in place e.g. ventilation levels, social distancing and so forth.

Contact us

For further information about LGIM Real Assets, please visit lgim.com/real-assets or email contactrealassets@lgim.com



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