

PROPERTY MANAGEMENT

Robust change of ownership in the market of commercial buildings continued in 2016 with all the repercussions, including the slowdown of revitalization activities and the uncertainty of property managers. Nevertheless, we expect that new owners who are interested in the long-term holding of assets will bring a breath of fresh air to the market, and we will see a wave of reconstruction and modernization of older retail and office buildings, also because the relatively weak construction of commercial real estate in the recent period virtually wiped out the supply of new rentable spaces, and the revitalization of older spaces is one of the few ways to meet tenant demand.

"The greatest challenge in property management in 2017 will be maintaining the position and independence of this service in the market, convincing owners of its added value and dealing with owners' argument that they see no difference between a Property manager and a skillful Facility manager, who can make order in the property owner's issued/received invoices."

Radek Nehoda, Letiště Praha

With a few exceptions, (Jablonec this year, Galerie Přeřov and Aupark in Hradci Králové last year, announced

projects in Brno...), new retail facilities are not being built, only a few shopping centers are expanded and revitalized. In other buildings, the expansion or revitalization is in the approval or preparation stage. This is also true for older office real estate that lost its tenants after the increase in construction in recent years.

A new trend is that especially Czech owners tend to provide building management with their own personnel. This reduces the

space for companies engaged in real estate management.

REVITALIZATION AND TECHNICAL TRENDS

It is now a good time to revitalize older real estate. Buildings from the largest building boom of commercial facilities

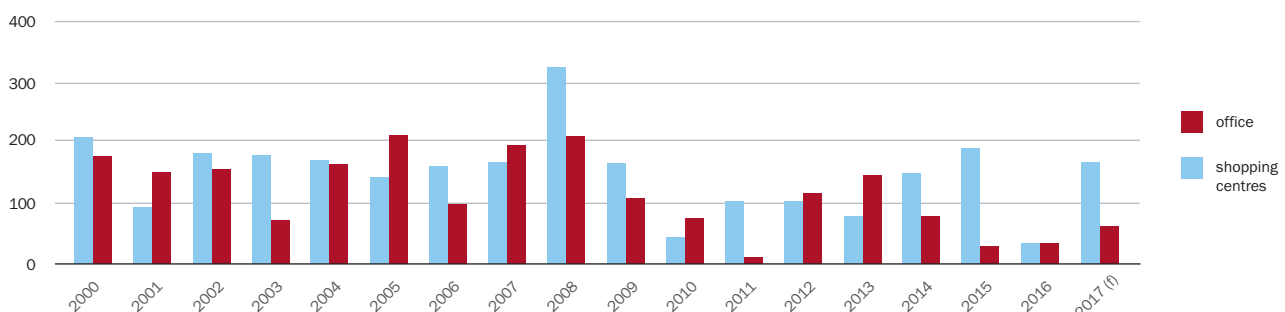
The supporting structure and building envelope usually remain unchanged during the revitalization. Revitalization focuses on improving the technical equipment of the building and the interior, and equipping the building with modern technology.

An essential element of the appearance of shopping centers and shopping malls is a general increased lighting of public spaces. A well-lit interior with leisure areas and elements of entertainment can be clearly linked with a general shift towards the concept of entertainment, food&beverage and platforms for longer stays. This is due to the fact that with e-commerce, shopping facilities are less important for sales than they were in the past. However, an increasing number of dispensing points for classic e-shops (Alza, Notino) are moving to shopping centers, in connection with showrooms, which are visited by new customers in shopping centers.

In offices, increasing emphasis is placed on both the appearance and functionality of the space. The transition from standard offices to premises that provide employees with a format for interaction, entertainment and

GRAPH Volume of commercial building construction in the CR (thousand m²)

Source: CBRE research



in the 2000–2008 period are getting to the stage where the interiors are visually and physically obsolete, and there is also a need for major repairs of technological equipment.

If the older buildings are to compete with newly built buildings, they must offer comparable comfort and services.

inspiration for joint activities, as well as the possibility of rest, has become a general trend and even a standard. This is a response to the situation in the labor market, where companies have a hard time finding quality employees, particularly in highly skilled professions.

They are therefore trying to offer their candidates a bonus (such as a wellness center), which would motivate them to work for the company.

This is not only about the appearance and interior elements; in order to ensure the top performance of their users, office spaces must provide excellent internal environment parameters. In addition to thermal comfort and ventilation, this includes high-quality lighting, acoustic comfort and air circulation, which can affect employee work productivity in the order of tens of percent.

The still unknown WELL certification, which is similar to LEED certification, but is designed specifically for the indoor environment, could be used to evaluate similar investments. The certification does not only cover the technical aspects of ensuring the internal environment, it also assesses the behavior of users and the method of operation of the premises, which are important for long-term standard insurance.

The following factors are assessed:

- Air quality
- Thermal comfort
- Light climate
- Acoustics
- Ergonomics
- The concept of an active working environment
- User comfort
- Transport links and facilities of the given location

The creation of this certification was preceded by long-term studies involving major universities, real estate companies and developers. The results have led to the evaluation criteria and metrics of their impact on users of offices spaces.

The results of these analyses are interesting in themselves. For example, office acoustics can change employee productivity by up to 52%! If we convert such an effect to quantified performance, we find that the cost of ensuring a quality indoor environment in comparison with the possible drop in employee performance is an excellent investment. Wage costs account for approximately 90% of non-manufacturing company costs. Therefore, each one-percent drop in productivity represents the loss of almost one percent of the company's achievement.¹

In new buildings, sophisticated lighting control systems, shading elements, long-term recovery (night/day), monitoring of the occupancy of the building and the space and elements of the Internet of things, which guarantee high efficiency, are increasingly promoted. Unfortunately, this trend continues to deepen the deficit of qualified operation and maintenance personnel, for whom there is no education system and which are fought over by supply companies. There is therefore almost no one qualified to manage the systems: At the same time, this deficit does not allow holistically newly designed buildings – as one unit of operational, organizational, technical, aesthetic, financial and social requirements for spaces – which would be adequate for the application of new technologies.

We see a number of other technical innovations. In terms of electrical equipment, we can mention the combined circuit breaker with (non-billing) electricity me-

tering, which can be installed in place of the regular circuit breaker. Camera systems are also appearing on the market, which in addition to the classic supervision, can help supervising workers guard specific areas/ doors with a set alarm, monitor abandoned baggage, count visitors, create heat maps according to the movement and concentration of visitors, etc. Led Light technology is continuously enhanced and can be used, such as for lighting large spaces and public lighting.

The development of applications for smartphones offers users and owners of commercial buildings endless possibilities, from office device control, ordering coffee through a machine, navigating around buildings, and in the case of shopping centers, previously unprecedented marketing opportunities. The cooperation of such applications with control systems and security features of the building provides the user with increased comfort, as well as increased security in the building.

A large amount of technological innovations are appearing, and their market is fragmented. There are many start-up companies that come up with great ideas, but the majority of innovations are not yet developed enough to be deployed across the board.

"GREEN LEASE" CONCEPT

Green Lease is a lease agreement concept that is so far virtually unused; it is based on closer cooperation between the owner of the building and the lessee.

It articulates the mutual efforts to reduce the energy and material consumption of the building with a set of measures that can have an investment and organizational nature.

In terms of the effect of buildings on the environment, as well as for long-term ownership, it is preferable if the building has a longer life cycle – i.e. the longest possible life at an affordable cost. The extensive principle of development construction and commercial use of real estate have the opposite effect on the long-term strategic view of the building, which is necessary to guarantee a long life cycle. Most owners only own the building for a fraction of its useful life, and only a portion of commercial owners (developers and investors) follow a long-term strategy.

For a long life cycle, the building should be built using high-quality materials and the most advanced technologies. It should be flexible enough to absorb changes in the requirements for its use (for example, predict changes in demands on the IT infrastructure) and have reserves in transport services, which can vary depending on changes in the use of the property, as well as social changes.

The Green Lease agreement concept, which takes into account the elements of sustainable building operation, assumes that the user/lessee of the building in cooperation with the owner of the building/lessor will do everything possible to operate and use the building in a way that is most environment-friendly. Green Lease includes (in a varying extent and number) the following principles:

- A document describing the general principles of sustainable operation will be drawn up, which both parties

¹ This trend is also confirmed by the Meeting Room of the Year competition, which has inspired a number of companies to create modern office spaces over the three years of its existence. The annual announcement of results is a showcase of creative solutions that help companies and their employees strengthen their market position.

will undertake to respect. It can also contain simple obligations, such as training employees, recommending the use of public transport, instructions for proper and thorough sorting of waste and general principles of energy conservation (e.g. turning the lights off).

- The parties undertake to ensure that all equipment, materials and services that will be used in the building will comply with a specific energy or environmental standard that is specified in the contract (for example, the energy consumption label will be at least category A, materials used to equip the space will be recycled/biodegradable/renewable/local)).
- Users will not question the selection of the supplier of services or materials, if the decision was influenced by sustainability criteria.
- The parties will regularly inform each other about energy consumption and the volume of generated waste, and agree on a savings program in which they will participate. This program will be regularly reviewed and adjusted for the next period.
- One of the provisions may be, for example, the obligation to reduce lighting consumption by XY% compared to the current situation.
- Suppliers of services in the building (cleaning, maintenance and others) will only use environmentally acceptable products and materials. Work will be planned so that energy is not wasted (for example, only lighting necessary for cleaning).
- During construction, the owner and tenants will use materials that are environment-friendly and engineering principles that lead to economic operation.
- The contract should solve the tenant's obligation (if he moves out) to leave his components of fitting-out the premises, which help or are part of the sustainable operation of the building.

Although the aforementioned provisions are ultimately beneficial to both parties, the Green Lease contract is rarely used in local conditions. For example, even international chain stores that place great emphasis on the sustainability of their business in Western Europe do not implement these policies in the Czech Republic, or they only use them formally.

BIM TECHNOLOGY

New technologies are implemented slowly in building design. This is not only due to their slow penetration into the field, but also the persistent education system in vocational schools, which educate designers without a sufficient overlap and without leading them to cooperate with other participants in the design and construction process. Holistically conceived projects that comply with the principles of sustainable architecture are therefore very rare.

A number of developers are trying to enforce BIM technology* – building information modeling – however, their efforts currently end with the construction contractors. We will have to wait for the completion of these projects to see the quality and completeness of the information that the manager and owner of the building receives. However, due to the fact that communication between designers, developers and property managers

about the capabilities of the BIM model and the needs of the building management is minimal, there are some concerns about the outcome.

SECURITY

Let's return to the operation of already completed commercial real estate. One of the key issues in the past period was security. Although the situation in the Czech Republic is stable and calm, the risk of terrorist attacks also bears on the local public. It is therefore appropriate to prepare for these scenarios.

The increased risk of an attack on "soft targets" (places where a large amount of people gather that are poorly secured), which include commercial buildings and especially shopping centers, creates the need to improve the quality of security and security guards. Shopping centers may be the target of fundamentalist Islamic terrorists as a symbol of the "Western (decadent) lifestyle". In addition to the symbolic meaning, they become a target for the following reasons:

- There is a high concentration of people
- The buildings are poorly protected against attacks (existing security is particularly anti-theft)
- They are publicly known and therefore newsworthy

Serious security agencies, in cooperation with the management of the shopping centers, have taken a number of measures after the first attacks in Europe. The situation is further reflected by state authorities and armed forces. Communication between real estate managers and the Police of the Czech Republic was simplified thanks to the work of the Ministry of the Interior of the CR, which drafted a methodology for the protection of soft targets and set up a telephone line for owners and managers of such properties, which is used to consult security methodologies.

However, real estate managers cannot rely solely on police work. The importance of the verification of technical security systems and the organization of evacuation increased, and it must be performed thoroughly and responsibly. Companies providing security of soft targets must pay more attention to the training of their staff and their own organization. The current focus of property security must be extended by the aspect of protection against violent attacks and terrorist attacks. A potential terrorist attack may be fatal for unprepared buildings and their security.

The technological equipment of security guards is improving with the development of new procedures. Today it is possible to some extent to automate the monitoring of public spaces through surveillance camera image analysis, which in addition to the possibility of recognizing abnormal behavior and forgotten luggage, can also count visitors or monitor the patterns of their behavior and recognize faces. Some of these technologies, however, are in conflict with the Act on the Protection of Personal Data, or its interpretation that is used by the Office for Personal Data Protection. Wi-fi network activity in shopping centers can be analyzed in a similar way.

The recent increase in the minimum wage increases the costs of security companies for guard duty. Security will therefore certainly be more expensive than it was in the past. According to our estimate, the concurrence

* Note: BIM technology enables designers to enter more information into the building's data model in the project, which is part of the text part of the project in the classic "paper" documentation, but the model may also include calculations and connections of individual parts of the project. The building contractor adds construction changes to the data model, particularly information about installed technologies and their properties, including the adjustment of individual construction calculations according to reality. The building administrator should therefore receive a detailed summary of information that can be processed by a computer.

of the need for more security and the increase in the price of workers will lead to an increase in this service by more than 10%.

Security costs, particularly in shopping centers, already form a significant portion of operating costs. Their growth will therefore increase the overall operating budget by more than 1%. However, with regard to the outlined risks, savings in this area may not pay off in the future. After all, according to the survey by CBRE, security is one of the highest rated factors by visitors.

OPERATING COSTS

The aforementioned increase in the minimum wage also applies to cleaning services. The lack of skilled maintenance and property management workers in the market will mean increased pressure on wages, which will translate into the operating costs of buildings. We can expect the growth of wages in the field to grow faster than the average due to the lack of qualified workers (4.5 % year-on-year in Q3/2016 according to the Czech Statistical Office). This trend will not even be affected by the loosening of the crown exchange rate.

ELECTRICITY AND GAS

Energy prices also experienced turbulent development at the end of last year. After dropping in early 2016 and growing by more than 20% at the end of the year, the price of electric (power) energy, which declined quite

regularly in the last few years, ended at approximately the same level as in the previous year. In 2016, gas experienced even more extreme development when the price of the commodity at the end of the year was more than double what it was in March. It is currently higher than it was in 2015.

In summary, all these factors mean the end of the long-term satisfactory decline or stagnation of operating costs for owners and users of buildings. The turbulent state of the commodity market also increases the stress and risk of an unfavorable purchase for property managers and owners. Such an error can result in increased costs by several percent in a typical budget, such as that of a shopping center. Those with a fixed energy price with suppliers based on supplier tenders can be calm.

We can therefore expect operating costs to grow after several stagnant years, due to the abovementioned trends. The estimate is from a few percent to 10%. The worse news is that in terms of property management, we do not see the possibility to compensate for this development with any savings or increases in rent, with the exception of prime locations for new office buildings.

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