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# CASE STUDY 1: BOSTON PROPERTIES

by John McMahan, CRE

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**B**oston Properties (BP) was founded as a private office development and management company in 1970. In June 1997, the company became a public REIT. At its IPO, the company and its management team had directly developed more than 89 percent of its portfolio. Most of BP's properties are located in four core markets—Boston, Midtown Manhattan, Washington, D.C., and San Francisco. The properties consist of Class-A office buildings such as the Embarcadero Center in San Francisco, Citigroup Center in New York City, The Prudential Center in Boston, and One Freedom Square in Reston, Virginia.

As of March 31, 2002, BP's portfolio consisted of 144 properties comprising more than 41.2 million square feet. This included 10 properties under development totaling 4.3 million square feet. The overall occupancy rate for buildings in service was 95.1 percent.<sup>1</sup>

## MANAGEMENT STRATEGY

With emphasis on providing a consistently high standard of service, BP manages its portfolio out of five fully staffed regional offices located in its core cities as well as Princeton, New Jersey. By focusing on only a few select markets, the company achieves efficiencies in managing and

operating its properties. Concentration also allows the firm to build a regional brand, which establishes it as a landlord of choice in its core markets.

A high level of tenant satisfaction was evidenced by BP winning the 1999 and 2000 Building Owners and Managers Association (BOMA) National Customer Service Award for Excellence.<sup>2</sup> Recognizing BP as the "Best in the Industry," the BOMA award is based on tenant responses to questions regarding readiness to solve problems, responsiveness and follow-through, property appearance and condition, quality of management services, quality of leasing services, property rating, relationship rating, and renewal intention. On the occasion of the award, Robert E. Burke, EVP of Operations commented:

"We pride ourselves on our commitment to provide outstanding work environments and responsive property management services, and we are honored by this recognition from our peers and tenants."<sup>3</sup>

## U.S. OFFICE MARKET

The year 2001 was disappointing for the U.S. office market. The Torto Wheaton Office Rent Index dropped 10.9 percent, slightly greater than the largest previously recorded drop in 1992 of 10.6 percent.<sup>4</sup> The reason for the decline, however, was very different. In the early 1990s, the drop largely resulted from extensive overbuilding during the late 1980s, reduced demand due to a recession, and extensive corporate reorganization. In 2001, the decline was primarily caused by the collapse of dot-com firms and the leasing of space for future growth that drove increases in rents in 2000. The good news was that delivery of new supply was low and many firms were already lean and required fewer employee cuts to weather the recession.

With demand outpacing new supply, BP's core markets witnessed some of the highest rent increases during 1999 and 2000. Coming off these historic highs, the economic downturn triggered some of the sharpest declines in rents in 2001<sup>5</sup>:

City	Annual Rent Change
Boston	- 24.9%
San Francisco	- 23.0%
New York,	- 17.5%
<b>National Average</b>	<b>- 10.9%</b>
Washington, D.C.	- 9.8%

As highlighted in BP's Annual Report 2001, the challenges of operating during a recession were accentuated by the economic impacts of September 11, and resulted in a steep decline in demand for office space. Tenants who, as recently as the start of 2001, had strong appetites for further growth, began offering for sublease space to which they were already committed. Robust leasing activity was replaced by limited new deal flow.

In the first quarter of 2002, BP announced completion of two major projects: One Discovery Square, a 180,052 square foot office building in Reston, Virginia and 5 Times Square, a 1,099,154 square foot office building in New York City. Mortimer Zuckerman, chairman of BP, remains cautiously optimistic about the long-term prospects of the office building market, saying:

"You're going to have demand going up and no supply and you're going to have another huge spike in rents. I don't see any real recovery in rents (however) through 2003."<sup>6</sup>

Zuckerman went on to say that he does not see a resurgence in demand for real estate until business confidence rebounds, and he does not anticipate any significant rebound in the office market for new supply at least until 2004.

## FINANCIAL PERFORMANCE

For the last 12 months, BP's stock has moved mostly in concert with or above the S&P 500. Funds from Operations for the first quarter of 2002 were up 9.4 percent over the first quarter of 2001.

## OPERATING ENVIRONMENT

Boston Properties strives to differentiate itself from its competitors by emphasizing the quality of its assets and its approach to management. The retention of existing tenants is always paramount but is heightened in a down economic cycle. The objective of maintaining a high quality of service and achieving the highest levels of tenant satisfaction is ongoing.

## A FOCUS ON TENANT SERVICES

Technology management at BP is the responsibility of the Information Systems Department (IS). After its IPO in 1997, BP undertook a wholesale replacement and upgrade of its technical and systems infrastructure. The initial focus was on core accounting controls and financial reporting solutions to accommodate its growth; Boston Properties acquired \$2.88 billion in new properties in 1998.

Beginning in 1999, BP began to shift emphasis to extending its core systems out to the property operations and to improve relations with its customers. The challenge of implementing change across 130 in-service buildings posed different obstacles. The technical complexities were secondary to the challenges of changing processes and workflow, implementing data standards, and increasing the technical skills of personnel.

The approach to the property locations began with incremental changes, focusing on simple solutions to support workflow efficiencies and improve tenant services. "Keep it simple—walk before you run" were the watchwords as IS approached the formulation and implementation of what would ultimately be a very effective operating system for tenants and managers alike.

#### **TENANT SERVICE REQUESTS: A STANDARD SOLUTION**

In early 1999, IS was charged with implementing a standard solution for the tracking and reporting of service requests initiated by tenants. Informations Systems and Property Management jointly developed a solution and launched the application at Democracy Center in Bethesda, Maryland and 599 Lexington Avenue in Manhattan. Building management now had tools to collect service requests and to develop proactive service programs to address trends and recurring issues. By year-end, the solution was in use across BP's portfolio. For example, the new application enabled the property management staff at 599 Lexington Avenue to reduce its volume of requests by 10 percent by developing a program to proactively address recurring issues.

#### **EXTENDING THE TENANT SERVICES APPLICATION TO THE INTERNET**

In late 1999, BP undertook the extension of the tenant services application to permit the entry of requests by tenants via the Internet. The new interface was designed to give tenants a streamlined procedure for initiating work requests by saving time in communicating with the management office and reducing reliance on telephone communication.<sup>7</sup>

#### **Objectives:**

The new features enabled properties to:

- Provide tenants with an easier and faster means of:
  - Submitting service requests
  - Reviewing the status of requests
  - Generating reports
- Increase the accuracy of information
- Complement phone and face-to-face interaction
- Provide a foundation for additional services

Property management benefited from the new system almost immediately. Within the first month of use, 54 percent of all requests came in over the Internet connection indicating an early-adoption by tenants.

Tenants also saw immediate benefits. Tara Clifford, facilities coordinator for a major tenant in the building, began using the Internet for her daily service requests. Clifford noted:

"The process is more efficient. It means less paperwork and the reporter function is a real plus."

The reporter function replaced a manual log that Clifford maintained in the past and helped her to keep track of repeat calls for the same request so that chronic situations could be identified that may require different solutions. Clifford also noted that she could save valuable time by creating a service request online while she is still on the phone with her internal customer.

#### **Adoption:**

IS worked with property staff to promote the entry of requests over the Internet. Properties where staff took the lead in promotion and training regularly achieved adoption rates in excess of 60 percent. For example, IS partnered with the on-site team at The Prudential Center in Boston to achieve a 56 percent adoption rate throughout the 3.9 million square foot complex.

Andrew Markey, Tenant Services Coordinator at The Prudential Center noted:

"The tenant service system has become a highly welcomed addition. Tenants have been quite pleased with the ability to manage and electronically document all requests submitted through the system. Tenants certainly have not shown any signs of missing the phone."

### **Current Situation:**

As of the end of 2001, BP had expanded the *tenant services application* to 120 buildings in the company's portfolio, servicing in excess of 100,000 service requests annually. During the month of April 2002, the company recorded 6,684 requests from tenants, of which 37 percent came in over the Internet.<sup>8</sup> By June 30, BP anticipated achieving an adoption rate in excess of 50 percent.

Boston Properties publishes monthly reports that highlight regional and property adoption statistics. In addition, reports on request and resource usage provide valuable information to analyze trends for a property or for a specific tenant. These reports provide valuable benchmarks for project and service initiatives.

### **Integration with Accounting System:**

Approximately 20 percent of BP's total volume of requests result in a billable event. In 2001, BP integrated the *tenant services application* into its accounting system, JD Edwards. The new interface is allowing BP to streamline the processing of a large number of invoices and to realize dramatic efficiencies. For example, over 5,800 invoices totaling \$1.3 million have been posted through the new interface over the last 6 months replacing a highly manual process.<sup>9</sup>

### **Benefits to Tenants and Property Managers:**

After three years of use, BP summarized the benefits of implementing its *tenant services application* as follows:

- **Reduced Transaction Costs:** The entire flow of information is significantly improved through:
  - Reduced phone calls (direct input via the Internet replaces more time-consuming phone calls and online access to completion information reduces follow-up calls). For a tenant, the time needed to submit a request over the Internet versus the telephone is reduced by one-third from 45 to 75 seconds to 15 to 25 seconds.
  - Reduced mistakes caused by reinterpretation or disruptions when translating information.
  - Reduced number of "information handlers" throughout the process. Going forward, wireless technologies promise further efficiencies in reducing time spent on the information cycle.

As an example, Pat Duesbury, property manager of One Freedom Square in Reston, Virginia said:

"One of the greatest benefits I have seen is that there is less chance of making a mistake since the information is right in front of you vs. writing it down while distractions are happening all around you. It has definitely cut the amount of phone calls we receive a day for service calls."

### ■ **Greater Staff Responsiveness & Utilization:**

Boston Properties believes that one of the most powerful benefits has been "connecting" the customer directly to the person who completes and satisfies the service request, thereby reducing the number of "information handlers."

One of the reasons for this is that the system creates a mutual information dependency between the tenant and the person who performs the work. Because tenants have direct access to the completion information, there is a heightened accountability among employees of the company. Overall, the tenant services application has empowered tenants and employees while, at the same time, reduced dependency on others to support the information flow.

Christina Martin, facilities supervisor at a major advertising firm, said:

"The website helps us feel like we know the status of our requests at all times. Follow-up is very important and the site has been great at keeping us informed and saving time as well."

- **Higher Tenant Satisfaction:** Due to its simplicity, tenants naturally gravitate to the system. If a tenant is introduced to the application, they usually use it. The solution makes the process easier for office and facility managers.

Generally, BP found that the system provided greater benefits to larger tenants with a dedicated facilities staff. For example, NASA's office headquarters at One Independence Square has a facility team of five who receive requests from co-workers and submit them via the Internet. Similarly, Ernst & Young's facilities staff at 5 Times Square began using the system in the initial phases of a 3-month, 4,000 employee move-in.

It also was clear that tenants trained in the operation of the system usually used it, particularly when the building's property management staff handled the training.

**ASP Alternatives:** While concentrating primarily on internal solutions, BP has kept abreast of the progress being made by application service providers (ASPs) that survived the Internet boom-bust cycle. The reasons for considering an ASP application as a potential replacement for BP's internal system include:

- Maturing technologies (e.g., wireless services)
- Availability of solutions that are integrated into back-end accounting systems for handling billable requests
- Availability of integrated preventive maintenance solutions (not just service requests)
- The evolution of lower cost models
- Increasing costs to enhance and maintain the internal application

Boston Properties is reviewing several providers but is ultimately looking for a single, integrated solution to handle non-billable service requests, billable work orders, and preventive maintenance tasks.

## ISSUES AND CHALLENGES

As of spring 2002, BP's management faced the following challenges for supporting its tenant services application:

- Consider ASP applications
- Integrate wireless technology
- Implement systems for preventive maintenance programs

The IS team felt confident that, with their prudent, incremental approach to change, they would be able to meet challenges and continue to be in the forefront of increasing tenant satisfaction while adding value to Boston Properties' bottom line. REI

*Editor's Note: Case Studies 2 and 3 will appear in an upcoming issue of REI.*

## NOTES

1. Company press release, April 23, 2002.
2. BOMA was assisted in the survey by CEL & Associates of Los Angeles, one of the real estate industry's leading benchmarking firms.
3. Company News Release, May 24, 2001.
4. Torto Wheaton Research, *About Real Estate*, April 22, 2002.
5. Torto Wheaton Research, *ibid.*
6. *Dow Jones Business News*, April 17, 2002.
7. The database utilized Lotus Notes-Domino.
8. Company document; statistics through April 29, 2002.
9. Company document, *ibid.*