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A study of commercial property lease incentives in Johannesburg

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RESEARCH REPORT

A study of commercial property lease incentives in Johannesburg

Eddie-Charles Blatt

A research report submitted to the faculty of the Built Environment in partial fulfilment of the requirements for the degree of Master of Science (Building) in Property Development and Management

University of the Witwatersrand

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ABSTRACT

This research is about lease incentives, concessions and inducements provided by landlords to tenants in the commercial property industry in Johannesburg, South Africa. Landlords must provide lease incentives to prospective tenants in order to remain competitive or they run the risk of losing these tenants to their competitors.

This research seeks to study the subject of lease incentives, and determine their effectiveness in securing tenants. In order to achieve this, the researcher investigates a number of factors:

- The drivers behind a tenant signing a lease on a vacant space
- The methods that landlords use to find tenants
- The different incentives in the market
- The methods of establishing the lease incentive values
- The factors that affect which incentives a landlord can offer
- The importance and effectiveness of providing lease incentives

A qualitative research approach is used and focuses on meaning, experience and understanding to analyse the data that has been acquired through the use of a survey questionnaire. The sample population in the survey is made up of property specialists that deal in the subject under study as part of their daily work responsibilities. The research is conducted in the city of Johannesburg.

The research concludes that the top two tenant drivers for office space are location and rental. Landlords need to effectively market their vacant space to attract tenants to their properties and the best method of doing this is through the use of vacancy schedules sent out to property brokerages and agencies. The top two lease incentives provided in the market are the rent-free period and the tenant installation allowance. These two incentives need to be provided by landlords to effectively compete with their competitors. The most important factors to consider in deciding which incentives to provide in the marketplace are the current economic conditions and the state of the space markets. Landlords understanding all these key variables will effectively reduce vacancies by securing more tenants and increase their overall competitiveness in the marketplace.

DECLARATION

I, Eddie-Charles Blatt, declare that this research is my own, unaided work. It is submitted in partial fulfilment of the requirements for the degree of Master of Science (Building) in Property Development and Management at the University of the Witwatersrand, Johannesburg. It has not been submitted before, in any degree or examination in this or any other university.

_____ _____

Eddie-Charles Blatt Date

DEDICATION

This research is dedicated to all the scholars, academics and researchers who have dedicated their time to contributing towards the field of property studies.

ACKNOWLEDGEMENTS

I express my deepest appreciation to the following people:

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    - Always maintaining a sense of humour
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- The respondents who made a concerted effort to complete the survey questionnaire
- My family, friends and work colleagues, who have assisted and encouraged me along the way

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Chapter 1 : Lease incentives: Where do they fit in?

Property investors are heterogeneous as they each have different investment objectives and goals. Two major mutually exclusive types of property investment objectives are the income objective and the capital growth objective. The income objective is short-term where investors make regular use of cash flows generated by property investments. The growth objective is long-term where there exists no immediate need to make use of any of the cash that has been invested in the property investment. The growth objective takes advantage of the capital appreciation of the asset as well as the accumulated savings of the investment (Geltner & Miller, 2006, p.129).

In order to maximise the income and growth objectives, investors and owners of commercial property seek to maximise their cash-flows and growth objectives by obtaining the highest rental income possible from their tenants. Landlords seek to fill their premises with reliable tenants by minimising vacancy levels and maximising occupancy levels. This results in an increase in income generated by their properties. For income generating property investments, the future anticipated cash flows produced by the properties determine the value of the investment (The American Institute of Real Estate Appraisers, 1983, p.21). The higher the annual income generated by landlords, the greater the value of their property investments (Bond, 1994, p.8). The value of a property investment can also be determined by the result of what the property is used for, which is described as its 'use'. The 'use' determines the rent that a landlord can command from a tenant, which results in the income that is achievable by the property and therefore its profitability. This assists the investor to determine the price that they would be willing to pay for the property investment (Fraser, 1984, p.355).

As more office space is built and supplied in the market, more of it becomes available for tenants to choose from resulting in a more competitive landscape for property owners to compete in. Capital markets are made up of investors that buy and sell capital assets and these investors make up both the demand and supply side of these capital markets (Geltner & Milner, 2006, p.128). As the market becomes more competitive, it becomes increasingly more important for landlords and property owners to secure tenants to maintain the profitability levels of their investments. In order to compete with each other more effectively, they need to win over the tenant, which is often done by providing leasing incentives, concessions or inducements to lease their space. Incentives are used by landlords

to incite tenants (The Concise Oxford Dictionary, 1964, pp.613, 620, 251). Landlords perform the act of conceding by using inducements to attract and lead tenants on, and will offer incentives to attract and convince tenants to lease their space. This is done by conceding something beneficial to the tenant in exchange for their signature on a lease.

The provision of lease concessions to tenants may include rent-free periods, paying for a tenant's moving costs from one premises to another, and the provision of a higher than normal allowance towards a tenant's fit-out expenditure. Providing a rent-free period grants the tenant the opportunity to operate from the premises for an initial period without being required to pay rent during that period. On a long-term lease, this can range from a rent-free period of one month to over a year (Grenadier, 2003, p.31). Landlords pay for the costs of the interior improvements of the space under lease in the form of tenant improvement allowances. These tenant improvement allowances are usually written into the lease agreements and will be provided to the tenant in the form of cash. Most leases typically grant a basic level of tenant improvement allowance, but it is considered a concession if it is anything beyond this level.

In order to compete with one another more effectively, landlords will find out what their neighbouring landlords are offering as incentives and offer similar or better incentives to be more competitive. A landlord's understanding of where they fit in the commercial property market in relation to their competition will determine whether they succeed or fail. To achieve this they need a competitive strategy, which will provide them with a favourable competitive position in their industry (Porter, 1998, p.1). In order to gain a competitive advantage, landlords need to know what their competitors are offering, and find creative ways to offer something more attractive than their competitors to gain their share of the market.

Whilst lease incentives have been touched on in previous research, as is displayed in the literature review to follow, they have not yet been studied as the primary focus of any previous research, and have not yet been investigated as thoroughly as this research intends to explore and examine the subject.

The benefit of studying this subject is to provide landlords with an understanding of the effectiveness of the provision of lease incentives. They will be equipped with the knowledge of knowing which lease incentives are the most effective to provide, and have an overall

understanding of what is required of them to secure tenants. Landlords will learn what is required of them to maximise their chances of securing a tenant and not losing the potential tenant to a competitor.

1.1 Problem statement

Landlords encounter problems while trying to be competitive through the provision of lease incentives. The first is that landlords do not always secure tenants based on the provision of lease incentives. The second is that the existing market is already very competitive with landlords offering tenants similar incentives. This makes it difficult to ascertain whether the provision of lease incentives actually enables landlords to secure tenants, or whether it merely keeps them competitive in relation to the lease incentives that other landlords already offer in the market.

In order to comprehend these problems more effectively, we also need to understand the sub-problems that stem from these main problems above:

- There are many different types of incentives and it is not always obvious which ones a landlord should provide
- Tenants look for the best incentives they can find and use landlords as bargaining chips to negotiate better incentives elsewhere
- In a market where landlords provide incentives, it is no longer about providing incentives but finding creative ways to provide the best incentives to suit the particular tenant
- Landlords do not always know the reasons why they either succeeded or failed to secure a tenant, and do not often know whether it was as a direct result of the provision of the lease incentives or the lack thereof
- Landlords may only be willing to negotiate lease incentives depending on the state of the economy, such as a market downturn where they may be desperate to lease their space and secure a tenant
- As more commercial property is developed, more office space becomes available which further increases the competitiveness to secure the tenant

It is important to conduct this research to determine the effectiveness of the provision of lease incentives, concessions and inducements, and landlords need to learn what is required of them to maximise their chances of securing a tenant and not losing tenants to their

competitors. Therefore, it is very important to study the subject of lease incentives and their effectiveness in the commercial property market.

1.2 The importance of the problem

Lease incentives play a critical role in securing a tenant. Landlords not offering lease incentives may experience lower occupancy levels, as tenants will often seek alternative options elsewhere before committing to a particular office space with a particular landlord. Tenants will look for the best possible incentives from landlords in exchange for their commitment to take up office space in a landlord's property. Leasing has become increasingly more difficult for landlords because tenants try to keep their net cash outflows to a minimum by demanding shorter lease terms with more flexibility, such as the first option to sign a new lease over the intended space when the current lease expires (Bond, 2004, p.8).

Each tenant has their own unique requirements and will look for incentives that best suit their needs. An example of this is where a start-up company will often look for a rent-free period from a landlord to help offset the first few months' rental commitment to help the company's cash out-flows in its early stages of operations. Likewise, landlords know that they are competing for tenants' signatures and are willing to find creative ways to secure tenants' long-term commitments and rental incomes.

When the Gross Domestic Product (GDP) diminishes for two successive quarters, unemployment increases, businesses stop expanding, and there is a decline in housing prices. It is then that the economy is experiencing a recession (Mora, 2011). In difficult times such as that of an economic downturn or recession, the demand for office space decreases and the task of securing and retaining tenants becomes increasingly more difficult.

In South Africa, as in other markets, when the market is performing well, landlords are not as forthcoming to provide tenants with the same level of incentives as when the market is in a downturn. However, they may still provide some basic incentives to remain competitive. The importance of providing lease incentives is visibly more evident in an underperforming market.

Therefore, it is extremely important to ascertain whether the provision of lease incentives actually enables landlords to secure tenants, or whether it merely keeps them competitive in

relation to what other landlords are offering. The effects thereof impact immensely upon landlords and owners of property.

1.3 Aims and objectives of the research

The aim of the research is to:

- Determine whether the competitiveness of landlords in the commercial property market in Johannesburg is dependent on the provision of the lease incentives that they provide

The objectives of the research are to:

- Determine what the main drivers for a tenant to sign a lease on a vacant space are
- Investigate the best methods for a landlord to find tenants
- Compare the lease incentives provided in the marketplace
- Determine the most common incentives provided in the market and how their values were established
- Establish which factors landlords need to take into consideration in order to determine which incentives to offer to a tenant
- Assess the importance and effectiveness of providing lease incentives in order to secure tenants

1.4 Research questions

In the commercial property market in South Africa, leasing one's space has become increasingly more competitive. Landlords compete with one another for the tenant's signature and try to offer them the best deals possible for taking up their space. It is therefore important to explore the central question in this research, followed by relevant sub-questions: Is the competitiveness of landlords in the commercial property market in Johannesburg determined by the lease incentives that they provide to tenants?

In order to assess this, a series of sub-questions needs to be investigated:

- What are the main reasons for a tenant taking a particular space?
- How do landlords find tenants?
- What are the different lease incentives being offered in Johannesburg?
- Which are the more crucial incentives to provide?

- What factors do landlords need to take into consideration to determine which incentives they can provide?
- How do landlords' incentives compare with one another?
- Does the state of the economy have any impact on the incentive offered by the landlord?

1.5 Research methods

The research hypothesis is analysed in a qualitative context. The research hypothesis is defined as whether property owners and landlords provide lease incentives to tenants in order to remain competitive.

This research makes use of the qualitative research approach that is conducted through the use of a survey, and then analysed. The type of research conducted is exploratory in nature. The research focuses on the views of the participants as the main source of data and information. The process of conducting the research begins with identifying and determining a pre-selected number of participants in the Johannesburg commercial property market, which are to be used to reflect the overall consensus of the commercial property industry in Johannesburg. The data gathered in the surveys is analysed and the results are investigated to determine the findings of the research.

Although other studies have presented quantitative approaches on similar subjects, all the prior research in this subject matter is limited by the lack of qualitative data regarding lease incentives. Therefore, a qualitative approach is applied to research the subject under study. Qualitative research focuses on the meaning, experience and understanding of the individuals or groups that the researcher seeks to understand, and the purpose of the survey is to express the attitudes and opinions of the individuals in the sample. The details of the research method utilised in this report, is discussed in greater depth in chapter 3.

1.6 Ethical considerations

All the necessary permissions from the relevant university committees were obtained for administering the survey. The approval of the survey questionnaire was granted by the university's ethics committee. The names of the participants, companies, firms, organisations, agencies or persons that have played a part in this research will remain confidential. Each and every participant that elects to take part in this study shall provide their written consent and approval that their contribution may be researched if required. The

benefits of this research shall be distributed to all the participants free of charge for their willingness to be a part of the research, if they so desire to receive a copy.

1.7 Scope and limitations of the study

This research consists of a study of lease incentives, concessions and inducements in the commercial property industry in Johannesburg, South Africa. Whilst the research is conducted in the city of Johannesburg, the subject is explored worldwide.

Johannesburg is the largest city in South Africa by population, and is the provincial capital of Gauteng which is the wealthiest province in South Africa, having the largest economy of any metropolitan region in Sub-Saharan Africa. This research only explores lease incentives in the commercial property sector and excludes the following sectors:

- Industrial
- Retail
- Residential
- Leisure

The lease incentives explored in this research are limited to leasing transactions only, and no sales transactions will form part of the study. The participants partaking in the survey consist of property professionals in the Johannesburg commercial property market, and shall represent a sample of the total population of the commercial property market in Johannesburg. No tenants will be examined in the study, as the research shall be analysed from the lessor's perspective and not the lessee's.

1.8 Conclusion

Property owners and landlords need to understand whether the extent of their success and competitiveness in the commercial property market in Johannesburg is determined by the lease incentives that they provide. Their goal is to secure tenants through the successful provision of lease incentives and to minimise the risk of losing those tenants to their competitors. Losing potential tenants to a competitor could result in the loss of income and increased vacancies.

The overall competitiveness of property owners and landlords in the Johannesburg property market is determined by understanding the subject of lease incentives and their successful use and implementation with regards to the following:

- The main reasons behind a tenant signing a lease on a vacant space
- The best methods for landlords to find tenants
- The different lease incentives being offered in Johannesburg
- The more crucial incentives to provide to tenants
- The factors that landlords need to consider to determine which incentives to provide
- The comparison of lease incentives that different landlords provide
- The state of the economy and any impact this may have on the lease incentives offered by the landlord

1.9 Structure of the rest of the report

Chapter 2 to follow consists of the literature review. This chapter reviews all the literature relating to lease incentives, concessions and inducements, and their role in the commercial property industry.

Chapter 3 thereafter discusses the research design and methodology undertaken in this study, which explores the systematic and methodological processes used to capture the data, and analyses it in order to provide its results and findings in order to create new knowledge.

Chapter 4 presents the results, discussions and interpretations of the findings in the research. The results obtained are presented making use of figures, tables and graphs, which are used to best indicate the trends and patterns with reference to the hypotheses and research questions.

Chapter 5 concludes with the overall conclusions and recommendations. This chapter indicates how the findings and conclusions relate to the literature and theory presented in the previous chapters. The overall significance of the study is discussed and any anomalies or uncertainties are presented. Additional recommendations towards further research is provided.

Chapter 2 : The dynamics of lease incentives: A literature review

This chapter reviews the existing literature on lease incentives. Articles written by professionals in the field and their views on the topic are reviewed. The researcher investigates existing theories and formulae to substantiate the findings in this research report.

2.1 Introduction

This literature review focuses on the subject of lease incentives. The importance of the subject under study is to build an understanding of whether property owners and landlords can determine the extent of their success and competitiveness in the commercial property market in Johannesburg, based on the provision of lease incentives to tenants.

The chapter begins by defining the key concepts encountered in the study, followed by the purpose and scope of the review. Thereafter, the chapter explores the prior studies relating to the subject of lease incentives and analyses their problems, methods, findings, weaknesses and gaps. This is followed by explaining the conceptual and theoretical framework of the subject under study. Finally, the chapter is completed with a conclusion presenting all the findings of previous studies in relation to the research problem and questions.

2.1.1 Definitions of key concepts

In order to better understand the mechanics of how the commercial property industry in South Africa works, it is important to distinguish between the different groups of property players, and a few key concepts in the industry.

- **Group 1:** The first group of players consists of listed funds, private funds, companies, landlords, property developers, property owners and property investors (often referred to as shareholders). They rent out or lease out their properties to a third party and are often referred to as lessors. This group consists of the owners of property and are often most interested in its financial reward.
- **Group 2:** Directors, fund managers, portfolio managers, asset managers, development managers, property managers, sales managers, marketing managers, leasing managers, managers, leasing or broker consultants, executives or clerks, leasing administrators, trades and acquisitions managers, and building managers.

These professionals work for the first group and are employed or appointed to make expert property decisions on behalf of the owners and landlords of the properties.

- **Group 3:** This group consists of the users of the properties. This group consists of tenants or clients. They consist of individuals, businesses, companies, organisations and agencies that occupy properties from which to run their operations. They are often referred to as lessees and will enter into a lease agreement with a party in Group 1.

The commercial property industry consists of office buildings, which are made up of office space. When the space is tenanted and has a lease in place over it, the space is known to be occupied. In the event that there is no presiding lease over the space, it is known as unoccupied or vacant. A building that has unoccupied space contains vacancies. The main goal for the players in group 1 and group 2 is to fill those vacancies with users from group 3, and achieve the best possible financial returns from their properties.

The majority of landlords operate independently and often tenants will have their own set of individual requirements, therefore each deal concluded between them will be different and unique to the parties involved in the transaction (Beverley in Bond, 2004, p.14). Whilst there are numerous types of lease incentives and concessions that landlords are able to provide to tenants, this research explores and investigates the most common incentives utilised in the context of the South African commercial property market. Whilst a full range of lease incentives is studied, two common incentives are:

1. The provision of a rent-free period: This is a period measured in months that a landlord will not require a tenant to pay a rental for, despite the tenant being allowed to occupy the space in the interim until such time that this period has lapsed and the agreed rental shall come into effect; and
2. The contribution towards tenants' fit-out expenses: This is the monetary value provided by a landlord to a tenant to fit-out the physical attributes and layout of their offices, such as partitioning, carpeting and wallpaper, etc. This contribution is commonly known abroad as a tenant improvement allowance, but regularly referred to in South Africa as a tenant installation allowance. It is habitually referred to worldwide by its abbreviation as a 'TI'.

2.1.2 Purpose of review

The purpose of the literature review is as follows:

- To establish and define the subject under study
- To define the key concepts and terminology of the subject under study
- To establish the conceptual and theoretical framework of the research
- To identify and review prior studies, models and theory in relation to the subject under study

2.1.3 Scope of review

The literature review expects to comprehensively cover all relevant material in relation to the subject of lease incentives in the context of the research problem, and not be limited to recent material only. The literature review will cover the following topics in relation to the subject of lease incentives in the context of the research problem:

- The supply and demand dynamics of the leasing market
- The marketing roles of landlords and their use of incentives
- The financial implications of using lease incentives
- The reaction of landlords in a well-performing market or recession

The researcher will use as many citations as possible. The researcher will not broaden the search to seek literature in related disciplines that fall out of the scope of the topics above, and shall focus on the theoretical issues raised in the previous research. The material reviewed will be confined to the English language only. The type of publications used in conducting the literature review, consists of journals, books, and internet websites. The literature review will focus on the discipline of property studies and will focus on the subject of lease incentives in the context of the commercial property market.

2.2 Prior studies, models and theories

This section investigates the prior studies, models and theories of the following sub-headings in relation to the subject under study, beginning with the principle of supply and demand and the effect of the state of the market on lease incentives. This is followed by examining the use of incentives in order for a landlord to market and successfully lease his property. Lastly,

the researcher takes a look at the financial implications of using lease incentives to secure tenants.

2.2.1 Supply and demand

The American Institute of Real Estate Appraisers (1983, p.22) reveals that, "The principle of supply and demand is that price varies directly, but not necessarily proportionately, with demand, and inversely, but not necessarily proportionately, with supply. Thus, increasing supply or decreasing demand tends to reduce the price obtainable in the market." In the property market, the space market is made up of land and built space. On the supply side of the space market, the market consists of real estate owners who rent space to tenants, and on the demand side, there are individuals or firms who want to make use of and rent that space. The price of the right-to-use that space for a specific period is called rent, which is determined by the supply and demand in the market. If the demand grows and the supply remains constant, rents will tend to rise, and vice versa (Geltner & Miller, 2006, p.4).

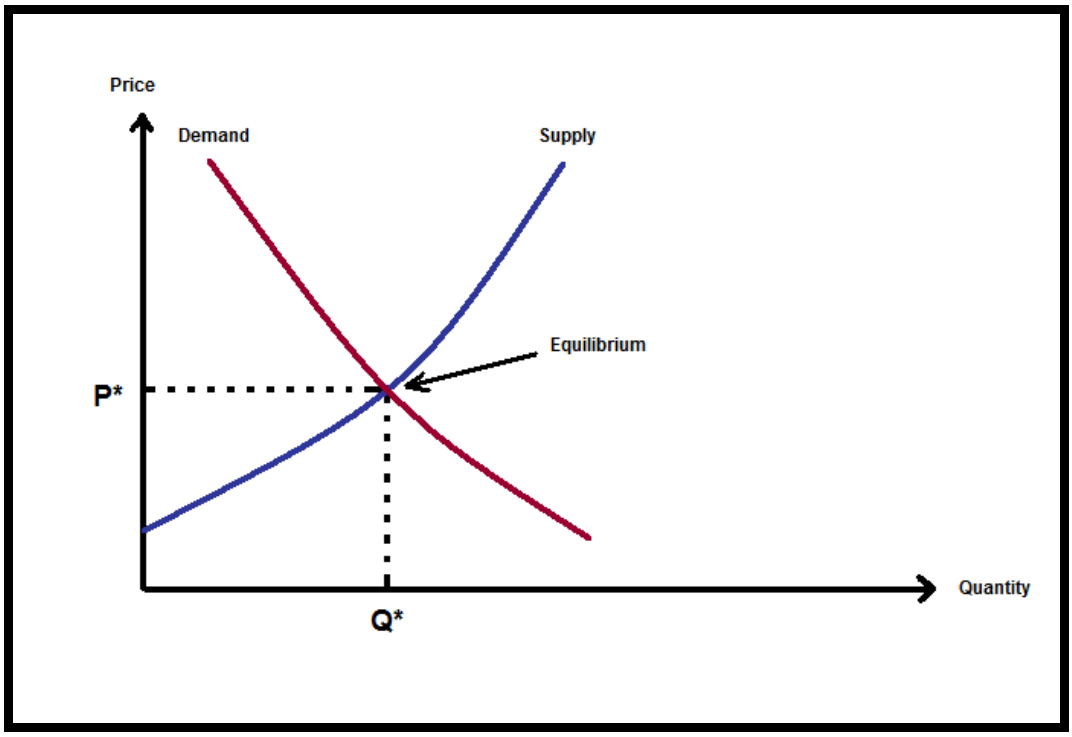

Figure 1: Supply and demand

Figure 1 represents that the demand curve is the amount of space that will be leased at a given price. The supply curve represents the quantity of stock that suppliers are willing to produce at a given price. More space is occupied when the price is lower. As the price goes up, the suppliers create more supply. The point at which the supply curve meets the demand curve is

called the point of equilibrium. The point of equilibrium gives us the optimal price P* and the optimal quantity supplied at Q*.

In a market with a higher supply of office space and a lower demand for it, landlords usually ask for lower rentals in order to secure tenants. It is in this state of the market that landlords tend to provide the greatest incentives to lease their space. Therefore, lease incentives play a major role in an over-supplied market. In the commercial property sector, lease incentives are the subject of considerable debate in over-supplied markets as a result of economic pressures, and face a decline in demand from prospective tenants (Jefferies, 1994, p.21). As vacancies increase, landlords do not necessarily ask for lower rents, but rather offer greater concessions to potential tenants in the form of rent-free periods as an inducement to sign a long-term lease. The inelasticity of supply reduction and the reduction in market rents is caused by the decline in demand for office space (Geltner & Miller 2006, p.9). An example of this occurred when the Australian commercial property market experienced a property boom in the 1980s. This resulted in a high supply of office space. Landlords competed strongly for the most prestigious tenants for their new buildings and offered greater incentives and a wider variety of incentives (Robinson, 1999, pp.187, 179).

Depending on the state of the commercial property market, property owners will experience a certain vacancy rate in their portfolios and will command a specific asking rental for their office space. The vacancy rate is the percentage of office space in the market that is available but not currently occupied. As the supply of office space decreases and demand increases, landlords will no longer need to offer as many incentives to prospective tenants in order to achieve their asking rents (Geltner & Miller. 2006, p.106). Landlords of office space and other income-producing property charge rentals that are very similar to those charged by owners of competing properties that offer the same quality and service. The greater the demand for a particular type of property, the more the owners may be able to charge, yielding higher rates of return (The American Institute of Real Estate Appraisers, 1983, p.335). As occupancy levels increase, landlords are further able to increase their rents enabling them to maximise their income resulting in greater profits. As the state of the economy improves and the leasing market strengthens, a new phase of the leasing cycle will commence and rentals will begin to increase again. Landlords will offer fewer incentives as the market strengthens and occupancy levels increase (Bond, 1994, p.18).

When a tenant is interested in a particular space, a lease incentive is often proposed. The incentive amount differs from market to market as a function of whether the market tends to favour the tenant or the landlord. If the state of the market does not favour either the landlord or the tenant then the market is known as being in a state of equilibrium (Geltner & Miller 2006, p.53). A simple description of market equilibrium is when the demand equals the supply minus the natural vacancies, and where the natural rate depends on the frequency of shocks and the properties of the matching process between available space and occupants (Englund, Gunnelin, Hendershott & Soderberg, 2008, p.82). Landlords provide tenants with higher incentive amounts in a tenants' market and lower incentive amounts in a landlords' market. The space market will eventually reach a state of equilibrium when the demand for space matches the existing supply and it is at this state of the property cycle that landlords and tenants compromise the most when negotiating incentives.

South Africa experienced an increase in vacancies due to the recession in the final quarter of 2009. Although some areas still showed signs of demand, tenants still required an incentive to take the space. These rentals had become more negotiable and the tenant installation allowances varied according to landlord and length of lease (Broll, 2010, p.2). In economic downturns, it is very common for leases to contain one or more concessions for the tenant (Grenadier, 2003, p.6).

2.2.2 Marketing and incentives

Owners that buy property with the intention of renting it out are in the business of investment property, with the property income as the investment vehicle. Although their key skills lie in selecting the right properties to purchase and acquiring them at the right price, they will also need to successfully market and let their properties to achieve the maximum return on investment. Marketing ones' property has therefore become a key component in the buying and letting of property for investment purposes. Marketing is the profitable management process responsible for identifying, anticipating and satisfying customer needs (The Chartered Institute of Marketing, 2011).

In the commercial property market, landlords have identified the need to provide office space to tenants in order to satisfy their business requirements of having premises from which to operate. Landlords will earn an income from letting their space to tenants. Marketing is about marketers generating sufficient profits by creating products and services that will

satisfy customers (Brijball, Brink & Cant, 2006, p.14). A landlord needs to understand an occupant's motivations and requirements in order to successfully provide them with the best product. Landlords need to effectively identify prospective clients or tenants, offer them the best office space that will work for them, secure their occupancies and retain them as tenants in the future when it is time to renew their lease. In competing with other landlords to secure tenants, landlords will make use of different marketing strategies to more effectively promote and market their space. A common tool used by landlords is the provision of lease incentives.

There are a number of different lease incentives offered in the commercial property market worldwide. Landlords offer lease incentives to tenants to incentivise them to take the space that they are trying to let. These lease incentives include (Jefferies, 1994; and Davis Langdon, 2011):

- Reverse premium payment to tenant – not linked to any specific (fit-out) expenditure
- A landlord's contribution towards a tenant's fitting out work
- A specific or abnormal rent-free period
- Cash payments
- Rent subsidies
- Free hard fit-outs
- Free soft fit-outs
- Take-out of existing space, such as the reinstatement of the space to its original state
- Payment of relocation costs
- Put options on individual space
- Caps on (or limits to) rental increases on review
- Free naming rights
- Free holidays, vehicles or other incentives

Marketing is about the creative exchange of ideas, goods and services to satisfy individual and organisational goals by the process of having planned and executed their conception, pricing, promotion and distribution (Cant, 2010, p.8). In the context of the South African commercial property market, there are different ways for landlords to incentivise tenants to rent their space. As previously mentioned, one such method is to offer the incentive of a rent-free period. This rent-free period is provided by a landlord to a tenant, where the tenant

will not pay a rental for a certain number of months. The landlord will make up the loss of that rental income over the duration of the lease in the form of a rate charged as part of the commencing gross monthly rental. This allows a tenant to reduce the amount of rent that it pays in its lease, whilst still enabling the landlord to report a higher amount of nominal rent (Sheehan, 1997, p.17).

The other incentive that landlords commonly provide to tenants is the tenant installation allowance. This is a sum of money contributed towards the fit-out of a tenant's space. Landlords provide tenants with tenant installation allowances because the banks will not provide tenants with a loan or the finance for the internal fit-out of their space. The reason for this is that the tenant cannot provide surety over fittings that are attached to a landlord's property. To make the leasing deal work for all parties concerned, landlords are prepared to amortize the sum of the tenant installation allowance over the term of the lease in order to assist the tenant with the initial fit-out costs of the space. Lease rent can be influenced by extensive tenant improvements. Rent increases may amortize capital expenditures made by landlords and can be reimbursed over the lease period or over a portion of the lease (The American Institute of Real Estate Appraisers, 1983, p.357). By providing tenant installation allowances, landlords will improve their chances of securing tenants. The tenant improvement allowance is a common concession used as a method of financing the fit-out costs of the leased space (Sheehan, 1997, p.18). These incentives provided by landlords come at a cost, and are priced into the rentals and the tenant's lease. Landlords need to calculate the cost of providing these incentives and how they will affect the net annual income of the particular property investment.

In a lease, the level annuity that has the same present value as that of the anticipated cash flows but which includes the monetary sums of all the concessions and rent abatements often used by landlords to persuade tenants to enter into a lease agreement with them, is known as the effective rent (Geltner & Miller, 2006, p.108, p.809). The effective rent that a landlord seeks to achieve is essentially the amount of rent secured over the lease period, after the provision of concessions and deductions for vacancies. The expected income, minus the allowance for vacancies as well as the loss of collections from all the operations of the property is known as the effective gross income (The American Institute of Real Estate Appraisers, 1983, p.361). The rent under contract less the tenant concessions and allowances

is generally known as the effective rent (The National Council of Real Estate Investment Fiduciaries (NREIF), 1986, p.2).

In a study performed on rental concessions in the residential property market by Benjamin, Sirmans & Sirmans (1990, p.142), it was revealed that to increase occupancy levels and revenue, landlords commonly made use of rental concessions that had a positive effect on both rent and occupancy rates. By landlords providing concessions, they were able to collect higher average rents and decrease vacancies. Therefore a positive effect on property values can be achieved as a result of the provision of rental concessions in the residential property market (Benjamin et al., 1990, pp.142, 151).

There are certain factors that landlords have to take into consideration in order to determine the incentives that they are prepared to provide to a tenant. The first factor is the current state of the economy and the second factor is the financial implications of providing the lease incentives.

2.2.3 Financial implications of incentives

The main purpose of investing in commercial property is to achieve a profit from the property investment. Property provides investors with a capital appreciation over time, and a net annual income at a particular yield. Providing incentives to tenants has no effect on the capital appreciation of the asset over time, but it may reduce the initial yield of the property investment over the term of the lease. This is due to the quantifiable value of the incentive provided to the tenant as part of the lease. The main intention of the property owner or landlord would be to work the incentive into the rental over the period of the lease, in order to maximise the investment. Lowering the asking rental would result in minimising the profitability of the investment, which has led landlords to consider alternative methods of securing tenants without decreasing their asking rentals.

By achieving an optimal trade-off between rental rates and occupancy levels, property owners will maximise the value of their property investments. They cannot simply lower their asking rentals in competing for tenants. The increase in revenue from having achieved higher occupancy levels would be less than or equal to the amount by which the rent is lowered. This would result in property owners seeking a higher take-up of office space and an increase in revenues, and they will therefore need to find alternative solutions other than

lowering their asking rentals. An example of such a solution would be to offer rental concessions (Benjamin et al., 1990, p.141).

An effective method often implemented by landlords is working the value of the incentive into the lease by using the discount method. The landlord will calculate the total value of the lease plus the value of the incentive, add them together and thereafter recalculate the initial asking rental rate to charge to the tenant.

According to Rowland (1999, p.5), leasing incentives are concessions given to tenants to entice them into signing new leases. In most instances, they can be priced by assessing their effects on the cash flow from the property (Bond, 1994, p.7; and Jefferies, 1994, p.21). The controversies that surround "effective rents" centre on the choice of discount rate and whether they should be annualised over the period until the first market rent review or until the lease expires.

In a market experiencing high vacancy rates, the use of inducements to attract prospective tenants predominates. Essentially, over the full lease-term period, the procedure is to discount the value of the incentives using an appropriate discount rate, and adjust the agreed rental by this amount to relate that rent to its initial true market rent on an un-induced basis (Bond, 1994, p.7). By using this method, a landlord can effectively provide concessions to tenants and still remain profitable by achieving a higher initial rent.

Rent-free periods, relocation costs and fit-out allowances are inducements that are relatively easy to quantify by first converting the incentive benefits and the rental payments into a present value; the effective rental is then calculated by deducting the periodic equivalent of the incentive from the stated rent (Bond, 1994, p.14).

In today's economic environment, companies have unique corporate identities and their own individual business processes. These factors result in tenants requiring their own specific space layouts and designs, which can often lead to tenants being faced with high costs for the initial fit-out expenses of their office space. The fit-out can often add up to a considerable amount of money and with landlords providing high tenant installation allowance amounts, it can significantly impact upon a landlord's profitability. According to previous research, one can apply a simple linear regression to formulate that there does not appear to be a significant impact on rent when tenant improvement allowances are low. There is however, a significant impact on rent at higher levels. This model predicts that compared to a lease where there is

no provision for a tenant installation allowance, leases with amounts of five dollars per square foot per year or above will produce a rent premium of 4.9% (Sheehan, 1997, p.32). The tenant installation allowance is often the largest incentive contribution made by a landlord to a tenant.

In many buildings with long-term leases, tenant improvements to offices such as the finishes, decorations, and the physical enhancements of the office space is often viewed as a concession used to entice a tenant into signing a long-term lease and is a major category of capital expenditure which is provided to the tenant at the beginning of their occupancy. It is often necessary to provide an existing tenant with a tenant installation allowance on the expiry of their old lease to get them to sign a new one (Geltner & Miller, 2006, p.248).

The principal goal in commercial refurbishment is to maximise profit by optimising net lettable floor space and rental income. Retaining tenants in market conditions with high vacancy rates can be a key factor in the profitability of a property. The costs and risks associated with renewal probability in such market conditions can be quite high. However, different landlords charge different rents and offer different incentives and concessions to tenants; therefore, whilst some landlords may experience a reduction in their vacancies as a result of their financial provisions, other landlords may not.

The price per square metre will always be a major factor in a tenant's decision to renew its lease. Commercial refurbishment seeks to achieve a balance between letting out as much space as possible at an optimal price that still produces a profit (Cook, 1997, p.12). Landlords need to convince tenants that they are getting good value for their money, as the costs associated with replacing them are high. If tenants can believe that they are getting a good deal, it will be in the best interest of both parties (Asser, 2004, pp.6, 10).

As appealing as the incentives may appear, one of the primary drivers behind a tenant's decision to sign a lease on a particular space is being able to secure a favourable rental. Tenants are mostly rental-driven, and will only consider the incentives being offered if the asking rental fits within their financial budget. For many businesses, property will always come at a price and the bottom line will always be a key factor in the decision for office space (Asser, 2004:48). So although landlords have become inventive of new ways to market their space, rent will always be the most logical area to investigate if they would like to remain realistic of putting a deal together which will work for all parties concerned.

Incentives have a distinct financial implication. According to the SIC-15 by Deloitte Touche Tohmatsu Limited (2011), "The SIC clarifies the recognition of incentives related to operating leases by both the lessee and lessor. The Interpretation indicates that lease incentives (such as rent-free periods or contributions by the lessor to the lessee's relocation costs) should be considered an integral part of the consideration for the use of the leased asset. IAS 17.24 and .42 (rev. 1997) require an enterprise to treat incentives as a reduction of lease income or lease expense. As they are an integral part of the net consideration agreed for the use of the leased asset, incentives should be recognised by both the lessor and the lessee over the lease term, with each party using a single amortisation method applied to the net consideration."

Leasing is a method that caters for businesses to pay for the use and services of an asset in the fiscal year during which the asset was utilised. The total cost of the asset will not have to be paid for by the business in the year that the asset was put in service. The business will only pay for the lease in the first year, which will allow it to fit more projects that require spending into the initial budget (Blose & Martin, 1989, p.171).

There are several reasons why landlords would prefer to give out rent-free periods and generous TI and moving expense allowances up front rather than accepting a lower rental. According to Geltner *et al.* (2006, p.820), these include:

- To alleviate tenant moving or start-up expenses
- To benefit from the strategic timing of cash flow receipts
- To avoid the risk that a tenant receiving a lower rental could inform another tenant of the low rate that they have secured in a tough market

There are a few reasons why landlords would prefer to provide concessions in return for a higher rental. According to Grenadier (2003, p.31), these include:

- Tenants are more likely to be liquidity constrained than landlords, and the concessions can be utilised as a means of financing which tenants may use for their high moving costs
- Concessions can assist landlords to negotiate better deals. Landlords are often amenable to accepting a lower rental than their asking rental, which is often agreed to

in a private negotiation or consultation. This improves the landlord's multilateral bargaining position with current and future tenants

- It is often in the best interest of landlords to report higher recurring rentals. They may require financing and achieve a better rate due to valuers or appraisers not taking the full value of the concessions into account

In looking abroad, there is evidence of this in New Zealand, where the largest listed investor in commercial office property will not provide cash to a tenant unless there is the certainty of being paid back in terms of a securing a long-term lease agreement (Beverley in Bond, 2004, p.14).

2.3 The conceptual and theoretical framework

The diagram below represents the conceptual framework of the research and outlines the different potential courses of action between the variables under study in figure 2.

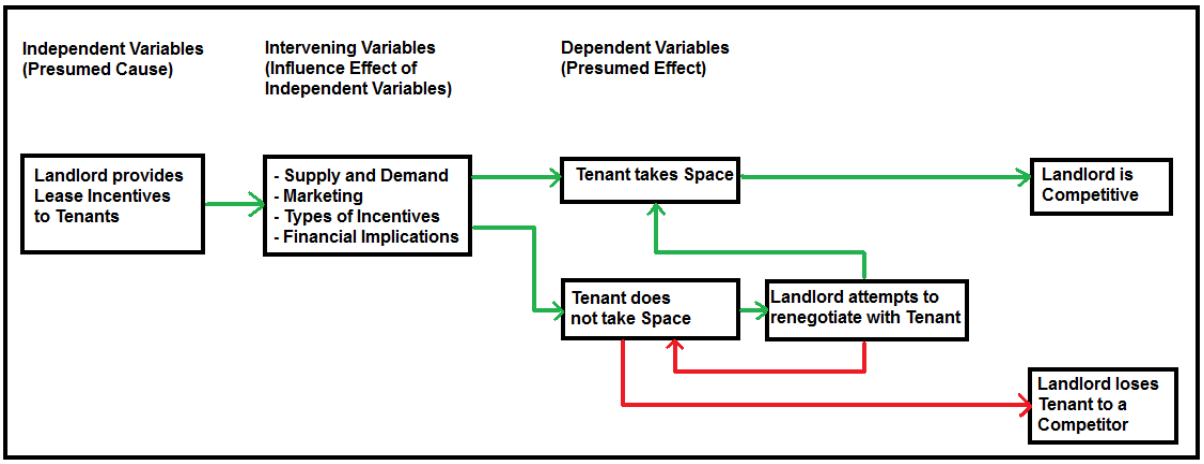

Figure 2: Schematic diagram of the analytical framework depicting independent, intervening and dependent variables

The Independent, Intervening and Dependent Variables are explained as follows:

- The independent variable (input/presumed cause) depicted in the conceptual framework above consists of an incentive. This incentive is provided to a tenant by a landlord.

- The intervening variables are all those variables that may have an effect on whether the tenant takes the space or not. Such intervening variables consist of:

- Supply and demand: Depending on the state of the rental market, the tenant may need to take up space in strong or poor economic conditions. An example of this is when the country is experiencing a recession or a property boom. This will have an effect on whether the demand for office space is high or low and whether the supply of office space is high or low. Depending on the state of the market and whether it is a tenants' or a landlords' market will determine whether landlords are prepared to provide more or less concessions to entice tenants into signing a lease.

- Marketing: Landlords all have different methods of providing incentives. Either the marketing will result in the desired outcome for the landlord or it will not, but the fact that there are different methods of getting the incentives out into the market must be taken into consideration

- Financial Implications: The provision of a lease incentive affects the overall bottom line and income of a property. By utilising different methods of calculation with different goals in mind, landlords have different expectations and may be able to put together deals whereby they can provide more effective incentives to tenants than their competitors.

- Types of Incentives: Certain incentives may be attractive to a particular tenant and not to another. These can make or break deals, and whether the landlord can offer the right incentives to a tenant, will have an influence on whether the tenant will in fact sign a lease with them or not.

- The dependent variables (outcome/presumed effect) of providing the concessions will either result in convincing the tenant to take up space in the landlord's property or not. The landlord and the tenant will either agree to terms or they will not. If they do not, then this will result in the tenant having to look for new space and new terms of lease in an alternative property of a competitor landlord.

2.4 Conclusion

In this literature review, the subject of lease incentives is examined in relation to prior studies, with the aim of analysing relevant problems, methods, weaknesses, gaps and findings. The problem with this research in relation to the study of lease incentives is that it

is difficult to ascertain whether the provision of lease incentives actually enables landlords to secure tenants, or whether it merely keeps them competitive in relation to the lease incentives that other landlords already offer in the market.

In order to resolve this problem, the need to explore the central question of whether the competitiveness of a landlord in the commercial property market in Johannesburg is determined by the provision of the lease incentives that they provide, is necessary in relation to these previous studies. The use of a schematic diagram in the conceptual framework provides a means to visually comprehend the interaction between the different variables and the various possible courses of action that they may take.

In looking at previous studies in terms of supply and demand, the findings indicate that landlords offer greater incentives and a wider variety of incentives when they compete more strongly for a tenant, and do not offer as many incentives in a market experiencing a high demand. Accordingly, the greater the demand for offices the higher the rent that landlords charge. Landlords offer fewer incentives as the market strengthens. If the state of the market does not favour the landlord or the tenant, the market is known to be in a state of equilibrium. Higher vacancies are experienced in times of recession, rentals become more negotiable, and more concessions are offered. The problem with the existing studies examined, is that the subject of lease incentives in the supply and demand markets, is explored between landlord and tenant, or supplier of space and occupier of space, and not explored in the case of landlords competing with one another for the tenant's signature. The existing studies of lease incentives in order to justify the state of the space market, is insufficient to conclude whether the provision of lease incentives actually secures tenants and closes deals. This presents the researcher with the justification and motivation to research this subject in terms of what the competing landlords are actually offering in the market, and to determine the extent of the benefit thereof.

In terms of marketing, previous studies show that marketing is about creating products and services to satisfy customer's needs, and that there are a number of different lease incentives offered in the market such as the rent-free period and tenant installation allowance. Although findings indicate that the provision of concessions in the residential industry have a positive effect on rent and occupancy rates, there is insufficient evidence in the commercial property industry to reflect this, and therefore the need to undertake this research is further supported.

In looking at the financial implications of the provision of lease incentives in the studies above, the findings demonstrate that a landlord must offer concessions in order to get tenants to sign new leases, and that these concessions can be priced by assessing their effects on the cash-flow from the property. In terms of previous methods analysed, we learn that using simple linear regression has no significant impact on rent when tenant improvement amounts are low, and where they are high it produces rent premiums. The aim is to achieve a balance of letting out as much space as possible at a price that still makes it profitable to the landlord. The weakness or potential gap with these aforementioned studies in relation to the financial implications of providing lease incentives is that there may be innovative ways of providing lease incentives that have not yet been discovered or invented. Also, if there are innovative technologies or methods of providing incentives that have not yet been encountered in this research, it provides the researcher with great justification to research the existing commercial property market in Johannesburg to analyse the methods that are currently being employed in the field.

Therefore, there is great incentive to conduct this research as the researcher can build on previous studies in the subject of lease incentives, and contribute to the increased understanding and development of insight in the field. There is a legitimate need for the researcher to ascertain whether the provision of lease incentives actually enables landlords to secure tenants, or whether it merely keeps them competitive in relation to the lease incentives that other landlords already offer in the market. This all leads the researcher to believe that there is a clear need to investigate the subject of lease incentives in more detail, and undertake the research presented in this report.

Chapter 3 : The importance of lease incentives and method of research

Research is the process of attempting to formulate a deeper understanding of the complexities of human experience in the area of interest under study, by optimising the use of resources in the investigation. The researcher seeks to systematically gather, interpret and evaluate information, and provide conclusions based on reasoning (Marshall & Rossman, 1999, p.21).

As mentioned in the literature review above, there is no existing research in the context of the use of lease incentives, inducements or concessions and their effectiveness in making a landlord competitive. Therefore, there is a significant need to undertake this research. This research seeks to analyse the lease incentives provided in the market and aims to understand whether the provision of these incentives are effective or not.

3.1 The research hypothesis

Property owners and landlords provide lease incentives to tenants in order to remain competitive.

This research seeks to determine whether providing lease incentives to prospective tenants is something that landlords do to be competitive. In order to research the validity of the statement above, the research and design methods pursued and employed in the field are explained in further detail below.

3.2 The research approach

The research utilises a qualitative research approach. Qualitative research can be described as any type of research that produces findings not arrived at by statistical procedures or other means of quantification (Strauss & Corbin, 1998, pp.10-11). This research report consists of research in relation to individuals' organisational experiences and interactions in the commercial property market. The researcher seeks to understand and interpret how the various participants in the commercial property market construct the world around them. Qualitative research aims to give privilege to the perspectives of the research participants and to illuminate the subjective meaning, action and context of those being researched (Fossey, Harvey, McDermott & Davidson, 2002, p.723).

The qualitative research approach in this report is conducted with the use of a survey in the form of a self-administered questionnaire. Fundamental to the qualitative research approach utilised, is whether participants' perspectives have been authentically represented in the research process and the interpretations made from the information gathered are consistent with the data in the context from which they were derived. It is for this reason that a self-administered questionnaire is selected as the source of data collection, where the emphasis rests upon the views of the participants as the principal source of data. The researcher can then organise and break up the data into meaningful units, and search for patterns to unravel what is important and what can be learned and conveyed to others (Bogdan & Bilken, 1982, p.145). The purpose of qualitative data analysis is sifting through and sorting the masses of information acquired during the data collection process, and organising and re-contextualising it in such a way that the themes and interpretations that emerge from the process address the research problems posed at the outset of the research (Tutty, Rothery & Grinell, 1996, p.90; and Creswell, 1994, p.154).

The survey questionnaire is designed to contain instructions, questions and statements that are assembled to obtain answers from the respondents. An electronic mail message is sent to the respondents, with the self-administered questionnaire thereto attached. The respondents are required to complete the survey without the assistance of the researcher, and then fill in the questionnaires on their personal laptops or computers in their own time (Wimmer & Dominick, 1994, p.130). For the purposes of this research, the survey questionnaire is structured in such a way that allows the respondents to answer quickly and freely in order to save time.

Whilst there is no standard procedure for qualitative analysis, it does not imply that the analysis is not systematic or rigorous (Leady, 1997, p.165). Since there are many ways to perform a qualitative data analysis, the researcher intends to be flexible in the research process and remain true to the data at all times. The results of the self-administered questionnaires are arranged and organised in a structured manner that allows for the data to be interpreted and analysed in a way that effectively supports the research findings and the reasoning presented.

3.3 The type of research

This research report comprises of exploratory research. Davies (2012, p.1) states that, "Exploratory research is a methodological approach that is primarily concerned with discovery and generating or building a theory." In this research report, the researcher makes use of exploratory research as there is no existing scientific research on the subject under study and no previous mention has been made of the particular topic presented. This provides the researcher with the opportunity to explore the subject in detail, and bring it to a stage where it can effectively be developed upon.

Exploratory research aims at developing and clarifying ideas and formulating questions and hypotheses which can be more accurately investigated at a later stage, and aims at investigating the 'what' of the matter, whilst seldom providing the final solution (Struwig & Stead, 2001, p.7). Exploratory research can help lay the foundation for a meaningful research design in relation to the research problem.

There are three possible methods to be used in exploratory research:

1. The study of secondary sources of information – to provide new insights into a problem.
2. An analysis of selected cases – knowledgeable people providing new insights into the research problem.
3. A survey of persons who are likely to have information on the phenomenon under investigation – to generate ideas (Struwig & Stead, 2001, p.7).

The researcher makes use of the third method above by conducting a survey with the use of a self-administered questionnaire to explore the subject under study. The self-administered questionnaire is designed and structured in a way that effectively explores the views and opinions of the respondents in the commercial property market.

3.4 Research design and methods

The research design in this report is first initiated by identifying the research approach used to resolve the research problem. As mentioned earlier, a qualitative research method is implemented with the intention of focusing upon meaning, experience and understanding.

The qualitative design applied in this report is evaluated with the use of the following principles:

- **Description:** The researcher administers a survey questionnaire to the respondents to understand their experience and views in the commercial property industry
- **Scope:** The researcher analyses the findings of the individual respondents with the main focus on the understanding and the experiences of the target sample as a whole. Although the respondents complete a limited number of self-administered questionnaires, the transcription and analysis can still be time-consuming for the researcher
- **Flexibility:** The general area of concern is determined in advance with specific closed-ended questions, but open-ended questions are also utilised to allow the respondent more freedom to express his or her views
- **Relationship:** The researcher shares a common interest in the subject under study with the respondents. The researcher is professional and business-like and is more concerned with understanding the views of the industry as a whole, than any single respondent individually
- **Outcome:** The researcher will provide a report detailing the different findings in the subject under study

The research design further enables the researcher to analyse the research problem of whether the provision of lease incentives enables landlords to secure tenants or whether it merely keeps them competitive in the marketplace. It is for this reason that the research topic requires a closer study of the subject of incentives, and the use of a qualitative research approach is best placed to achieve this.

The qualitative research approach is used to clarify any existing uncertainties. The use of the survey is designed to have an exploratory focus. The emphasis focuses on the views of the participants as the main source of data in the process of the data collection. The process of conducting the research begins with selecting the target population to be sampled, followed by identifying the overall number of respondents required to reflect the overall consensus of the commercial property industry in Johannesburg, South Africa.

In this research, the full range of data collection possibilities is considered and utilised. These methods are organised by their degree of predetermined nature, their use of closed-ended versus open-ended questioning, and their focus of numeric versus non-numeric data

analysis. The instrument used in this research is a questionnaire survey and the key methods of collecting data for the purposes of this research depend upon the research problem and the selected research methods. The data collected in this study is collated by the use of a survey questionnaire that is comprised of questions making use of the following tools and techniques:

- **Ordinal levels of measurement:** These are used so that the researcher can assess his observations or data in a particular order of importance
- **Closed-ended questions:** The researcher conducts questions with a fixed number of answers
- **Open-ended questions:** These are used to encourage respondents to express their ideas, emotions, attitudes, sentiments, suggestions or opinions in their own words. These types of questions are particularly useful where the researcher is unsure of the response to be obtained
- **Follow-up questions:** These are typically utilised as probing questions to elicit more information than initially requested
- **Ranking questions:** These are also conducted in the form of closed-ended questions, but instead of selecting a single option, the respondents are required to rank their preferences or order their options from the most to the least (or from the least to the most) favourable
- **Inventory questions:** These are used in the form of closed-ended questions where the respondent is not limited to selecting only one option. The purpose of inventory questions is to obtain a comprehensive overview of all possible options that could apply to each respondent
- **Multiple-choice questions:** These are used where the respondent must select one option from those given
- **Likert scales:** The use of Likert scales in social sciences research is very common. In this research, the researcher constructs a Likert scale by formulating a number of statements related to the attitude or behaviour that is to be measured. In some cases, we can expect positive or favourable responses, while in others we can expect negative or unfavourable responses. Respondents are asked to read the statements and to select one of the categories which best represent their attitudes or opinions. The use of a Likert scale enables the researcher to analyse the measures of central tendency, or average set of measurements being analysed. In this research the researcher analyses the median and the

mode. The median is the middle value that separates the lower half from the higher half of the data set, and the mode is the most frequent value in the data set.

3.5 The population and sample design

The entire group of persons or set of objects and events that the researcher intends to analyse can be defined as a population. This population contains all the variables of interest to the researcher (Bless & Higson-Smith, 2000, p.84). The target population for the purposes of this research consists of respondents who fall into the Group 2 category depicted below, which has been previously discussed in the literature review.

- Group 2: Directors, fund managers, portfolio managers, asset managers, development managers, property managers, sales managers, marketing managers, leasing managers, managers, leasing or broker consultants, executives or clerks, leasing administrators, trades and acquisitions managers, and building managers. These professionals work for the first group and are employed or appointed to make expert property decisions on behalf of the owners of the properties.

Therefore, the target population consists of professionals that could arise from a multitude of job descriptions as presented above. To most accurately obtain an overview from the results, a sample that best resembles the population is selected. A sample is an element of the sum total, or a subset of measurements drawn from the population. In an effort to gain a better understanding of the population that we are interested in, we take a closer look at the sample (Brink, Van der Walt & Van Rensburg, 2006, pp.123-124). In this research, the researcher makes use of sampling as a way of formulating and understanding the larger population.

The representative sample of respondents elected to partake in the survey as part of the data collection process are required to fulfil the following criteria to qualify for selection:

- They must consist of individuals who work in the commercial property market in Johannesburg, so that they can provide responses that accurately reflect the market under study
- They must have previous experience or be currently involved in the provision of lease incentives, concessions or inducements as part of their work responsibilities in their job, so that they can accurately provide opinions on the subject matter being analysed
- They must be accessible to the researcher, in order to partake in the survey

The respondents that partake in the survey may all have a different level of experience in the industry. This is taken into consideration as the respondents may consist of professionals at both the junior and senior levels in the workplace.

In this research, a non-probability sampling approach is applied. This sampling approach is used because the probability or chance of selecting and using members from the population in the sample are unknown. In non-probability sampling, the distinguishing characteristic is that the researcher may subjectively select the units of the population which will be included in the sample. This research makes use of two non-probability sampling methods:

1. Convenience sampling (often referred to as accidental or availability sampling): This is where the researcher selects the most readily available elements or respondents that he or she can access easily until the sample reaches the desired size. This type of sampling method of choosing subjects is easy to perform, as the subjects are usually available and easy for the researcher to find.
2. Purposive sampling: This is where the researcher selects a sample that can be judged to be representative of the total population, and the purpose of the study and the researcher's knowledge of the population guides the process (Tansey, 2007, pp.15-17). Therefore, purposive sampling is a sampling method in which elements are chosen based on a specific purpose rather than randomly.

The non-probability nature of the sampling method used presents the advantage that by the researcher targeting a specific group, the results should be similar to what the rest of the population would respond. The disadvantage is that it presents a more biased view, because the individuals are not randomly selected, but specifically chosen. The individuals selected may not represent what another population may believe. In exploratory research, where the aim is to explore whether a problem exists in a cheap and efficient way, non-probability sampling can be very useful. The researcher may have a theory that such a problem exists, but there may be no research or a limited amount of research to support this theory.

At the beginning of the research, the number of respondents that would partake in the survey questionnaires is unknown to the researcher. In order to reach a desired size that the researcher feels would accurately depict the findings of the research, the researcher opted to commence with a list of fifty potential respondents to approach to partake in the survey questionnaire. The researcher created this list, by making use of an existing network of

individuals in the commercial property industry in Johannesburg. Therefore, the sample came from communicating with these various property players who are active in the city of Johannesburg.

The reason that the study covers the city of Johannesburg is because it is often the case that a portfolio manager or leasing manager covers more than one property in a portfolio, and the accuracy of the results would be greater if they covered the entire geographical area of Johannesburg, rather than a particular suburb such as Parktown or Bryanston. These professionals would be more easily accessible and available, and judged to form a good representation of the population to partake in the survey for the purposes of this research.

The goal of a survey is to give an accurate display of how people feel about a subject. It is not as important how many people respond to a survey i.e. the response rate, in order to judge the accuracy of a survey, but rather the representativeness of the sample. Receiving a lower response rate from the respondents does not necessarily mean that the sample will be skewed. The most critical thing about sampling, regardless of the sample size or the response rate, is that the sample must represent the whole population in order for the conclusions to be acceptable as accurate. In this research report, a 44% response rate is achieved. This provides acceptable results in analysing the survey based on the size of the population, and that there is little variance in the responses. If the researcher judged the overall response rate to be small based on the above factors, then a new list of an additional ten potential respondents would be identified and approached on the same basis as the original fifty, consecutively, until the response rate achieved is sufficient enough to provide accurate results.

3.6 Data collection methods and fieldwork practice

The data collection methods and events that took place in the field of research are broken down and described in the following three stages:

Stage 1

The first stage involved selecting the fifty potential respondents to partake in the questionnaire survey. The respondents were selected randomly from an existing network of individuals in the commercial property industry, that work for various private and public property companies operating in Johannesburg. This would therefore cover all the types of

landlords in the market. This list was created and recorded in an electronic spread sheet. The fifty potential respondents were then all emailed the survey questionnaire, which is listed in appendix A of this document, as well as provided with the return email address details for the respondents to send their responses. The fifty electronic mails were sent out over the course of 30 September and 1 October 2012.

Stage 2

At this stage, the researcher allowed for a week to pass to grant some time to allow the potential respondents to respond to the survey. During this week, the researcher received email responses from nine respondents. By 6 October, the number of survey questionnaires received by the researcher totalled twelve. The researcher also experienced an occurrence of an email failing to reach its destination, where the researcher had to check the validity of the email address and rectify the address. Some respondents responded that they would only respond at a later date, when they believed they would have more time to complete the self-administered questionnaire. The electronic spreadsheet was then updated to reflect all the respondents that had completed the survey, not yet completed the survey, and those that responded that they would still complete the survey.

Stage 3

The third stage of the process involved re-sending a generic follow-up email to all the potential respondents that did not yet partake in the questionnaire survey, to request if they would still like an opportunity to partake in the questionnaire survey. This email was sent to respondents that had not yet responded, and those that had responded saying that they needed more time to complete the survey. This batch of emails was sent out to the updated list of potential respondents on the 7 and 8 October 2012. There would be no further follow up email sent after this date. Any potential respondent that did not respond after a further ten-day period would be considered as not interested in partaking in the survey questionnaire. By 4 November 2012, a total of twenty-two fully completed survey questionnaires was completed and received for analysis. The number of fully completed questionnaires successfully exceeded the 40% response rate determined as sufficient for the purposes of this research.

3.7 Data capturing, editing and analysis

In the next phase of the process, the responses received are captured, edited and analysed. A set of tables is created in an Excel spreadsheet to analyze the twenty-two completed survey questionnaires. Each question is tabulated, and the responses are marked into the tables for analysis. This consisted of capturing the data and tabulating the responses to each question for each of the respondents. The views expressed by respondents in the open-ended questions are presented where they contribute towards the researcher's analysis of the aim and objectives of this report. The data and tables are then analyzed and formed into graphs and tables to portray the information more effectively and statistically.

The rationale behind the selection of these procedures and methods of analysis is that in order to compile the outcomes of the research, the researcher requires making use of the best tools and techniques available in the data capturing process. It is for this reason that the researcher makes use of graphs and tables, and systematically works through a number of different procedures with the aim of providing sufficient information to understand and interpret the statistical results of the research. The researcher then analyses and interprets the data making use of descriptive statistics in order to evaluate and present claims, trends and outcomes more carefully and impartially.

3.8 Advantages and limitations of using a questionnaire survey

Sending survey questionnaires by electronic email is advantageous in that it saves time and money. Another advantage is that the researcher is more capable of reaching respondents that are geographically dispersed. The use of electronic mail saves on the exorbitant costs of printing and postage, and is very feasible if all the respondents have access to the internet and electronic email.

When the subject under investigation is personal or sensitive, a self-administered questionnaire is very useful. Respondents can exercise their right not to respond if they do not want to, and they can expect their responses to remain confidential and anonymous.

The limitations of sending this type of survey by email is that the researcher may experience a slow and low response rate as respondents may take their time to respond. There is also a lack of control over the nature of the respondent's responses and the responses may be received incomplete, filled in inaccurately, or can express a hint of bias.

3.9 Shortcomings and sources of errors

During the process of collecting data in this research, the researcher has remained aware that the measurement instruments used could bias the actual data collected which could affect the overall interpretation of the results.

Measurement errors can be split into two components:

- Systematic errors: Systematic errors are typically constant and predictable. Respondents may want others to perceive them favourably and the need to feel socially accepted may bias their responses systematically. When this happens consistently, researchers fail to measure what they initially intended to measure because the respondents did not provide their true opinions.

- Random errors: Random errors are experimental uncertainties and occur when measurements vary. Random errors occur for a number of reasons:

    - The researcher may lose concentration
    - Respondents may be tired or fatigued whilst answering a question
    - Respondents may feel intimidated by the presence or views of the researcher
    - The research equipment or tools fail to meet their objectives

    (Taylor, 1999, p.94)

3.10 Conclusion

The research seeks to determine whether *property owners and landlords provide lease incentives to tenants in order to remain competitive,* and the quality of data required to accomplish this is best achieved through the use of a survey questionnaire that is sent out to survey sample candidates in the form of a self-administered questionnaire. A self-administered questionnaire is sufficient for the purposes of this research.

The research design utilised in this report makes use of a qualitative research approach that comprises of an exploratory method of analysis. Although the research conducted in this study is exploratory in nature and has not yet been conducted before, the number of fully completed questionnaires received presents a good overview of the leasing market in

Johannesburg. If the same research is conducted in another major city in South Africa or even in another country, the researcher would be able to ascertain whether different or similar results can be obtained, and gain a deeper understanding of the subject under study. The research design further investigates the research problem that it is difficult to ascertain whether the provision of lease incentives actually enables landlords to secure tenants, or whether it merely keeps them competitive in relation to the lease incentives that other landlords already offer in the market.

In order to achieve this, the research topic requires a closer study of the subject of lease incentives and a full range of data collection possibilities is considered and implemented. A non-probability sampling approach is applied.

The data was collected in three stages. The first stage involved sending out fifty electronic mails to potential respondents. The second stage allowed for a week to pass providing the respondents with some time to respond. The third stage involved sending a generic follow-up electronic mail to all the potential respondents that had not yet responded to the survey questionnaire.

The data was then analyzed and tabulated, and arranged into categories. The researcher made use of various descriptive statistics and systematically worked through a number of different procedures with the aim of providing sufficient information to analyze and interpret the statistical results of the research.

The survey questionnaires were cost effective and reached a wide audience with ease, however at times the response rate was slow, and the researcher experienced a lack of control over the nature of the respondent's responses. The researcher remained aware of the systematic and random errors that could affect the overall interpretation of the results, and the data and findings are presented in the following chapter.

Chapter 4 : Presentation of data and findings in lease incentives

The purpose of this chapter is to present and discuss the findings as a result of the survey questionnaires completed by the respondents in relation to the aims and objectives of the research as discussed in first chapter. The survey questionnaires were targeted towards individuals involved in leasing incentives as part of their work duties, and represent a sample of the population that work in both the private and the listed property sectors of the commercial property market in Johannesburg. A total of twenty-two survey questionnaires were completed by the respondents. The respondents were forthcoming in their responses and the responses received were insightful. The data drawn from the closed-ended questions, and additional comments provided as part of the open-ended questions are analysed to provide further insight into each of the factors associated with the subject of lease incentives. The presentation of the data and findings proceeds below.

4.1 Presentation of results

According to the survey questionnaires, the table below represents the city, suburb or geographical area that each respondent has listed as their location in table 1:

Table 1: Respondent and city, suburb or geographical area

Respondent	City, Suburb or Geographical Area
1	Johannesburg
2	Johannesburg
3	Sandton
4	Rivonia, Johannesburg
5	Bryanston
6	Bryanston
7	Johannesburg
8	Rosebank
9	Johannesburg
10	Johannesburg
11	Johannesburg
12	Johannesburg

13	Johannesburg
14	Illovo, Johannesburg
15	Johannesburg
16	Johannesburg
17	Johannesburg
18	Johannesburg
19	Johannesburg
20	Sandton, Johannesburg
21	Johannesburg
22	Johannesburg

Suburbs such as Rosebank, Bryanston, Sandton, Illovo and Rivonia are all positioned within the metro of Johannesburg. Although the emails were intended to reach potential respondents within the region of Johannesburg only, it so turned out that one respondent listed that the company they work for is located in Cape Town. However, although the company is based in Cape Town, it owns property within the city of Johannesburg and the respondent actively operates in and flies to Johannesburg as part of their work responsibilities. Therefore, for the purposes of this research, the respondent was able to partake in the survey without skewing the data and the overall results would still provide an accurate representation of the data gathered in the Johannesburg commercial property market. The total number of completed survey questionnaires in the area under study, namely Johannesburg, is twenty-two, achieving a response rate of 44%.

A breakdown of the job titles or descriptions of each of the twenty-two respondents that completed a survey questionnaire is presented below. The use of a pie chart is used in order to visualise the sample graphically as presented in figure 3:

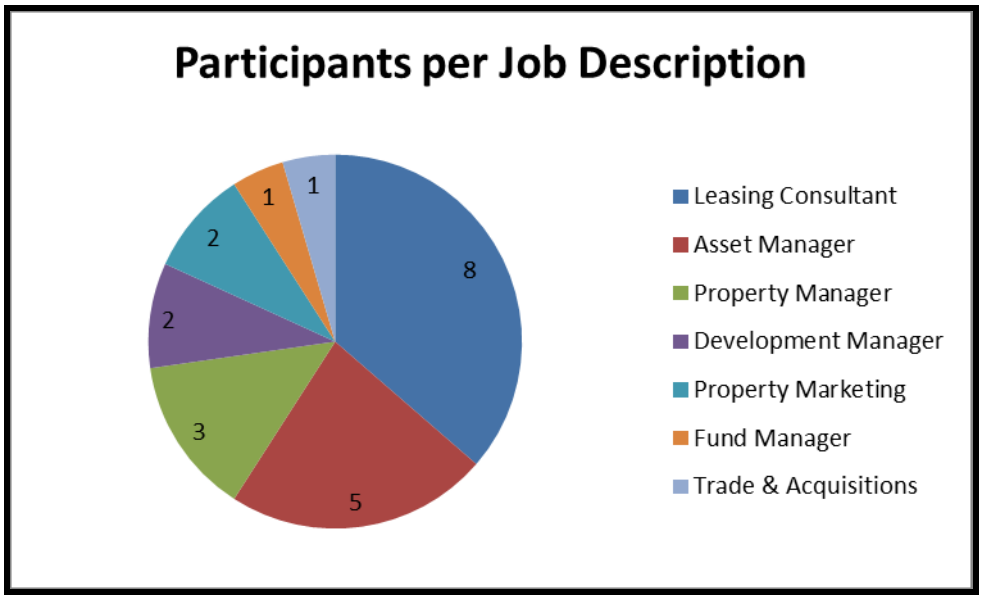

Figure 3: Respondents per job description

In order to be sure that the survey questionnaires were completed by competent property professionals that have the relevant knowledge, familiarity and experience in the subject of lease incentives, both the respondent's level of activity and their experience in the workplace were assessed. The amount of experience and the level of activity that the respondents have in dealing with lease incentives in the commercial property industry are presented graphically below in figure 4 and figure 5:

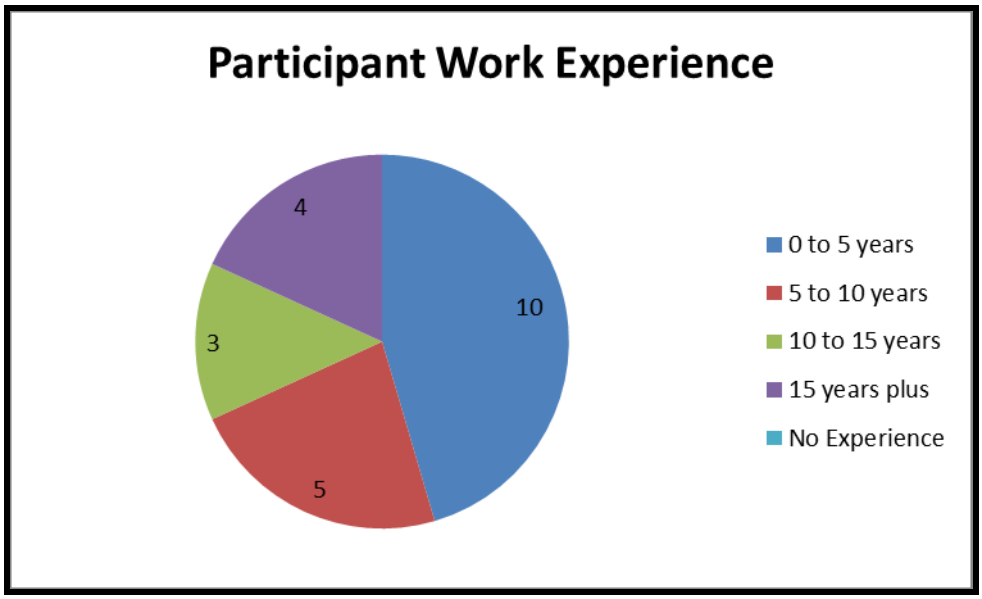

Figure 4: Respondent work experience

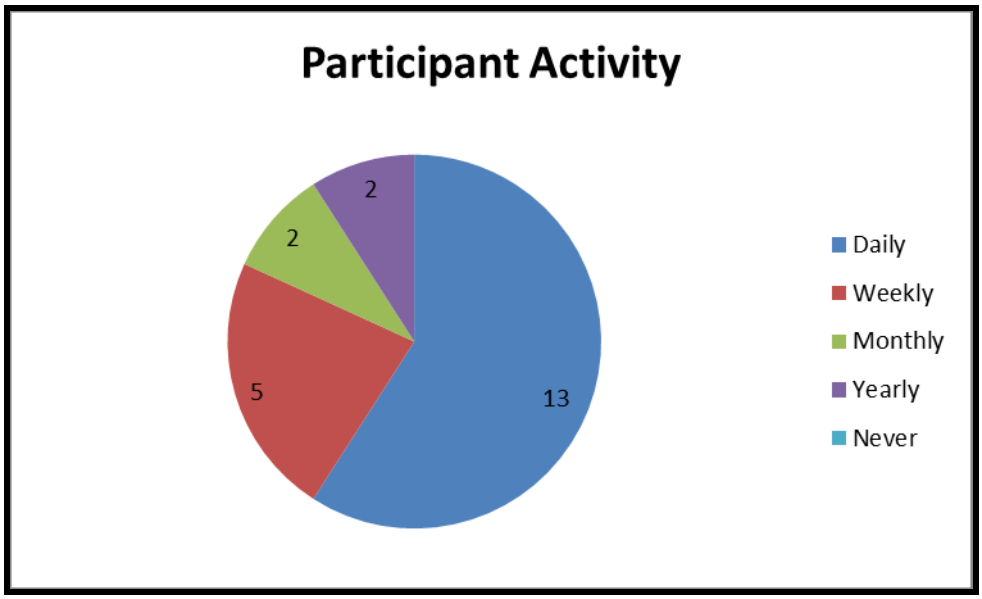

Figure 5: Respondent activity

The results in figure 5 show that all the respondents have experience in dealing with lease incentives, and more than half the sample has over five years experience in dealing with lease incentives. With further analysis, it is evident that of the respondents that have experience between 0 and 5 years, 80% of these deal with lease incentives on a daily or weekly basis, which indicates that they are extremely familiar with lease incentives and would be expected to have the relevant knowledge of lease incentives as they deal with them on a very frequent basis. All these factors point towards the conclusion that the respondents in the population sample in this research report are well represented and are a good indication of the broader population of the commercial property market in Johannesburg.

4.2 Discussion of findings by theme

A discussion of the findings by the following themes is analysed and discussed:

- Finding tenants and tenant drivers for space
- Lease incentives in the market
- Factors to consider before providing lease incentives
- The cost methods of applying lease incentives
- The importance and effectiveness of providing lease incentives
- The most important reasons to offer lease incentives to tenants

4.2.1 Tenant drivers for space and finding tenants

As discussed in the literature review, marketing plays an integral role in a landlord's necessity of promoting and marketing their space to attract tenants to their properties. Landlords need tenants to fill their vacancies, and tenants look for space for one of two reasons:

1. They do not have existing space and require space from where to operate their businesses.
2. They are currently in an existing space and would like to move for various reasons.

Table 2 below, shows the combined results of the top five drivers that the respondents believe are the reasons behind a tenant taking a particular space, and are listed in order:

Table 2: Top five drivers behind a tenant taking space according to respondents

Top five drivers behind a tenant taking space	Percentage	Number
1. The location of the building, such as the area or suburb	77%	17 of 22
2. The asking rental	54%	12 of 22
3. The building attractions e.g. architecture, design, style, etc.	27%	6 of 22
4. The security in the building	27%	6 of 22
5. The length of lease required by the landlord	22%	5 of 22

According to table 2, 77% of the respondents agreed that the geographical location of the building, such as the area or suburb that the property is located in, is the top driver that a tenant takes into consideration in their search for new space. Whilst there is no evidence in previous research to suggest that location has any bearing on lease incentives, it is interesting to learn, and as important to note that 54% of the respondents agreed that the second main driver behind a tenant looking for space is the asking rental rate, which has a significant bearing on lease concessions. This is in line with previous findings by Asser (2004, p.10) who suggests that the cost of space is always going to be a significant factor in a tenant's decision to renew its lease. Further findings by Asser (2004, p.48), indicate that the rental rate is the most logical area to investigate and the most important driver behind the decision for office space. Of the following three drivers that featured in the top five list, only the

length of the lease has an impact on lease incentives, which also arises in works by Geltner *et al.* (2006, p.248), who suggest that landlords offer tenants concessions in order to entice them to sign long-term leases.

According to the survey questionnaires, additional reasons that did not feature in the survey, that the respondents suggested in the open-ended questions, which could be a driver for a tenant to consider new premises, are as follows:

- Tenants that have outgrown their existing space or are downsizing and require less space
- Tenants that may not be comfortable with their existing landlord and would rather move to a new building with a different landlord
- The functional efficiency and suitability of the property for the specific tenant requirements have changed

Using a Likert scale in accordance with the following scale (1-Strongly Disagree, 2-Disagree, 3-Neither Agree or Disagree, 4-Agree, 5-Strongly Agree), the respondents were analysed to determine the extent of whether they agreed or not with the following statement: It does not matter whether you provide a tenant with an incentive, if they want the space, they will take it. The results are presented in figure 6, and discussed below:

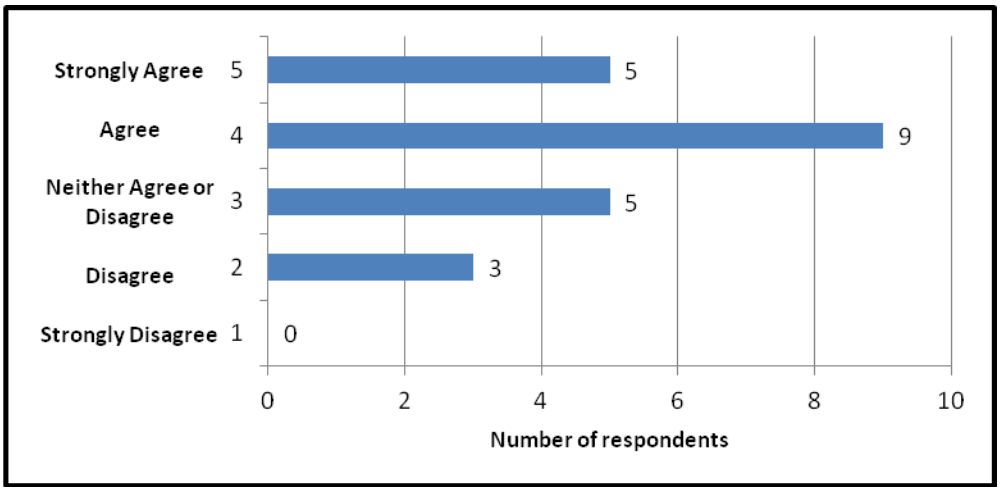

Figure 6: Tenants' desire for space

In Figure 6, the median is 4 and the mode is 4. These figures indicate that there is high agreement amongst the respondents that if a tenant wants the space they will take it. This view is supported regardless or not of whether they have been provided with a lease incentive

or not. This is the first bit of evidence that appears in this research that suggests that the provision of lease incentives is not always necessary. These results support the evidence found in figure 2 that suggests that location is the top driver behind a tenant taking a space. Therefore, the location factor is a more important factor for landlords to take into consideration than lease incentives in order to secure a tenant.

Therefore, according to the results presented in table 2 above, location and rental are the top two drivers behind a tenant's search for space, and once a landlord has bought or built a property in a good location and allocated an asking rental to the property, the intention of the landlord is to then attract a potential tenant to the space. Then, once a tenant is effectively interested in taking a particular space, only then can the landlord engage in negotiating a lease with a potential tenant and offer incentives in an attempt to secure a deal where necessary. Therefore, in order to first connect with a potential tenant, it is necessary for a landlord to understand the most effective ways of finding and attracting the tenants out there in the market, which is analysed below.

According to the survey questionnaires and presented in table 3, the respondents believe that the top five most important methods for landlords to find tenants are, in order:

Table 3: Top five methods for a landlord to market their space according to respondents

Top five methods for a landlord to market their space	**Percentage**	**Number**
1. Sending vacancy schedules to brokers who will find tenants	63%	14 of 22
2. ***Equally*** Implementing marketing and public relations campaigns and Incentivising brokers to find tenants	27% and 27%	6 of 22 and 6 of 22
3. Incentivising brokers to find tenants	40%	9 of 22
4. ***Equally*** Advertising and listing properties and vacant space on the internet and By implementing marketing and public relations campaigns	31% and 31%	7 of 22 and 7 of 22
5. Advertising in the press e.g. newspapers, magazines, etc.	45%	10 of 22

In table 3, we can see that 63% of the respondents believe that sending vacancy schedules to brokers is the best method of marketing their space. The rationalisation by the respondents that sending vacancy schedules to brokers is the best method to secure tenants is due to the fact that many deals in the market are concluded by brokers. Brokers have built close-knit relationships with tenants, and will often bring tenants straight to landlords. In many cases, tenants will prefer to look for space through a broker who will present all the different landlords stock equally, as opposed to a landlord who will only sell the benefit of his own stock. Brokers often have the ability to sway a deal towards a particular landlord. In order to have the best chance of having a broker bring a landlord a deal, landlords will try to build relationships with brokers so that the brokers will be more inclined to fill their vacancies. Sending vacancy schedules to brokers by electronic mail is a low cost exercise and can be distributed on a regular basis. It is essentially a marketing method of exchanging information as learnt by Cant (2010, p.8), which landlords use to make their properties known to brokers, who will in turn promote their space for them.

In table 3, 54% of the respondents expressed between the importance of implementing marketing and public relations campaigns, and incentivising brokers to find tenants. 27% of the respondents selected incentivising brokers as their second top method, and 40% of the respondents selected the same as their third top method. This is clearly a common method used by landlords in the industry, to market their space. These incentives vary and could range from higher commissions to trips or holidays. According to marketing fundamentals reported by Brijball *et al.* (2006, p.14), marketing is about satisfying customers' needs by creating products and services that will generate sufficient profits; and in order to successfully promote and market one's space, it is very important that landlords embark upon marketing campaigns as well as offer incentives to brokers to assist them in letting their space.

There are instances where a landlord may not want to engage with a broker. If they do, they will be liable to pay a commission fee to the broker for bringing them a tenant, which reduces their profits. Furthermore, marketing and advertising campaigns can be quite costly for a landlord. An extensive amount of money and resources may be spent and not result in securing tenants. Although more and more landlords are starting to list vacancies on their websites, which is evidence supported by seven respondents, potential tenants are seldom aware of which landlords own what space and they do not know where to find the websites

themselves. However, from the results above, we see that the best method for a landlord to market their space is by sending brokers vacancy schedules to assist them with the marketing of their vacant space.

Whilst there are a number of split decisions in the top five methods for a landlord to market their space, 45% of the respondents agreed that the method least opted for is the use of advertising on the television or radio. In the context of the South African commercial property market, the television or radio is the least utilised method to attract tenants. This is due to factors such as the high costs involved, and property is often relationship and location based and potential tenants will seldom phone a landlord from a radio or television advertisement if the property advertised is not exactly what they are looking for.

Methods not included in the survey for a landlord to market their space, and suggested by respondents in the open-ended question for landlords to attract tenants include:

- To erect 'To Let' signboards on properties (4 respondents)
- To directly approach suitable and potential tenants (2 respondents)
- To network with potential tenants and other property players, and build relationships (1 respondent)
- To provide a good service to your existing tenants so that they will be return customers, and build your business using word of mouth (1 respondent)

4.2.2 Lease incentives in the market

As we begin to understand the drivers behind a tenant taking a particular space, and the methods used by landlords to market their space, there comes a point where a tenant has decided to commit to a particular space. This is the crux of a potential leasing transaction and the negotiation that ensues will either make or break a deal. As important and at the heart of these negotiations lies the fundamental challenge of the provision of lease incentives.

According to the respondents, table 4 below indicates the combined results of the most common and important incentives provided by landlords to tenants in the commercial property market in Johannesburg:

Table 4: Top five most important incentives provided to tenants according to respondents

Top five most important incentives provided to tenants	Percentage	Number
1. A rent-free period	40%	9 of 22
2. A tenant installation allowance	45%	10 of 22
3. A reduction of escalation-rate over lease-term	27%	6 of 22
4. Rent subsidies, such as a reduction in the rental rate	18%	4 of 22
5. Payment of relocation costs	27%	6 of 22

The results indicate that 40% of the respondents listed the incentive that they believe is the most important to provide to a tenant, as the rent-free period. We see evidence to support the importance of this in Sheehan's research (1997, p.17) where it is discussed that free rent is a commonly negotiated lease concession that effectively reduces the tenant's initial rental obligations and allows the landlord to report a higher amount of nominal rent.

The second most favourable incentive as purported by a total of 45% of the respondents is the provision of the tenant installation allowance. Studies to support these findings by Geltner *et al.* (2006, p.248) are in line with the respondents' views, that tenant improvement expenditures are a major concession offered to tenants to sign a lease.

Less emphasis was placed on the following three incentives in the list as they achieved a level of importance of 27%, 18% and 27% respectively. Although these incentives found themselves less important as a whole and further down the list in terms of favourability, they cannot be ignored completely as they all affect a company's bottom-line as we have previously learnt from Asser (2004, p.10).

There is only one additional incentive suggested in the category above that did not appear in the survey. The incentive suggested is to allow a tenant signage rights on the building. Signage rights are often provided to the anchor tenant in a building, namely the tenant taking the majority of space in the building. We see evidence of this on commercial buildings where the name of the tenant occupying the largest amount of space in the building appears on the outside of the building. An example of this is at no.1 Sandton Drive in the city of Sandton, where the tenant AON Insurance occupies the largest commercial space within the 30,000 square metre development and has the most visible signage.

Using a Likert scale in accordance with the following scale (1-Strongly Disagree, 2-Disagree, 3-Neither Agree or Disagree, 4-Agree, 5-Strongly Agree), the respondents were analysed to determine the extent of whether they agreed or not with the statements presented, and analysed using the graphs below:

In Figure 7, the researcher seeks to determine the extent of whether tenants compare incentives offered by one landlord in the market with those offered by other landlords. The results are presented and discussed below:

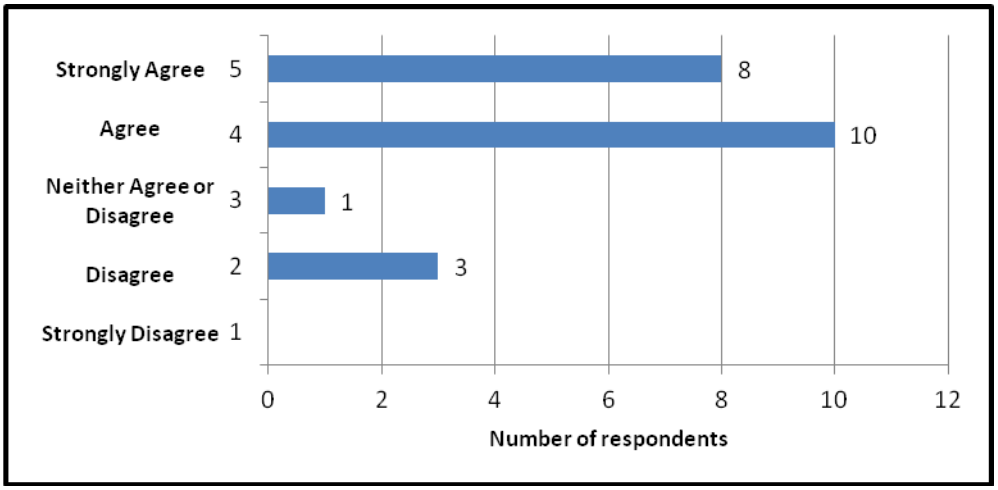

Figure 7: Tenants compare incentives

In Figure 7, the median is 4 and the mode is 4. These figures indicate that tenants compare the incentives provided by the different landlords in the market very much. This implies that they search for premises where the landlord will provide a deal that best suits them; therefore it is important for a landlord to provide concessions to effectively compete with each other in the market.

In figure 8, the graph depicts the extent of whether the incentives that one landlord provides are different to those that other landlords provide. The results are presented and discussed below:

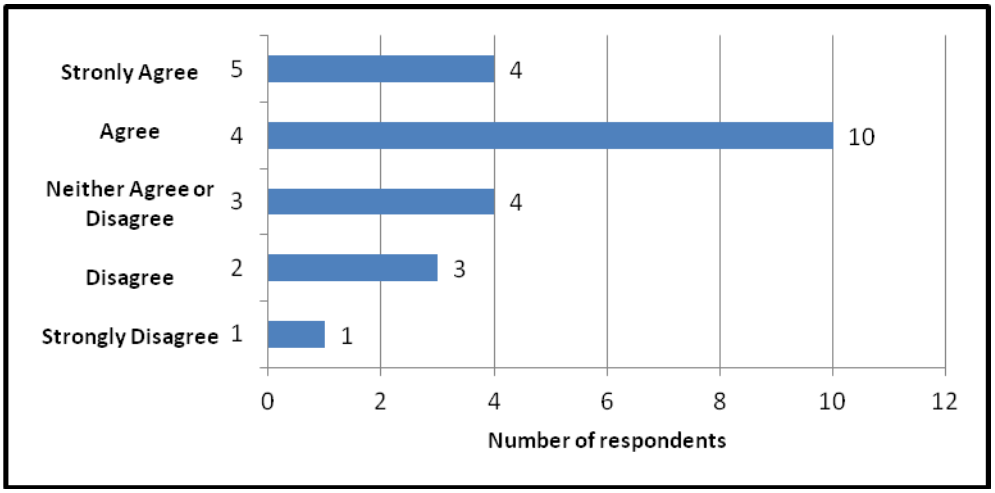

Figure 8: Landlords provide different incentives from one another

In Figure 8, the median is 4 and the mode is 4. These figures indicate that landlords do in fact provide incentives that are different to other landlords in the market. Whilst we may interpret these incentives as being different, it is possible that the incentive is in the same category but provided in a different way. An example of this is where a tenant installation allowance may be calculated on the total gross lettable area that is taken by the tenant, or the net lettable area that the tenant is taking, thereby making the way that the landlord provides the incentive different.

In Figure 9, the researcher analyses the extent of whether landlords intend to provide better incentives in the market than their competitors to secure the tenants. The results are presented and discussed below:

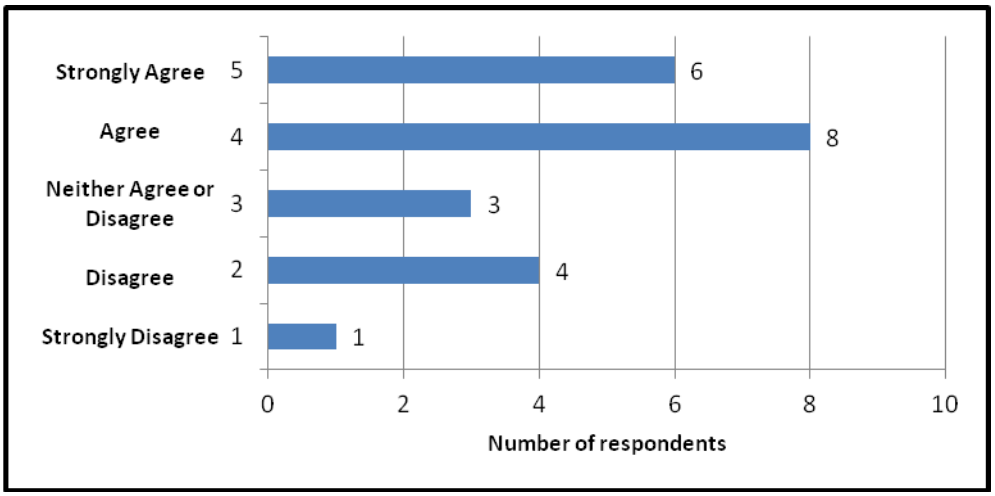

Figure 9: Landlords intend to provide better incentives than their competitors

In Figure 9, the median is 4 and the mode is 4. These figures indicate that landlords seek to provide better lease incentives in the market than a competitor landlord to secure tenants. Therefore, in order to compete more effectively, landlords will offer better incentives than their neighbouring landlords. However, as we have seen in figure 6 above, if a tenant wants the space they will take it, and landlords will not always use incentives to secure tenants. It also often depends upon if they are competing with another landlord for the tenant's signature. In some cases, landlords may not need to extend themselves further than they intended to from the outset, but may do so for the sole intention of competing with other landlords.

In figure 10, the graph depicts the results of the extent of whether the incentives that landlords are able to provide, are highly negotiable. The results are presented and discussed below:

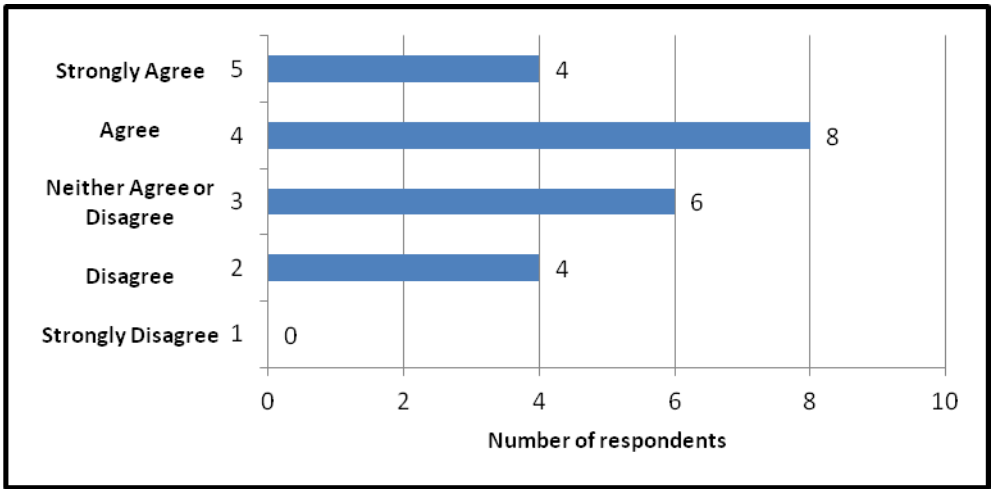

Figure 10: Incentives landlords provide are highly negotiable

In Figure 10, the median is 4 and the mode is 4. These figures indicate that the incentives that a landlord is able to provide to a tenant are highly negotiable. Landlords will often provide lease incentives based on the users particular requirements. An example of this is where a landlord will not provide a tenant installation allowance to a tenant, due to the tenant already being happy with the existing condition of the office space, who will therefore not require any further changes to be made.

In figure 11, the researcher seeks to determine the extent of whether landlords provide the same incentives to an existing tenant as they would to a new tenant. The results are presented and discussed below:

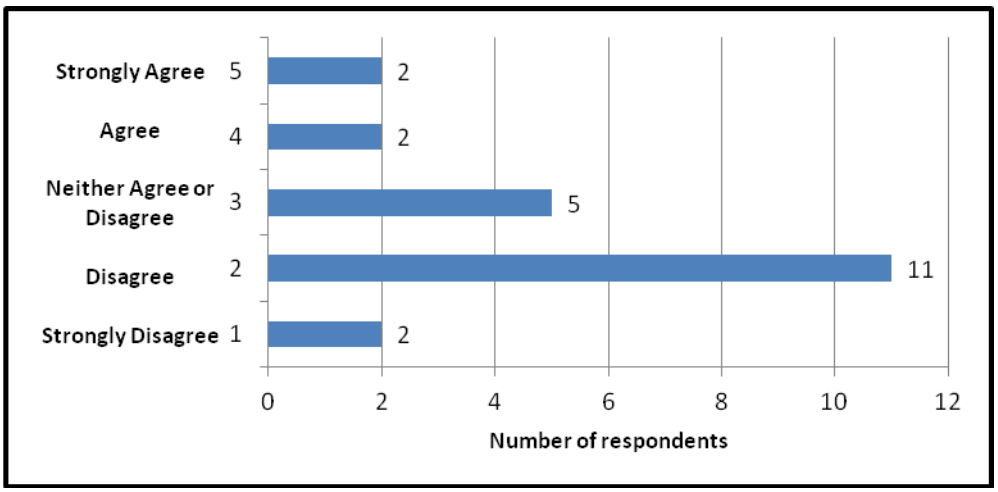

Figure 11: Providing the same incentives to a new tenant as an existing tenant

In Figure 11, the median is 2 and the mode is 2. These figures show that the incentive that is provided to an existing tenant is not the same that is provided to a new tenant. Landlords are more willing to provide incentives to secure a tenant, than they are to retain a tenant. Often, tenants will renew their leases without the knowledge that they could have negotiated a better deal and received further incentives.

4.2.3 Factors to consider before providing lease incentives

There are a number of factors to take into consideration to determine the lease incentives to provide to tenants. In table 5 below, the research results indicate that the top five factors affecting which incentives a landlord is able to provide to a tenant in an order of most important to least important are as follows:

Table 5: Top five factors affecting which incentives a landlord is able to provide to a tenant according to respondents

Top five factors affecting which incentives a landlord is able to provide to a tenant	**Percentage**	**Number**
1. The current economic climate and state of the market	36%	8 of 22
2. The amount of space that the tenant is willing to take	27%	6 of 22
3. The rental rate the tenant is willing to sign the lease at	36%	8 of 22
4. The length of the lease	27%	6 of 22
5. The escalation rate provided to the tenant	27%	6 of 22

The research findings in table five indicate that the current economic climate and state of the market is the most important factor to take into consideration in formulating which incentives

a landlord is able to provide to a tenant. This finding is largely a function of the supply and demand states of the space market, and there is great evidence in the literature review to support this.

Findings by Bond (1994, p.18) describe that as the economy improves and the leasing market strengthens, rentals will increase and fewer incentives will be provided. Landlords can be more stringent with regards to the incentives that they choose to offer as their vacancy rates decline. Jefferies (1994, p.21) further supports this by explaining that lease incentives have caused a significant impact upon property players in grossly over-supplied markets, and that the higher the vacancy rates in the space market, the greater the incentive that a landlord needs to provide to successfully compete with their opposition for a tenant's signature. In accordance with the aforementioned, Geltner *et al.* (2006, p.253) point out that every time a new lease is signed, a tenant installation expenditure is projected and that the allowance will vary depending on whether it is a landlords' or a tenants' market.

The respondents found that the amount of space that a tenant is willing to take ranks as the second 'top factor' to consider in determining which incentives a landlord is able to provide to a tenant. Landlords will often do what is necessary to secure a large tenant, resulting in a higher income stream and a lower vacancy rate. It is therefore often necessary to provide a better incentive to secure a larger tenant that takes a greater amount of space. Evidence that the need for landlords to maximise their property income streams is supported by Benjamin *et al.* (1990, p.141), where they explain that reducing the rental is not always feasible and offering a lease concession is a good alternative.

The third, fourth and fifth 'factors' that affect which incentive a landlord is willing to provide to a tenant are, the rental rate, the length of the lease and the escalation rates at which a lease is signed at. As discussed by Benjamin *et al.* (1990, p.141), the same holds true for the three factors above. In the case where the asking rental has been reduced, it would have a significant impact upon the lease concession provided. The longer the length of the lease, the greater the commitment of the tenant, and the more willing the landlord will be to provide a better concession. This often works directly in hand with the following factors as a landlord will often accept a lower escalation rate if the tenant is willing to commit to a longer lease. Therefore, it makes sense why the respondents selected the length of the lease prior to the escalation rate as the more important factor to consider and in that order.

4.2.4 The cost methods of applying lease incentives

Each landlord has their own unique method of calculating the lease incentive that they are able to offer to a tenant. According to the respondents of the survey questionnaires, there are a number of methods that are utilised:

- The incentive value provided depends on the return on investment
- A landlord will often build the allowance into the development feasibility and allocate a certain budget allowance per square metre
- Some landlords work on a flat percentage of the first year's rent
- In other instances, the tenant's requirements are discussed with the shareholders and only afterwards is a decision made
- Other landlords will offer incentives tailored towards a particular tenant, on a tenant by tenant basis dependent on the key decision drivers for that tenant
- Another method is to provide a tenant allowance that is equivalent to one month's rental per year of lease signed by the tenant, however if there is work required to the premises of a capital nature such as replacement of air-conditioning units this would be over and above the TI allowance
- Another landlord may prefer to only provide one incentive to show the tenant that both parties are benefitting from the transaction
- The value of the lease incentive offered is based on the total yield of the building
- In other cases, it depends on the net cost of the lease incentive to the landlord

According to Bond (1994, p.7), we have evidence of similar methods used, where the value of the incentives are discounted over the full period of the lease term using an appropriate discount rate, and the rental then is adjusted back to the market rent on an uninduced basis. These methods are in line with the views of Geltner *et al.* (2006, pp.108, 809), in relation to effective rent and the monetary effect of concessions.

4.2.5 The importance and effectiveness of providing lease incentives

According to the respondents and with the use of closed-ended yes or no questions, the effectiveness of offering lease incentives to tenants is:

- To reduce vacancies: 72%
- To secure tenants: 90%

- To increase the competitiveness of a landlord in the marketplace: 81%
- To close deals: 81%

This is very powerful information and proves that the effectiveness of landlords using lease incentives to reduce vacancies, secure tenants, increase competitiveness, and close deals is very high. These achievements all have a positive effect on property values, which is synergistic with the views of Benjamin *et al.* (1990, pp.142, 151) as presented in the literature review.

Using a Likert scale in accordance with the following scale (1-Strongly Disagree, 2-Disagree, 3-Neither Agree or Disagree, 4-Agree, 5-Strongly Agree), the respondents were analysed to see whether they agreed or not with the following statements below:

In figure 12, the graph presents the extent of whether landlords lose many deals as a result of not offering incentives to tenants. The results are presented and discussed below:

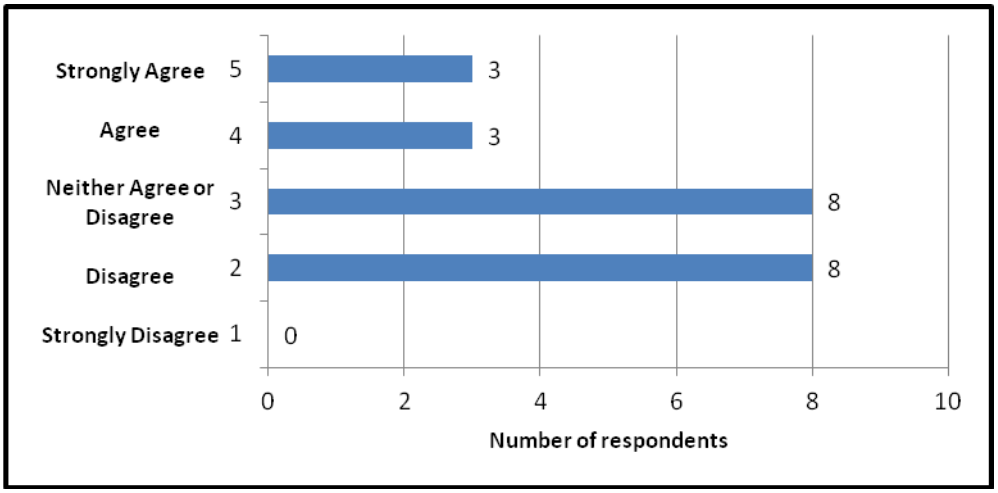

Figure 12: Landlords lose deals by not providing incentives

In Figure 12, the median is 3 and the mode is 3. The combined results indicate that landlords do not lose many deals as a result of not offering incentives to tenants. This is the second piece of evidence that is contradictory to what we are trying to prove in our research. This information is further discussed in conjunction with the findings of figure 14 below.

In figure 13, the researcher seeks to present the extent of whether landlords can determine whether they lost a deal and for what reason. The results are presented and discussed below:

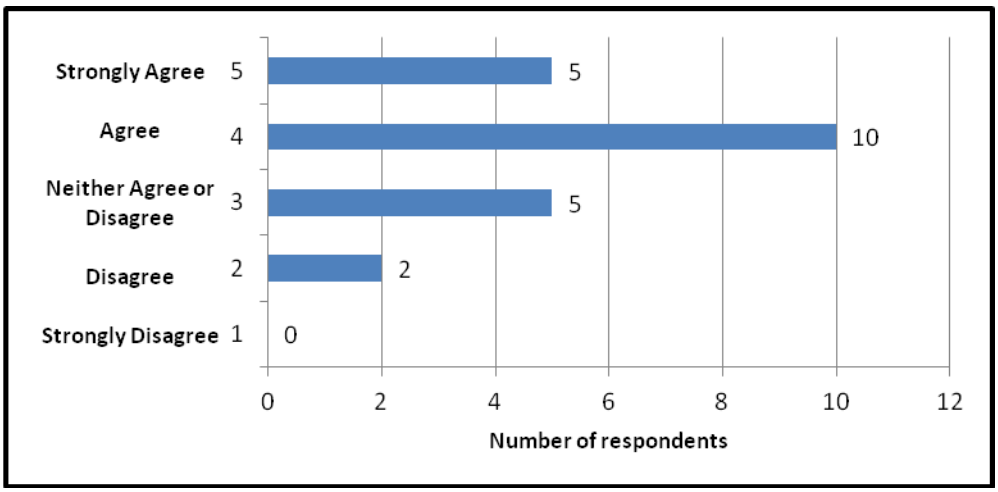

Figure 13: Landlords can determine when and why they lose deals

In Figure 13, the median is 4 and the mode is 4. According to the respondents, the figures here show that they believe that landlords can determine whether they lost a deal and the reason why they lost the deal. If a landlord knows why they lost a deal, they can learn from this experience and rectify their approach in order to prevent losing a similar deal in the future.

In figure 14, the graph depicts the extent of whether landlords intend to use incentives to secure tenants all the time. The results are presented and discussed below:

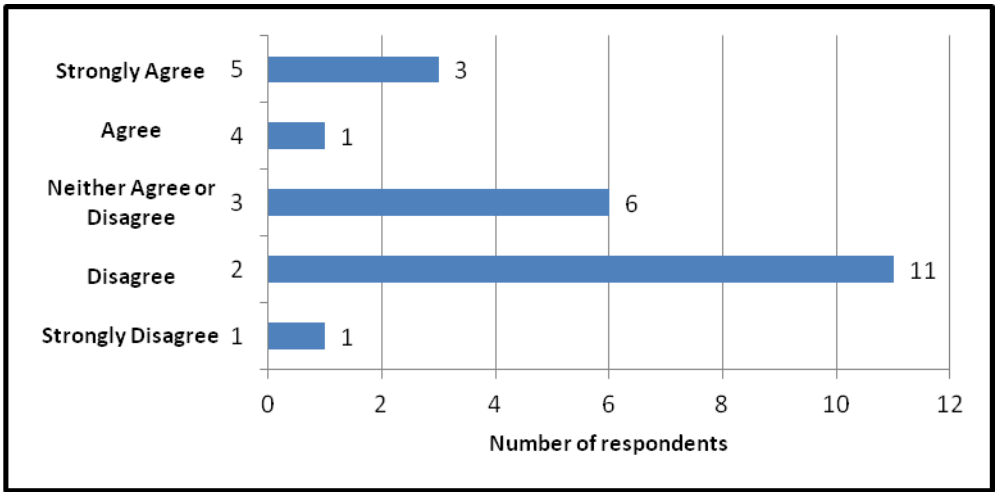

Figure 14: Landlords always use incentives to secure tenants

In Figure 14, the median is 2 and the mode is 2. Despite the previous results showing the benefits of using lease incentives, the figures here represent that the majority of respondents do not intend to use incentives to secure tenants all the time. This is due to the other drivers behind a tenant requiring a space as already discussed, such as the case where the provision

of a lease incentive is not necessary. Although an incentive is often provided to secure a tenant, it does not mean that it is the landlord's intention to always provide it. It is for this reason that the results show that landlords may not lose many deals as a result of not offering lease incentives to tenants. Landlords still believe that they will have a strong chance of securing tenants even without offering lease incentives. An example of this is where a landlord believes he has the perfect property based on its prime location. But landlords are aware that the likelihood of securing a tenant often depends on the circumstances of the deal at hand. However, the results in this research still strongly suggest that providing lease incentives to tenants will increase the competitiveness of a landlord.

In figure 15, the graph illustrates the extent of whether it is not necessary to provide an incentive to secure a tenant. The results are presented and discussed below:

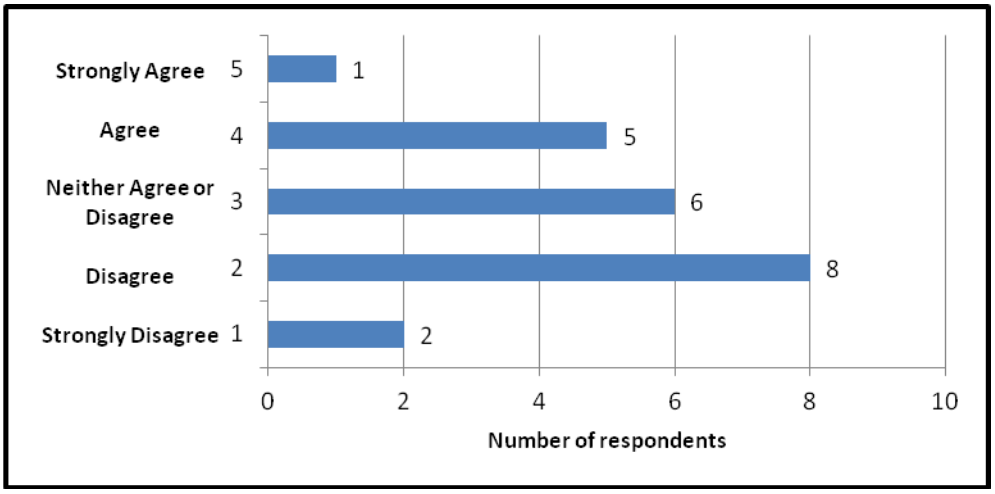

Figure 15: Landlords do not need to provide incentives to secure a tenant

In Figure 15, the median is 3 and the mode is 2. In this case, we have 27% of the respondents who neither agree nor disagree, and we have 36% of the respondents who disagree with the statement, therefore the figures present that the majority feel that it is necessary to provide an incentive to secure a tenant.

In figure 16, the researcher presents the extent of whether providing incentives will not increase the competitiveness of the landlord. The results are presented and discussed below:

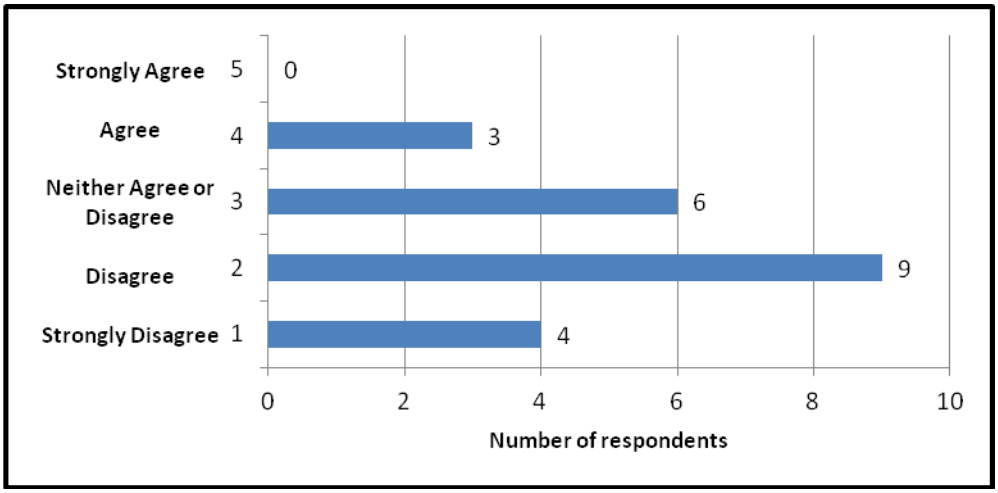

Figure 16: Providing incentives will not increase the competitiveness of a landlord

In Figure 16, the median is 2 and the mode is 2. These figures strongly suggest that the respondents disagree with the statement and that they believe that providing incentives will increase the competitiveness of a landlord.

4.2.6 The most important reasons to offer lease incentives to tenants

Figure 17 depicts the main reasons for offering lease incentives:

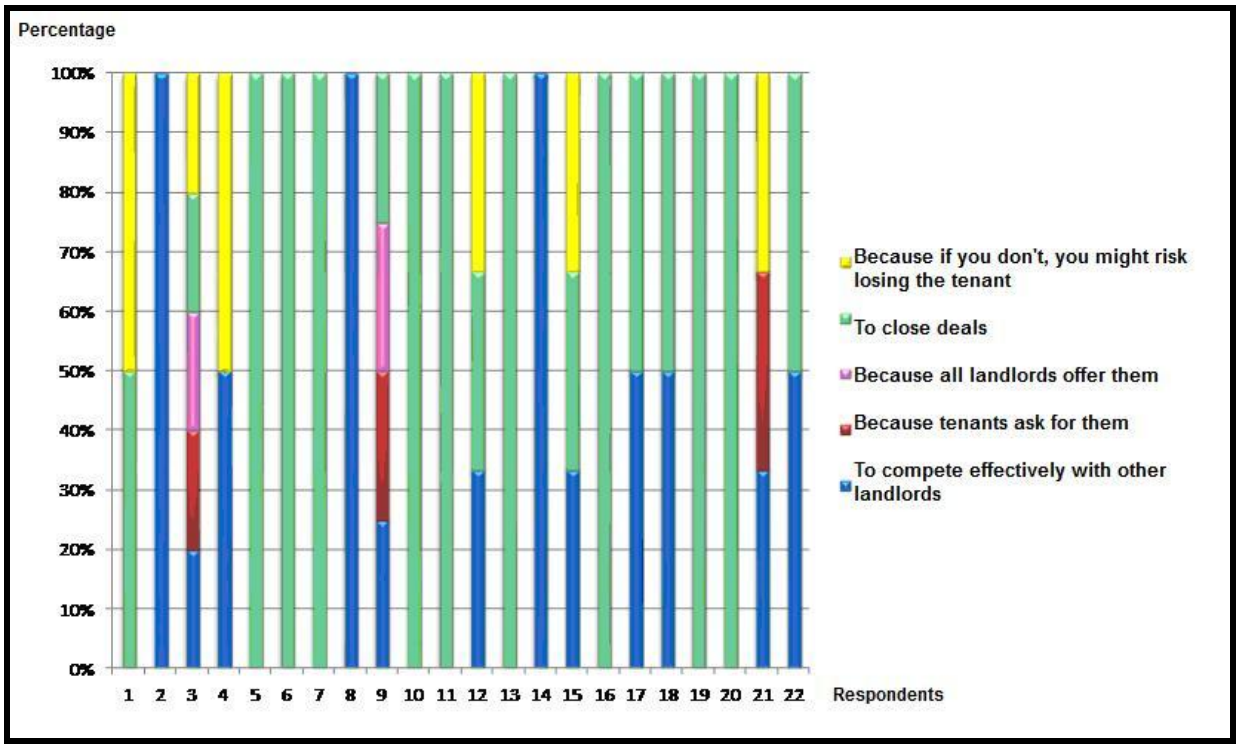

Figure 17: Main reasons for offering lease incentives

In figure 17 above, 77% of the respondents believe that the main reason to offer lease incentives is to close deals. The second main reason as determined by 54% of the respondents is to compete effectively with other landlords in the market. The third reason is to not risk losing the tenant. The fourth reason is because tenants ask for them, and the final reason is because all landlords offer incentives. Therefore, the main reasons to provide lease incentives are to close deals and compete more effectively with other landlords.

According to the respondents, there are methods other than providing lease incentives that may increase the competitiveness of a landlord such as:

1. Connecting with brokers (1 respondent).
2. Adding value to the property, such as being close to amenities and increasing safety (1 respondent).
3. Building and maintaining relationships with current and future prospective tenants (1 respondent).
4. Providing an efficient and prompt service to tenants (1 respondent).
5. Generating a good name for oneself by always being fair throughout the lease term (1 respondent).

4.3 Concluding interpretations

The top two tenant drivers for commercial space are location and rental amount. Landlords need to effectively market their space to attract tenants to their properties and the best method of doing this is through the use of vacancy schedules sent out to property brokerages and agencies. The top two lease incentives provided in the market are the rent-free period and the tenant installation allowance. These two incentives need to be provided by landlords to effectively compete with their competitors. The most important factor to consider in deciding which incentives to provide in the market, are the current economic conditions or state of the space markets. In understanding all these key variables above, and maximizing their use of lease incentives, landlords will effectively reduce vacancies, increase their competitiveness in the marketplace, secure tenants and close deals.

Chapter 5 : Final conclusions and recommendations in the study of lease incentives

This chapter contains the conclusions and recommendations of the research. It begins with the interpretation of the results in terms of the literature review and the theories presented, followed by a summary of the salient points uncovered in the research. Any gaps, anomalies and deviations found in the data are discussed, and the significance and value of the study is explained. This is followed by recommendations by the researcher.

5.1 Interpretation of results in terms of literature and theory

The purpose of this section is to reveal the interpretation of the results in terms of the literature and theory examined in the previous chapters. The findings in relation to the subject under study are discussed.

Twenty-two survey questionnaires were completed which represents a response rate of 44%. In the literature review, it is evident that marketing plays an integral role for a landlord to promote and market their space to attract tenants. According to table 2 in chapter 4, the top two drivers that a tenant takes into consideration in their search for new space are:

- The geographical location of the building (17 respondents)
- The rental rate of the office space (12 respondents)

There is no evidence that indicates that the location of a building has an influence over the incentives provided, but there is evidence by Asser (2004, p.10) where we see that the cost of space is a significant factor in a tenant's decision to renew its lease. Asser (2004, p.48) further mentions that the rental rate is the most logical area to investigate and the top driver behind the decision for office space. The length of the lease is the third most significant driver that has an impact on lease incentives, which is visible in citings by Geltner *et al.* (2006, p.248), where it is mentioned that landlords offer tenants concessions in order to entice them to sign long-term leases.

Using a Likert scale in figure 6, if a tenant wants the space they will take it. This is regardless of whether they have been provided with a lease incentive or not. We can see that there is strong agreement amongst the respondents in relation to this statement, and this is the

first piece of evidence that appears in this research to suggest that the provision of lease incentives is not always necessary by the landlord, regardless of the current state of the property market.

In table 3 above, sending vacancy schedules to brokers is the foremost method for landlords to market their space (14 respondents). Cant (2010, p.8) supports this by explaining that the exchange of information can be used as a marketing method, which landlords make use of.

The respondents selected the two methods for a landlord to market their space as equally important:

- Implementing marketing and public relations campaigns
- Incentivising brokers to find tenants

Brijball *et al.* (2006, p.14) support the use of implementing marketing and public relations campaigns, as they believe that marketing is about satisfying customers' needs by creating products and services that will generate sufficient profits.

Once the marketing has attracted the interest of a tenant in a vacant space, the subject of lease incentives will arise. The most important incentive to provide, as determined by 40% of the respondents is the rent-free period. Sheehan (1997, p.17) supports this finding by mentioning that free rent is a commonly negotiated lease concession that effectively reduces the tenant's initial rental obligations and allows the landlord to report a higher amount of nominal rent.

The second most favourable incentive is the provision of the tenant installation allowance which has been agreed upon by 45% of the respondents. Geltner *et al.* (2006, p.248) support these findings and mention that tenant improvement expenditures are a major concession offered to tenants to sign a lease.

The following three incentives all affect a tenant's bottom line as we note from Asser (2004, p.10), and are listed in an order of importance:

- A reduction of escalation-rate over lease-term (27% respondents)
- Rent subsidies, such as a reduction in the rental rate (18% respondents)
- Payment of relocation costs (27% respondents)

With the use of a Likert scale as presented in figure 7, the researcher seeks to determine the extent of whether tenants compare incentives offered by one landlord in the market with those offered by other landlords. Tenants will often divulge to landlords what their competitors have offered them in order to obtain the best deal possible from them. The results indicate that the respondents do believe that tenants compare the incentives offered, which implies that tenants do search for the best deal available, and it is therefore very important for a landlord to provide concessions to effectively compete with other landlords.

In figure 8, the graph depicts the results of the Likert scale to determine the extent of whether the incentives that one landlord provides are different to those that others provide. The findings indicate that landlords provide incentives that are different to their competitors.

The researcher uses a Likert scale in figure 9 to analyse the extent of whether landlords intend to provide better incentives in the market than their opposition to secure tenants. The results above indicate that landlords do intend to provide better lease incentives in the market than their opposition to secure tenants.

In figure 10, the researcher uses a Likert scale to depict the extent of whether the incentives that landlords are able to provide are highly negotiable. The results indicate that the incentives that a landlord is able to provide to a tenant is highly negotiable.

With the aid of a Likert scale in figure 11, the researcher seeks to determine the extent of whether landlords provide the same incentives to an existing tenant as they would to a new tenant. The results show that the incentives provided to an existing tenant are not the same as those provided to a new tenant.

The research findings in table 5 indicate that the current economic climate and state of the market is the most important factor to take into consideration when formulating which incentives a landlord is able to provide to a tenant. This finding is largely a function of the supply and demand states of the space market, and there is great evidence in the literature review to support this by Bond (1994, p.18).

Bond (1994, p.18) explains that fewer incentives are provided in an improving economy, and one in which rentals increase and the leasing market strengthens. Jefferies (1994, p.21) describes that in a market with an over supply of space, landlords need to provide greater incentives just to be able to compete with their neighbours for a tenant’s signature. Geltner

et al. (2006, p.253) also add support to these comments above with the view that the allowance provided to a tenant depends on whether it is a landlords' or a tenants' market and that tenant installation expenditures will be projected every time a tenant signs a new lease.

The second factor that the respondents found the most important to consider in determining which incentives a landlord is able to provide to a tenant, is the amount of space in terms of size that a tenant is willing to take. Benjamin *et al.* (1990, p.141) provide evidence which supports this finding that suggests that offering lease concessions is a good alternative to reducing the asking rental on a lease and affects the income stream of the property.

The third, fourth and fifth factors that affect which incentives a landlord is willing to provide to a tenant are: the rental rate, the length of the lease, and the escalation rate. Benjamin *et al.* (1990, p.141) suggests offering other solutions such as these rental concessions in order for a landlord to reach an agreement with a tenant.

Landlords have different ways of calculating the incentives that they can provide to a tenant to sign a lease. Bond (1994, p.7) makes use of the discount method where the value of the incentive is discounted over the total value of the lease, and the rental provided to the tenant is then re-adjusted from the commencement date of the lease. Geltner *et al.* (2006, pp.108, 809), also show evidence to support this in relation to the effective rental rates and the monetary effects of inducements in a lease.

According to the respondents and with the use of closed-ended yes or no questions, the effectiveness of offering lease incentives to tenants to reduce vacancies, secure tenants, increase the competitiveness of a landlord in the marketplace, and close deals is very high. Benjamin *et al.* (1990, pp.142, 151) indicate that the key objective in commercial property is to realise positive rental values, and the successful provision of lease incentives helps landlords achieve this goal.

Using a Likert scale in figure 12, the graph presents the extent of whether landlords lose many deals as a result of not offering incentives to tenants. The results indicate that landlords do not lose many deals as a result of not offering incentives to tenants. This is the second piece of evidence that is contradictory to what we are trying to prove in our research. This information is further discussed in conjunction with the findings of figure 14 below.

The researcher uses the use of a Likert scale in figure 13, to analyse the extent of whether landlords can determine whether they lost a deal and for what reason. According to the respondents, they believe that landlords can determine whether they lost a deal and the reason why they lost the deal. If a landlord knows why they lost a deal, they can learn from the experience and rectify their approach in order to prevent losing a similar deal in the future.

In figure 14, the graph depicts the extent of whether landlords intend to use incentives to secure tenants all the time. The results indicate that the respondents do not intend to use incentives to secure tenants all the time.

With the use of a Likert scale in figure 15, the graph illustrates the extent of whether the respondents believe that it is not necessary to provide an incentive to secure a tenant. The results indicate that the respondents believe that it is necessary to provide an incentive to secure a tenant.

Using a Likert scale in figure 16, the researcher presents the results to show the extent of whether providing incentives will not increase the competitiveness of a landlord. The results suggest that the respondents disagree with the statement and that they believe that providing incentives will increase the competitiveness of a landlord, which adds support to the purposes of this research.

In figure 17 above, 77% of the respondents believe that the main reason to offer lease incentives is to close deals.

The second reason as determined by 54% of the respondents is to compete effectively with other landlords in the market. The third reason is to not risk losing the tenant. The fourth reason is because tenants ask for them, and the final reason is because all landlords offer incentives. Therefore, the main reasons to provide lease incentives are to close deals and compete more effectively with other landlords.

5.2 Summary and discussion of salient points

According to the results discussed above, it is clear that landlords need to find tenants to fill their vacancies. The best way of finding tenants is by sending out vacancy schedules to brokers, followed by marketing and public relations campaigns. However, tenants have very

real reasons or drivers why they want to take a particular space. The most important driver behind taking a particular space is the location of the building, followed by the asking rental.

The results of the survey questionnaires also indicate that the top two lease incentives provided to tenants in the context of the commercial property market in Johannesburg, are the rent-free period and the tenant installation allowance. However, each landlord has their own unique methods for deciding which incentive to provide and to determine the value thereof. This often depends upon the current economic climate, the physical characteristics of the property that the tenant is interested in, and the amount of time that the space has been vacant for.

The results also show that tenants compare incentives offered by one landlord in the market with those offered by another, and that landlords intend to provide better lease incentives than their competitors to secure tenants. The results also indicate that most of the incentives offered by landlords are the same.

The top factors affecting which incentive a landlord is willing to provide to a tenant is based upon the current economic condition and state of the market, and the amount of space that the tenant is willing to take. A landlord will also not usually provide the same incentives to an existing tenant as they would to a new tenant.

The research results indicate that a very high percentage of landlords offer lease incentives to reduce vacancies, secure tenants, increase the competitiveness of a landlord in the marketplace and close deals. However, despite this, landlords do not intend to use incentives to secure tenants all the time. Often, it is the tenant's main driver behind needing the space that leads to the successful conclusion of a deal. The results also indicate that in most cases, it is necessary to provide an incentive to secure a tenant, even though the intention to provide it is not always necessary at first, and it is for this reason that the results show that landlords may not lose many deals as a result of not offering lease incentives to tenants. Landlords believe that they have a strong chance of securing tenants without offering lease incentives and it is strongly purported that providing lease incentives to tenants will increase the competitiveness of a landlord.

The results indicate that the key reason to provide a lease incentive is to close deals, and the results show that tenants do in fact compare incentives offered by one landlord in the market

with the incentives offered by another. Although landlords offer different incentives to one another, it often doesn't come down to this and the tenant will often take the space if they want it regardless of the incentive offered.

In summary, the top reason to provide lease incentives is to close deals, and the second most important factor is to compete effectively with other landlords, therefore we can deduce that *property owners and landlords must provide lease incentives to tenants in order to remain competitive.*

5.3 Discussion of gaps, anomalies and deviations in the data

One of the pitfalls with the Likert scale is that it can be used as an interval scale, which assumes that there is an equal distance between each response. However, the Likert scale does not indicate this in this research. In the examples displayed in this research, the results indicate that the respondents with higher-numbered responses are more in agreement with the statement than those with lower-numbered responses.

5.4 Significance and value of study

The aim of the research as set out previously in chapter 1 is to:

- Determine whether the competitiveness of a landlord in the commercial property market in Johannesburg is determined by the provision of the lease incentives that they provide

And the objectives of the research as discussed previously in chapter 1 are to:

- Determine what the main drivers for a tenant to sign a lease on a vacant space are
- Investigate the best methods for a landlord to find tenants
- Compare the lease incentives provided in the marketplace
- Determine the most common incentives provided in the market and how their values were established
- Establish which factors a landlord needs to take into consideration in order to determine which incentives to offer to a tenant
- Assess the importance and effectiveness of providing lease incentives in order to secure tenants

The key problem in this research was to determine whether the competitiveness of a landlord in the commercial property market in Johannesburg is determined by the provision of the lease incentives that they provide.

To assess this, the following research questions were raised:

- What are the main reasons behind a tenant taking a particular space?
- How do landlords find tenants?
- What are the different lease incentives being offered in Johannesburg?
- Which are the more crucial incentives to provide?
- What factors do landlords need to consider to determine which incentives they can provide?
- How do landlords' incentives compare with one another?
- Does the state of the economy have any impact on the incentive offered by the landlord?

5.5 Recommendations

In relation to lease incentives, concessions and inducements, the recommendations stemming from this research report all point towards suggestions that will effectively improve a landlord's competitiveness in the Johannesburg commercial property industry. The recommendations are as follows:

Recommendation 1

In buying or developing a property for investment purposes, have the tenants ultimate drivers in mind which are primarily based on location and rental amount.

Recommendation 2

Landlords must understand and know the best methods of finding the tenants. The top method is by sending out vacancy schedules to all the property brokerages and agencies in the market. These brokers will bring tenants to the landlord.

Recommendation 3

Landlords must know what their competitors are providing in terms of lease incentives. The top two incentives provided in the market to be competitive are the rent-free period and the

tenant installation allowance, and landlords must therefore also put these to the top of their list.

Recommendation 4

A landlord must gain an understanding of the existing market conditions at a particular time and must provide the right value of lease incentives in accordance with those market conditions.

Recommendation 5

Landlords must offer lease incentives to secure tenants and effectively compete with their competitors. Although some landlords can achieve their goals without offering an incentive to a tenant, it is a high risk exercise that can prove costly and there is evidence in this report to suggest one must always offer an incentive to increase and maximise ones competitiveness.

Although there has been little previous research in this field, there is great scope to develop further upon this study:

- The research can be applied to a different geographical location to see if the results are similar or whether they differ
- There are facets within lease incentives, concessions and inducements that can be explored in more depth such as the provision of the tenant installation allowance. Who pays this amount, does it come out of the landlords' pocket, or does the tenant pay for it first and then get reimbursed? What is the best method in the market-place?
- There are other ways of increasing the competitiveness of a landlord without the use of lease incentives, inducements or concessions, and further studies can explore other avenues
- The subject of whether landlords should consider not only providing lease incentives to new tenants but also to existing tenants can be explored further. There is a strong possibility that many tenants will be retained
- The research can be studied from a tenant's perspective to determine if the findings are accurately in line with the how landlords perceive tenants in the property market

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APPENDIX

Appendix "A"

QUESTIONNAIRE

My name is Eddie-Charles Blatt and I am a student of the University of the Witwatersrand. I am currently completing my research in accordance with the requirements for my Master of Science qualification in the field of Building (Property Development and Management).

The following survey examines the subject of lease incentives in the commercial property industry in Johannesburg. The lease incentives will be explored from a landlord's point of view. Your opinion is highly valued and all your responses to the following survey will be kept strictly anonymous and confidential, and your complete anonymity is guaranteed.

Please answer the following quick questionnaire as set out below. You cooperation is highly appreciated, and I am very thankful for your time set aside to take the survey.

A) Lease Incentive Audit

Please fill in the following:

Professional Title or Job Description:	
City or suburb you are located in:	

A. How long have you been involved in dealing with lease incentives as a part of your work responsibility? (Please check the box with an x)

1. 0 to 5 years	
2. 5 to 10 years	
3. 10 to 15 years	
4. 15 years or more	

5. Never	

B. How often do you deal with lease incentives as a part of your work responsibility? (Please check the box with an x)

1. Daily	
2. Weekly	
3. Monthly	
4. Yearly	
5. Never	

C. In your opinion, the reason for offering lease incentives is as follows: (Please select **one or more** of the following options below, please check the box with an x)

1. To compete effectively with other landlords	
2. Because tenants ask for them	
3. Because all landlords offer them	
4. To close deals	
5. Because if you don't, you might risk losing the tenant	

D. Please rank your **top 5 choices** from the following options below in order of importance for a landlord to market their space:
(1 Being the most important and 5 being the lease important)

The best methods for landlords to market their space is:

1. By implementing marketing and public relations campaigns	
2. By sending vacancy schedules to brokers who will find tenants	
3. By advertising in the press e.g. newspapers, magazines, etc.	
4. By advertising on the television or radio	

5. By incentivising brokers to find tenants	
6. By advertising and listing properties and vacant space on the internet	
7. The best method is not listed here	

E. If you do not feel that the best method has been listed above, please share what you feel would be the best method for a landlord to secure a tenant:

_____

_____

_____

F. Please rank your **top 5 choices** from the following options below in order of importance to provide to a tenant:
(1 Being the most important and 5 being the least important)

The most important lease incentives to provide to a tenant are as follows:

1. A rent-free period	
2. A tenant installation allowance	
3. Payment of relocation costs	
4. Put options on individual space	
5. Reduction of escalation-rate over lease-term	
6. Take-out of existing space (re-instatement of space by landlord)	
7. Free parking	
8. Reverse premium payment to tenant	
9. Caps on (or limits) to rental increase on review	
10. Cash payments	
11. Rent subsidies	
12. Free naming rights	
13. Free holidays	
14. Free vehicles	
15. Other	

G. If you feel that there are any other incentives that have not been provided in the list above, please share it below and advise at what number of importance you would put it in, in your list above:

_____

_____

_____

H. Please describe how you come up with the types of incentives that you are able to offer to a tenant, and how you come to the total incentive value or amount:

_____

_____

_____

I. Please rank your **top 5 choices** from the following options below in order of importance of the main driver behind a tenant taking a space:
(1 Being the most important and 5 being the lease important)

The main driver behind a tenant taking space is:

1. The location of the building, such as the area or suburb	
2. The asking rental	
3. The type of lease (gross or triple net)	
4. The building attractions e.g. architecture, design	
5. The type of building (park, multi storey, stand alone)	
6. The space attractions e.g. cellular, open-plan	
7. The green building rating	
8. The IT infrastructure	
9. The length of lease required by the landlord	
10. The structure of the lease, such as the particular lease clauses	
11. The security in the building	
12. The parking allocation	
13. The grade of the building	
14. Other	

J. If you feel that there are any other main drivers behind a tenant taking space, please share it below and elaborate:

_____

_____

_____

_____

K. Please rank your **top 5 choices** from the following options below in order of importance of the most relevant factors to take into consideration whilst trying to determine the incentives to provide to a tenant :
(1 Being the most important and 5 being the lease important)

The incentive that you are able to provide to the tenant depends upon the following:

1. The current economic climate and state of the market	
2. The credit rating of the tenant	
3. The amount of space that the tenant is willing to take	
4. The type of business that the tenant intends to operate from the premises	
5. The rental rate that the tenant is willing to sign the lease at	
6. The length of the lease	
7. The amount of the deposit that the tenant is willing to put down	
8. The escalation rate that the tenant is willing to accept	
9. Whether the client is willing to sign surety over the lease	
10. How much of the clients own money they are willing to put into the space in terms of fit-out expenses	

L. If you feel that there are any other important factors to consider that are not listed in the list above, please share them below:

_____

_____

_____

_____

M. In your opinion please state whether you agree or disagree with the following statement in accordance with the following scale (1-Strongly Disagree, 2-Disagree, 3-Neither Agree or Disagree, 4-Agree, 5-Strongly Agree). Please answer the following questions below by indicating the number of your choice in the block provided:

1. Tenants compare incentives offered by one landlord in the market with those offered by other landlords	
2. The incentives that one landlord provides are different to those that other landlords provide	
3. It does not matter whether you provide a tenant with an incentive, if they want the space, they will take it	
4. You provide the same incentives to an existing tenant as you would to a new tenant	
5. Landlords can determine whether they lost a deal and for what reason	

N. Do you agree with the following statement below (please indicate yes or no in the block provided):

Offering lease incentives to tenants results in effectively:

1. Reducing vacancies	
2. Securing a tenants	
3. Increasing the competitiveness of a landlord in the marketplace	
4. Closing deals	

O. In your opinion please state whether you agree or disagree with the following statement in accordance with the following scale (1-Strongly Disagree, 2-Disagree, 3-Neither Agree or Disagree, 4-Agree, 5-Strongly Agree). Please answer the following questions below by indicating the number of your choice in the block provided:

1. You intend to use incentives to secure tenants all the time	
2. It is not necessary to provide an incentive to secure a tenant	
3. You intend to provide better incentives in the market than your opposition to	

secure the tenants	
4. Landlords lose many deals as a result of not offering incentives to tenants	
5. The incentive you are able to provide is highly negotiable	
6. Providing incentives will not increase the competitiveness of the landlord	

P. If any, what other methods do you feel are available that would increase the competitiveness of a landlord?

_____

_____

_____