BuildingEngines

The State of Commercial Real Estate Building Operations for 2023

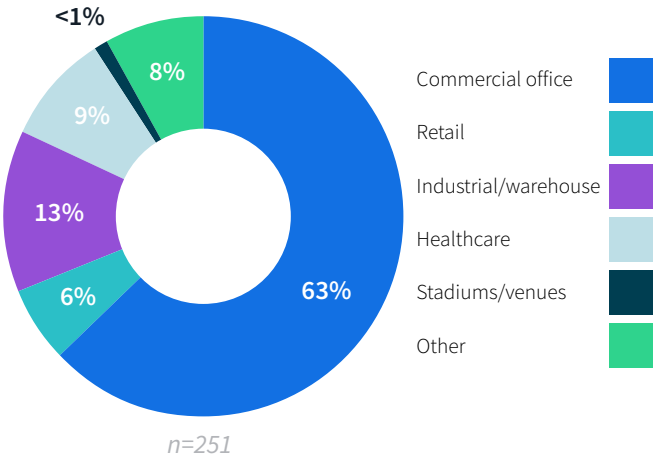www.buildingengines.com

Contents

Property teams prepare for a new era in CRE

Many commercial real estate (CRE) property owners and operators are facing new challenges as the industry continues to shift. From the evolving workplace where remote and hybrid work have become the norm, to a strain on property teams grappling with labor shortage, to a new focus on ESG reporting and sustainability initiatives – and everything in between – CRE property teams have more on their plates than ever before.
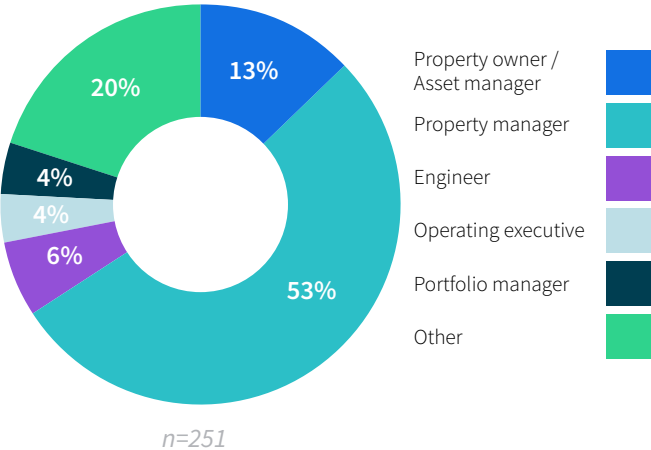
To shine light on what CRE property teams are focusing on as they face a rapidly changing industry, Building Engines, a JLL company, partnered with the Building Owners and Managers Association International (BOMA) to survey commercial property professionals about the state of CRE building operations. We surveyed more than 250 CRE professionals over four weeks in October-November 2022. Respondents answered questions about their current portfolios and their expectations for building operations in the year ahead.

Where respondents work

- Commercial office — 63%
- Retail — 6%
- Industrial/warehouse — 13%
- Healthcare — 9%
- Stadiums/venues — <1%
- Other — 8%

n=251

Survey respondents by title

- Property owner / Asset manager — 13%
- Property manager — 53%
- Engineer — 6%
- Operating executive — 4%
- Portfolio manager — 4%
- Other — 20%

n=251

In this report, you'll find several key insights – backed by data – on how CRE professionals are tackling the challenges ahead. You'll also learn opportunities to capitalize on an evolving industry. And be sure to head to the Glossary & Additional Resources page at the end of this report for more content that can help you prepare for any headwinds you may face.

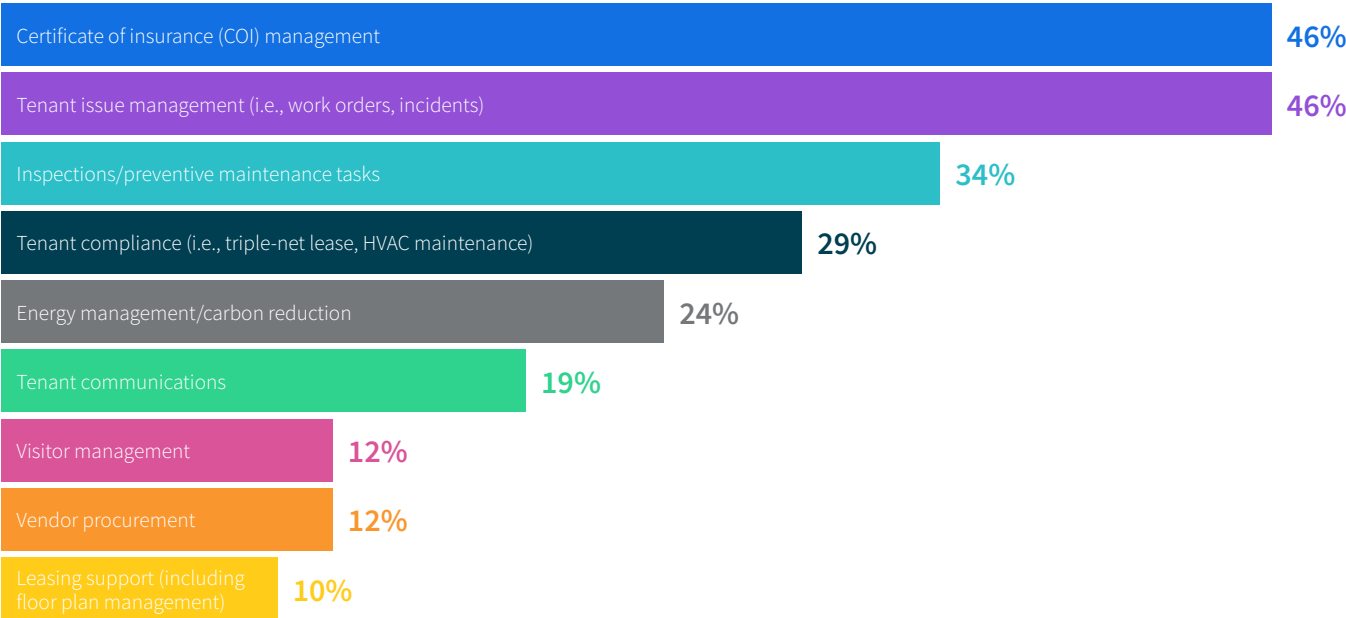# Working with fewer resources, property teams look to increase efficiency

As property teams work to accomplish more tasks with fewer resources amid labor shortage strains and recession concerns, saving time through greater efficiency has become more important than ever. CRE teams are examining their building operations strategies to determine where they are spending most of their time so they can tap into tools to help meet their goals.

Certificate of insurance (COI) management and tenant issue management (including work orders and incident reporting) topped the list. This followed a similar trend from last year's results, which showed COI management as the most time-

consuming task ripe for automation, suggesting property teams are still grappling with finding the right solution to streamline insurance tracking.

Tenant issue management is tied with COI management as a top issue. Perhaps this is no surprise as our research shows prioritizing work for engineers is a top-of-mind issue for CRE properties – especially as teams face diminished staffing resources to complete work orders .

Which areas of your building operations are the most time-consuming and/or ripe for automation?

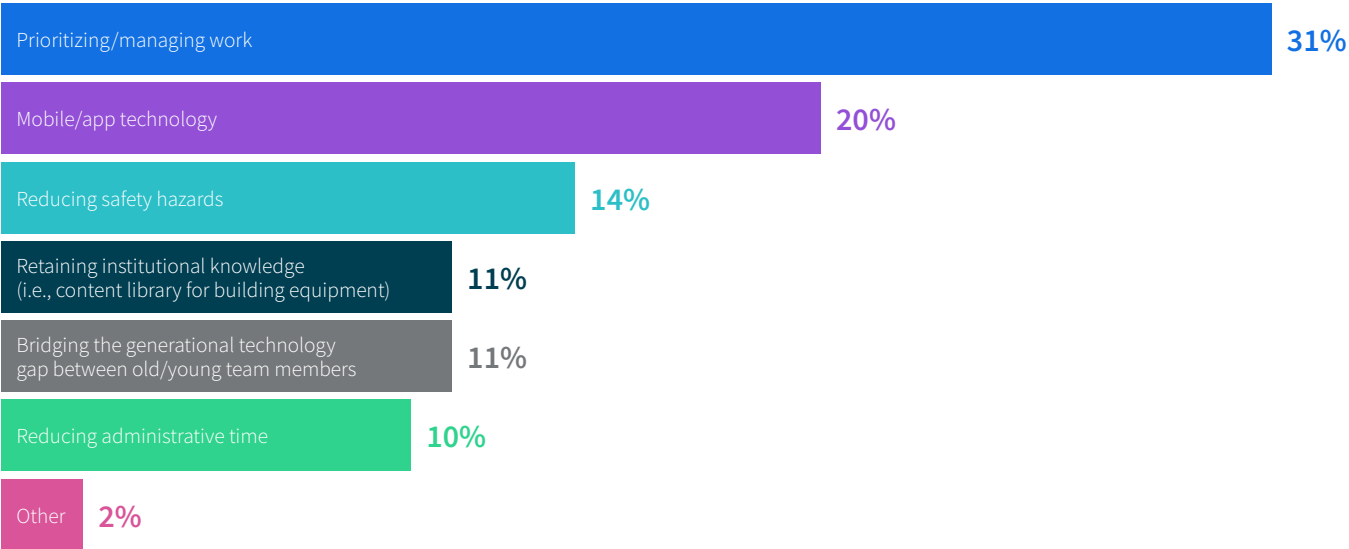|	
Certificate of insurance (COI) management	46%
Tenant issue management (i.e., work orders, incidents)	46%
Inspections/preventive maintenance tasks	34%
Tenant compliance (i.e., triple-net lease, HVAC maintenance)	29%
Energy management/carbon reduction	24%
Tenant communications	19%
Visitor management	12%
Vendor procurement	12%
Leasing support (including floor plan management)	10%

n=251; percentages rounded

Prioritization and staffing are the biggest challenges for completing work orders

When it comes to equipping engineers, priorities have shifted since last year. CRE professionals said their biggest objective for engineers in 2022 was knowledge transfer from seasoned engineers to junior or new team members. For 2023, prioritizing and managing work is the top concern. Following the same trend from 2022, equipping engineers with mobile/app technology remained the second biggest priority for 2023.

When equipping engineers, what is your biggest priority?

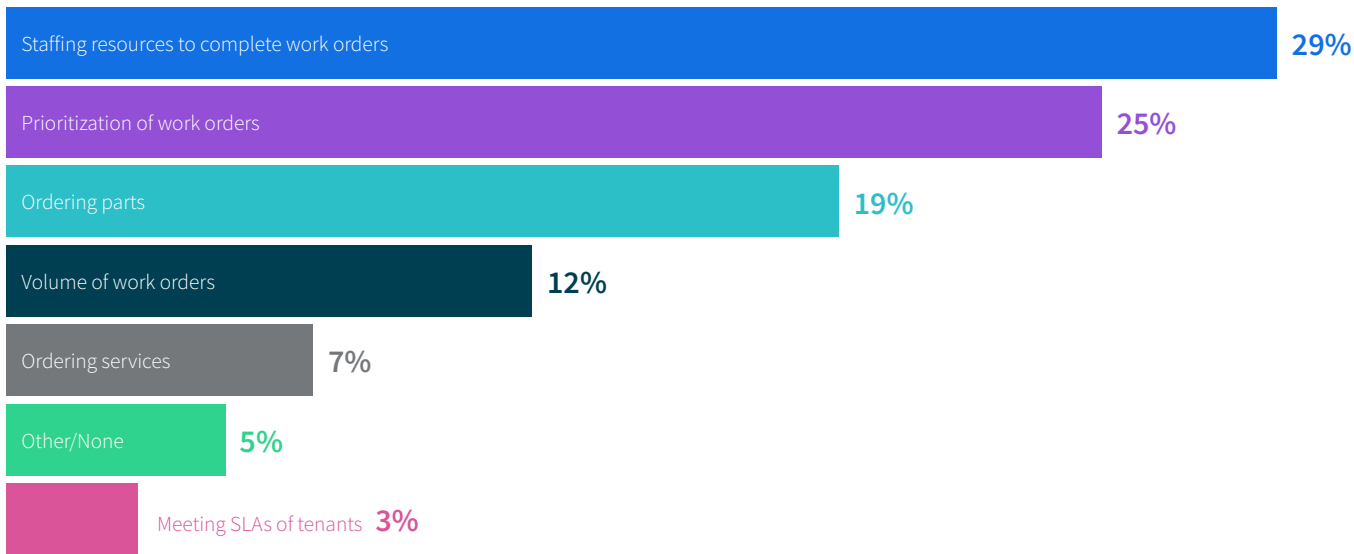| Priority	Percentage
Prioritizing/managing work	31%
Mobile/app technology	20%
Reducing safety hazards	14%
Retaining institutional knowledge (i.e., content library for building equipment)	11%
Bridging the generational technology gap between old/young team members	11%
Reducing administrative time	10%
Other	2%

n=251; percentages rounded

Lack of staffing resources could explain why prioritizing and managing work has become more crucial for engineers. Survey respondents cited it as their top challenge to completing work orders. That was followed by prioritization of work orders and ordering parts as the next biggest challenges.

For property teams working with smaller teams, technology that can help streamline and automate processes will be an important contributor to success. That's especially true for commercial offices, as property teams noted faster responses to work orders as one of the most common tenant requests (See "Comfort issues and responsiveness to work orders are top tenant requests" on page 05).

What is your biggest challenge when it comes to completing work orders?

Staffing resources to complete work orders	29%
Prioritization of work orders	25%
Ordering parts	19%
Volume of work orders	12%
Ordering services	7%
Other/None	5%
Meeting SLAs of tenants	3%

n=251

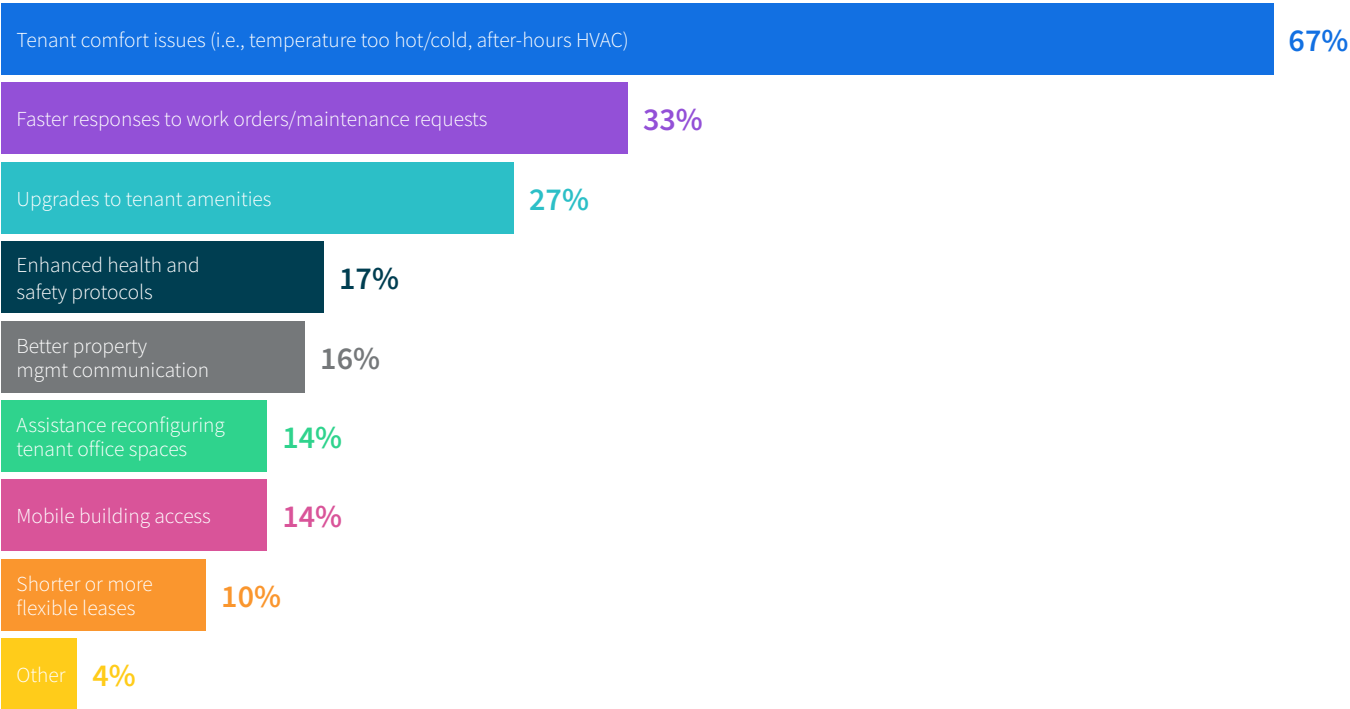# Comfort issues and responsiveness to work orders are top tenant requests

CRE professionals said faster responses to work orders and maintenance requests were the most common tenant requests for 2022. For 2023, that moved to No. 2 while tenant comfort issues – for example, the temperature being too hot or cold – overwhelmingly took the top spot. The research suggests that property teams need to find a better way to manage HVAC systems. One solution is to implement an intelligent HVAC optimization management system that learns and monitors all HVAC equipment operations 24/7. Such a system can leverage artificial intelligence and data inputs to make real-time micro-adjustments to maximize tenant comfort while reducing energy consumption and costs as well as exceeding indoor air quality standards.

67% of CRE property teams say tenant comfort issues are the most common tenant request.

Upgrades to tenant amenities is another common request. That's not surprising as tenants demand that their workplaces offer more. As tenants strategize to get their employees back to the office, compelling building amenities have become increasingly important (See "CRE property teams add amenities as tenants' space needs change" on page 14).

Interestingly, enhanced health and safety protocols were a top tenant request for 2022 (45%). For 2023, those tenant requests have fallen (17%) as tenant priorities have shifted.

Which tenant requests are most common for you?

|	
Tenant comfort issues (i.e., temperature too hot/cold, after-hours HVAC)	**67%**
Faster responses to work orders/maintenance requests	**33%**
Upgrades to tenant amenities	**27%**
Enhanced health and safety protocols	**17%**
Better property mgmt communication	**16%**
Assistance reconfiguring tenant office spaces	**14%**
Mobile building access	**14%**
Shorter or more flexible leases	**10%**
Other	**4%**

n=251; percentages rounded

Property teams double down on CRE tech to run better buildings

As CRE property teams work toward solving some of the challenges outlined in the previous sections and the industry continues to shift, we asked how respondents will invest in their tech stack in 2023. Overall, most property teams expect their investment in CRE software over the next year to stay the same or increase. Only 4% said they would decrease investment in CRE software.
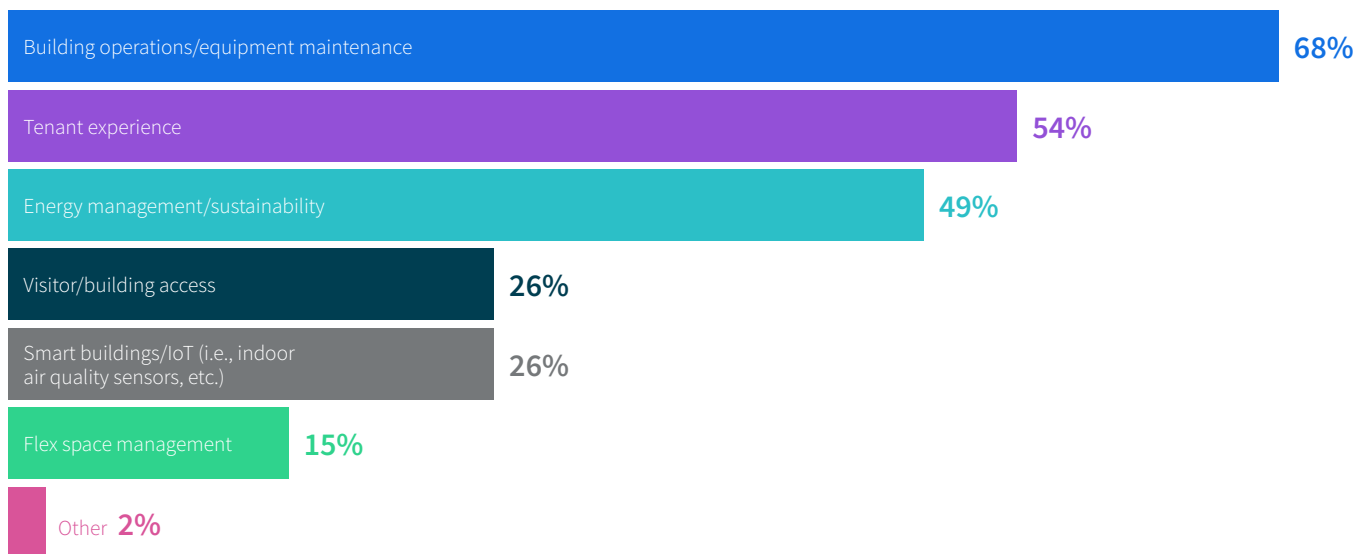
How do you expect your investment in CRE software to change over the next 12 months?

Stay the same

Increase

Decrease

n=251
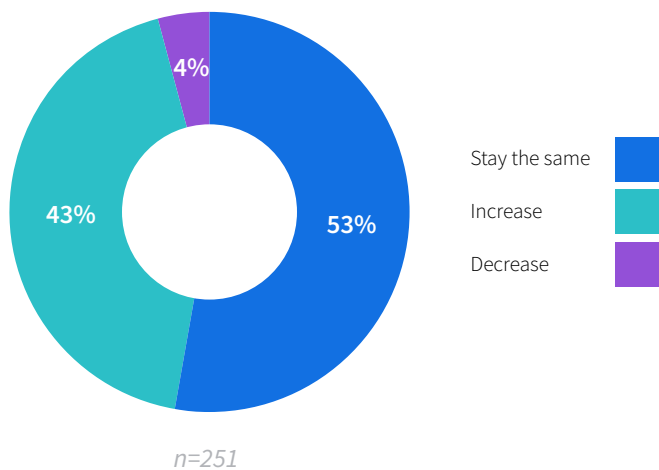
CRE property teams also told us what areas they would focus on as they enhance their tech stacks in 2023. Similar to last year, the research shows trends that suggest property teams are doubly focused on running better buildings in the year ahead, with building operations and equipment maintenance, tenant experience, and energy management/sustainability as top areas.

If enhancing your tech stack, which of the following areas will you prioritize?

Area	
Building operations/equipment maintenance	68%
Tenant experience	54%
Energy management/sustainability	49%
Visitor/building access	26%
Smart buildings/IoT (i.e., indoor air quality sensors, etc.)	26%
Flex space management	15%
Other	2%

n=251; percentages rounded; respondents could choose multiple answers

Interestingly, prioritizing smart buildings/IoT – for example, indoor air quality sensors – has grown since last year. While our research showed that only 17% of property teams had these technologies on their list in 2022, that figure has grown to 26% for 2023. That means the number of property teams planning to invest in smart buildings/IoT increased 53% since last year.

It's also worth noting here that over half of the CRE professionals surveyed (52%) said the number of buildings or square feet they're responsible for over the past year has increased. Meanwhile, 39% said their buildings or square feet have stayed the same, while 9% saw a decrease.

53%

The number of property teams planning to invest in smart buildings/IoT increased 53% since the previous year.

07

CRE tech investment increases as square footage grows

To further understand who has the need to increase tech spend in 2023, we analyzed whether an increase in square footage correlates to an increase in tech spend. Half of the CRE professionals who said their buildings or square footage had increased said their investment in CRE software would also increase over the next 12 months.

For those who have increased building square footage, will you increase CRE tech spend?

- 4% (Decrease)
- 46% (Stay the Same)
- 50% (Increase)

Legend:
- Increase
- Stay the Same
- Decrease

n=131
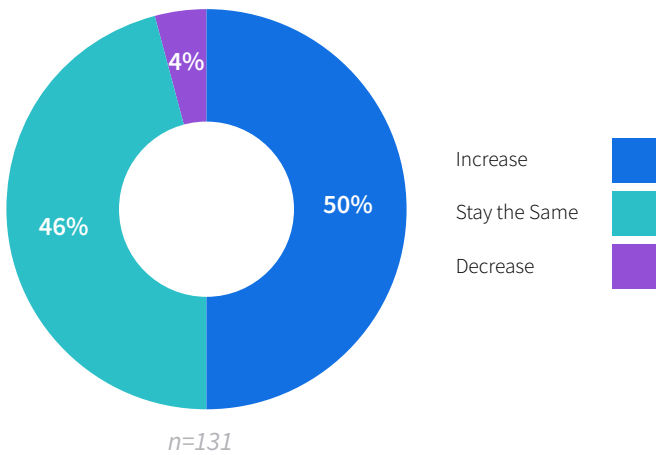
These respondents also noted their tech investment would be focused on several areas, including:

1. Building operations and equipment maintenance (73%)
2. Energy management/sustainability (54%)
3. Tenant experience (53%)

When we analyzed the segment who saw buildings and square footage portfolio growth further, we found that most of growth came in the commercial office sector (52%), followed by industrial/warehouse (22%).

Commercial office teams plan to increase CRE tech investment

Respondents who said they would increase investment in CRE software in 2023 were focused in the commercial office sector. This is perhaps not surprising as the workplace and commercial office space continues to evolve (See "More commercial tenants have implemented hybrid work models" on page 10).
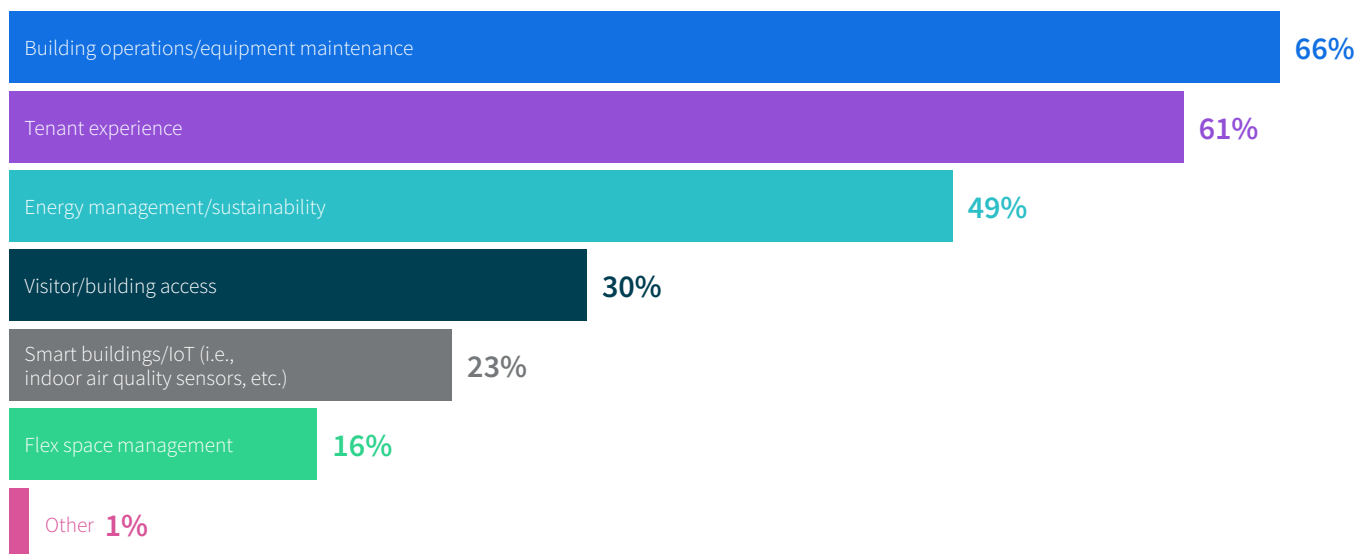
It's worth noting that our research shows the number of buildings or square footage commercial office property teams are responsible for has either stayed the same (47%) or increased (43%). Only 10% of respondents who work in the commercial office sector saw their portfolios decrease over the past year.

Increased investment in CRE software & primary sector

Commercial office	
Industrial/warehouse	
Healthcare	
Other	
Retail	
Stadiums/venues	

n=109
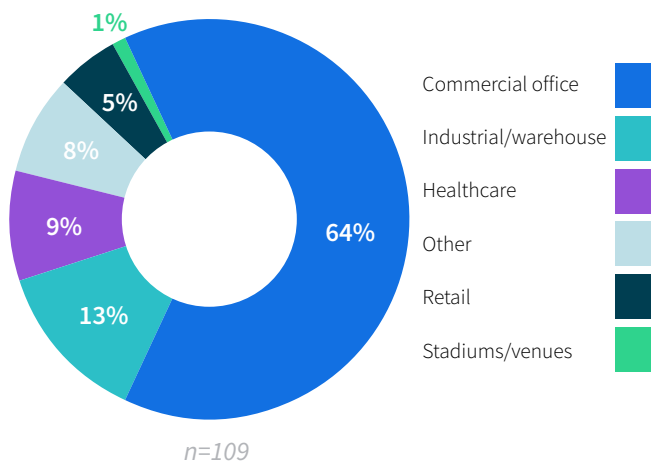
When we looked at where CRE property teams for commercial offices are focusing their tech investment, we discovered building operations and equipment maintenance (66%) and tenant experience (61%) are top of mind.

Tech enhancement focus for commercial office property teams

- Building operations/equipment maintenance — 66%
- Tenant experience — 61%
- Energy management/sustainability — 49%
- Visitor/building access — 30%
- Smart buildings/IoT (i.e., indoor air quality sensors, etc.) — 23%
- Flex space management — 16%
- Other — 1%

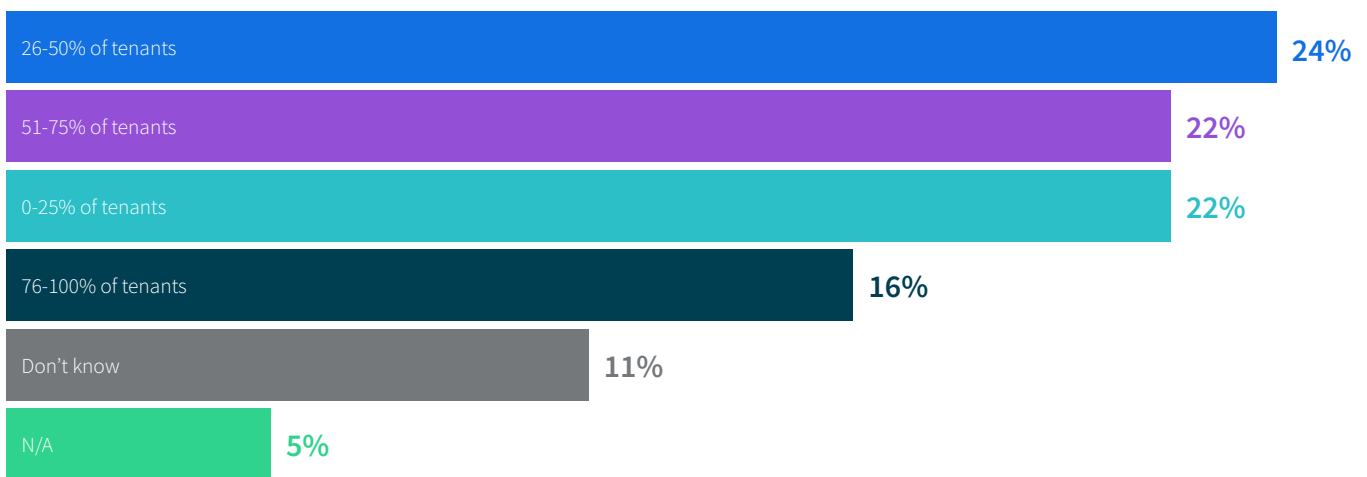*n=158; respondents could select multiple areas of focus*

More commercial tenants have implemented hybrid work models

It's no secret the CRE industry is rapidly evolving as companies implement remote and hybrid work models. According to our research, more tenants now use a hybrid model (defined as employees splitting time between the office and working from home); only 16% of respondents didn't know or said it's not applicable to their situation.

For those property teams who are unsure if their tenants have created a hybrid work plan, there's a missed opportunity in not knowing how tenants are using their buildings. That's because remote and hybrid work are forcing tenants to make decisions about their lease renewals. Tenants have many important questions to answer about the evolution of space for their organizations.

As property teams face the new workplace in today's remote and hybrid work era, CRE landlords need to get involved from the start to stay ahead of potentially negative outcomes such as space reduction or nonrenewal of leases. CRE landlords can tap into their data to help answer the questions tenants are asking about how their space needs are evolving. This is known as providing data as a service to tenants.

What percentage of your tenants are using a hybrid work model?

Category	Percentage
26-50% of tenants	24%
51-75% of tenants	22%
0-25% of tenants	22%
76-100% of tenants	16%
Don't know	11%
N/A	5%

n=251

Property teams overlooking big opportunities for flex space

Flexible space – also known as "flex space"– has become a hot topic in the CRE industry. Landlords are looking for new ways to utilize and draw additional revenue from their buildings as they face the possibility of shrinking leases and diminished renewals. Flex space is any commercial real estate that offers a space for multipurpose workspaces to meet business needs.

Our research shows another missed opportunity here for CRE property teams. Most respondents said they aren't sure what percentage of their rentable square footage (RSF) they will change to accommodate flex space over the next two years. Implementing flex space is a top way for CRE property teams to create buildings that can easily adapt to fit tenants' changing needs and demands.

44%

of CRE property teams aren't sure how much of their building's RSF will change to accommodate flex space over the next two years.

Commercial tenant engagement needs a new strategy

Improving tenant satisfaction is a top priority for property teams as the workplace continues to evolve. Our research shows that in addition to investing in building operations tech, CRE property teams are looking to tenant experience technology to help meet their goals (See "Property teams double down on CRE tech to run better buildings" on page 06).

Those who don't have a tenant engagement strategy could be left behind. And our research shows that many CRE property teams are missing a huge opportunity to engage with tenants in meaningful ways. When we asked whether CRE professionals are using tenant survey or polling data to help guide business decisions, the majority said no (48%) or they weren't sure (15%). Fewer than half of respondents answered yes (37%).

We also asked property teams to share their most common method for communicating with tenants. Overwhelmingly, the majority said email (77%). The second most common way was notifications via a tenant app, but with only 8% of respondents citing this method.

63% of CRE professionals don't use or aren't sure if they use tenant survey and polling data to guide business decisions, missing a huge opportunity to improve tenant satisfaction.
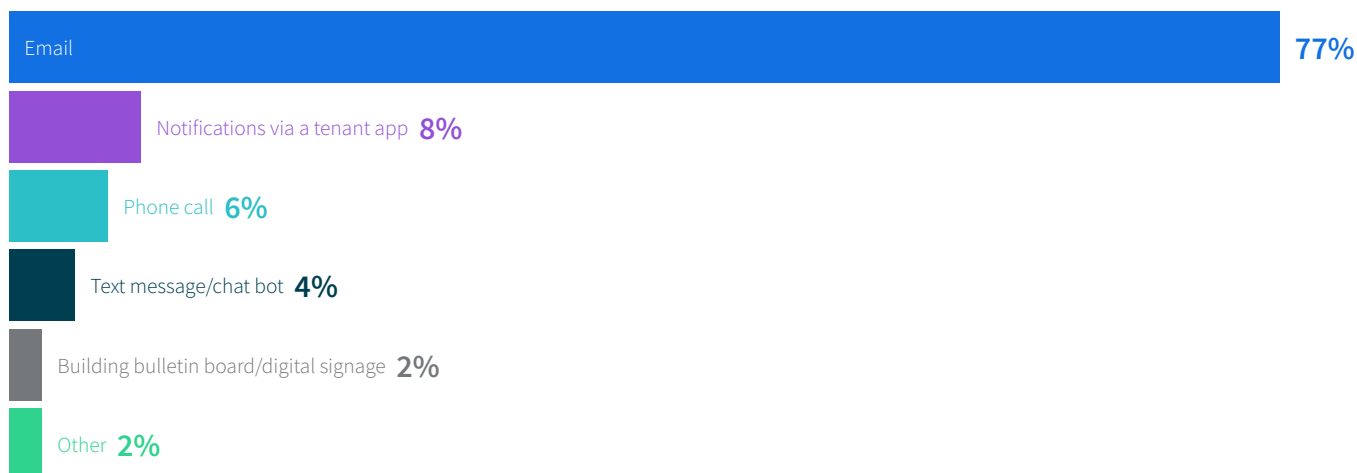

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Are you currently using tenant survey or polling data to help guide your business decisions?

37%

48%

15%

No

Not sure

Yes

n=251
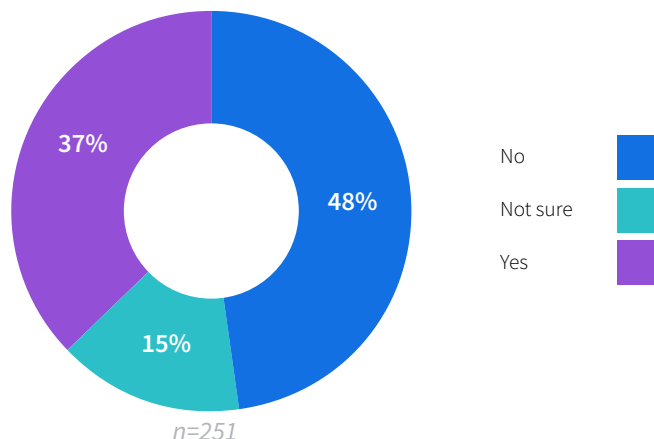
For those property teams looking to enhance their tech stack to create a better tenant experience, an app that connects a building operations platform with a tenant experience component is key. This technology creates a seamless experience for tenants and property teams alike because they can engage and connect with every person in the building in a more streamlined and time-saving way than manually sending emails. Additionally, every event registration, booked resource, and tenant survey sheds light on what tenants love – and what they don't.

Property teams can use this real-time data to remain proactive about office programs and amenities (See "CRE property teams add amenities as tenants' space needs change" on page 14). Tapping into the data can help property teams make better business decisions – something that would be helpful for at least 63% of the CRE professionals who responded to this survey.

What is your most common method for communicating with tenants?

Email **77%**

Notifications via a tenant app **8%**

Phone call **6%**

Text message/chat bot **4%**

Building bulletin board/digital signage **2%**

Other **2%**

n=251; percentages rounded

CRE property teams add amenities as tenants' space needs change

Many CRE companies are spending a lot on adding amenities to their properties to get people excited about coming back to buildings. Tenants want their employees back in the office, so they need to provide a workplace their people want to come to every day. That means they're looking to CRE property teams as partners to meet those goals. In other words, the building must offer a better experience to woo workers away from the comforts of home.

We asked our survey respondents whether they had plans to add new amenities to their buildings over the next few years. The majority said either no (34%) or they weren't sure (27%). However, 39% said they plan to add amenities. It might behoove the 61% of CRE professionals who don't have amenities on their radar to start rethinking how they can utilize their buildings – especially as workplaces continue to change and space is freed up due to shrinking leases or diminished renewal rates.

Do you have plans to add new amenities for tenants in your building(s) over the next few years?

27%

39%

34%

Yes

No

Not sure

n=251
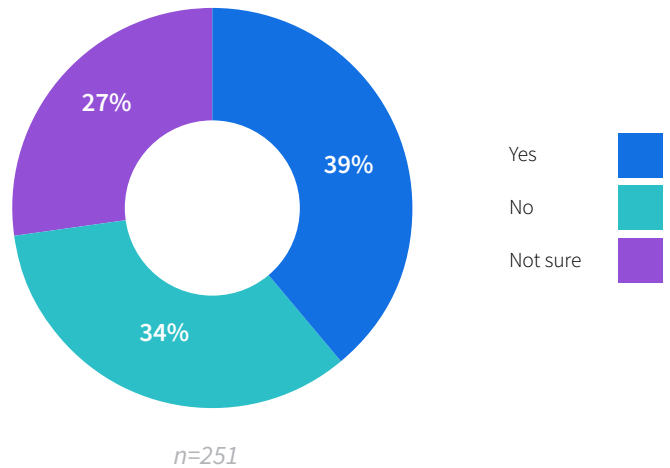
We asked the 39% who said yes to adding amenities what they plan to add. Below are some of the most common amenities being added to buildings across the board.

- Fitness center
- Tenant lounge
- Outdoor spaces, such as community gardens, green space, and new seating
- Café and Grab & Go food options
- Conference rooms and small huddle rooms
- Zoom/phone/quiet rooms
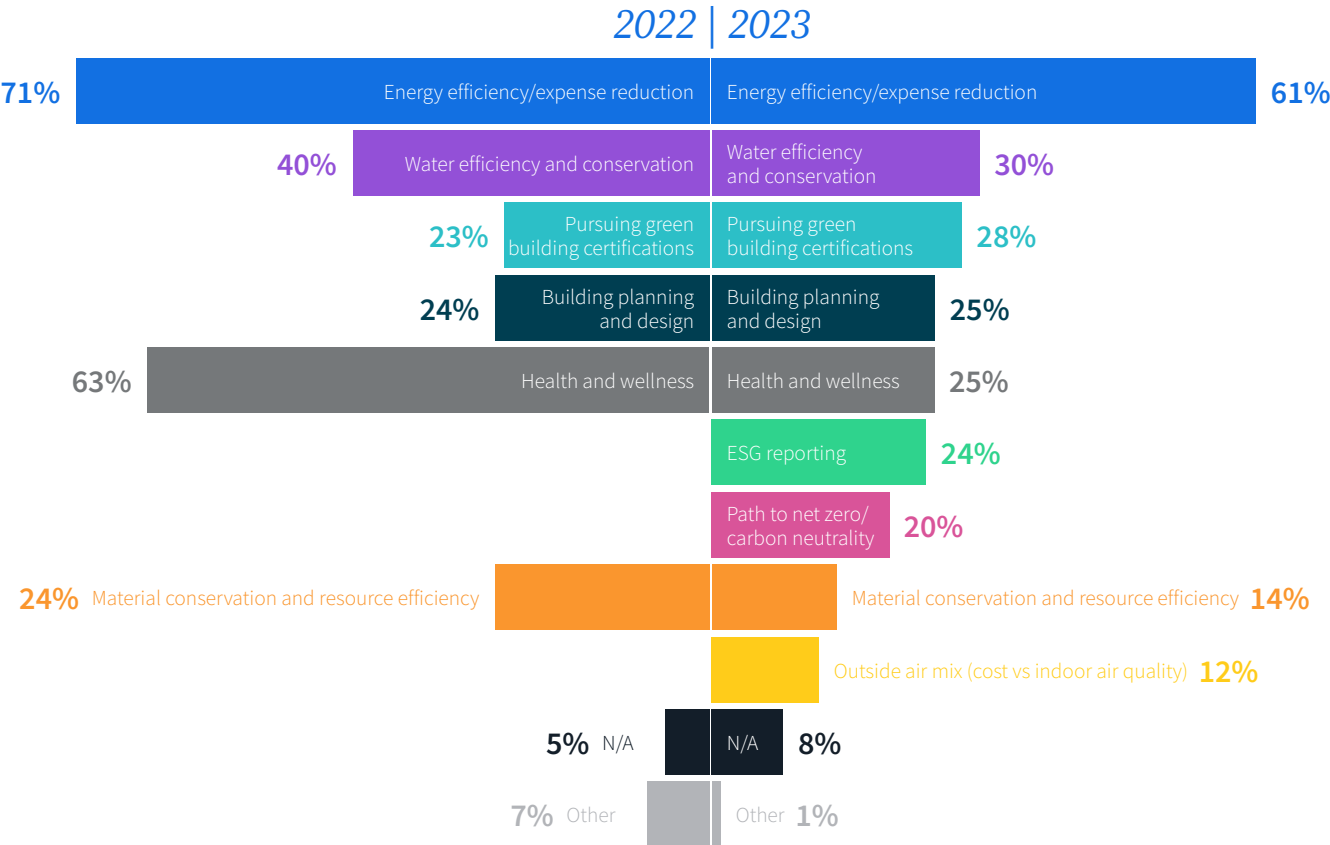- Nursing rooms
- EV charging stations

14
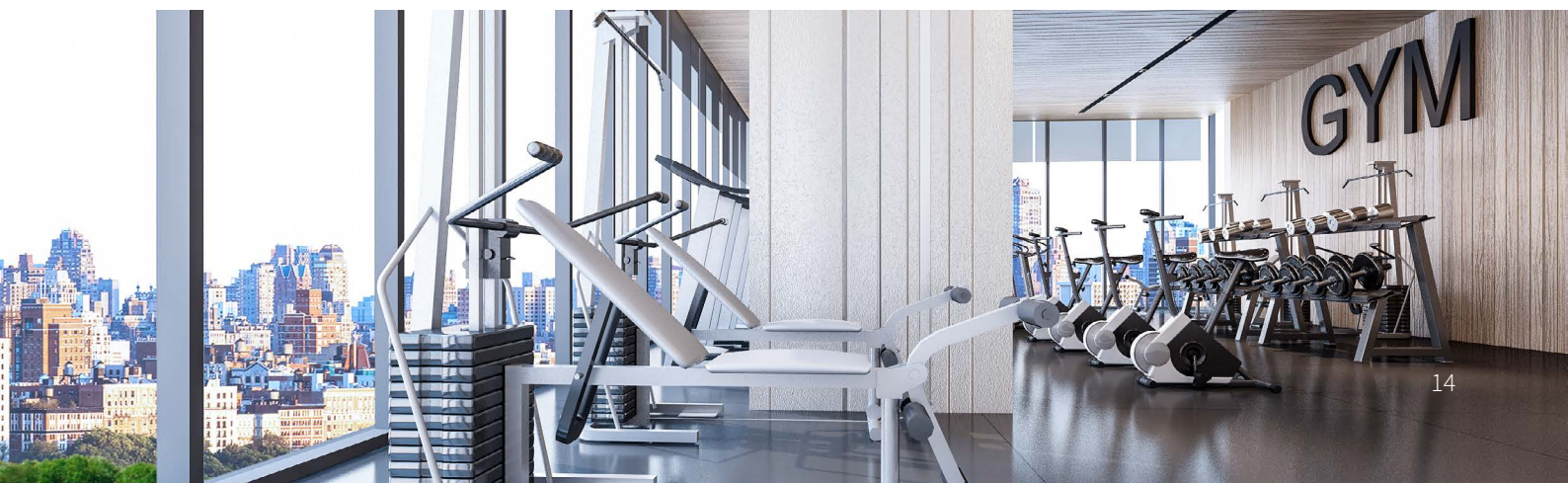
Sustainability priorities shift, but energy efficiency still a top goal

Sustainability continues to grow in importance for the CRE industry, especially as governments implement more green building mandates and tenants increase their demands for such properties.

When we asked respondents what their property teams would prioritize in 2023 in terms of sustainability, energy efficiency/expense reduction notched the top choice (61%). This result was perhaps not surprising given the fact that respondents noted energy management/sustainability as a top area for enhancing their tech stack (See "Property teams double down on CRE tech to run better buildings" on page 06).

This followed a trend from last year's report when energy efficiency was also the clear top choice (71%) for 2022. When we compare sustainability priorities for 2022 versus 2023, we see some shifts. Health and wellness, while still a priority in the top five, has fallen from No. 2 to No. 4 (tied with building planning and design). Pursuing green building certifications has risen in priority. ESG reporting and the path to net zero/carbon neutrality have made their way onto the sustainability priority list for 2023.

Sustainability priorities 2022 vs. 2023

2022 | 2023

2022	Category	2023
71%	Energy efficiency/expense reduction	61%
40%	Water efficiency and conservation	30%
23%	Pursuing green building certifications	28%
24%	Building planning and design	25%
63%	Health and wellness	25%
	ESG reporting	24%
	Path to net zero/carbon neutrality	20%
24%	Material conservation and resource efficiency	14%
	Outside air mix (cost vs indoor air quality)	12%
5%	N/A	8%
7%	Other	1%

CRE outlook: Tackling the top challenges ahead

It's clear commercial property teams face some new challenges as the industry continues to evolve. As inflation remains unstable and the industry braces itself for a potential recession, CRE professionals need more help than ever before with tackling issues head-on.

The top challenges facing the CRE industry include:
1. Remote and hybrid work models leading to potential shorter or nonrenewed leases
2. Energy efficiency issues that affect sustainability efforts but can also negatively impact the bottom line
3. Property teams tasked with doing more with fewer resources amid a labor shortage
4. Evolving ESG requirements as government regulators are increasingly passing laws, rules, and ordinances
5. Attracting and retaining tenants as the way people works rapidly shifts

A focus on streamlined building operations, tenant experience, and sustainability will be key drivers of success in tackling these challenges. That's why it's not surprising that most CRE professionals surveyed for this report said these areas will be top for technology investment.

It's important to implement a building operations platform that can solve all the challenges you face. It's also important to look for a platform that gives you the flexibility to choose the solutions that align with your properties' greatest priorities. Prism by Building Engines helps leading CRE companies run more efficient and effective properties, boost tenant satisfaction, and increase net operating income. Reach out to an expert to learn more.

Contact us ➔   **Request a demo** ➔   **Get pricing** ➔
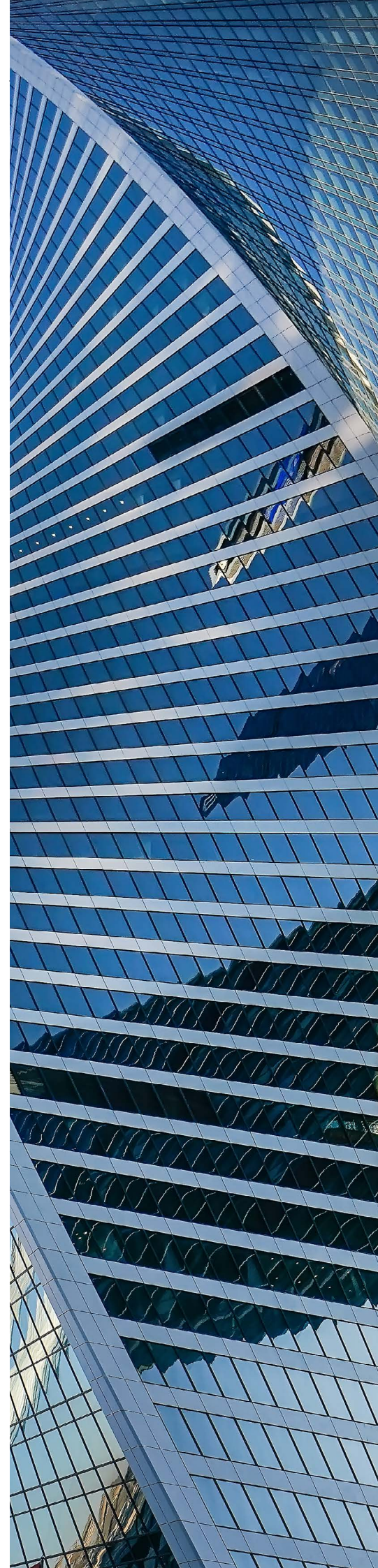
CRE glossary & additional resources

We're committed to helping commercial property teams navigate the challenges they face. Browse through this glossary for definitions and additional resources to help with many of the challenges and opportunities covered in this report.

Amenities

Features of a property that make the space more valuable to current and potential tenants. Some amenities include fitness centers, tenant lounges, and café/food options.

Learn more:
10 amenities to help CRE landlords win back the commute

Building operations platform

Software that helps property teams deliver an exceptional building experience for all occupants – from tenants to property teams. A self-service design can drastically reduce the time and effort required to achieve a measurable ROI by enabling operators to stand up buildings in minutes, without requiring professional services.

Learn more:
The Prism platform

Certificate of insurance (COI)

A certificate of insurance (COI) verifies the existence of an insurance policy and summarizes the key aspects and conditions of the policy. A company or contractor will have difficulty securing clients without a COI.

Learn more:
Easy ways to simplify certificate of insurance tracking

Data as a service (DaaS)

In the context of CRE, DaaS is a new operating model where landlords and management teams are using data from systems deployed in a tenant's space to guide and help them make informed decisions about their space utilization and needs.

Learn more:
Data as a service in commercial real estate: A new operating model in the hybrid work era

Energy efficiency

The process of reducing the amount of energy it takes to operate a building. The easiest, most cost-effective way to tackle energy efficiency issues in CRE is to implement an HVAC management and optimization strategy.

Learn more:
The ROI of HVAC and energy management in commercial office buildings

ESG

ESG stands for Environmental, Social, and Governance. These three factors work together to measure the sustainability and ethical impact of an investment in a business, building, or portfolio.

Learn more:
The CRE playbook for maximizing ROI on sustainability

Flex space

Flexible, or flex, space is any commercial real estate that offers a space for multipurpose workspaces to meet business needs.

Learn more:
3 reasons accurate measurements matter in a post-COVID environment

Hybrid work

A model where employees split time between going into the office to work and working from home.

Learn more:
3 ways CRE landlords can capitalize on today's changing workplace

Indoor air quality (IAQ)

IAQ refers to the air quality within and around buildings. It's especially important as it relates to the health and comfort of tenants. Healthy IAQ is free from significant odors, dust, and other contaminants.

Learn more:
5 ways to improve indoor air quality in commercial office buildings

Net operating income (NOI)

An operating profit metric used to understand the economic value of a property.

Success story:
How Nome Capital Partners increased NOI across portfolio

Net zero/carbon neutrality

Net zero refers to a state in which the greenhouse gases going into the atmosphere are balanced by removal out of the atmosphere. It's the international scientific consensus that, come 2050, global net human-caused emissions of carbon dioxide (CO_2) need to decrease 45% from the levels they were in 2010 to prevent the worst climate damages.

Learn more:
What is a net zero energy commercial building – and why should it be on your radar?

Property management software

This software streamlines building operations by offering several core capabilities that make operating a building easier for property teams. Along with enhancing building management and maintenance, the key value proposition of this technology is its ability to improve properties' net operating income (NOI).

Learn more:
The CRE tech guide to boosting NOI

Remote work

When employees do their jobs from a location that's not their employer's central office.

Learn more:
Remote and hybrid work are here to stay – but the commercial office isn't dead

Smart buildings/IoT

A smart, or intelligent, building uses technology such as a building management system (BMS) or building automation system (BAS) to self-regulate the building's operations and environment. IoT, or Internet of Things, refers to physical objects (such as an HVAC system) with sensors (such as IAQ sensors), processing ability, software, and other tech that connect and exchange data with other devices and systems over the internet or other networks (such as the cloud).

Learn more:
What is an intelligent building?

Sustainability

Not to be confused with ESG (as it's only one part of ESG), sustainability is an avoidance of the depletion of natural resources in order to maintain an ecological balance. A primary sustainability goal for CRE is the path to net zero/ carbon neutrality.

Learn more:
Checklist: Your low-cost plan to prepare for CRE sustainability mandates

Tenant comfort

This can include anything that adds to tenants successfully and adequately working in their spaces, such as indoor air quality, proper ventilation, and comfortable heating or cooling temperature.

Success story:
GPR ventures looks to maximize tenant comfort throughout office campus

Tenant data

There are several key data points to better understand tenant sentiment and commercial building usage. This data is key to understanding how to increase NOI in CRE. Data points include visitor data, space utilization, service and amenity utilization, and tenant engagement data.

Learn more:
How CRE landlords can leverage tenant experience data to boost NOI

Tenant engagement

Tenant engagement is crucial for a CRE building's success as it can lead to tenant loyalty and retention. When tenants are engaged with their landlords and property teams, it fosters a sense of community and belonging. Simple ways to engage with tenants include proactive building communications, work order responsiveness, and offering amenities.

Learn more:
2022 tenant engagement report: Important insights for CRE landlords & property teams

Tenant experience (TeX)

TeX refers to the overall experience of a CRE building for a tenant. When thinking about a typical CRE tenant, many overlook the small details of their day. However, from their morning commute coffee to post-work activities, tenant activities are ingrained in the building community. Even tenant actions outside of the building are part of the tenant experience.

Learn more:
How to create commercial buildings that attract and retain occupancy

Tenant experience software/app

Technology that can create a better experience for tenants. Such tech can improve building communication via push notifications and community forums, offer self-service work order submissions, visitor management, and resource booking. Paired with a building operations platform, the result is streamlined processes for tenants and property teams.

Learn more:
Workplace experience platform

Tenant satisfaction

This indicates how well CRE landlords and property teams are meeting expectations. CRE professionals can measure tenant satisfaction via surveys and polls.

Learn more:
3 ways to make your building the place tenants want to be

Visitor/building access

The process of allowing guests into your buildings. A visitor management system can collect and track information about guests' access and building use.

Learn more:
Improve building access control for better tenant experience

Work order

A task, job, or maintenance request from tenants that outlines issues or other work that needs to be addressed.

Learn more:
3 work order management tips to boost team productivity and tenant satisfaction

About Building Engines

Building Engines, a JLL company, improves net operating income across the world's most successful commercial real estate (CRE) portfolios. Our customers increase revenue, deliver the best occupant experience, and reduce operating costs with Prism—the industry's most innovative and powerful building operations platform. Today, more than 1,000 customers—including Beacon Capital Partners, Brixmor, and SL Green—rely on Building Engines to manage critical operational needs across more than four billion square feet and 35,000 properties worldwide.

To learn more please visit: www.buildingengines.com