

Property charges

ILE-DE-FRANCE / FRANCE

July 2009

TRENDS, IN FRANCE

Total cost of charges (for the 4 types of buildings studied here) ¹	=
Consumer Price Index-Energy ²	↓
Consumer Price Index ³	↑
International prices for imported food commodities ³	↑
Cost of construction index ⁴	↓

¹ Annual change compared to year-end 2007

² Annual change compared to May 2008

³ Monthly change compared to April 2009

⁴ Quarterly change compared to Q3 2008

ECONOMIC CONTEXT

Prices for raw materials were highly volatile in 2008 and this had a noticeable effect on energy prices. In France, for the year as a whole, consumer prices for electricity, gas and other fuels increased by nearly 10%. Prices literally soared in the 1st half of the year, only to reverse course dramatically during the summer. Energy was not the only commodity to fluctuate so wildly: metals and food commodities were equally unstable.

These price fluctuations do not stem from a common cause, but instead are due to a variety of factors, including a drop in world demand, geopolitical tensions, (in particular the conflict in Georgia), massive reduction in stocks, and delayed market adjustments in supply. The price of a barrel of oil

plunged from \$147 in July 2008 to \$35 six months later. Once the recession was stabilised and quotas were lowered, prices started inching back up; they are now in the region of \$50 to \$60. OPEC and the IEA predict that world demand for oil should shrink again in 2009 due to the economic recession in the major developed countries.

It appears, therefore, that a return to the level of prices observed in mid-2008 can be ruled out. Production has been adjusted, but oil prices are more sensitive to the decline in world demand than to the decline in production. However in the longer run and in the light of the state of world reserves the prospect of oil staying cheap for a long time can apparently be ruled out.

IMPACT OF THE ECONOMIC SITUATION

The economic environment, which has been put to the test for the past several months, had little impact on management charges and consequently on overall operating costs for office buildings. Companies that are tenants were, however, affected and are now seeking to cut overheads, in particular their real estate expenses. This tends to be accomplished by renegotiating rents rather than by getting charges lowered. Property managers have in fact been optimising charges regularly over the past few years, which means there is little leeway left for reductions. Stronger pressure on these costs might diminish the level of services provided to tenants as well as the quality and security of the buildings they occupy, leading to tenant dissatisfaction. In 2008, the prices that saw the greatest fluctuations were costs related to raw materials. After the sharp increases of the past few years, which

intensified in early 2008, the price of raw materials tumbled in the 2nd half, only to re-escalate in early 2009. The outcome has been that charges directly dependent on the cost of raw materials are back to early-2008 levels.

As regards the cost of the provision of real estate services, service providers have been exerting strong upward pressure on prices since early 2008. At the instigation of property managers, these price increases were kept under tight control, particularly with regard to the transport of waste, which is more costly to process today, and the upkeep of garden areas, but also general maintenance (e.g., parts and materials), technical maintenance and cleaning. The projected average increase in building management charges for 2009 under these conditions is about 1.8%.

THE DIFFERENT TYPES OF CHARGES

Rent aside, the **charges related to the operation of a building** are divided into **10 items** in the management budget:

- **utilities:** water, fire protection water, electricity (common services), cold production (refrigerating units or heat pumps, district cooling), heat production (district heating, gas, fuel or electric);
- **operating fees:** private automatic branch exchange maintenance, telephone and common services, IT maintenance, management office costs (due to the presence of an on-site Building Manager);
- **insurance:** premiums vary according to the nature and size of the buildings and the guarantees taken out;
- **maintenance and services under contract:** lifts and goods lifts, cleaning of common areas (and approaches, façades, glazed surfaces and car parks), reception and safety, green spaces, plants and flowers, compulsory inspections (electricity, lifts, fire safety, doors, etc.), analysis of air and water quality, waste processing and rat extermination;
- **multitechnical facilities maintenance under contract:** technical maintenance (electricity, heating/ventilation/air conditioning - HVAC), plumbing, Centralised Technical Management / Building Management System (CTM/BMS), fire detection, façades / openings/doors (entrances, deliveries, barriers), sump, Computer Assisted Maintenance Management, inverter, generator, refrigerating unit, cradle, access control, extinguishers/smoke vents/parking lot carbon dioxide, sprinklers, and terrace and roof maintenance;
- **maintenance not under contract:** miscellaneous technical supplies, maintenance and repairs, scheduled works, etc.;
- **inter-company restaurant;**
- **security:** security agents;
- **property and office taxes;**
- **management fees.**

The composition of charges can vary depending on the structure of buildings. For instance, not all buildings have garden areas or receptionists, and only air conditioned buildings require air quality controls. However, some inspections are compulsory for all types of buildings. Costs related to lifts and goods lifts also feature in the budgets, as almost all buildings have this equipment.

The agreement between owner and tenant then differentiates between charges that are recoverable and those that are not:

- **tenant charges or recoverable charges:** these are called recoverable because they are paid **first by the lessor and then re-billed to the tenant**. Generally speaking, charges in the building management budget are billed to the tenant;
- **owner charges or non-recoverable charges:** these are charges for which **the owner is liable** because no provision in the lease was made to pass them on to the tenant.

The lease must distinguish between charges that may be recovered and those that may not be. There exists contractual liberty for commercial leases. Contrary to residential property, there are **no charges that are by nature recoverable in commercial real estate.**

Article 605 of the Civil Code

«A usufructuary is only bound to repairs of maintenance. Major repairs remain the responsibility of the owner, unless they were occasioned by the lack of repairs of maintenance since the beginning of the usufruct; in which case the usufructuary is also liable for them.»

Article 606 of the Civil Code

«Major repairs are those to main walls and vaults, the restoring of beams and of entire coverings; that of dams, breast walls and enclosing walls also in entirety. All other repairs are of maintenance.»

These articles, which present the division of property maintenance costs between the bare owner and the usufructuary, do not normally apply by rights. For the sake of convenience these requirements were transposed into the relation between lessee and lessor.

Case law decisions led to **major repairs** that have a bearing on the **solidity and preservation of a building being payable by the owner.**

Examples of major repairs:

- restoration of façades, if the structure of the building is affected;
- works affecting masonry;
- consolidation of buildings by applying rendering.

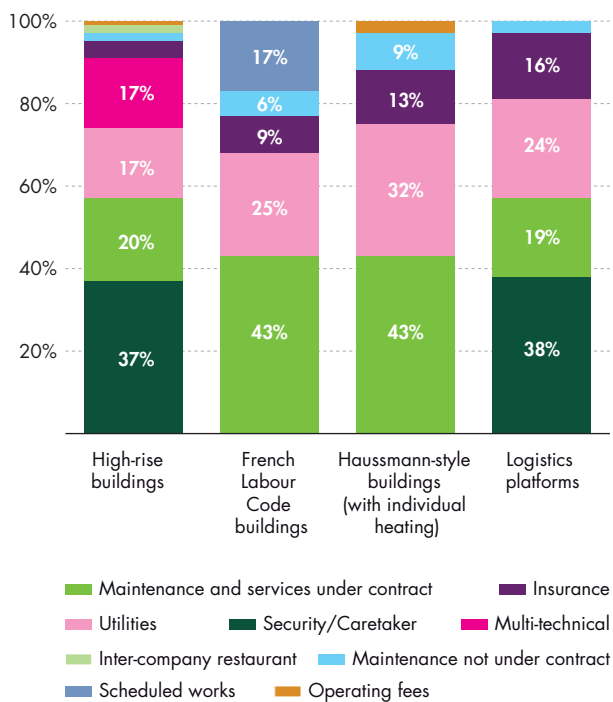
Source: <http://www.legifrance.gouv.fr>, English language version

Technical surveys

A certain number of technical surveys have been introduced over the past few years to ensure that future buyers and tenants are fully informed and occupants' safety and health are protected:

- in the case of a **sale**, the following surveys must be **appended to the sale contract; the cost is borne by the seller**:
 - energy performance analysis;
 - statement of natural and technological risks;
 - results of the termite survey;
 - results of the asbestos survey (for premises built before 1st July 1997).
- for a **letting**, the analysis of natural and technological risks must be **provided by the lessor and appended to the contract**. The **energy performance analysis** has not yet been made **compulsory** but is **recommended**.

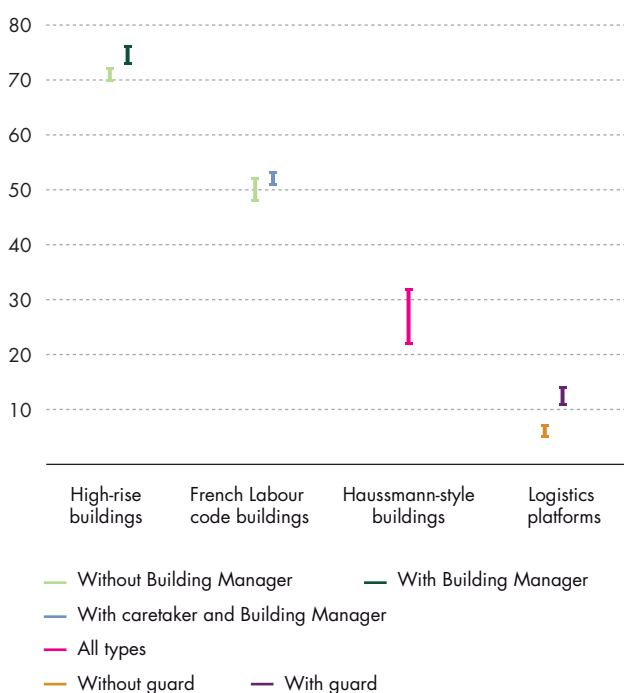
Breakdown of budgets for charges according to building type early 2009



Source: CBRE Property Management

Breakdown of overall costs for charges by building type early 2009

(in €/sq. m)



Source: CBRE Property Management

¹ The costs and shares set forth in this part were calculated on the basis of the sample of CBRE PM clients. All the values of charges are given in euros exclusive of taxes and include management fees. The ratios of charges are calculated exclusive of management fees.

² Figures given for this type of building concern a standard 30,000 sq. m high-rise building.

If no stipulation appears in the lease, the owner will not be able to recover the expenses incurred.

Today the **tendency is for all charges to be recoverable**. When leases are renegotiated, discussion centres more on rental values, fees and rent-free periods rather than on whether charges are recovered or not.

MANAGEMENT CHARGES BY TYPE OF BUILDING¹

High-rise buildings²

Article R122-2 of the Construction and Housing Code defines a high-rise building as «any main building section whose top floor slab level is 50 metres higher than the highest level of the ground that public utilities machinery and fire fighting equipment can use, for buildings containing housing, and more than 28 metres higher for all other buildings.»

Because of the **specific technical features** of high-rise buildings, particularly in relation to their large floor area, stringent safety standards apply. Most of these concern **fire safety**. High rise buildings require **technical installations that are far more specific and complex** than in other types of buildings and they are more heavily regulated and inspected more frequently and thoroughly. The structure of their budgets therefore differs from that of other types of buildings.

The 10 major budgetary items mentioned above are included in the operating budgets of high-rise buildings, although the make-up of each item may vary slightly depending on a given building's specifications.

In high-rises, the budget item covering **contracted maintenance and services** makes up **20% of the budget for charges** on average, considerably less than for a French Labour Code building, and comprises **very substantial sub-items**. The sheer size of high-rise buildings means that the **cleaning** item is much more expensive than for other types of buildings; it accounts for 44% of contracted maintenance and services. The same is true for the **upkeep of lifts**, which represents 29% of the budget. **Compulsory inspections** are essential in a high-rise and account for 9% of total maintenance costs.

Security and security personnel account for **37% of the budget for charges and utilities, 17%**, of which nearly half is spent on electricity.

The **share of charges in the budgets may vary considerably according to a building's floor area**.

At the start of 2009, **overall charges for a high-rise** with floor plates larger than 750 sq. m are stable compared to the start of 2008, ranging between:

- €70 and €72/sq. m without a Building Manager;
- €73 and €76/sq. m with a Building Manager.

Skyscrapers

High-rise buildings over 200 metres high.

When broken down, the budget for a skyscraper is similar to that of a high-rise. The only item whose **share in the budget** is likely to **increase** is the one devoted to **security**, as **additional security agents** are required in order to cope with buildings of this size and floor area. Moreover, in the item covering contracted maintenance and services, **technology charges will be higher due to the greater complexity of these buildings' installations.**

Because this type of building is still being developed, **management costs cannot be calculated at the present.**

French Labour Code buildings

Buildings less than 28 metres high that are not Haussmann-style buildings, to which specific safety and regulation standards apply.

For buildings subject to the French Labour Code, **two items usually account for a substantial share of the budget for charges: maintenance and services contracts, and utilities.** Maintenance and services account for **43% of the budget** on average, with **costs connected mainly to technical maintenance, the upkeep of lifts and cleaning.** Utilities consume 25% of the budget; of this amount, 45% is spent on electricity, with the rest going toward gas and water.

Moreover, **some labour-Code buildings are heated and cooled entirely by electricity.** In these cases the **share of the budget devoted to utilities is slightly lower** than for standard buildings. On the other hand **contracted maintenance and services account for as much as 67% of the budget** owing to the **installation and upkeep of the specific and technical facilities** in buildings of this category. In this part of the budget it is multitechnical maintenance that costs the most.

At the start of 2009, **overall charges for a French Labour Code building** are unchanged compared to the previous year, standing:

- between **€48 and €52/sq. m** without a Building Manager;
- between **€53 and €54/sq. m** with a guard and Building Manager;
- between **€44 and €47/sq. m** for buildings under 5,000 sq. m;
- at **€48.50/sq. m** on average for all-electric buildings.

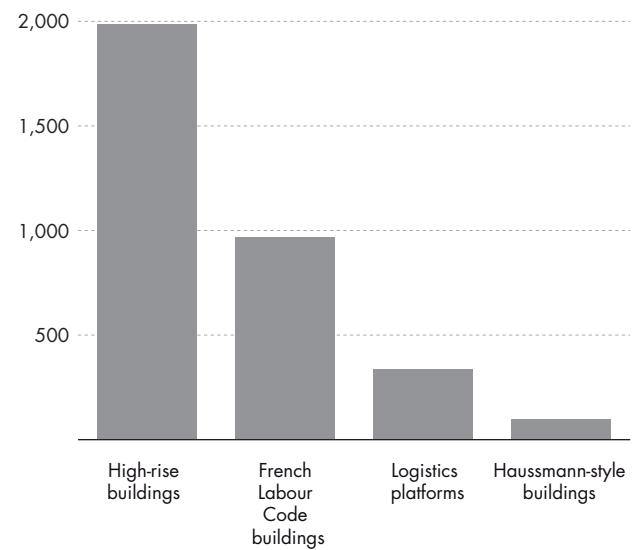
Haussmann-style buildings³

Buildings built in the 2nd empire, with architectural features specific to this period; being old, they have specific budgets for charges.

Buildings may differ in terms of heating systems and whether or not they have air conditioning, lifts, or other sorts of facilities.

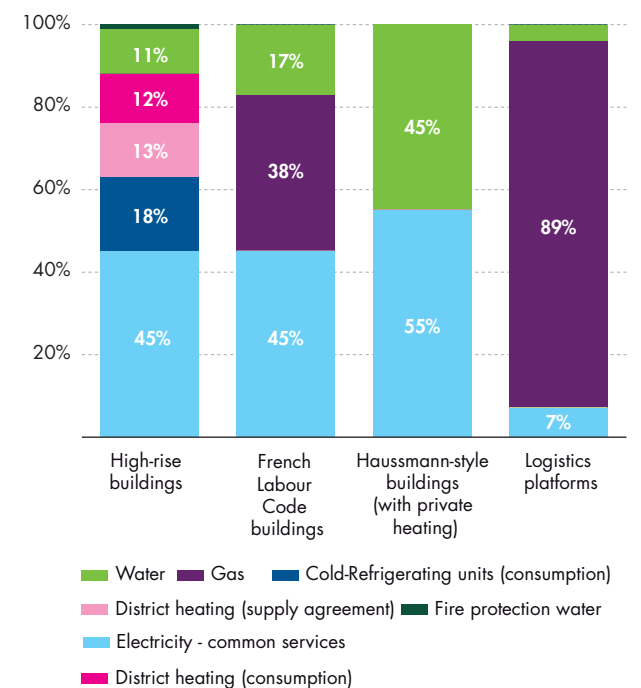
Classification of costs of maintenance and services under contract by building type early 2009

(in index, base 100 = cost of this item for Haussmann-style buildings)



Source: CBRE Property Management

Breakdown of costs related to utilities in the budget of charges by building type early 2009



Source: CBRE Property Management

³ The figures given for this type of building are calculated exclusive of caretaking charges to ensure that the values obtained are homogenous.

Four types of Haussmann-style building may be differentiated (only the charges for energy and maintenance under contract vary):

- type 1: private heating (no air-conditioning, no gas);
- type 2: heating and chilling by district networks;
- type 3: gas heating and air-conditioning;
- type 4: private heating and air-conditioning.

Type 1 buildings are the most common and their **charges** are the **lowest**. On average charges are half as much as they are for type 2 buildings. **Type 2 buildings have very high utilities costs - 70% of the budget** - due to their specific heating and cold production systems. On the other hand, the cost of maintenance and services under contract for type 2 is the lowest of all four types of buildings, representing only 18% of the budget - in contrast to types 1 and 4, where contracted maintenance and services account for over 40% of the budget.

The budget for multitechnical maintenance contracts for this category of building is **very low** compared to others because it is often limited to minor repairs such as upkeep of the boiler, changing light bulbs and fixing locks.

At the start of 2009, **overall costs of charges for a Haussmann-style building** range from **€22 to €32/sq. m**.

Logistics platforms

Buildings over 10,000 sq. m, accessible to heavy goods vehicles, whose main function is to house businesses handling the distribution, storage and/or shipping of goods.

This class of asset, which by nature does not belong to the tertiary sector, has features that differ markedly from the others. **Charges that are proportionately high in the budget of office buildings, such as cleaning and heating costs, are much lower in warehouses.** However, **insurance premiums are much higher** due to the greater risk involved, as are costs related to fire safety systems and the maintenance of the grounds. Guarding the building is also a large item accounting for about 39% of the budget.

The share of **utilities** in the budget is nearly 25%, more or less comparable to that of Labour Code buildings and certain Haussmann-style buildings. On the other hand, gas expenses are far greater in this type of building due to the differences in structure and usage: they account for a whopping 89% of all energy charges.

At the start of 2009, **overall costs of charges for logistics platforms** range between:

- **€5 and €7/sq. m** without guard;
- **€11 and €14/sq. m** with guard.

Life in the building (Vincent Morel, Building Manager of Le Colisée Paris 17, CBRE Property Management)

Large buildings like Le Colisée (37,000 sq. m managed by CBRE PM) generally require an on-site Building Manager...

What is a Building Manager's typical day like?

First thing in the morning the Building Manager checks his or her email to see whether any problems that may have occurred during the night have been reported; then they go on their rounds in the building to make sure everything is going off smoothly, that the different service providers are at work and doing their jobs and that no difficulties have come up since the day before. Meetings are scheduled throughout the day with different people such as the service providers in charge of cleaning, the inter-office restaurant or the gym, to go over questions about contracts, bills, quality control of services, and so on.

Being right on site eliminates the hassle of travelling and means we can intervene quickly, although when you have a management office in the building it can sometimes be a disadvantage because the number of requests and complaints increases, which is time consuming. But this is not necessarily a bad thing, since after all, the ultimate goal is the tenants' satisfaction and it's natural that a large site is a bit like a village. My presence at the geographical centre of the building gives me a privileged position. A typical day can be summed up like this: one third of my time is devoted to technical management and administrative tasks, one third to budgetary management and reporting, and the rest to relations with tenants and managing unforeseeable daily events specific to the building and its occupants.

What kind of relationship does a Building Manager have with tenants and owners?

Bear in mind the fact that Building Managers have technical training and professional experience in managing sites. They occupy a pivotal position, acting as intermediaries between tenants and owners, especially as regards their technical and administrative needs. They are guarantors of the tenants' well-being and security vis-à-vis the owners. So they communicate with tenants and report periodically to owners about events and actions pertaining to management on the site. In addition, they advise owners about works for preserving and improving the building and its facilities, plan the budget for works that fall under normal charges and prepare long-term plans for heavy investment works. Site managers are also in contact with security services as well as with the municipality, the prefecture, the roads department and so on.

To sum up, Building Managers are responsible for running and managing sites with a view to satisfying tenants and implementing owners' asset management policies.

ZOOM...

HQE® LABEL FOR OPERATION¹

For the past ten years or so, the **HQE®** (High Environmental Quality) **Approach** has made it possible to «plan, design and build buildings that are healthier, more comfortable and more environmentally friendly than buildings of the same generation», i.e., buildings that are not HQE® certified.

The notion of performance has now been incorporated into the HQE® Approach, with **NF Bâtiments Tertiaires - Démarche HQE® «Construction»**, the French rating for the environmental quality of office buildings - the equivalent of BREEAM, the British environmental assessment method for buildings that sets standards for best practice in sustainable design - in the area of construction. **The approach involves attaining 14 objectives which cover green building, eco-management, comfort and health** and are broken down into **2 sub-targets**: the **intrinsic quality of the building** and the **follow-up and maintenance of the building**. Operations must comply with **3 criteria**:

- have a **minimum of 3 targets at the Very High Performance level**;
- have a **minimum of 4 targets at the High Performance level**;
- have a **maximum of 7 targets at the Basic level**.

As an extension of the sustainable building approach, the **NF Bâtiments Tertiaires - Démarche HQE® «Operation» certification** should be implemented some time in 2009; this rating tool will enable office buildings to achieve **optimal environmental performance**. The standard, to be issued by Certivéa, is based on **3 concepts**:

- **Système de Management de l'Exploitation (system of operational management) or SMEx**: based on the ISO 14001² standard, it expresses all the requirements of the management system that are to be implemented in order to properly operate a building and achieve its environmental performances;
- **Qualité Environnementale du Bâtiment en Exploitation (environmental quality of the building in operation) or QEBE**: the conditions that must be met are the same as those for the HQE® approach for construction. For existing buildings, the 14 targets that must be achieved will all be at the Basic level, that is, the minimum required for certification;
- **Qualité Environnementale des Pratiques (environmental quality of practices) or QEP**: it assesses the best practices for use of a building. It is divided into **7 themes**: optimisation of water and energy consumption, business waste, buying policy, health and comfort, business travel and commuting, and managerial practices. 3 conditions must be fulfilled to obtain certification:
 - have a **minimum of 2 themes at the Very High Performance level**;
 - have a **minimum of 2 themes at the High Performance level**;
 - have a **minimum of 3 themes at the Basic level**.

The goal of the building's owner will be to **obtain an overall QEP for the whole building**, which will make it easier to manage certification. It should be noted however that **2 types of QEP** may be issued: a **Common Areas QEP** and an **Occupiers QEP**. Each type is divided into **3 sub-themes**, which are assessed according to how fully the requirements are achieved:

- communication on the part of the owner and/or operator/of the occupier;
- management of common areas/occupied areas;
- purchases made by owner and/or operator / by occupier.

Once the **QEBE and QEP profiles are chosen** and the **SMEx is set up**, the **certification may be established based on two final criteria**, which depend on whether the building occupiers are **separate or considered as a unit**.

- **Operation certification for the building: issued for the entire building and independent of occupier(s)**;
- **Operation certification for each occupier of the building: each occupier must comply with the requirements listed above to obtain certification**.

The HQE® «Operation» label is **valid for one year** and must be **assessed yearly**. If the assessor ascertains that certain targets are not met, a building is given one month to comply with the criteria. The certification can be forfeited if a majority of targets are not attained. At the request of clients who are owners, the Property Manager's task will be to **set up all the tools, analyses and audits required for obtaining certification**.

¹ Source: Certivéa, a subsidiary of the CSTB Group, whose task is to assist, «through certification, steps to improve the performance of players in the construction sector in all its dimensions: management, customer satisfaction, and technical and environmental performances.»

² Concerning environmental management, «it is based on the principle of continuing improvement of environmental performance by keeping in check the impacts related to the company's activities and on compliance with regulations.» (source: ADEME)

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