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# The Property Management Factor:

## How Tenant Satisfaction Elevates Commercial Real Estate Performance

**The U.S. office property market is undergoing profound changes that are altering — and in most cases, reducing — overall tenant demand for office space.**

Blame it on working from home, which soared during the pandemic and has remained elevated well above pre-pandemic rates. Estimates of remote working vary by data source. However, their conclusions are all similar: Most office workers still go to a company office most days, but many more work at home or in non-traditional workplaces some or all of the time compared to just a few years ago.



That shift makes all the difference. Real estate analysts believe 10% to 20% of office demand will disappear, and much of that is gone already. Despite strong office-inclined employment — the types of jobs that previously would be based in an office building — office markets nationwide are experiencing record or near-record vacancies. Almost all buildings are feeling the pain except for the newest offices with the most advanced ventilation and designs. Buildings constructed more than a few years ago are being hit the hardest.

In this hyper-competitive environment, building owners and managers must seek every advantage to attract and retain tenants. In an [earlier blog](#), we discussed the importance of effective tenant communication as a means of understanding what's important to tenants. In turn, that engagement can improve tenant satisfaction. The assumption is that happier tenants lead to better building performance, with greater tenant retention and higher occupancies.

## Prove It!

Sounds logical, but does it? Building managers assume so, but up to now, independent substantiation of the impact of tenant satisfaction on building performance has been limited. A major new academic study published by economists at Maastricht University and MIT entitled [“Tenant Satisfaction and Commercial Building Performance”](#) undertaken by economists Juan Palacios, visiting assistant professor at MIT, and Nils Kok, professor at Maastricht University, took on the challenge and found strong support for the proposition.

To gauge tenant attitudes, the study relies on tenant surveys conducted with Grace Hill's KingsleySurveys, a comprehensive set of survey tools helping residential and commercial building managers measure



tenant and employee attitudes. Clients have been using the surveys for over three decades to guide retention strategies, and many report impressive results. The Maastricht study team has carefully analyzed office building operating performance using what they called “an unexplored goldmine” to understand “how tenant satisfaction shapes demand for office space.”

## What Was Analyzed

The study starts with survey answers in KingsleySurveys from over 37,000 corporate tenants over the past decade. The respondents include the branches and subsidiaries of over two-thirds (71%) of the S&P 500 companies, so the study covers much of corporate America.

SURVEY RESPONSES FROM OVER

**37,000** CORPORATE  
TENANTS

**3,000** OFFICE BUILDINGS  **392** CITIES

To provide context for the survey responses, the study model also considers the physical quality of the offices, including attributes such as size and class of the building, when it was constructed and whether it has been renovated, and the presence of onsite amenities. The study covers a broad cross-section of U.S. office markets with results from almost 3,000 office buildings in 74 metropolitan areas (MSAs) and 392 cities in 38 states. The study includes such signature buildings as the Empire State Building and Rockefeller Plaza, as well as numerous smaller, less prominent buildings. However, almost 90% of the observations are located in the 50 largest MSAs, ensuring that the results yield a meaningful representation of major U.S. office markets where most office leasing occurs.

The study employed two distinct methodologies. In the first approach, the researchers assess the extent to which tenant satisfaction impacts re-leasing likelihood using three different metrics:

- (1) The tenant's stated likelihood of renewing their lease.
- (2) The tenant's stated willingness to recommend the property to a third party.
- (3) Most importantly, whether the tenant ultimately renewed or exited the building.

In the second approach, the researchers calculated how much building performance depends on tenant satisfaction. Specifically, they considered how increasing tenant satisfaction increases gross rent, effective gross rent (adjusting for landlord expenses like tenant improvements and leasing commissions), and occupancy.





## What the Study Found

The study results are clear and very significant. As the report authors concluded in a presentation of the study, “higher satisfaction is associated with higher renewal intention, a higher propensity of property recommendation, higher gross rents, and a lower vacancy rate.” These results confirm expectations; we should expect that tenants who are more satisfied with a building are more likely to renew their lease and recommend the property to others.

Specifically, the researchers first tested how tenant satisfaction impacts their actual leasing behavior.

**They found that increasing satisfaction by one step on a 1 to 5 scale correlates with:**

- An 8.6% higher willingness to renew.
- An 11.5% higher likelihood to recommend the property to prospective tenants.
- A 15.8% lower probability of moving out of the property.

In other words, the “tenant’s current view of the building is able to predict their self-reported behavior, such as renewal intention, the willingness of property recommendation, and actual move-out decision.”

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The researchers also found that buildings that improve their tenant satisfaction over time achieve greater improvements in rent and occupancy compared to buildings that do not raise tenant satisfaction.

Looking at survey and leasing results over time, the researchers found that a “10% higher building-level average satisfaction among the tenants in the building” is associated with a:

- 0.2% higher gross rent growth
- 0.6% higher effective gross rent growth.
- 2.4% lower vacancy rate.

In summary, “higher tenant satisfaction is predictive of better financial performance, such as rent growth and building occupancy.” The impact is most significant when the building/tenant starts with a low satisfaction level and when the submarket has a relatively high vacancy rate.



## What Matters to Tenants

Left unexplored in the study is what specifically leads to tenant satisfaction. We know with certainty from industry market data that tenants prefer newer, higher-quality buildings. Class A buildings command higher rents and occupancies than Class B buildings. Moreover, leasing is strongest in state-of-the-art buildings, those with the most advanced designs, indoor air quality, and safety features, while older buildings are losing tenants in virtually all markets nationwide.

Those findings, while important, are hardly newsworthy. Firms have always preferred superior offices, and those that can afford it are willing to pay more for the privilege. However, the Maastricht study goes further by controlling for building quality so that satisfaction in lower-quality buildings is not (unfairly) compared to that in top-quality buildings.

What does this mean for property managers? There's little that managers can do to improve the physical quality of their buildings in the short term, of course. So, what can managers do that matters to tenants and can raise their satisfaction, thereby increasing the odds of lease renewal? For this, we can return to the source data from Grace Hill embedded in the KingsleySurvey responses.

One way to assess what factors are critical to leasing decisions is to ask tenants about their likelihood of renewing their lease and then ask them to identify the factors that most influence their decision. Grace Hill calls these "renewal decision factors." As might be expected, physical building attributes (e.g., location and building quality) are key factors, particularly for tenants that anticipate renewing, as shown in the following chart. But almost as important as "quality of building" are factors such as "property management" and "building upkeep," over which building managers have much more direct and immediate control.

### Top Renewal Factors for U.S. Offices, 2022-23

Likely vs. Unlikely to Renew

RANK	RENEWAL DECISION FACTOR (RDF)	LIKELY*	RENEWAL DECISION FACTOR (RDF)	UNLIKELY*
1	Location	80%	Price	41%
2	Quality of Building	52%	Space Requirements	39%
3	Space Requirements	45%	Business Circumstances	28%
4	Property Management	45%	Corporate Decision	26%
5	Building Upkeep	36%	Length of Lease	15%
6	Business Circumstances	33%	Property Management	14%
7	Parking	33%	Location	12%
8	Corporate Decision	32%	Quality of Building	11%
9	Security	32%	Amenities	10%
10	Amenities	31%	Parking	8%
11	Price	29%	Building Upkeep	8%
12	Quality of Cleaning	23%	Quality of Cleaning	6%

\*Frequency of EDFs cited by respondents who are likely/unlikely to renew their lease  
Source: Grace Hill KingsleySurveys; compiled by Nelson Economics

On the other hand, financial factors (like price and business circumstances) and unique corporate issues (space requirements and corporate decisions) are more often cited as the key decision factors for tenants not intending to renew. This contrast suggests that landlords can raise the odds of renewal through superior property management, though even this may not be sufficient to overcome price disadvantages or changing space requirements that no longer match options in the building.

There's another way building owners can improve renewal probabilities. The Maastricht researchers used KingsleySurvey data to demonstrate that office tenants expressing higher satisfaction with their workplace are more likely to renew and more likely to recommend the building to others. Thus, owners can help achieve better leasing outcomes by focusing management efforts on the factors that lead to greater tenant satisfaction.

Here again, the KingsleySurveys data provides valuable insights. By analyzing the responses to the survey questions in detail, we can determine which building attributes are most highly correlated with overall tenant satisfaction. The following table divides survey responses from U.S. office tenants into two categories: building management and physical building features. Both groups have attributes that are highly correlated with overall tenant satisfaction, but on average, the factors under direct management control are the more important, with an average correlation of 58% versus under 40% for physical attributes.

## Correlation of Building Management and Quality to Overall Tenant Satisfaction

U.S. Office Buildings, 2022-23

CATEGORY	CORRELATION
<b>Building Management</b>	
Management - Overall Satisfaction	75.5%
Management - Problem Resolution	71.7%
Management - Communication	67.2%
Management - Accessibility	63.8%
Accounting - Overall Satisfaction	55.9%
Maintenance / Engineering - Overall Satisfaction	55.0%
Security	46.1%
"Green" Building Commitment - Overall Satisfaction	45.8%
Quality of Cleaning - Overall	41.8%
<b>Average, All Building Management</b>	<b>58.1%</b>
<b>Building Features</b>	
Quality of Building	56.1%
Appearance of Common Areas	50.8%
Building Amenities	50.6%
Appearance of Lobby	47.6%
Heating and A/C	47.3%
Exterior Appearance	47.3%
Appearance of Restrooms	44.5%
Elevator Performance	42.2%
Fitness Amenities - Locker Rooms	37.1%
Amenities - Bike Rack	37.1%
Social Spaces with Common Area	36.8%
Location	36.5%
Meeting Spaces for Large Meetings (20-40)	34.6%
Amenities - Electric Vehicle Charging Station	34.2%
Access to Exercise or Recreational Opportunities	33.3%
Meeting Spaces for Small Meetings (10-19)	33.1%
Parking Availability	31.6%
Amenities - Healthy Food Options	31.1%
Access to Food Trucks and Pop-up Retail	29.5%
Access to Green Space / Nature	29.1%
<b>Average, All Building Features</b>	<b>39.5%</b>

Source: Grace Hill KingsleySurveys; compiled by Nelson Economics

## Improving Financial Performance Through Better Building Management

The Maastricht study demonstrates that greater tenant satisfaction leads to better operating results. That's to be expected, but this study is the first to actually quantify the impact of higher tenant satisfaction levels on rents, occupancy, and leasing decisions. Significantly, the study relies on survey responses from KingsleySurvey to establish these impacts. With a deeper mining of the survey responses, we can extend the study results by identifying the issues that matter to tenants and drive satisfaction. Many of these factors are under the direct control of property managers. Thus, managers can leverage the results of these surveys to improve their operating fundamentals.

Tenants can also leverage these results, for many of the same factors that matter to decision-makers also matter to their employees. Many firms are engaged in a protracted battle with their workers to spend more time in the office, believing it enhances productivity, facilitates mentoring, and helps build the corporate culture, among other benefits. Companies are finding that mandates for workers to return to the office are frequently not very effective and can even be counterproductive by disaffecting employees. By selecting office buildings with superior physical quality and management, firms can provide more of an incentive for workers to come back into the office — and thus for firms to lease more space — all the more reason for landlords to provide the best possible property management.



## From Research to the Real World

Clearly, the research demonstrates the critical role that tenant satisfaction plays in commercial real estate performance. The findings of the MIT/Maastricht University research study are only valuable when data correlations are translated into changes in the operation of your organization. Investing in your tenants and their experience within your properties can lead to improved occupancy rates, increased rent prices, and, ultimately, higher revenue streams. As we continue to navigate through the ever-changing landscape of commercial real estate, it is essential to keep tenant satisfaction at the forefront of our business strategy. This important research can help provide a roadmap toward achieving success and meeting the needs of both tenants and CRE organizations.