

Office Grading 2023

savills



OFFICE GRADING

What are Office Grades?

In the property industry, offices typically fall into three grades, A, B and C. Office grading assigns a score based on criteria such as location, amenities, layout, age, management, and parking, and increasingly considers factors like environmental impact or high-tech features. Office grades create standardisation in the industry, which supports tenants in their leasing decisions, helps landlords and property managers implement procedures, allows consultants to correctly research and track market stock and helps developers to create comprehensive development plans. Standardisation also underpins transparency and fairness, which is key to any healthy market.

Why Does Savills Have an Office Grading System?

Savills has researched Viet Nam's property markets since 2004. As the leading Advisory agency, and without any official grading systems, Savills researchers created a comprehensive guideline to score offices.

Over the last two decades, the HCMC office market has grown exponentially at 12% per annum (pa), jumping from 300,000 m² NLA with 18 active projects in 2004, to 2.6 million m² NLA with 379 active projects in Q1/2023.

In Ha Noi, stock grew by 13% pa, jumping from 282,000 m² NLA from 50 active projects in 2006, to 2.19 million m² NLA with 192 active projects in Q1/2023.

Why Update an Office Grading System?

Viet Nam's office growth has reflected the country's rapid economic development. Office projects have become larger, more sophisticated, and have started implementing professional management teams. More regulated urban planning, improving infrastructure and connectivity, and decentralisation mean more offices in the non-CBD now offer high development standards.

As such, Savills office grading system needed an update to reflect current market conditions. In early 2023, Savills updated the grading system to reflect the current market, and pipeline. The updated system ensures greater transparency and establishes a strong foundation for future development.

The update also considers that a shift is taking place in the office market. Offices are no longer simply viewed as "spaces as a commodity" but rather "space as a service". Therefore, the updated rating system includes several RISE principles. RISE is a customer-focused model that bridges the gap between customers' expectations, and experiences. These measures are tangible and look at factors such as experience, engagement, and the environment.

Savills Updated Office Grading

Grade is determined by how a project performs compared to 19 criteria related to urban development level, development quality and tenant experience. These include factors like commercial density, public transportation, accessibility, safety and security, ceiling height, ESG, age, and management services.

Table: Savills office grading criteria

Criteria	
1	Building age
2	Location
3	Architecture and landscaping
4	ESG
5	Scale
6	Typical floorplates
7	Raised floor
8	Columns
9	Floor-to-ceiling height
10	Backup power supply
11	Lifts
12	Parking
13	Public area
14	Ablutions
15	Air conditioning
16	Management services
17	Technology
18	Internal facilities
19	Safety and security

A high grade does not always correlate with high rent. For example, Grade A developments in a planned urban area will be classified as “Grade A suburban” but will still offer more modest rents. A Grade A suburban property could have a lower rent than a Grade B property in the CBD.

Grade Explanation

The rating system has 19 criteria considered the most important for office buildings. The rating assesses the criteria individually, and buildings can receive a score of 1 to 100.

Grade A: A property in an area with high commercial density and proximity to public transportation. These buildings have distinctive architecture and landscaping, high development standards, cater to ESG commitments, and have highly adopted technology, good safety and security, and highly regarded operators. Score: 85 to 100.

Grade A Suburban: This is a new rating and is classified as a good development in a planned urban area with medium commercial density and good accessibility. The other features must be similar to regular Grade A properties. Score: 85 to 100.

Grade B: These properties must have proximity to other commercial projects and public transportation and must have medium ESG features, development standards, lift services and technology. They still offer good safety and security and experienced operators. Score: At least 65.

Grade C: This is the lowest classification, and these properties have generic architecture, small floorplates, and basic lobbies. They must span at least 1,000 NLA, internal specifications and facilities are not essential, and management can be modest. Score: At least 35.

Original vs Updated Rating

The updated rating prioritises criteria like location, ESG, building specifications, and management services.

- Location: Defined by surrounding commercial density and proximity to public transportation (Metro lines, bus stations etc.) rather than the previous geography requirement.
- ESG (environment, social, and governance): These are new criteria. Although ESG awareness in the region remains low, this will change rapidly as ESG becomes fundamental to business. Developers can improve their ESG criteria by following global rating entities or getting green certification, using environmentally friendly materials, implementing active governance, and social commitments.
- Building specifications: Focus on occupier experiences with features like layout quality, lifts, air conditioning, parking, ablutions, safety and security, internal facilities, and technology. Good technology with smart and automatic features, and good connectivity, will be essential for buildings to improve their operational efficiency, occupier experiences and competitiveness.
- Management services: Operator and specialised management programs like RISE.

Variations in Methodology

As an industry or government standard is unavailable in Viet Nam, Savills utilised criteria from diverse international sources to build its grading system. International standards from Hong Kong, Singapore and Canada best align with Viet Nam's development and market trends. Although international standards were used, the local market demands were also considered to ensure the rating system can accurately determine the true grade of office buildings in the Vietnamese market.

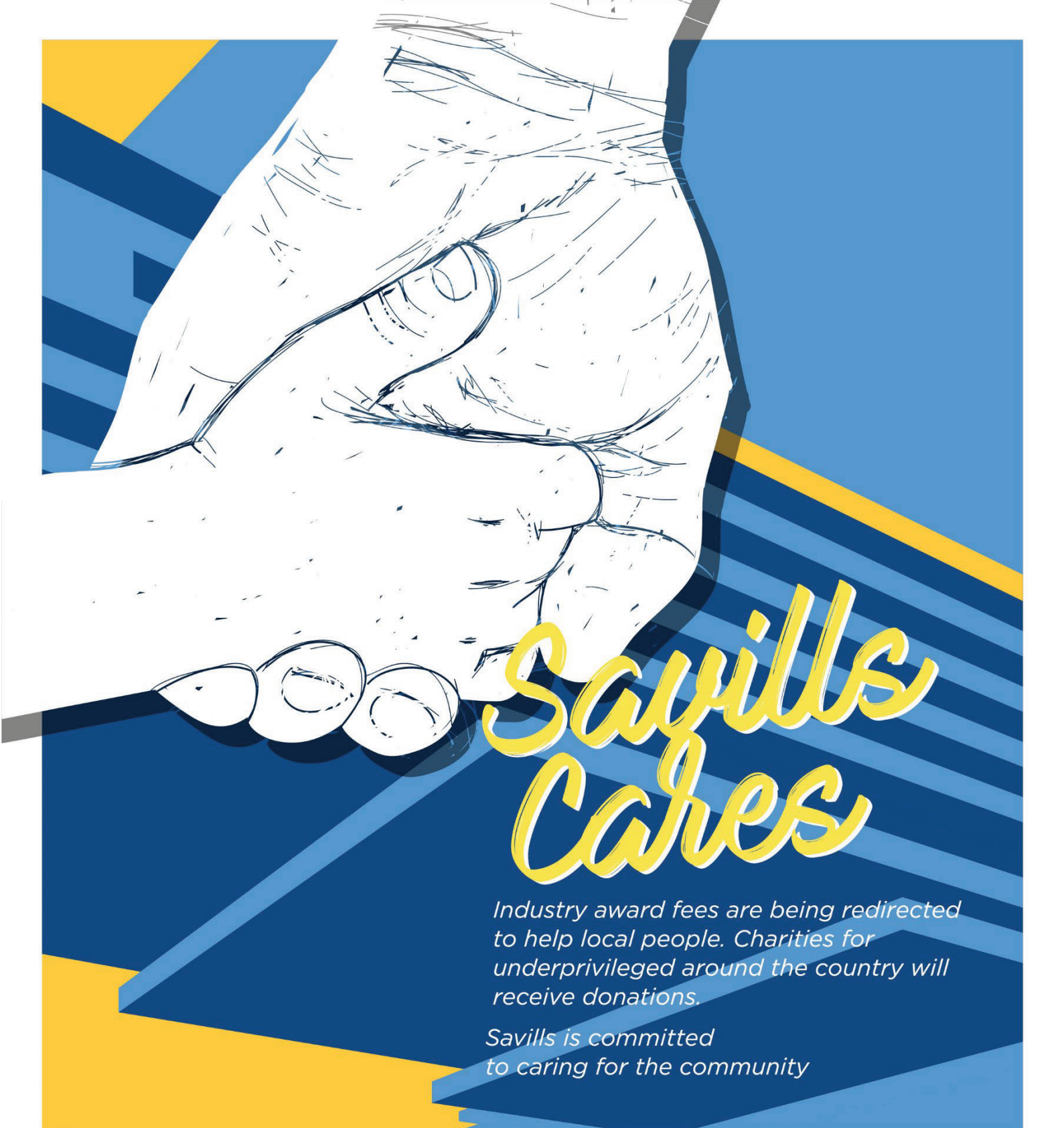
Reclassification on Averages and Performance

The updated rating system is likely to change the grade composition, which will influence performance by grade. For example, improving development standards and building upgrades mean more Grade A and Grade A suburban offices buildings are expected. Conversely, outdated projects that scored highly in the past could be downgraded.

Downgrading, however, is not necessarily permanent. Developers can upgrade and work on fixable criteria like common areas or features like air conditioning, lifts, parking or conveniences. They could also implement more technology and superior management programs to boost their standing.

Conclusion

Office grading systems create transparency and bring clarity to the commercial property market. While standardisation is key, grading systems must be updated periodically to reflect the realities of the market. Developers must be aware of these changes and adapt their development strategies to ensure sustainable and successful outcomes. By doing so, they can avoid the costly and time-consuming process of retrofitting properties to meet changing demands. Ultimately, following comprehensive office grading systems mean stakeholders can help ensure the long-term success of the commercial property market.



Savills Cares

Industry award fees are being redirected to help local people. Charities for underprivileged around the country will receive donations.

Savills is committed to caring for the community



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