

OCCUPIER INSIGHT

ALIGNING CORPORATE REAL ESTATE WITH THE BUSINESS



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A FIVE-STEP APPROACH TO ALIGNING CRE WITH THE BUSINESS

There is no doubt the corporate real estate industry is going through a period of rapid change. In response to continuous improvements in technology and communication, as well as evolving global trends in the workforce, businesses around the world are exploring new ways for their employees to work and interact. Generating higher degrees of creativity, innovation and efficiency have become top priorities for C-suite executives, and real estate is playing a prominent role in driving these initiatives. The strategic design, delivery and management of corporate facilities can not only provide significant cost savings, but if done properly, can also

provide significant flexibility for future business decisions, endorse and support corporate branding, and improve worker productivity and happiness. In short, the value that real estate and the workplace lend the business is dramatically increasing and as such, the contribution that corporate real estate (CRE) must make to the business is changing.

The concept of CRE contributing more strategically to the business has gained undeniable momentum. It has become clear that real estate can play a prominent role in assisting the business in achieving corporate objectives. It has also become clear that in order to successfully support corporate objectives, CRE departments must link their organizational goals with those of the business and business units. In this briefing, Cushman & Wakefield will discuss the expanding responsibilities being placed on CRE and outline some of the key steps necessary to align real estate with the business.

CRE'S EXPANDING RESPONSIBILITIES

Much has been said and written over the years of the need for CRE to be “more strategic” in its approach to acquiring, designing, and managing real estate. Yet, many real estate executives still struggle with balancing the appropriate amount of tactical and strategic functions performed within their organizations. The question has become: Can CRE continue to focus on the outward-facing function of executing real estate transactions, while also re-training itself to look inward and focus on strategically partnering with business units? This is not an easy task. In response, some corporations have taken steps to alleviate themselves of the tactical responsibility of real estate altogether. New and innovative outsource partnership models are now being tested that don't simply outsource real estate services, but that take bolder steps towards outsourcing the traditional role and function of the department altogether.

So, how does CRE get there? What are the steps to consider when approaching the broader organization to form a partnership that will change the role of real estate? How can CRE participate in the evolution of delivering clear and measurable “strategic” value?

STEPS TO ALIGNING REAL ESTATE WITH THE BUSINESS

Below we have outlined five steps to consider when undertaking the task of aligning real estate's goals with the goals of the business:

ALIGNING REAL ESTATE WITH THE BUSINESS

1. Understand the portfolio
2. Identify the business goals



STEP 1: UNDERSTAND THE PORTFOLIO

Step one is for CRE to fully understand the real estate portfolio. It becomes difficult to offer strategic value to the business unless CRE first understands what's in the portfolio, what the financial risks and obligations are, and where current opportunities exist. A comprehensive review and understanding of the portfolio will arm CRE with the information it needs to fully identify strategic opportunities.

CRE is playing an increasingly prominent role in assisting the business in achieving corporate objectives.



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There are three steps in the process of understanding the portfolio:

Centralize the data:

First and foremost, it is critical to have all the data and information on the portfolio in one centralized location. CRE should adopt a robust lease administration system that allows for the ability to abstract leases and pull full operating costs. Having a centralized database from which an account team can pull and analyze portfolio information allows for an apples-to-apples comparison of portfolio metrics and will provide confidence and creditability to the information being analyzed.

Create customized views of the portfolio:

Engage an outsource partner (or skilled in-house resource) to create customized views of the portfolio. This resource should extract intelligence from the centralized lease database and overlay market data and other trend information to create metrics around the location, costs, square feet, headcount, and expirations in the portfolio. These views should be organized in a dashboard format that is “in-line” with the company’s operating structure so information is more meaningful to those outside CRE. Ideally, performance metrics around space utilization should also be examined.

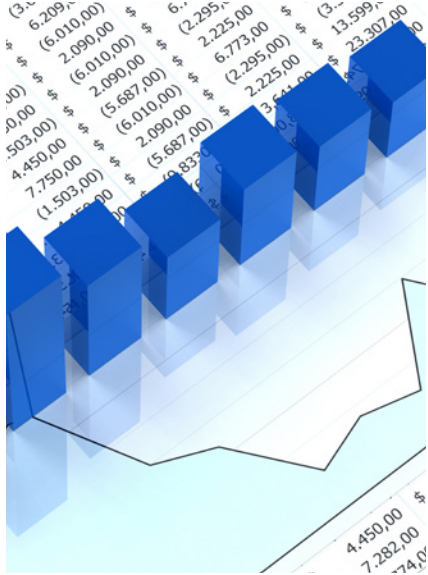
Identify the portfolio inefficiencies:

Once dashboards are created, CRE should identify immediate actions to consider in the portfolio. Identifying the total rent spend, highest cost locations, upcoming lease expirations, location headcount, or large vacancies is powerful information, but turning this intelligence into potential actions surrounding consolidation opportunities and space utilization will allow CRE to provide an immediate return for undertaking this effort.

STEP 2: IDENTIFY THE BUSINESS GOALS

The next step is for CRE to understand the near-term and long-term business goals, both financial and strategic. Is it the goal of the business to align total location cost to a percentage of revenue? Is it to secure space through design or other options that provide 20% expansion capacity over two years? Or is it to drive collaboration and innovation across its business units and global markets?

After gaining an understanding of the business goals and objectives, CRE should look to its intelligence on the portfolio and formulate a list of recommended actions that it can take to assist the business both from a short and long term planning perspective. These recommended actions make a powerful “gift” when approaching senior management or business unit leaders about alignment and goal setting, and also help begin a dialogue that will pave the way for increased communication, collaboration and partnering. It is this gift that CREs present to senior management that will allow them to push for a seat at the table and assist in making critical business decisions.



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STEP 3: DEVELOP THE RIGHT ORGANIZATION

Once the door has been opened for increased collaboration, CRE should identify the proper structure and resources that are needed to support the new roles within its organization. Many leading CRE's have either initiated or furthered the process of centralizing their real estate function. If this has not been done, it is an essential step in the process. A centralized function allows for domain knowledge to be concentrated at the top of the CRE organization and with those that are setting strategy. It also provides for unified technology, standardized global processes and gives the organization more flexibility to adapt to changes in the business.

Identifying who will liaise with business units and how the communication will occur is critical. It is important that conversations always center on the key corporate initiatives and real estate's role in achieving them. One of the more challenging aspects of migrating to a new support model is changing the mindset of professionals that have performed the traditional CRE functions. Reaching inward and across the organization may not be a natural progression for some individuals, and others may need to go through re-training and/or a change management process.

STEP 4: CREATE A GOVERNANCE MODEL

Changing CRE's operational focus is a transformative process. As such, the policies and procedures for all involved should be clearly outlined and understood. A Corporate Governance model that identifies the methodologies and guidelines for decision-making is critical. Aligning with the business and delivering value at the corporate level involves a number of elements, including:

- A full understanding of the operational requirements of real estate, both at the global and local level.
- Maintaining quality information on the real estate portfolio (vis a vi portfolio views and centralized lease administration database).
- Implementing portfolio plans that align current and future business requirements.
- Establishing the proper corporate guidelines and procedures for managing risk and engaging outsource partnerships.

The Corporate Governance policy should be well documented and provide a clear understanding of when and how CRE should be engaged. Guidelines should identify how key decisions are to be made to ensure that both CRE and the business know the contributions each will be required to make. Arguably, the most important aspect of this step, and perhaps this entire process, is securing in writing a corporate commitment, or mandate, from senior management that supports real estate's role.

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STEP 5: LEVERAGE SERVICE PROVIDERS

As previously mentioned, new and innovative approaches to outsource partnerships are being considered across the industry. Outsource service providers are taking on more and more operational and functional responsibility for corporate facilities and are becoming intimately involved in helping set the global strategy and design of CRE. Exploring partnership models that allow CRE to transition some, or all, of its responsibilities for the physical real estate will free resources to focus internally on how the combination of real estate strategy, workplace design, and controlling costs assists the business.

SUMMARY

The rate of change within CRE is escalating rapidly and the role of CRE departments will continue to change in the coming years. Competitive global businesses will increasingly look to CRE for assistance in strategic initiatives around talent management, cost containment, workplace design, and corporate branding and culture. Now, more than ever, it is critical for CRE to put in place the proper foundation—technologically, organizationally, and globally—to handle the new requirements demanded of the function. Organizations that ignore the changing dynamics not only miss an opportunity to assist their business with implementing real strategy, but run a risk of marginalizing the contribution CRE can make to the broader enterprise.



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