Corporate Real Estate Perspectives

University of Connecticut
Real Estate Principles

Deloitte Consulting LLP

April 12, 2011
Why Corporate Real Estate?
What is Corporate Real Estate?… (and what it's not)

As a discipline, real estate can be divided into two primary segments

### Real Estate Market Segments

<table>
<thead>
<tr>
<th>Corporate Real Estate Segment</th>
<th>Real Estate Industry Segment</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Users’ of real estate (demand)</td>
<td>✓ Characterized as ‘investors’ of real estate (supply)</td>
</tr>
<tr>
<td>✓ Operational business unit within organization</td>
<td>✓ Funded through REITs, as well as institutional and private equity funds</td>
</tr>
<tr>
<td>✓ Reports to CXO</td>
<td>✓ Measure asset performance in strict financial terms</td>
</tr>
<tr>
<td>✓ Mandate to manage a company’s real estate and physical asset portfolio</td>
<td>✓ Transaction oriented</td>
</tr>
<tr>
<td>✓ Lease and transaction management</td>
<td>✓ Driven by valuation/value opinion</td>
</tr>
<tr>
<td>✓ Space management</td>
<td>✓ Focus on regulatory issues</td>
</tr>
<tr>
<td>✓ Move Management</td>
<td>✓ Industry dependent on availability of credit / commercial real estate capital</td>
</tr>
<tr>
<td>✓ Facilities / Project Management</td>
<td></td>
</tr>
<tr>
<td>✓ Manage associated business processes</td>
<td></td>
</tr>
<tr>
<td>✓ Measured by utilization and total cost of ownership</td>
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</tr>
</tbody>
</table>
Why does CRE Matter?

Over 1 trillion sq. ft. of facilities and real estate are owned and used by Fortune 2000 companies.

2nd or 3rd largest operating cost, accounting for up to 30% of total operating expenditures.

Massive Federal portfolio – GSA alone has 8,900 assets, totaling over 380 million gross square feet nationwide.

Property & real estate represent up to 50% of total assets on a typical balance sheet.

Management of facilities exceeds 12-20% of a typical income statement.

Over $10 Trillion dollars are invested in facilities typically with minimal management processes and tools.

1 trillion sq. ft. | millions of people | hundreds of thousands of assets
What do they do?

Most organizations, in one way or another, have a need to manage the "where" component of how work gets down. This generally falls to the Corporate Real Estate (CRE) Division or equivalent. CRE organizations are entrusted to manage three distinct aspects of the "where" equation:

<table>
<thead>
<tr>
<th>Manage Workplace</th>
<th>Physical environment and accompanying support services that an organization relies on to execute its work</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manage Assets</td>
<td>Buildings, infrastructure and other capital investment required to support an effective Workplace</td>
</tr>
<tr>
<td>Manage Portfolio</td>
<td>Aggregation and transaction of assets and workplaces within the contextual requirements of an organization's need for proximity to customers, suppliers, partners and employees</td>
</tr>
</tbody>
</table>
Evolution of CRE Function Within the Organization

Increased organizational maturity has also helped to supporting the convergence of the CRE function

Evolution of CRE Organizations

- **CRE Evolution**
  - **Task Manager**
    - **CRE is an order-taker**
    - CRE serves customers through task oriented activities, such as negotiating leases, building out space and maintaining facilities.
  - **Advisor**
    - **CRE focus on advising business units**
    - CRE advises business units on real estate solutions and provides value added services and expertise. Some services may be out-tasked.
  - **Strategist**
    - **CRE focus is enterprise value**
    - Focus is not only on the needs of the individual business units but proactively making real estate decisions that are aligned with the company strategy, while minimizing risk and maximizing returns.
  - **Visionary**
    - **CRE focus is workplace strategy**
    - CRE is responsible for workplace solutions that seamlessly integrate all infrastructure requirements (real estate, technology and human resources). CRE elevated to the executive committee.

**Organizational Effectiveness / Maturity**

**Traditional**

- CRE is an order-taker
- CRE serves customers through task oriented activities, such as negotiating leases, building out space and maintaining facilities.

**Future**

- CRE focus is workplace strategy
- CRE is responsible for workplace solutions that seamlessly integrate all infrastructure requirements (real estate, technology and human resources). CRE elevated to the executive committee.
Corporate Real Estate Issues and Challenges
## CRE Segment, Functions & Business Challenges

<table>
<thead>
<tr>
<th>Key CRE Business Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Workplace does not align to workforce trends</td>
</tr>
<tr>
<td>- Occupancy costs continue to rise while headcount decreases</td>
</tr>
<tr>
<td>- Insufficient data relative to their real estate portfolio</td>
</tr>
<tr>
<td>- Cost allocation to business units</td>
</tr>
<tr>
<td>- Companies are often overpaying in lease expenses</td>
</tr>
<tr>
<td>- Ineffective portfolio management</td>
</tr>
<tr>
<td>- Reactive decision-making</td>
</tr>
<tr>
<td>- Heightened M&amp;A activity</td>
</tr>
<tr>
<td>- Decentralized decision making</td>
</tr>
<tr>
<td>- Space utilization is under optimized</td>
</tr>
</tbody>
</table>

### Core Corporate Real Estate (CRE) Functions

1. **Manage Workplace**

2. **Manage Assets**

3. **Manage Portfolio**

Enabled by Technology

**Primary Market Segments**

- Real Estate Industry
- Corporate Real Estate
Understanding CRE Business Challenges

Today’s business environment creates several challenges for CRE organizations within *Fortune 500* companies

<table>
<thead>
<tr>
<th>Challenges Begin With Increasing Costs And Heightened Scrutiny On Corporate Expenditures…</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Occupancy costs continue to rise even when headcount may be decreasing</td>
</tr>
<tr>
<td>▪ Many organizations have insufficient data relative to their real estate portfolio and have difficulty managing key dates and activities</td>
</tr>
<tr>
<td>▪ Budget cutbacks and heightened expense control have created the requirement to more accurately allocate facilities costs to individual business units</td>
</tr>
<tr>
<td>▪ Landlords are billing aggressively, companies may be overpaying in lease expenses</td>
</tr>
<tr>
<td>▪ Ineffective portfolio management often leads to excess inventory and over spending</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>…Are Magnified By Time Pressures…</th>
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<tbody>
<tr>
<td>▪ Increased competition and customer demands require real estate to be proactively planned and quickly delivered</td>
</tr>
<tr>
<td>▪ Heightened M&amp;A activity has increased constraints on companies</td>
</tr>
</tbody>
</table>

<table>
<thead>
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<th>…And Are “Institutionalized” By Traditional Operating Structures</th>
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<tbody>
<tr>
<td>▪ Location management is typically decentralized and driven by the business unit, leaving CRE groups little ability to leverage similar economies of scale</td>
</tr>
<tr>
<td>▪ Reactive decision-making, service delivery, and real estate solutions are often sub-optimal &amp; ineffective</td>
</tr>
<tr>
<td>▪ Space acquired during periods of expansion may be idle or excess current needs</td>
</tr>
<tr>
<td>▪ Excessive space is very difficult to dispose of in today’s real estate market</td>
</tr>
<tr>
<td>▪ Optimizing space utilization often requires access to capital</td>
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## Finding Data to Support Total Cost of Ownership (TCO)

<table>
<thead>
<tr>
<th>TCO CATEGORY</th>
<th>TCO COMPONENT</th>
</tr>
</thead>
</table>
| Cost to Own                   | • Depreciation  
• Lease Expenses  
• Insurance  
• Taxes |
| Cost to Operate               | • Utilities  
• Repairs & Maintenance  
• Facilities Management  
• Space Planning  
• Environmental Health & Safety  
• Physical Security  
• Project Engineering  
• Software |
| Cost to Provide Site Services | • Grounds  
• Housekeeping / Janitorial  
• Food Services  
• Transportation Services  
• Health & Wellness  
• Child Care / Day Care  
• Mail Services  
• Common Conference Room Admin  
• Stockroom Services |
| Cost to Provide Multi-Site Services | • Multi-Site Environmental Health & Safety  
• Multi-Site Strategic Planning  
• Multi-Site Warehousing  
• Multi-Site Fixed Asset Accounting |
| Cost to Administer Services   | • Management Operations |
Addressing the CRE Challenges
Core CRET Service Offerings

CRET offers eight critical services to help our clients identify and solve their most critical real estate and facilities challenges.

### Affiliated IMOs and Practices
- Service Delivery Transformation
- Integration, Divestitures & Restructuring
- M&A Consultative Services
- Sustainability
- Talent Management
- Portfolio Optimization
- Operations Improvement
- Workplace Strategies
- Real Estate and Facilities Program Management
- Capital Planning and Construction
- Occupancy Planning and Facilities Management
- Sustainability Planning and Management
- Technology Enablement

### Target Industries
- FSI
- Energy (Oil & Gas)
- HCLS (Pharma & Bio-Tech)
- Public Sector

“Executable Strategy: Insights that Produce Results”
CRET Service Offering Descriptions

Deloitte’s Real Estate Services consulting experience spans all phases of the real estate life-cycle and provides consulting expertise to a wide array of stakeholders and industries, including strategic sourcing.

### Operations Improvement
- Real Estate and Facilities Operational Assessments
- Operating Model/Service Delivery/Outsourcing/Organizational Design
- Process Improvement
- Performance Mgmt

### Portfolio Optimization
- Strategic Planning
- Co-location Strategies
- Transition Playbooks
- Market Analysis
- Cost Optimization
- Lifecycle Planning
- Lease Mgmt and Advisory

### Workplace Strategies
- Workplace Diagnostic and Business Case
- Integrated RE, IT and HR Solutions for Workplace Mobility
- Change Management,
- Global Implementation Planning and Transition Management

### Strategic Sourcing
- Outsourcing delivery model advisory
- Service provider compliance review
- RFP documentation, solicitation, and evaluation

### Capital Planning & Construction
- Capital Planning
- Requirements Analysis
- Program Budget and Cost Estimating
- Location Strategies and Site Selection
- Design & Construction Program Management

### Asset Management and Occupancy Planning
- Occupancy Planning & Management
- Space Planning
- Benchmarking
- Facilities Maintenance Strategy Assessment

### Technology Enablement
- Real Estate & Facilities IT Strategy
- Real Estate & Facilities IT Vendor Evaluation
- Real Estate & Facilities IT Implementation Support and Program Management

### Sustainability Planning and Management
- Green Capital Programs
- Energy Strategy and Implementation
- Sustainable Facility Operations Solutions
- GHG Inventories and Emissions reduction

Deloitte
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- Real Estate and Facilities Operational Assessments
- Operating Model/Service Delivery/Outsourcing/Organizational Design
- Process Improvement
- Performance Mgmt

Portfolio Optimization
- Strategic Planning
- Co-loc
- Trans
- Mark
- Cost Optimization
- Lifecycle Planning
- Lease Mgmt and Advisory

Workplace Strategies
- Workplace Diagnostic and Acquire
- Change management
- Global Implementation Planning and Transition Management

Cost Reduction Strategies

Strategic Sourcing
- Outsourcing delivery
- M M o d e l s o f t
- Proposal documentation, solicitation, and evaluation

Capital Planning & Construction
- Capital Planning
- Requirements Analysis
- Program Budget and Cost Estimating
- Location Strategies and Site Selection
- Design & Construction Program Management

Asset Management and Occupancy Planning
- Occupancy Planning & Management
- Space Planning
- Benchmarking
- Facilities Maintenance Strategy Assessment

Technology Enablement
- Real Estate & Facilities IT Strategy
- Real Estate & Facilities IT Vendor Evaluation
- Real Estate & Facilities IT Implementation Support and Program Management

Sustainability Planning and Management
- Green Capital Programs
- Energy Strategy and Implementation
- Sustainable Facility Operations Solutions
- GHG Inventories and Emissions reduction
Portfolio Optimization
Portfolio Optimization: Definitions

- Deloitte is engaged by clients on two types of portfolio management consulting services:
  - Strategy and Process for use of Capital, e.g. buy vs. lease decisions
  - Portfolio rationalization in support of an enterprise level initiative such as cost reduction, merger and integration, consolidation, etc.

- The first type of portfolio optimization typically involves comparisons of various asset classes and their risk-weighted returns to capital. Decisions boil down to comparisons of a firm’s Weighted Average Cost of Capital (WACC) vs. the returns from owning property. Other decision criteria include:
  - the firm’s ability and appetite to be a landlord
  - the firm’s ability to create and capture value through its tenancy
  - the firm’s long term location plans
  - industry norms, and
  - views of Wall Street analysts and similar stakeholders

- A majority of our projects focus on the second type of portfolio optimization – the analysis of specific sites to develop a long term portfolio strategy
### Issues and Opportunities

#### Approach
- Companies and Federal agencies are advancing beyond once-and-done location strategies to view portfolio optimization as an ongoing activity.
- Companies and Federal agencies want to optimize their portfolio on their own, but lack the resources, work rules, and relationships with senior and business unit leadership.
- Portfolios have typically developed for historical reasons, rather than as the product of deliberate development of site strategy, taking into account workforce, customer base, supplier/partner base, etc.

#### Issues
- **Business Continuity requirements** increasingly force firms to think through the robustness of their workflows, and how they will maintain their business through disasters.
- **Disparate ownership of local site selections** can block development of a cohesive global or even national portfolio strategy.
- RE&F Departments may lack the capabilities required to execute a large scale portfolio transformation.

#### Opportunities
- **M&A**: Corporate Development often forces a review of portfolio and consolidation, for which few RE&F departments are adequately prepared, especially when they are simultaneously merging their own departments, systems, business rules, etc. The current low cost of capital will likely create a moderate increase in M&A activity in the near term.
- **Recession**: Clients are turning to cost reduction strategies, due either to shareholder pressure or as a proactive approach to a declining economy. Real estate and facility portfolio rationalization offers significant reductions in the annual expense base and also the potential for one-time capital gains from the sale of owned properties.

#### Scope
- **Workplace of the Future (WoF)**: Firms typically think about portfolio in terms of current (rather than WoF) environment - how does the portfolio need to evolve to support the needs of a workforce that is increasingly mobile and team-based?
- **Green**: Clients increasingly are required or decide to meet sustainability or other green objectives. It will fall to CRE, for example, to shift the workplace into LEED certified environments and to support ‘green’ behavior, e.g. recycling.

#### Information Management
- Expectations of RE&F in terms of the accuracy and availability of relevant information have been raised by improvements within other corporate functions.
- Business leaders are often uninvolved in RE&F issues until they escalate into crises, e.g. imminent lease expiration.

#### Metrics
- Optimizing space utilization often requires access to capital as well as the trust of business and finance leadership that the business case will be realized on time, on budget.
- **Market**: The extraordinary run-up in commercial property values offers an excellent opportunity for clients to re-align their capital portfolio and realize capital gains. Low cap rates on commercial real estate have reduced the disincentive for sale-leaseback arrangements.
- **Explosive growth**: Companies and Federal agencies which have sustained several years of explosive employment growth (or contraction) often grow their footprint in a series of one-off moves; a portfolio view would better serve the business.
Factors Influencing Corporate Real Estate Portfolio Optimization

**Factors**

- **Suppliers**
  - Proximity to major inputs
    - Raw materials
    - Energy
    - Real Estate
    - Supplier Base
    - Supply chain (ports, rail, air)
  - Conduct targeted mgmt interviews

- **Environment**
  - Government taxes, incentives
  - Infrastructure: Utilities, Transport, Communications
  - Political environment / Risk
  - Regulations / labor laws
  - Buildings available

- **Company Specific**
  - Legacy locations
  - Leadership preference
  - Appetite for change
  - BCP considerations

- **Employees**
  - Talent base
  - Talent pool (schools, competitors, supplies)
  - Relative costs of labor
  - Demographics/ attractiveness of locale

- **Customers**
  - Retail strategy
  - Proximity to markets
    - Cost
    - Timing

**Issue:** Developing long term portfolio strategy with capability to evolve, not a one-time decision
Portfolio Optimization: Benefits

- Significant cost reductions from reducing footprint and from moving to less expensive space
- An asset mix that reflects the firm’s balance sheet strategy: potential one-time capital gains from alignment of ownership structure with investment objectives
- A portfolio strategy that supports evolving workplace requirements, fostering an environment that improves
  - Collaboration and teaming
  - Mobility and flexible working arrangements
  - Employee engagement
- The capability to update that strategy in response to evolving corporate prerogatives, including
  - Baseline database
  - Methodology for performing analysis
  - Tools to drive decision-making
- Improved employee morale, and presumably higher levels of productivity
- Improvements in sustainability/green metrics
- Reflection of corporate objectives including proximity to markets, etc.
Alternative Workplace Strategies (AWS)
Does Your Client’s Workplace Look Like This?
There are several Factors driving alternate workplace strategies…

Changing Demographics & Employee Preferences
Virtual Collaboration & Mobile Technology
RE Cost Reduction
Environmental & Social Responsibility

…and the CRET team helps clients adapt to drivers of AWS and *transform real estate from a cost center to an enabler* of the organization’s mission – *lowering costs and increasing effectiveness of real estate*. To this end, the client requires a holistic approach that incorporates real estate, technology, human capital, and financial considerations.
Workplace Strategy is…

…the alignment of work patterns and corporate strategy with the physical work environment

**Traditional workplace strategy entails:**
- Predominately closed office environment, with hierarchal levels of work spaces (small cubicle to corner office)
- 1:1 space assignment (one workspace for one employee)
- Lack of alignment with technological provisions and human capital strategy and policies
- “Office Space”-like conditions

**Alternative workplace strategy entails:**
- Open space plans with minimal hierarchy and enhanced collaborative space
- Higher than 1:1 space assignment ratio (by employing ‘hoteling’ or similar strategy for mobile employees to reduce RE footprint)
- Strong alignment with technology (to enable mobility) and human capital (to ensure policies and hiring/retention strategies are synchronized)
Evolution of the Workplace

“The great agent of change which makes new ways of working inevitable is, of course, information technology, the power, reliability, and robustness of which are already evident in their impact not only on work processes within the office but on every train, in every airport lounge, at every street corner, in every classroom, library and café. Work, no longer confined to office buildings, is everywhere.”

Frank Duffy, Reinventing the Workplace

Nearly 80% of workers say they would like more flexible work options and would utilize them if they could do so without consequences at work.

Workplace Flexibility 2010, Georgetown University Law Center

Today’s workplace is about the dynamic combination of people, process, technology and space. It is “anywhere, any time, any place.”
Business Drivers For Workplace Strategies

1. Shrinking Pool of Skilled Labor
   - By 2012, there will be a 6M person gap between the supply and demand of knowledge workers in the U.S.

2. Changing Family Structures
   - Only 17% of households now have a husband in the workforce and a wife who is not, down from 63% in 1950

3. Increased Number of Women
   - In 2007, women are 58% of college students, 51% of new workforce and 48% of workforce

4. Changing Expectations of Men
   - 84% of male executives strongly agree or agree they want professional success while having more personal time

5. Expectations of Gen X and Gen Y
   - Gen X/ Y employees are less work centric and more family centric than their Boomer predecessors

6. Impact of Technology
   - Innovation in technology makes it possible to collaborate with co-workers while working remotely or on the road

7. Focus on Corporate Responsibility
   - 82% of students and 86% of experienced hire candidates consider a company’s commitment to socially responsible practices
Value Proposition of Workplace Strategies

- By creating workplaces that meet the changing workforce organizations are able to:
  - Improve productivity by supporting the work styles the employees and work processes of the organization
  - Help in attracting and retaining employee by improving employee satisfaction

- By reducing the consumption of space by matching space requirement to utilization, organizations can:
  - Reduce capital investment
  - Reduce operating cost
  - Rationalize head count of real estate operations
  - Reduce negative impact on the environment by reduces consumption of energy
Analysis and Findings: Work-Style Decision Tree

Utilizing data gathered in interviews, surveys, and observation, the AWS team must work with HR to group employees in one of four “work styles”, as defined below:

- **Traveler** – spends the majority of time outside of the office (traveling, attending off-site meetings in customer locations)
- **Resident** – spends the majority of time in the office at a desk, where other employees need to access them face-to-face
- **Teamer** – spends the majority of time collaborating informally with co-workers
- **Independent** – spends the majority of time at home or other virtual location, with limited face-to-face interactions with clients or co-workers
Example Workstyle Profile Concept for Profiling

The matrix below shows the levels of interaction and collaboration for each work-style. After employees are grouped into a work-style, a **sharing ratio** is assigned.

<table>
<thead>
<tr>
<th>MOBILITY</th>
<th>Independent</th>
<th>Traveler</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>As independent, you spend the majority of time primarily at a desk, with limited face-to-face interactions with clients or co-workers. You are not tied to a specific location for storage or equipment access.</td>
<td>As a traveler, you spend the majority of time outside your office (i.e., traveling, attending off-site meetings in customer locations).</td>
</tr>
<tr>
<td>Low</td>
<td>As a resident, you spend the majority of time in the office, primarily at a desk, where other employees need to access you face-to-face on a daily basis. You may also require location specific storage or equipment access.</td>
<td>As a teamer, you spend the majority of time collaborating informally with co-workers in person (i.e., brainstorming, white-boarding) and / or formally in scheduled meetings.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>IN-PERSON COLLABORATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
</tr>
</tbody>
</table>

- Job functions / families are profiled and assigned an employee workstyle based on a common set of work characteristics that define where, when, and how they perform work.
- By defining space styles to meet the needs of the job, seat sharing ratios are defined.
- Upon application of the sharing ratios to the space style and level designation, the space needs were estimated for the associate population.
- AWS program offers various technological tools that allow associates to remain efficient and effective according to associates’ workstyle. Technology tools were identified to fit the workstyles.

HR plays a crucial role in successful workforce strategy implementation through developing appropriate policies, and providing data and input for preliminary workstyle profiling.
### Applying AWS to Traditional Office Space

In this illustrative scenario, the traditional office was 70% assigned and 80% individual, but after the AWS study the office is only 20% assigned and 20% individual, resulting in a decreased footprint and increased collaboration.

<table>
<thead>
<tr>
<th>Before AWS Study</th>
<th>After AWS Study</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assigned (70%)</td>
<td>Assigned (20%)</td>
</tr>
<tr>
<td>Shared (30%)</td>
<td>Shared (80%)</td>
</tr>
<tr>
<td>Individually assigned &amp; enclosed offices and desks (65%)</td>
<td>Indiv. Space (5%)</td>
</tr>
<tr>
<td>Drop-in spaces (15%)</td>
<td>Drop-in spaces, Privacy Enclaves (15%)</td>
</tr>
<tr>
<td>Shared meeting spaces (15%)</td>
<td>Shared meeting spaces, Open workstations, Project team rooms, Informal collaboration &amp; Café workspaces (65%)</td>
</tr>
<tr>
<td>Team-owned meeting space (5%)</td>
<td>Meeting areas near teams (15%)</td>
</tr>
</tbody>
</table>

In this illustrative scenario, the traditional office was 70% assigned and 80% individual, but after the AWS study the office is only 20% assigned and 20% individual, resulting in a decreased footprint and increased collaboration.
**Deloitte Transformation: WOF Implementation**

Workplace of the future can foster an adaptable, collaborative and flexible workplace environment and respond to ever changing business needs and varied work style preferences.

<table>
<thead>
<tr>
<th>Workspaces</th>
<th>Collaborative &amp; Teaming Spaces</th>
<th>Offices</th>
<th>Service &amp; Support</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Home Neighborhood</strong></td>
<td>• High density with high-co-visibility • Multiple clusters • Includes assigned admin stations</td>
<td><strong>Team Room</strong></td>
<td>• Ample provision of meeting areas that are equipped with appropriate tools to enhance collaboration</td>
</tr>
<tr>
<td><strong>Quiet Zone Phone Booth</strong></td>
<td>• Individual booths for short term acoustic &amp; visual privacy</td>
<td><strong>Videoconference Room</strong></td>
<td>• Formal meeting room with high-fidelity audio and video-conferencing capability</td>
</tr>
<tr>
<td><strong>Quiet Zone Workspace</strong></td>
<td>• Individual workstations for privacy and heads-down work • High density with some visual privacy • Free-address workstations without storage or phone</td>
<td><strong>Teaming Space</strong></td>
<td>• Informal, reconfigurable space for team collaboration</td>
</tr>
<tr>
<td><strong>Café Workspace</strong></td>
<td>• Tied to pantry • Intended for mixed use, meetings or individual drop in</td>
<td><strong>Reservable Offices</strong></td>
<td>• Office configured with 1-2 desks • Can be independently reserved by 1-2 people at the same time</td>
</tr>
<tr>
<td><strong>Business Center</strong></td>
<td>• Common location for supplies, copying, printing, etc.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

![Image of Workspaces](image-url)

![Image of Collaborative and Teaming Spaces](image-url)

![Image of Offices](image-url)

![Image of Service and Support](image-url)
Workplace Solutions: Alternative Workplace Strategies

Is an integrated initiative to combine the processes, services, technology and people agendas to create supportive and productive work environments.

- Supports the People
  - Enhances productivity
  - Encourages collaboration, innovation, and teamwork

- Reinforces Culture, Unity, and Image
  - Enhance sense of pride, identity, and belonging to the workplace
  - Create neighborhoods and interactive areas

- Drives Cost Effectiveness
  - Embrace space sharing and flexible office design options
  - Rationalize space requirements

- Improves Satisfaction
  - Enhance employee comfort and health
  - Heighten aesthetic qualities
  - Promote sustainability

Human Resources
- Talent management and mentoring
- Performance management: “results vs. presence” focus
- Work contracts and policies

Process & Technology
- Mobility tools, “wireless”
- Information and data security
- Service and support for mobile workers
- Enterprise-wide collaboration tools

Real Estate
- Work space management and assignment
- Facilities services for mobile workers
- Business continuity
- Sustainability/green impacts

Finance
- Overall savings and investments
- Corporate and individual tax jurisdiction impacts
- Expense and reimbursement policies

Alternative Workplace Strategies

- Enhances productivity
- Encourages collaboration, innovation, and teamwork
- Enhance sense of pride, identity, and belonging to the workplace
- Create neighborhoods and interactive areas
- Embrace space sharing and flexible office design options
- Rationalize space requirements
- Enhance employee comfort and health
- Heighten aesthetic qualities
- Promote sustainability
Information Technology Enables Mobility

- **Laptop**
- **Remote Access Card**
- **Extension to Cellular**
- **VOIP Phone**
- **SoftPhone**
- **PDA**
- **Aircard/ Router**

- **Collaborative**
  - **Sharepoint/ E-Room**
  - **WebEx / Live Meeting**
  - **Conference Calling**
  - **Conference Rooms**
  - **E-Whiteboard**
  - **Instant Messaging**

- **Enabling**
  - **Hotelling Software**
  - **Technology deployment tools**
  - **Support**
  - **Data security policies procedures**
  - **Integrated Workplace Management Software**
  - **Printers**

- **Key roles and responsibilities**
  - Provide up-to-date technical hardware and software to connect associates for business purposes
  - Manage database and network
  - Ensure data and network security
  - Solve technical difficulties and problems
  - Ensure efficient printer ratio
  - Facilitate facilities sign-up and check-in for active

**Technology is the single biggest factor to enable mobile workforce, most of which are already in place and pervasive due to business process change and continuity**
Implementation: Change Mgmt & Communications

STAGES FOR BUILDING COMMITMENT TO CHANGE

<table>
<thead>
<tr>
<th>Stage</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contact</td>
<td>Individuals have knowledge that the project exists</td>
</tr>
<tr>
<td>Awareness</td>
<td>Individuals are aware of basic scope and concepts of the project</td>
</tr>
<tr>
<td>Understanding</td>
<td>Individuals understand how the project impacts the company and their functional area</td>
</tr>
<tr>
<td>Positive Perception</td>
<td>Individuals understand how the impacts of the project will benefit them</td>
</tr>
<tr>
<td>Adoption</td>
<td>Individuals are willing to work with and adopt processes and systems</td>
</tr>
<tr>
<td>Internalization</td>
<td>Individuals make the project their own and create innovative ways to use and improve the processes and systems</td>
</tr>
<tr>
<td>Institutionalization</td>
<td>Individuals accept that new processes and systems are the way work is done -- the new status quo</td>
</tr>
</tbody>
</table>

Targeted change activities at each stage are a critical component of a change management plan.
Sourcing Strategies
Currently, CRE organizations are operating at the Intersection of Commercial RE, Corporate RE, and RE Service Providers

Survey results show a wide variety of models are currently being employed. On average, 45% of FTE’s are in-house and 55% outsourced. 35% of the respondents who indicated they are currently outsourcing expect an increase over the next 3 years.*

*Source: CBRE/CoreNet Special Report; Evolution of CRE, “Upskilling” the downsized CRE organization, Fall 2009
Companies are choosing to outsource CRE execution capabilities while maintaining more strategic functions in-house

Degree to Which CRE Capabilities Are Outsourced or Out-Tasked

- All Work is Completed In-House
- Activities are Out-Tasked on a Case-by-Case Basis
- Some Activities are Out-Tasked or Outsourced, but Not Necessarily in a Strategic Manner
- Activities are Outsourced Through a Strategic Partner Relationship

Source: CoreNet Global / Deloitte Consulting Survey 2008; N=59 Senior Corporate Real Estate Executives
Many CRE organizations evolved from a large in-house model to a smaller, more strategic organization with a single partner.

- **1980’s**
  - Large CRE, but still an order-taker for business units
  - Some out-tasking
  - Small number of vendors

- **Early 1990’s**
  - CRE departments downsize
  - First out-tasking push
  - Many vendors

- **Mid 1990’s**
  - Even smaller CRE dept.
  - Smaller number of Preferred Vendors

- **Late 1990’s**
  - Small, strategically focused CRE
  - Small number of Alliance partners accountable for services, regionally
  - Tier 2 vendors

- **Early 2000**
  - Very small strategically focused CRE Staff
  - Small number of Strategic Partners function as highly integrated team for CRE Group
  - Strategic Partner team held accountable for service on a Regional or Global basis

- **Mid 2000’s**
  - Very small strategically focused CRE staff
  - Single Strategic Partner held accountable for service on a Regional or Global basis

Source: CoreNet Global (2004). Atlanta, Georgia: CoreNet Global, Inc.
Many vendors specialize in individual services across a continuum while non-traditional players have begun to focus in the CRE space.

**CRE Service Provider Continuum**

- **In-House Services**
- **Contracted Services**
- **Specialized Services** (Out-tasked or Outsourced)
- **FM**
- **IFM**

**Representative Service Providers**

- **In-House Services**
  - Cushman & Wakefield
  - CBRE
  - Grub & Ellis
  - Jones Lang LaSalle

- **Contracted Services**
  - ABM Industries Inc.
  - Aramark
  - CBRE
  - Emcor Group
  - Grubb & Ellis
  - Johnson Controls Inc. (USI)
  - Jones Lang LaSalle
  - SBM Site Services
  - Sodexo

- **Specialized Services** (Out-tasked or Outsourced)
  - AMI Architecture
  - CBRE
  - CRB Caribe, LLP
  - Gensler
  - HLW
  - HOK
  - RTKL
  - CH2M Hill
  - Faithful+Gould
  - Fluor Corporation
  - Gilbane Inc.
  - Parsons Corporation
  - Sun Construction
  - Turner Construction
  - Wesley Thomas
  - Yonkers Industries Inc.
  - A/Z Corporation
  - Affiliated Engineers Inc.
  - Hart Engineering Corporation
  - Jacobs Engineering
  - Murphy
  - Syska Henessey Group
  - Washington Group International
  - Agilent Technologies
  - Applera Corporation
  - Commissioning Agents Inc.
  - Fischer Scientific
  - GE Healthcare
  - Invision Engineering Corp.
  - Malcolm Pirnie Inc.
  - PerkinElmer
  - Siemens
  - ChemicoMays
  - VWR International
  - Electrical Reliability Services
  - Emcor Group Inc.
  - Johnson Control Inc.
  - Kenny Electric Service Inc.
  - Allied Barton Security Services
  - Guardsmark
  - Securitas
  - Wackenhut
  - ABM Industries Inc.
  - All Phase Landscape
  - Diamond Cleaning Services
  - SBM Site Services
  - Unicco
  - Waste Management

**Enterprise Governance, Vendor Management and Contract Management**

Note: this diagram is illustrative and does not represent a comprehensive list of service providers.
Despite current trends, many organizations continue to use a mixture of both in-house and contracted service delivery models.

**Corporate Real Estate Service Delivery Models**

<table>
<thead>
<tr>
<th>Localized</th>
<th>Centralized</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>On-Site Support</strong></td>
<td><strong>Out-Task</strong></td>
</tr>
<tr>
<td>• In-house support at the local facility level</td>
<td>• Specialized services performed by contracted employees</td>
</tr>
<tr>
<td>• Often fill the role of “facility manager”</td>
<td>• Usually performed on a one-off basis at the local level</td>
</tr>
<tr>
<td><strong>Center of Excellence</strong></td>
<td><strong>Out-Source</strong></td>
</tr>
<tr>
<td>• Centralized real estate planning and management function</td>
<td>• Specialized services performed by contracted employees</td>
</tr>
<tr>
<td>• More strategic function, mostly kept in-house</td>
<td>• Leverage supplier know-how and expertise</td>
</tr>
<tr>
<td></td>
<td>• Usually contracted at a national or regional level</td>
</tr>
</tbody>
</table>
Future service delivery models will deliver effective and efficient services while aligning with overall business goals and strategies.

<table>
<thead>
<tr>
<th>Preferred Vendor Network</th>
<th>Service Line Strategic Partner</th>
<th>Geographic Strategic Partner</th>
<th>Sole Sourced Strategic Partner</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Drivers</strong></td>
<td><strong>Needs of the business dictate the use of best-in-class vendors</strong></td>
<td><strong>Leverage the size and relationships of the Strategic Partners to drive down cost</strong></td>
<td><strong>Importing best practices and industry expertise into its service delivery model</strong></td>
</tr>
<tr>
<td>• Drive price down creating a highly competitive environment</td>
<td>• Organization does not internally possess the required skills, experience, or infrastructure</td>
<td>• Focus on the strategic aspects of governance and quality typically</td>
<td>• Relieve cost pressure by transferring FM/RE staff to the Strategic Partner</td>
</tr>
<tr>
<td>• Management Control</td>
<td>• Cost Efficiency/ Staff transfer</td>
<td>• Address issues surrounding the risk inherent in sole-sourcing to a single provider</td>
<td>• Speed to implementation</td>
</tr>
<tr>
<td>• Possess unique FM/RE needs or requirements</td>
<td>• Needs of the business dictate the use of best-in-class vendors</td>
<td>• Establish specific policies regarding process, scope and performance</td>
<td>• Importing best practices and industry expertise into its service delivery model</td>
</tr>
<tr>
<td>• Quality control</td>
<td>• Organization does not internally possess the required skills, experience, or infrastructure</td>
<td>• Need to possess a strong and reliable reporting platform</td>
<td>• Relieve cost pressure by transferring FM/RE staff to the Strategic Partner</td>
</tr>
<tr>
<td><strong>Challenges</strong></td>
<td>• Cost Efficiency/ Staff transfer</td>
<td>• Reduced control over execution of operational tasks</td>
<td>• Speed to implementation</td>
</tr>
<tr>
<td>• Need to possess a high number of experienced industry professionals internally</td>
<td>• Coordination of multiple vendors with fewer staff</td>
<td>• Need to possess a strong and reliable reporting platform</td>
<td>• Establish specific policies regarding process, scope and performance</td>
</tr>
<tr>
<td>• Internal org maintains focus on both strategic initiatives and managing client relationships with individual business units</td>
<td>• Combining the policies, procedures, and practices of multiple FM/RE providers into a single, coherent service delivery process</td>
<td>• Need to perform adequate due diligence and research</td>
<td>• Need to perform adequate due diligence and research</td>
</tr>
<tr>
<td>• Combining the policies, procedures, and practices of multiple FM/RE providers into a single, coherent service delivery process</td>
<td>• Establish specific policies regarding process, scope and performance</td>
<td>• Clearly define staffing requirements</td>
<td>• Clearly define staffing requirements</td>
</tr>
<tr>
<td>• Reduced control over execution of operational tasks</td>
<td>• Need to possess a strong and reliable reporting platform</td>
<td>• Identifying the most suitable service provider</td>
<td>• Identifying the most suitable service provider</td>
</tr>
<tr>
<td>• Managing service performance</td>
<td>• Need to perform adequate due diligence and research</td>
<td>• Managing service performance</td>
<td>• Managing service performance</td>
</tr>
</tbody>
</table>
There is still wide variability in market maturity, service delivery platforms, and the availability of skilled labor around the globe

| US Market (Mature)                                                                 | • Home to numerous multi-national organizations delivering integrated I-FM services on a global platform  
|                                                                                   | • US I-FM providers typically offer Facilities Management, Project Management and Transaction Management services as part of their I-FM platform  
|                                                                                   | • The US I-FM market has seen significant merger and acquisition activity in the last several years, as major players seek to broaden their service delivery platform by adding to their core services through acquisition of peer organizations  |
| European Market (Evolving)                                                       | • Has not traditionally exhibited a link between Facilities Management services and Transaction / Brokerage services  
|                                                                                   | • Increasingly, providers are beginning to expand their menu of services from what were historically maintenance/operations tasks (i.e. cleaning, food services) to more technical services (i.e. energy management)  
|                                                                                   | • The European market exhibits varying states of maturity in the field of I-FM services; The United Kingdom and Germany are the early adopters of I-FM services and countries like Spain are only beginning to take advantage of the benefits offered by the industry  |
| Asia/Pacific Market (Variable)                                                    | • Fully evolved industries employing highly educated and skilled practitioners (e.g. Japan) exist alongside nascent markets, where skilled labor is scarce and a track record of success is not yet present (e.g. China)  
|                                                                                   | • The most common trait of the Asia/Pacific I-FM industry is the practice of multi-nationalss entering the market place through acquisition or joint venture  
|                                                                                   | • Major European and US organizations are establishing footholds by teaming up with, or simply buying, local service providers to gain market presence and obtain local knowledge  |
Service delivery trends are focused on centralization, performance, bundling and partnership approaches

| Centralization                                                      | • 57% of those surveyed indicated centralized RE operations, 17% decentralized and 26% hybrid (CBRE-CoreNet 2009)  
                                      | • Opportunities exist to consolidate services across suppliers, geographies, and space types  
                                      | • As companies transfer non-core delivery functions to strategic partners, they often build an internal COE (Center of Excellence) focused on Planning & Management |
| Focus on Performance Metrics and KPIs                              | • Span of control and performance metric analyses are being employed to ensure appropriate staffing levels in managing internal and service provider staffing and performance  
                                      | • Use of ratios such as FTE : Real Estate, # of projects, managed properties, etc  
                                      | • Movement toward performance based vs. spec based contracts  
                                      | • Heavy reliance on KPIs to measure performance  
                                      | • Incentive based  
                                      | • Scalable vs standardized SLA (menu driven)  
                                      | • More transparency in fees and creating a cost baseline as part of a transition plan |
| Bundling Scope of Services                                        | • Increased focus on specialized services such as Energy Management, Program Management  
                                      | • More than 70% of survey respondents indicated service providers were either wholly providing or supporting workforce/labor analytics, Sustainability/Energy Management, Economic incentives (CBRE-CoreNet 2009)  
                                      | • 50-60% of survey respondents indicated similar trends in Program Management, Alternative workplace strategies, and cost segregation/tax strategy (CBRE-CoreNet 2009)  
                                      | • General trend toward bundling Operation and Maintenance, Custodial and Security Services and Landscaping and further bundling accomplished by including Transactions and Project Management  
                                      | • Testing of the relationship with the admin portfolio, then migrate to the more technical portfolio |
| Partnership Approaches with Service Providers                    | • Providers continue to grow in size and capabilities through mergers and acquisitions  
                                      | • Service providers are investing in their own research and development of delivery solutions  
                                      | • Sophisticated providers train their own staff and their networked suppliers; also provide education for clients  
                                      | • Landlords and traditional real estate service providers are now competing for service revenue and are now competing against traditional infrastructure service providers (data and voice networks)  
                                      | • Service providers are being asked to put more “at risk” |
Key Takeaways
Delivering Value to CRE organizations

Initiatives that deliver tangible and intangible operational value that have a direct impact on organizational performance

Impact of CRE Initiatives

- Strategic Sourcing
- Facilities Planning & Space Standards
- Cost Segregation
- Energy Mgmt
- Capital Projects Reengineering
- Economic Development Incentives
- CRE Operations & Technology
- Location Strategy
- Consolidation & Disposition
- Audit Leases
- Property Tax
- Chargebacks
- Financial Restructuring
- Tax Deferrals
- Benchmark CRE Costs
- Cost Segregation
- Tax Deferrals
- Location Strategy
- Consolidation & Disposition

Implementation Timing

- High
- Low
## Estimated Savings Implementing Cost Improvement Initiatives

<table>
<thead>
<tr>
<th>Cost Improvement Levers</th>
<th>Description</th>
<th>% Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tactical Improvements</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>RE Spend Reduction and Space Management</td>
<td>Focuses on strategic outsourcing, space management, and asset management to aggressively reduce external spend</td>
<td>10-20%</td>
</tr>
<tr>
<td>Business Process Redesign</td>
<td>Focus on streamlining business processes via simplifications, elimination or outsourcing</td>
<td>5-10%</td>
</tr>
<tr>
<td>Portfolio Rationalization</td>
<td>Focus on Real Estate portfolios, facilities, projects and support rationalization</td>
<td>15-25%</td>
</tr>
<tr>
<td>CRE Service Delivery Model and Organization Alignment</td>
<td>Focuses on re-aligning CRE staff based on method of adding value and relationship to business</td>
<td>10-30%</td>
</tr>
<tr>
<td><strong>Strategic Structural Improvements</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business Model Redesign</td>
<td>Shift to a more cost-efficient business model</td>
<td>20-30%</td>
</tr>
</tbody>
</table>

The spend for each category can vary greatly; To determine the highest overall category savings simply multiple % Savings x Spend for each
Market Opportunities and Advice
The survey was emailed to Employers registered on the SelectLeaders Real Estate Job Site Network in the last week of December, 2010, and also to registered Job Seekers who have opted-in for emails. The survey was conducted using a web-based survey program. 751 unique responses were collected.

The survey results show:

- 42% of respondents expect their company's hiring to remain the same.
- 42% of respondents expect an increase.
- 16% of respondents expect a decrease.

The outlook for the commercial real estate industry in 2011, compared to 2010, is:

- Moderate recovery: 49.97% (373 respondents)
- Flat - same as the end of 2010: 36.48% (274 respondents)
- Contraction: 5.99% (45 respondents)
- Slight contraction: 4.79% (36 respondents)
- Full recovery: 3.06% (23 respondents)

Total: 751 respondents

**Commercial Real Estate Jobs: January '10 - February '11**

- January 2010: 196
- February 2010: 201
- March 2010: 213
- April 2010: 225
- May 2010: 139
- June 2010: 171
- July 2010: 222
- August 2010: 106
- September 2010: 145
- October 2010: 174
- November 2010: 169
- December 2010: 183
- January 2011: 220
- February 2011: 237

Source: Cornell University Program in Real Estate - New postings of Commercial Real Estate positions from major job boards during the last week of each month.
Commercial Real Estate Job Market - The SelectLeaders/Cornell Job Barometer First-Quarter 2011 Update

**Commercial Real Estate Job Postings by Location 2010 - 2011**

<table>
<thead>
<tr>
<th>Location</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>CA</td>
<td>36%</td>
<td>37%</td>
</tr>
<tr>
<td>NY</td>
<td>29%</td>
<td>36%</td>
</tr>
<tr>
<td>TX</td>
<td>22%</td>
<td>16%</td>
</tr>
<tr>
<td>FL</td>
<td>13%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: Cornell University Program in Real Estate - New postings of Commercial Real Estate positions from major job boards during the last week of each month

**Job Postings by Business Field**

Source: Cornell University Program in Real Estate - New postings of Commercial Real Estate positions from major job boards during the last week of each month
Advice for Job Seekers

- Seek internships in your area of interest, even if they are unpaid
- Get involved in a professional organization
- Network, network, network
- Join LinkedIn
- Conduct as many informational interviews as possible
- Be overly prepared for your interviews
- Send a thank you note
- Be careful what you post on the Internet