

# The Corporate Real Estate “360° Review”

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## Relevant strategies to support balance sheet performance

By Chris White, Frank McCafferty and Michelle Turner

*Click on authors' names to view profiles.*

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We are all facing extraordinary times and unprecedented issues right now. On April 7, we addressed office space occupier decision-making criteria in the post-COVID-19 world in Joe Learner's article, [The New Paradigm](#). Today, with the COVID-19 pandemic continuing to spread both public health concerns and economic uncertainty across the U.S., current circumstances raise numerous questions focused on balance sheet performance and cost reduction – including on office real estate strategy. A periodic, comprehensive “360° review” of your current approach is both necessary and beneficial over the long run, but even more urgent in times of economic change.

*How can Chief Financial Officers and corporate real estate executives use this moment in time as a catalyst to improve balance sheet performance, challenge the status quo and contribute to the urgency of reducing costs?*

Many companies have already undertaken layoffs, salary cuts or expense reductions to reduce fixed and structural costs. It is likely executives are now seeking additional ways to cut outlays, given the unknown duration and impact of the pandemic. At the heart of this disruption, the workplace itself has come under unique scrutiny as so many physical locations have been temporarily closed and organizations are implementing “Work from Home” (WFH) mandates.

**Questions surrounding office real estate strategy that have emerged over the first few weeks of the COVID-19 pandemic include:**

- How sustainable is the WFH model going forward? Will organizations utilize more of it or less?
- How can culture and effective collaboration be maintained and fostered remotely?
- Typical real estate layouts have become so “dense” over the last 10 years – is that responsible or viable anymore? Will it become a hindrance to recruitment in the future?
- How can diverse data streams, including people data, financial data, real estate data and other inputs be consolidated and utilized to support richer perspectives and better decision-making?

While sometimes overlooked, significant savings that support business objectives can be achieved through real estate redeployment. Assessing both the how and why behind workplace decisions can reveal new insights about the workplace and its true meaning to the organization.

Some real estate expenses can be driven out almost immediately with little to no investment while others, more medium-term, will require more detailed evaluation and up-front capital. Finally, there is a group of potential real estate savings moves that are long-term, strategic and structural in nature. This last grouping is where transformational change occurs, redefining the workplace and presenting opportunity for a “360° review.”

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*How can organizations and real estate decision-makers develop plans to optimize their portfolios in order to enable their businesses to operate more efficiently? A “360° review” that focuses on a cohesive plan for an organization’s business, people and real estate footprint is recommended, particularly in times requiring significant re-evaluation and transformation.*

### STEPS IN THE “360° REVIEW”

1

**Enable the business:** Identify changes in business goals and possible scenarios. Review the alignment of real estate leases and ownership commitments with objectives for process costs, suppliers, employees and customers.

2

**Optimize the portfolio and assess risk:** Understand exposure, expirations, over/under market costs, renewal options, contract penalties for termination and likely outcomes of landlord or investor negotiations.

3

**Understand your data:** Get back to basics and focus on metrics that drive effective decision-making. Dynamic metrics such as real estate as a percentage of revenue or cost per employee are guideposts for understanding performance and where corrective actions can be taken to improve the bottom line. Simply reducing cost per employee by \$500 in a 3,000-person organization can drop \$1.5 million to the bottom line. Cost reduction may yield faster bottom-line improvement at this time than would growing revenues. ***Please reference the portfolio optimization case study below to see how this has benefited one leading organization.***

4

**Attack immediate opportunities:** Identify opportunities for cost savings by way of property tax reductions, lease audit, parking charges, fitness fees, supplemental cleaning, supplemental/overtime HVAC orders, lease termination and consolidation, sale-leaseback structures, retrofitting layouts and improved space utilization.

5

**Make your employees feel safe:** Analyze regular physical touch zones and high-traffic areas and determine steps to make your employees feel more comfortable returning to the office. Auto-opening entrance and bathroom doors, decontamination floor mats at entrances to spaces, removal of communal fruit and candy bowls, add-on HEPA/UV filters, distributing sanitizing wipes to all employees and setting a communications plan to let your most valuable resource know you are thinking of their best interests.

6

**Evaluate workforce trends:** Assess the future. Ask questions including: How will we work together in office environments going forward? Will labor disperse from urban to suburban zones? Or from Tier 1 high-density cities to Tier 2 or 3 cities? How will labor and site selection be managed to ensure the business is vibrant and enabled?

7

**Tighten processes and be disciplined:** Expense management discipline generally requires a return to basics. ***In our case study, “Globally Consistent Process Development” featured below, the value of standards and governance is evidenced in financial benefit to one prominent organization.*** Process adherence represents an opportunity for strengthening controls and bringing discipline to cost management and infuses flexibility into the portfolio. For example, a relocation of a 500-person operation could be worth \$15 million to \$65 million in cost savings over term when moving from a Tier 1 city to a lower-cost location, with factors such as efficiency, real estate market costs, employee attrition and labor costs impacting the magnitude of the savings – with potentially larger opportunities in some international locations.

8

**Focus on the long run:** Capitalize on opportunities that are present in a down real estate market. Look at the business over the long-term and consider investments for the future. Betting on the future can offer outsized returns for companies with strong balance sheets and cash flows.

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The ideas outlined above have been proven in the real world and resulted in tangible benefits for many large organizations that have executed these strategies early and maintained discipline. The two case studies below illustrate the potential scale of savings that organizations can derive by undertaking a disciplined and thorough “360° review” of corporate real estate strategies. Extraordinary times like these offer organizations a rare opportunity to take a fresh approach.

### CASE STUDIES

#### Portfolio Strategy and Optimization Planning

##### The Situation

Provide quantitative support for more aggressive occupancy strategies to reduce occupancy costs, maximize the value of capital and support rapidly changing global dynamics.

##### What We Did

- Combined occupancy data with headcount, cost and space data to support location specific analysis and strategy.
- Developed a process for combining badge swipes, IP activity and hoteling reservations for a comprehensive and cost-effective view into occupancy patterns.

**25%**

Increase in space efficiency

**>\$100M**

In cost avoidance vs. previous approach

**Published**

In the peer-reviewed Corporate Real Estate Journal

**Recognized**

CoreNet Global Innovation finalist

#### Globally Consistent Process Development

##### The Situation

Develop globally consistent processes for regional execution with the benefit of global coordination and input. Develop a database with timely and accurate real estate data.

##### What We Did

- Developed process and governance documentation and engineering.
- Instituted an advanced real estate opportunity review process that facilitated more informed real estate decision-making.
- Improved negotiating leverage and the ability to capitalize on out of cycle events such as M&A.
- Provided ongoing support for implementation and change management.

**>180**

Locations now have a proactive real estate strategy process

**54%**

Decrease in annual rent

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