

Agenda

FOR THE ONGOING EVOLUTION OF CORPORATE REAL ESTATE MANAGEMENT



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Preface

In the 1990s, a number of companies introduced corporate real estate management (CREM) as a distinct management discipline. At the time, it was a prominent issue in the real estate industry, and subject to extensive discussion. The early zero years, however, were defined by stagnation in the progressive evolution of CREM, and this was manifest in politics, in the real estate industry, in academia, and actually in many companies too. What makes it all the more astounding is that the macro-economic challenges as well as expert studies of recent years should be showing just the opposite, and highlight the need for a further professionalization of CREM.

The agenda now before you defines the spheres of activity that will be instrumental in the ongoing evolution of corporate real estate management for the purpose of strengthening actual companies while also advancing the evolution of the real estate industry as a whole. The agenda should also be understood as an effort to boost Germany as a business location in the context of an accelerating globalisation of markets.

1. Corporate Real Estate Must Enlarge its Footprint

Companies whose core business does not relate to the real estate economy (also called “non-property companies” or “corporates”) count among the largest property asset holders in Germany while also being among those with the greatest demand for space. In terms of its macro-economic significance, the

management of business property (corporate real estate management or just CREM) does not have the prominence it should have in the body politic, in the trade media, in the real estate industry and often in the companies themselves.

This is odd insofar as there are good reasons for a more serious review of the value lever that may be influenced through CREM:

- In business terms, CREM directly impacts a company’s balance sheet and financial position. The sum total of property-related costs generally accounts for 10% to 20% of the corporate expenditures, and thus represents one of the largest cost blocks for a given company.
- Optimising the CREM is also of immediate relevance for efforts to raise productivity, with existing surveys suggesting that it can boost labour productivity by more than 10%. Tomorrow’s work spheres will presuppose that CREM units provide a modern, up-to-date working environment with much more flexible and diversified floor areas, including relevant extras (“work/life balance”). These extra options will enhance the appeal of workplaces in secondary and tertiary locations.
- Moreover, CREM plays a direct and essential role for the global competitiveness of a company, be it through a highly responsive procurement of business accommodation in new growth markets, or through employee retention or the recruitment of young talent by providing workplaces that are fit for the future.
- In addition to the benefits that CREM has within a corporate conglomerate, it can also be credited with macroeconomic effects. Depending on which of various projections you take, the total macroeconomic asset value attributable to corporate real estate is anywhere between 2.7 and 3 trillion euros. Included in the sum are

the property assets listed in the financial statements of German companies as well as plots and buildings held for purposes other than residential use.

- CREM plays a definitive role in the ecological footprint of companies, e. g. in the form of diverse concepts for providing, planning, renting, occupying or managing sustainable properties, but in many cases also for the area of energy consumption, including production energy.

Bearing in mind the aforementioned value lever function, it becomes rather evident that CREM requires a substantial lobby – on the corporate level, in politics, and in the real estate industry – that takes both a bottom up approach (corporate perspective) and a top-down approach (macroeconomic perspective) to raise its potential.

2. Creating a Joint Understanding of Property Universe and Corporate Universe

Real estate industry and corporates interact in a complex logic of relations. The property universe provides real estate and invests in it. The corporate universe occupies the properties, but often invests in them, too. The two universes continue to cooperate as provider and client of the entire range of property-related services, but they also compete for land and locations. Determining the potential of a joint approach would presup-

pose that the various overlapping areas are accurately identified. The overlapping areas will in any case influence the strategy, the organisational structure, and often the target systems used in the real estate management of corporates. Conversely, a sustainable business model of the property universe can work only in awareness of the corporates' parameters.

Figure 1 illustrates the described causal relationships between the institutional real estate industry (the real estate market), the operative real estate industry (CREM), and the core business of a given company (the corporates).

Although corporates keep their own real estate portfolios, which can be quite large and which are subject to growing demand, real estate is not their core business. Rather, their real estate strategy is aligned with their corporate strategy. Its implementation results in a port-

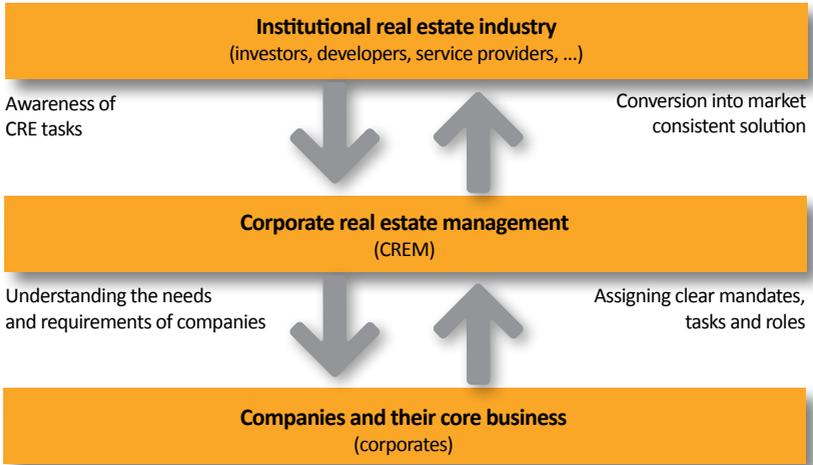


Fig. 1: Causal relationships

folio that can be defined by use periods of any length, site decisions, asset classes, and forms of ownership. The property universe in its role of property investor follows the parameters of the property market with its limited resources in terms of financing, available locations, and its exclusive focus on real estate that is marketable and suitable for alternative use types.

Decisions made by corporates in regard to location, type of ownership, and management strategy are therefore subject to the cycles of their core business, whereas the investments of property companies are essentially paced by the capital markets. Accordingly, the expectations of the two groups do not intrinsically cohere. Corporates focus specifically on the space accommo-

dation for their core business, and moreover on flexibility and optimised total cost. When opting for ownership solutions, they tend to seek long-term appreciation. By contrast, property companies concentrate on the short-term optimisation of cash flow, returns, marketability, holding periods, and the associated exit scenarios.

As service provider, the property universe confronts the most diverse organisation types and development stages of corporate real estate management in the heterogeneous, often opaque, real estate world of corporates. Joint action is hampered by the most diverse forms of profit responsibility that corporates impose on their property managers, and by the wide variety of different asset classes. Then again, the progressive professionalization and the

growing transparency that comes with it have made the real estate world of the corporates more accessible to third parties. Near-term, it will nonetheless remain quite hard for interested third parties to acquire and master the sometimes special and unique user know-how defining certain asset classes such as production, research, development, but also to some extent logistics. With the necessary competencies hard to acquire, these asset classes will continue to resist investments at a reasonable rate of return.

So what is the way forward in the joint effort to define – on the basis of these commonalities, differences and dependencies – a starting point that is both optimistic and forward-looking?

Mutual requirements or business goals can be implemented only in

awareness of the respective target systems. This obvious prerequisite, however, must be more than just a source of information meant to facilitate the distribution of conventional solutions or the well-rehearsed reiteration of historic needs. With these prerequisites in place, innovative – yet to be defined – property solutions become conceivable in a smart combination of the respective goals.

3. Market- and User-Consistent Positioning of Corporate Real Estate on the Property Market

While the existing asset classes of the real estate industry arguably cover corporate real estate too, the asset classes should reflect actual occupier needs, whereas the users should make more of an effort to align their needs with the market. Corporates need a joint platform in order to

- create a stronger awareness for secondary and tertiary locations in the real estate business,
- enhance the fungibility of corporate real estate,
- encourage joint investments and developments by companies in industrial areas,
- widen the footprint of corporate real estate as an established investment choice for the real estate industry, and
- jointly lobby its interests in the context of legislative changes, of evolving fiscal parameters or of the re-enactment of accounting regulations.

In some sub-segments, such as the logistics market, property companies have joined hands with corporate occupiers in recent years to create a common product that today is perceived as a distinct asset class and that has positioned itself in a corresponding market environment. A similar approach should be taken in the area of industrial-type corporate real estate – meaning the corporate property type lately referred to by its German term “Unternehmensimmobilien” – to promote an analogous development for this sub-segment too.

For corporates, the globalisation of markets (macro-perspective) and changes in work environments (micro-perspective) have also caused their property requirements to change. As a result, corporates are often unable to find adequate accommodation – regardless of the specific property type – among existing schemes available on the market. This concerns not just the structural and technical options, but also rigid and inflexible contract structures and lease terms. Accordingly, corporates require the following from the real estate market:

- recurrent, bespoke options to adapt the space and use structures
- premises of flexible availability and types of use
- adjustments to the size and use concepts of premises on short notice
- outsourcing of property-related tasks and risks to the institutional real estate industry

To meet the corporates' requirements, the spectrum of property business products will have to be adjusted – and this goes for services as

much as for assets. In the context of this development, especially the following basic parameters should be studied and be reflected in a solution:

- definition of the product in the market context (office, industrial, logistics, retail, etc.)
- definition of property-specific parameters (location, fit-out, flexibility, etc.)
- concepts for securing the cash flow (securing the assets' bankability)
- development of use concepts
- development of operator concepts
- analysis of pooling options in the sense of risk optimisation (e. g. multi-site, multi-tenant, multi-landlord solutions)
- concepts for a balanced risk distribution among occupiers and investors in times of fluctuating demand

4. Boosting the Professional Standing of CREM

Handling the real estate of corporates is still widely believed to be limited to the provision for floor plate along with its technical and infrastructure-related management. Conversely, the property universe is associated with terms like investment, asset and property management, and linked to vocational profiles whose aspirations and responsibilities supersede those outside the property universe.

Meanwhile, the reality on the ground has changed, as corporate real estate management on behalf of non-property companies has moved away from the role of merely providing and administering floor area, and embraces instead the role model of the value-, cost- and user-oriented in-house service provider. The expectations in a corporate real estate manager in terms of property business know-how and business acumen have therefore increased,

which in turn has caused the corresponding job profile to undergo a radical shift.

When comparing this in-house role to the levels of control exercised by companies whose prime business purpose is the management of real estate (property universe), you will find that, rather than just handling tasks that match those of the property universe, the corporate environment requires their expansion to include other key responsibilities as well. In addition to an efficient user-oriented area management, these include the organisation of in-house

lettings as well as the areas of construction, construction planning, and construction management. Taking care of these tasks extends from the strategic to the operative level, because each of the tasks is subject to strategic guidelines that apply to their operative execution.

Since by far the largest share of the proprietary real estate stock is used for group-affiliated business units, issues concerning area management and fit-out standards as well as the need to keep the occupier permanently satisfied require a higher degree of coordination with



Fig. 2: Real estate business management

the occupier than a regular tenancy situation would. This is true both for the fit-out of existing units, and for the planning and designing of new ones.

Key benchmarks for success therefore include, in addition to performance and yield or yield equivalent, most notably the floor space costs and service costs along with occupier contentment. By contrast, the property universe is only expected to increase the capital employed, and possibly to enhance the performance.

The various ways to structure the CREM implies different job profiles and requirements profiles that necessitate a pinpoint delineation of corporate real estate management. The exact spheres of ownership that are to be subsumed under the term corporate real estate management need to be staked out across the various levels of facility management/facility services, property management, asset management, portfolio management and strategy/REIM. The assumption underlying an integrated approach is that corporate real estate management covers all levels, and that the term should be holistically applied to the strategic orientation all the way to the operative control of the real estate and land owned by a company (i. e. including

strategy, asset management and property management). A narrower interpretation limits CREM essentially to the strategic level (i. e. strategy /REIM and asset management).

Going forward, CREM units taking care of asset management and portfolio management on top of their operative tasks (facility management/facility services and property management) could play a defining role for the attractiveness of the job profile of “corporate real estate management.” In addition to a stronger emphasis on property-specific standards, this process lends itself to a more concrete definition of the new sense of responsibility that elevates CREM from its former role of (merely) executing decisions made elsewhere. Instead, the corporate real estate manager will define, in coordination with the senior management, the standards and targets regarding costs, floor space use and transfer prices. The CREM will thus control the assets under its management rather than just operating them, and in specific cases will even be responsible for profit and loss. Having active control of a portfolio characterised by several types of use along the entire value chain – from the development, to the occupancy, and all the way to redevelopment or demolition of buildings – represents a challenge as much as

an incentive. Positioning the CREM accordingly within a company hierarchy will enable it to adopt a peer-to-peer approach and operate as a partner in that company's core business.

Unlike the classic real estate market, the real estate management of non-property companies operates in a permanent stress field created by the conflicting targets of landlord and tenant. The more detailed the mandate of a company's CREM department, the easier the job of the corporate real estate manager will be in fulfilling his or her tasks within the company and vis-à-vis the real estate market. Clearly defining the mandate and communicating it in-house will also enhance the appeal of the CREM job profile.

5. Impact on Tomorrow's Real Estate Product

Corporates – and with them their corporate real estate management – have a significant influence on the work environments of tomorrow. Its impact is felt in real estate product changes in regard to mobility, diversity, integrated work/life choices, and flexibility.

Tomorrow's work environment will be characterised by mega trends like demographic change, globalisation, digitisation, urbanisation, sustainability and customisation. This means that new work environments will have to take social, economic and environmental aspects into account to identify adequate responses to these mega trends.

- a) **Social aspects:** diversity programs, equal opportunity in senior staff recruitment, cross-generational collaboration that takes diverging needs into account, combining job and family against the background of Germany's demographic trend, cultural cause variables
- b) **Economic aspects:** increasing productivity, space efficiency, additional options in secondary and tertiary locations, new real estate products
- c) **Environmental aspects:** sustainable construction, green building materials, energy efficiency

Communication and collaboration are of key importance for boosting productivity and innovativeness, and they define the new work environments more than other factors. New workplace concepts are characterised by the networking of modern IT technologies, the changing nature of collaboration, the quality of employee management, and the physical arrangement of premises. In fact, they define a new work culture.

To successfully cope with the challenges in terms of speed, adaptability and innovative strength, the quality of the work environment is of key importance. The societal and economic shift from a service society into a knowledge and innovation society turns the new work environments into hubs of creativity, innovation and growth. To facilitate the transition, adequate amenities and services as well as support

programs should be provided. The process will also have ramifications for other real estate industry players: Property developers, investors and landlords, but service providers too, will have to offer a wide variety of extra options (“work/life balance”) for next-generation employees, at least outside Germany’s metro areas where the availability of relevant services is rather limited.

Aside from flexibility, collaboration, communication, cutting-edge technology, health, and sustainability, the work environments of the future will have to answer to the hard metrics of space efficiency, productivity and return on investment.

This in turn gives rise to property business issues that will have to be addressed through the interaction of the stakeholders in this field:

- changes in accommodation in terms of quality and quantity
- changes in the attractiveness of locations and property markets, especially in secondary and tertiary locations
- shifts in demand for real estate services, and the
- emergence of new property types

Signatories

The signatories of this agenda hereby agree to proactively represent and advance the positions defined in this AGENDA FOR THE ONGOING EVOLUTION OF CORPORATE REAL ESTATE MANAGEMENT in their efforts within their respective companies, in their dealings with professional colleagues and with their partners in the real estate industry, in their lobby work, and vis-à-vis the body politic.

- BASF SE, Group Real Estate & Facility Management
- Bayer Real Estate GmbH
- CBRE GmbH
- CoreNet Global Inc., Central Europe Chapter
- Daimler Real Estate GmbH
- Deloitte & Touche GmbH Wirtschaftsprüfungsgesellschaft
- Jones Lang LaSalle GmbH
- Siemens AG, Siemens Real Estate
- German Property Federation (ZIA)



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ZIA

The German Property Federation (ZIA) is one of the major interest groups of the German real estate industry. We consider ourselves to be the voice of Germany's real estate industry, speaking for numerous most notable companies of the real estate industry as well as for more than 20 associations, together representing 37,000 members. ZIA's main goal is to act as a comprehensive and homogenous lobby for the diverse real estate industry in line with its vital importance for the German economy. As a union of businesses and associations, ZIA enables the whole real estate industry to speak with one voice on a national and European level – as well as within the Federation of German Industries (BDI).



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CoreNet

CoreNet Global is the world's leading association for corporate real estate (CRE) and workplace professionals, service providers and economic developers. Over 8,200 members in 50 countries, representing 70% of the Fortune 500 and nearly half of the Fortune Global 2000, meet locally, globally and virtually to develop networks, share knowledge, learn and thrive professionally. The members of the 5 different regions Asia, Australia, Europe and Latin and North America consist of representatives of medium-sized and large companies and authorities as well as representatives of different service sectors around corporate real estate.