

# GLOBAL TRENDS IN REAL ESTATE OUTSOURCING



A Corporate Occupier & Investor Services Publication

2012 - 2013





## CLIENTS, FRIENDS, AND COLLEAGUES:

For the outsource service provider industry, change is occurring at a rapid pace. Occupiers around the world are struggling with economic uncertainty and facing a number of headwinds as they attempt to grow their businesses. Investors are facing intense pressure to produce higher returns through more efficient operations and greater asset values. In today's environment, the fate of the occupier and investor are linked like never before, and outsource service providers have emerged as key partners to both.

This report focuses on the key trends that are driving outsource real estate services firms. It addresses the challenges that occupiers and investors face and discusses the solutions being developed to address these challenges. Our hope is that you find this information of use in your forward-looking strategies.

All the Best,

A handwritten signature in black ink that reads "John C. Santora". The signature is written in a cursive, flowing style.

John Santora  
President, Chief Executive Officer  
Corporate Occupier & Investor Services (CIS)  
Cushman & Wakefield, Inc.

## REAL ESTATE OUTSOURCING

The role that service providers play in the real estate industry today is vastly different than just a few years ago. On the occupier side, providers are assuming responsibilities traditionally held by internal corporate real estate departments. From managing large leased portfolios, to conducting strategic planning, occupancy analysis and forecasting, to even designing new and innovative workplaces, outsource service providers have transitioned to the role of strategic advisor. On the ownership side, service providers are being asked not just to manage property and pay bills, but to formulate strategic operating plans that will uniquely position assets in the marketplace in order to achieve higher returns for investors. These increasing responsibilities have shifted the dynamic of the provider industry and enhanced the benefits of outsourcing as a proposition.

## KEY FINDINGS

- Occupiers are struggling with cost, expansion, and process alignment
- Occupiers have yet to settle on a preferred outsource model
- Investors are facing tighter regulations for owning and operating property
- Investors are increasingly seeking asset management services
- Service providers are assuming more risk on behalf of their clients



# CORPORATE REAL ESTATE OUTSOURCING

Today's corporate real estate (CRE) departments are dealing with a host of challenges as companies around the world continue to be hampered by a slow growing and ever more risky global economy. Occupiers large and small are searching for new and innovative ways to increase revenue growth, while at the same time controlling costs. How to best invest and deploy capital in this environment is a fundamental question for many businesses, and CRE is being asked to play a prominent role in helping companies assess these options.

The following chart illustrates the current challenges facing CRE managers:



## I. GLOBAL EXPANSION

Despite the global economic risks, businesses remain focused on expanding their operations. CRE's challenge in this environment has become how to best support various business lines within the organization that are growing at different speeds. The investment required to scale a business in South America, Asia, Africa or the Middle East, where economies are growing at 5-10% annually, is far different than the on-going investment required to maintain and grow a presence in mature markets such as the US, Canada or Europe.

Growing economies present a variety of challenges in terms of their political risk, return on capital and workforce dynamics. Additional up-front investment is required and the potential for uncertainty in these markets is greater. That being said, with economic growth in mature markets near a standstill, the price for corporations of not expanding to capture revenue is too great. To properly expand in emerging and growing markets, CRE needs sufficient transparency and intelligence to make decisions, and most companies are looking to their real estate service providers to provide this clarity.

## 2. BUSINESS ALIGNMENT

CRE is increasingly being seen as a key partner to help the broader business achieve its corporate objectives. Real estate is being used to help drive creativity and innovation across the workplace, assist with the recruitment of new employees and help reinforce corporate brand and culture. These are new responsibilities. For many CRE departments these added responsibilities have forced them to examine their organization's relationship to the corporation. Questions surrounding how CRE can best support business lines, how it should align its strategy to produce optimal results and how it can contribute to the success of the Company's investments are all being asked. Aligning CRE goals and objectives with those of the corporation, in order to have a more significant impact on business growth, has become a priority for occupiers.

## 3. COST OPTIMIZATION

Controlling costs has long been a burden carried by CRE, and in the current economic climate it is no surprise that most CRE departments are under tremendous pressure to reduce expenses. But, how much is too much? At what point have costs been reduced so much that it affects the ability of the enterprise to produce revenue? The emphasis on cost vs. productivity has led many companies to consider new and alternative ways of designing their work environment. Workplace strategies that emphasize greater density, technology and the more efficient use of space are all on the table as solutions to striking the right balance between reducing cost and supporting productivity.

## 4. PROCESS IMPROVEMENT

Hand-in-hand with optimizing their cost structure, occupiers are seeking to improve their internal processes. Enhancing vendor relationships, using technology to drive efficiency and implementing corporate governance programs to strengthen internal controls are concepts rapidly being explored. CRE is intently focused on industry leading technologies and tools that will help drive decision-making. In turn, service providers are being asked to compete on the basis of their technology, data and industry best-practices.



MICHAEL CREAMER  
EMEA Head, CIS

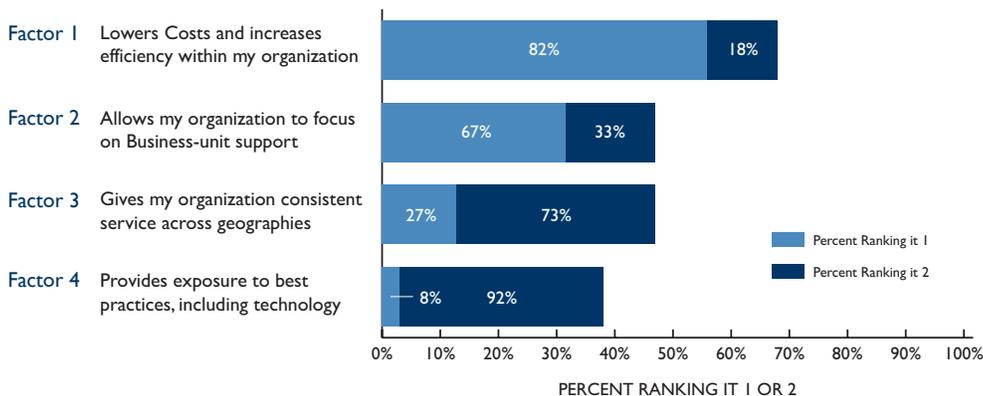
**“One of the biggest challenges European-based occupiers face is how to properly scale a business across Africa and the Middle East.”**

# CORPORATE REAL ESTATE OUTSOURCING

## CRE OUTSOURCE VALUE PROPOSITION

The outsourcing of CRE services has gained undeniable momentum over the last five years. A recent Cushman & Wakefield client perspective study (of 300 corporate clients) asked respondents to rank in order of importance the critical factors that are influencing their decision to outsource real estate services. The chart below displays these responses based on the percentage of clients that ranked each factor as being critical in their decision to outsource (i.e., ranking it as either their 1st or 2nd reason). The data shows that a clear majority cite Factor 1 as being their primary reason for outsourcing, with nearly 70% choosing it as either their 1st or 2nd reason. However, the data also shows that CRE is concerned about its ability support company business units properly. Almost 50% of respondents ranked Factor 2 as being either their 1st or 2nd reason for outsourcing, and of those 67% chose it as their number one reason.

### Critical factors that influence your decision to outsource



Source: C&W 2012 Client Perspective Study

## LEVELS OF OUTSOURCING

Today, many corporations have fully developed outsource models that cover a host of real estate services. That being said, many corporations remain in the early stages of outsourcing or are even just beginning to explore the concept. The chart below indicates the various levels of CRE outsourcing that exist today and the benefits and goals derived from each:

1ST GENERATION (Experimental)	2ND GENERATION (Refinement)	3RD GENERATION (Transformational)	
<ul style="list-style-type: none"> <li>Centralized management</li> <li>One-or-two services</li> <li>Minimal change for internal CRE team</li> <li>Limited use of service provider expertise</li> </ul>	<ul style="list-style-type: none"> <li>Full service account management platform</li> <li>Multiple service outsourced</li> <li>Re-aligned internal CRE team</li> <li>Success partially determined via KPIs</li> </ul>	<ul style="list-style-type: none"> <li>On-site account management team</li> <li>Fees and success tied to KPIs</li> <li>Internal CRE team re-focused</li> </ul>	
SERVICE PROVIDER DEPENDENCE LOW-MODERATE	MODERATE	HIGH	
SOLUTIONS	<ul style="list-style-type: none"> <li>Centralize information flow</li> <li>Greater efficiency</li> <li>Marginal cost savings</li> <li>Test-drive concept</li> </ul>	<ul style="list-style-type: none"> <li>Access to best practices and technology</li> <li>Leverage provider expertise</li> <li>Broader CRE contribution to business</li> </ul>	<ul style="list-style-type: none"> <li>Transition of risk to service provider</li> <li>Provider a true business partner</li> </ul>

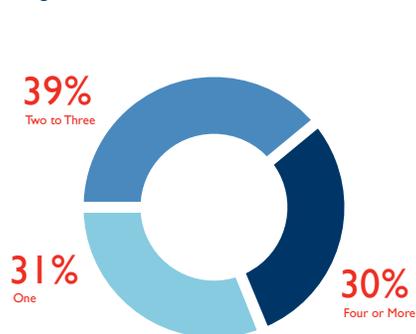
As corporations move through the various levels of outsourcing, the number of providers, the number of services, and level of dependence on the outsource partner changes. A corporation in the first generation of outsourcing usually carries a full internal CRE team that is deeply involved in the tactical aspects of acquiring and managing the corporation's real estate. In this phase, the outsource partner is used to centralize the account management function for increased efficiency. Typically, the corporation is seeking to outsource one or two services—most likely transaction management and lease administration—and the level of dependence on the provider is low-to-moderate.

A company in its third generation of outsourcing has turned over daily control of operations and decision-making to the provider. Typically, the provider and its staff are on-site at the company and service agreements are highly specific and measured via key performance indicators (KPIs). In this level, the outsource partner is providing a variety of services on a regional or global scale. Corporations in their third generation have typically made the decision to alleviate the internal CRE team of tactical real estate knowledge and are guiding their organizations to focus internally on aligning with business units to support broader strategic objectives.

#### THE RIGHT OUTSOURCE MODEL

Despite the growth CRE outsourcing has experienced, occupiers have yet to move the industry towards one preferred model. C&W's client perspective study reveals that each corporation is choosing to partner in different ways. When respondents were asked how many providers their organization uses, 31% indicated one provider globally, 39% indicated between two-and-three and 30% noted four or more providers. When the same respondents were asked which model would be the most effective for their organization, regardless of the model they currently use, the responses still indicated a variety of effective solutions.

How many real estate service providers does your organization use consistently on a global basis?



Which outsourcing model would be the most effective for your organization?



Source: C&W 2012 Client Perspective Study



MARK WANIC  
Americas Head, Occupier Services

“Occupiers are keenly focused on a service provider’s ability to develop processes, tools and technology solutions that will help them add measurable and strategic value.”

# CORPORATE REAL ESTATE OUTSOURCING

## OCCUPIER CASE STUDY

Globally diversified manufacturer of technology products and services with 2011 revenues totaling over \$58 billion USD

### OUTSOURCE MODEL

Third Generation. Company uses four service providers globally, each with regional responsibilities for multiple services. On-site account management teams employed across the organization. Model focused on measurable value-add with heavy reliance on KPIs.

### SERVICES PROVIDED

Account Management and Account Oversight, Transaction Management, Design and Project Management, Document Advisory, Governance Advisory, Strategic and Portfolio Planning, Lease Administration and Valuation

### BENEFITS FROM OUTSOURCE PARTNERSHIPS

Scalable: Allows CRE to absorb changes in business strategy quickly and efficiently

Strategic: Internal CRE team focused on business unit support vs. real estate transactions

Fluid: Continuous product/service enhancement

## CURRENT TRENDS IN CRE OUTSOURCING

The following are the most prominent trends affecting the industry of outsourced CRE services:

### CORPORATE PROCUREMENT IS DRIVING DECISIONS

With the intense focus on cost optimization, Procurement departments have become increasingly involved in the process of selecting outsource service providers. Requests for proposals (RFPs), and the subsequent information exchange that occurs, are focused on the “value-add” of the provider. Occupiers want assurance that providers not only have the right geographic and market coverage, but also the right technology, tools and processes across all services (i.e., transaction management, facilities management, and lease administration and project management) on a global basis.

The involvement of Procurement has led to KPIs becoming key parts of service contracts as ways to measure performance, value and fees. In short, Procurement is there to assure the C-suite that the corporation is getting the best possible service that includes the proper tools and technologies to make decisions, and at the best possible price.

### OCCUPIERS SHIFTING PROVIDER RISK

As occupiers seek streamlined operations and better processes, they have looked to service providers to take on more responsibility and risk. Traditional outsource agreements call for the service provider to act on behalf of the corporation as an agent. Increasingly, however, occupiers are requiring that the hired service provider act as the principal and assume on its balance sheet many of the contracts and risks involved in managing the corporation’s real estate. This includes responsibility for payment to vendors and contractors, as well as for banking and other financial obligations. This transfer of risk to the service provider presents a number of challenges for both parties. Insurance policies have to be re-designed and payment liability has to be assumed by the provider, thereby driving up the provider’s internal costs. The result has been partnership agreements with clearly defined scopes of work (SOW) that include specific fees and processes for going above and beyond.

### SHARING OF BEST PRACTICES BETWEEN PROVIDERS

The benefit of multiple provider models is that they allow occupiers to choose the best solutions from each service firm and integrate them into the organization. In many of today’s multi-provider models, contracts now require professionals from different service providers to share their best practices with the other firms who work for the same company. In many cases, this requires providers to share their technology solutions, governance programs and service support processes with competitors. While shocking to providers at first, this transparency has resulted in better processes being developed for the occupier and led to more competitive and innovative product offerings.

### STRATEGIC CONSULTING SERVICES INCREASINGLY SOUGHT

The demand on the part of occupiers for strategic services has increased dramatically over the last few years. While the traditional services involving transactions, lease administration and facility build-out remain the most sought after from occupiers, the ability to provide strategic services in areas such as portfolio planning and optimization, organizational design and workplace strategy are becoming necessary for service providers. For those corporations focused on manufacturing and logistics, the need for the supply-chain management expertise is critical.

While management consultants have traditionally filled this role, occupiers are leaning more and more on real estate providers who have the tactical real estate knowledge and execution capabilities to implement a strategy. Moreover, they are increasingly asking for baseline strategic services as part of the standard SOW, presenting a challenge for service providers who do not have the ability to internally scale these capabilities.

### MIDDLE-MARKET COMPANIES USING OUTSOURCE SERVICES

Companies with portfolios under 50 million square feet are increasingly seeking outsource partners to assist with a number of real estate needs. While these organizations may not have large leased portfolios, they can often have a significant number of smaller locations spread out over a national or regional geography. There are two main drivers of this trend:

1. Middle market businesses find it significantly more challenging to devote in-house resources to non-core business initiatives, such as real estate.
2. These businesses need immediate turn-key solutions. Having an advisor that can not only negotiate a lease, but provide quick solutions for design and management is critical. In response, many service firms are rapidly investing in key personnel, technology and resources to serve this segment of the industry.

### CRE OUTSOURCING MOVING FORWARD

As occupiers continue to be challenged, outsource models will evolve. Leading CRE teams will look to further shift their focus away from the management of physical real estate to a more strategic role involving how to best interact with business-units. Strategic service needs are expected to grow, particularly in the areas of portfolio planning and occupancy strategy, as too will the need for expertise involving global expansion and management.

The result will be a continued broadening of service offerings on the part of providers and a focus on geographic expansion to serve emerging market needs. Tools, technology and process will become more important and service providers will compete on the basis of their ability to add value to both the cost and revenue side of the organization.



RICHARD MIDDLETON  
APAC Head, CIS

**“CRE is shifting its focus inward to the organizations’ needs. As a result, it is transitioning to a role that oversees the tactical services providers are performing.”**

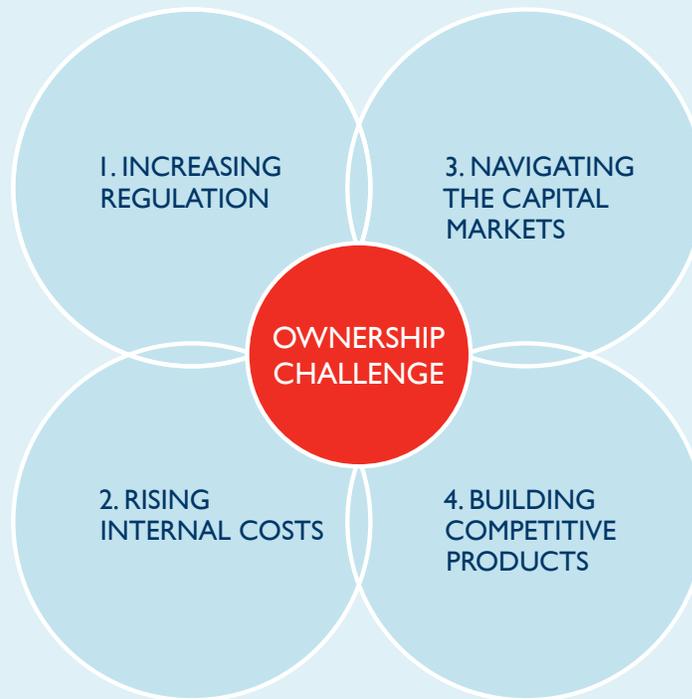
# INVESTOR SERVICES OUTSOURCING

Over the last five years, the global real estate investment market has undergone a series of transformations. Moving from a period of rapidly rising values, a surplus of available capital, and significant liquidity in 2007, the industry in 2009 saw capital investment dry-up, liquidity become scarce and values decline by as much as 40% in some markets. While pricing and values have rebounded in many markets- most notably in core markets- there are still property types and sectors where volume remains suppressed.

That being said, real estate around the world is again attracting capital. According to Real Capital Analytics, Inc., global commercial property investment for 2011 was up 21.2% over 2010 levels, as real estate fundamentals have bottomed and occupancy rates have slowly risen. While volume through the first three quarters of 2012 is down almost 10% from 2011, acquiring office and industrial assets in top-tier markets has become competitive.

Despite investment having rebounded since 2009, the challenges of owning and managing property have changed. Investors are not only challenged by how to acquire assets, but are also struggling with new requirements of ownership.

The following are key challenges facing global real estate investment managers today:



## 1. INCREASING REGULATION

Post financial crisis, investment managers across the globe face tighter regulations for owning and operating property. Financial reporting, accounting and other disclosure requirements have increased—particularly for those operating public REITs—and tax policies have become complex and can vary from country to country. The increased regulations have forced many investment managers to hire additional staff to handle accounting, tax and other requirements, drawing resources away from the core business of generating returns for investors.

## 2. RISING INTERNAL COSTS

Over the last few years, owners and investors have seen their internal costs of operations rise dramatically. In addition to the staff needed to respond to increased regulatory requirements, owners have added other layers to their cost structure, including resources needed in the areas such as energy consumption and sustainable operations, technology, procurement and business continuity. For owners that typically self-manage their portfolios, investing in these additional resources means added costs and less profit back to the business.

### 3. NAVIGATING THE CAPITAL MARKETS

Interacting with the capital markets is a necessary aspect of real estate investment management and competing in today's capital environment remains challenging. While the cost of borrowing is low, underwriting requirements are more stringent. Generally, more equity is required to purchase property and the market for raising funds is more challenging, particularly for those owners who do not have a proven track record of performance. For those investors seeking the safety of quality assets in top-tier markets, the environment is competitive. Pricing in these markets is strong, returns are lower, but financing is available. For those seeking property in secondary markets, or assets with operating challenges, the market is not as friendly.

### 4. BUILDING COMPETITIVE PRODUCTS

Building quality products that will attract and retain tenants is essential for property owners. While this has always been the case, the demands of the corporate occupier (on the owner) have never been greater, and the business of attracting high-quality tenants has never been more competitive. Today's occupiers are requiring owners to contribute to their social responsibility practices through sustainable building operations, support the needs of new workplace strategies by providing open and flexible floor space that can sustain higher densities and provide the proper infrastructure for increased technological needs.

These new and seemingly permanent pressures on owners are having a profound effect on the business of outsourced property services.



ERIC HINKELMAN  
Head of Western US Region  
Investor Services

**“Owners who do not implement strategies to address the challenges corporate occupiers face, run the risk of having their assets devalued.”**



# INVESTOR SERVICES OUTSOURCING

## THE CHANGING ROLE OF SERVICE PROVIDERS

Service providers whose primary role had been to manage the day-to-day and on-site operations of properties, are now finding themselves providing a host of “other” services to owners that are either new or were previously performed in-house.

A closer look at Cushman & Wakefield’s recent client perspective study reveals that many investors are now looking to providers for services other than traditional property management. The responses support the trend that investors increasingly need services in the areas of sustainability, development, consulting and accounting.

INDICATE WHICH SERVICES YOUR ORGANIZATION CURRENTLY OUTSOURCES	PERCENT OF CLIENTS WHO OUTSOURCE TO SERVICE PROVIDER
Property management	89%
Agency / landlord leasing	67%
Facilities management	50%
Construction / development management	67%
Sustainability consulting	44%
Property accounting (if not part of property management)	50%

Source: C&W 2012 Client Perspective Study

## THE INCREASING NEED FOR ASSET MANAGEMENT SERVICES

Many investors are beginning to turn to their service providers for asset management services. Managing property for investment and value creation requires capabilities and process that in many cases are beyond the core competencies of investment managers. Key elements of asset management services are:

- **Strategic Asset Planning**—Many owners are asking providers to assist with developing strategic operating plans that consider the end value of the asset or portfolio. These plans can tackle a variety of issues, including strategies for lowering operating costs and improving the efficiency of a building or portfolio, and how to strategically handle pending vacancies or renewals that may impact value.
- **Integrated Service Delivery**—Investors are turning to providers to advise them on how property operating decisions will impact value. Knowing how the structure of a particular lease (i.e., rental rate, term, credit, etc.) will affect the projected capitalization rate and marketability of a property is valuable information for owners. They are asking their providers to bring to bear all of the resources of their organizations to determine optimal solutions for value creation. To do this successfully, owners and their providers need to work together to develop asset strategies to best position their properties or portfolios in the marketplace.



LOU ALVARADO  
Head of Eastern US Region  
Investor Services

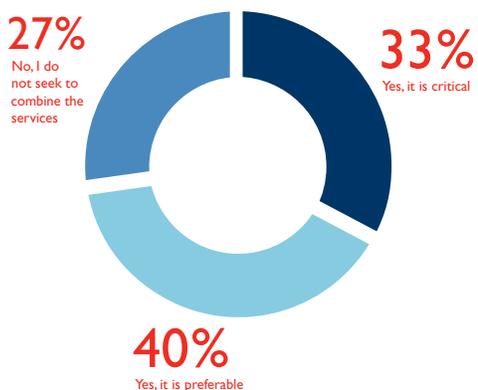
“By expanding their requested services to include asset management, owners can apply consistent technology, best practices and financial reporting throughout their portfolio.”

## LEASING A KEY ASPECT OF INTEGRATED SERVICE OFFERING

Strategically managing assets requires dependable market intelligence. There is no better way for owners to get the critical information they need to make decisions than from those who are in the field transacting daily. While there is no doubt the property/asset management business is moving towards a more process-driven, analytical, and integrated service environment, leading owners also recognize the continued need to have “boots on the ground.” Owners are seeking property and asset managers that can apply the intelligence they receive in cross-collaborating with leasing professionals to make informed decisions about their buildings and/or portfolios.

Cushman & Wakefield’s client perspective study asked owners about the value a provider’s leasing team can bring to the property or asset management process, and whether they consider leasing competency when selecting providers. When owners were asked if they would prefer that their property manager and leasing agent be from the same company, an overwhelming percentage (73%) indicated that it was either critical or preferable.

Do you feel it is critical to hire the same service provider to perform Property/Asset Management and Leasing?



Source: C&W 2012 Client Perspective Study

## INVESTORS FOLLOWING CORPORATE OUTSOURCE MODEL

Traditionally, owners have not been focused on limiting the number of outsource providers they use. Property managers are often chosen based on their local market knowledge and experience managing similar properties. Many times this could result in one owner using upwards of 5-10 service providers (or more) across a particular portfolio of properties.

While local knowledge and expertise remains a key aspect of service delivery, increasingly owners have sought to employ industry best-practices and consistent reporting methodologies across their portfolios. Slowly emerging is the trend towards fewer service providers amongst owners as they seek to streamline their costs and increase efficiency.



MARKUS REINERT  
Head of EMEA Property &  
Asset Management

“Investors are beginning to adopt the outsource models of corporate occupiers as they shift their activities to core competencies such as identifying investments and raising capital.”

# INVESTOR SERVICES OUTSOURCING

## INVESTOR SERVICE OUTSOURCING GOING FORWARD

While most owners are behind their occupier counterparts in the adoption of outsourcing as a business concept, this gap is not expected to remain much longer. In order to generate above average returns, owners are under tremendous pressure to reduce their internal higher cost of operations. Expect investors to slowly remove themselves from the higher cost and lower margin business of property operations to focus on more strategic activities—such as fund raising, underwriting investments and generating returns.

## INVESTOR CASE STUDY

### Global Real Estate Investment Trust based in Asia Pacific

#### OUTSOURCE MODEL

Single provider model. Company sought integrated approach to developing an asset management strategy for its North American portfolio.

#### SERVICES PROVIDED

Strategic asset management services, valuation and investment sales

#### BENEFITS FROM OUTSOURCE PARTNERSHIP

Integrated approach allowed owner to renew large tenants for longer lease terms, thereby increasing asset value. The strategic sale of select properties returned capital to investors.





## CORPORATE OCCUPIER & INVESTOR SERVICES

Corporate Occupier & Investor Services (CIS) creates comprehensive solutions for real estate portfolios, aligning real estate strategies to our clients' overall business priorities. Our clients range from multinational corporations to owners/occupiers of single assets, in local markets and across the globe. CIS adds value as a trusted advisor, leveraging all services to span the entire life cycle of our clients' real estate.

Global CIS teams collaborate through the sharing of best practices, use of consistent tools and processes, alignment of goals and priorities through industry-leading performance management and governance programs and flexible, effective technology. C&W partners with clients, enabling them to focus on their core business, confident that real estate experts are attending to every strategic and operational detail required to create, optimize and protect business value.

CIS Services:

Account Management	Financial Management
Transaction Management	Sustainability Consulting
Facilities Management	Technology Services
Lease Administration	Property/Asset Management
Project Management	Agency/Landlord Leasing

For more information about this briefing contact:



**Rick Cleveland**  
Managing Director  
Research & Strategy  
Corporate Occupier &  
Investor Services  
rick.cleveland@cushwake.com

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In addition to producing regular reports such as global rankings and local quarterly updates available on a regular basis, C&W also provides customized studies to meet specific information needs of owners, occupiers and investors.

C&W is the world's largest privately-held commercial real estate services firm. Founded in 1917, it has 253 offices in 60 countries and more than 14,000 employees. The firm represents a diverse customer base ranging from small businesses to Fortune 500 companies. It offers a complete range of services within five primary disciplines: Transaction Services, including tenant and landlord representation in office, industrial and retail real estate; Capital Markets, including property sales, investment management, investment banking, debt and equity financing; Corporate Occupier & Investor Services, including integrated real estate strategies for large corporations and property owners; Consulting Services, including business and real estate consulting; and Valuation & Advisory, including appraisals, highest and best use analysis, dispute resolution and litigation support, along with specialized expertise in various industry sectors. A recognized leader in global real estate research, the firm publishes a broad array of proprietary reports available on its online Knowledge Center at: [www.cushmanwakefield.com](http://www.cushmanwakefield.com)

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Cushman & Wakefield, Inc.  
World Headquarters  
1290 Avenue of the Americas  
New York, NY 10104-6178