

VIEWPOINT | AUGUST 2016

# Property management is driving value beyond cost savings

**CBRE**



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## ABSTRACT

Property management functions can be sourced internally or outsourced to an external property management specialist. Increasingly, outsourcing is being used not just to drive cost savings through more efficient procurement and “hubbing” of resources but to obtain greater leverage of the latest initiatives and insights that drive competitive advantage and additional value for property owners.

Property owners increasingly want to deliver outcomes that matter most to their occupiers and initiatives supporting improved employee retention, attraction, collaboration are expected to improve the performance of the occupier’s business. In many cases the use of external property management firms is seen as a way to deliver on both cost savings and to leverage off best practice and expertise to influence the top-line performance of occupiers and the assets which they occupy.

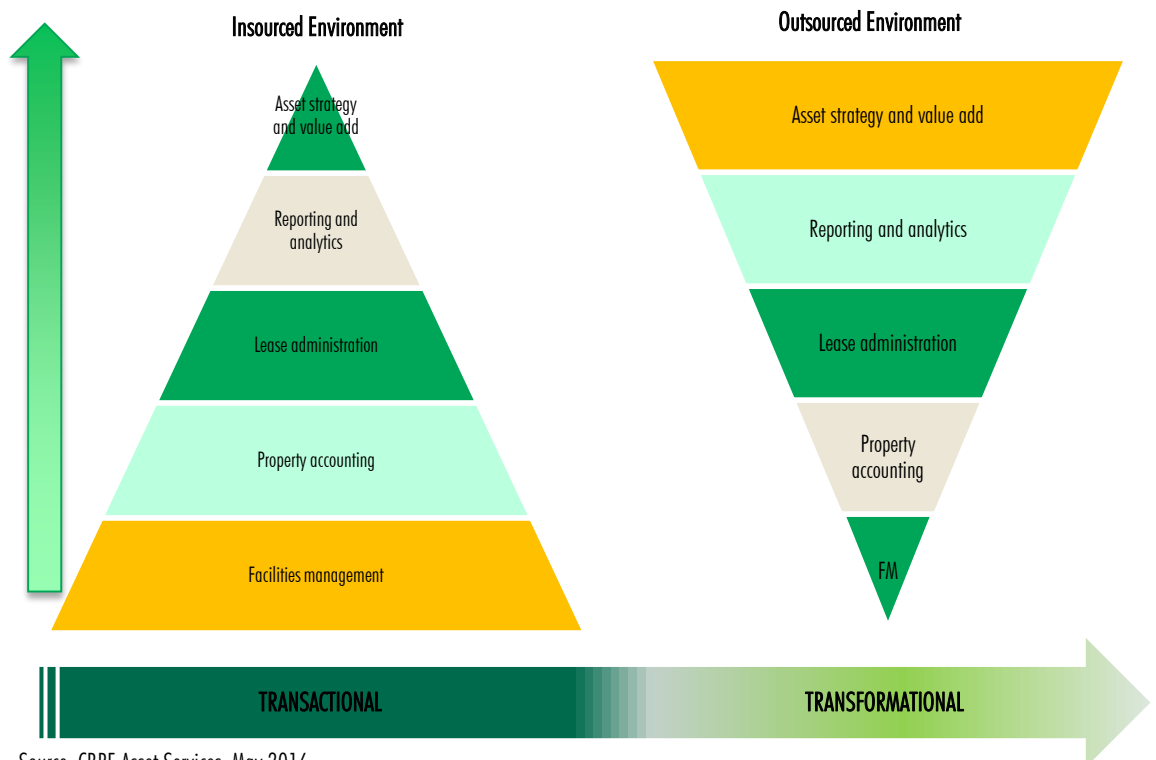
**ORGANISING PROPERTY MANAGEMENT:  
INITIAL FOCUS ON COSTS TO DRIVE VALUE THROUGH OUTSOURCING**

Property management functions can be sourced either internally or externally. A decision to outsource will be made when the lower cost of production (which a service provider can often bring) outweighs the potentially higher costs of managing a business through the loss of direct control of people, process and rising business complexity. Technology has lowered the cost of the latter, making outsourcing an increasingly viable option for high performing companies.

For decades, businesses have focussed on outsourcing as a means to reduce the cost of provision for ‘non-core’ business functions. Back office and process driven functions were the focus of outsourcing; these operations often shifted to lower cost locations. Banks/financial services and telecommunications/IT firms led the way in seeking greater efficiency through outsourcing. Cities in the Philippines and India have been major beneficiaries of this demand.

For the property industry an insourced environment has usually been associated with a greater allocation of time and business activity to lease administration, accounting, occupational health and safety reporting, facilities contracts and strategic procurement. However, the value add to property owners is increasingly recognised as their contribution to strategic, tactical and asset specific decisions; it’s less about the delivery of property management services.

**FIGURE 1: PROPERTY OWNERS TIME ALLOCATION FOR INSOURCED V OUTSOURCED MODELS FOR PROPERTY SERVICES**

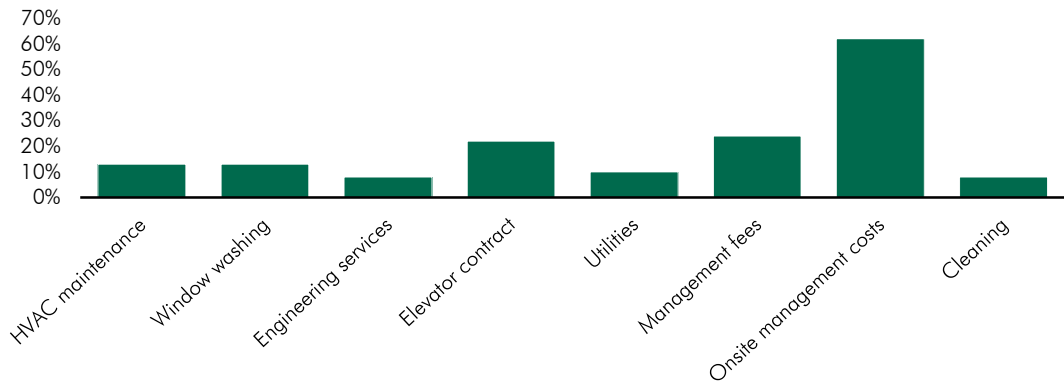


Source: CBRE Asset Services, May 2016

As a result, there has been an increasing level of outsourced property management to service providers. The basic proposition is clear; outsourcing firms, through their scale, can deliver savings on supplier procurement and reduce fixed costs.

While some owners have sufficient scale to enhance revenues and reduce costs, generally, outsourced entities can exceed whatever an ownership entity can accomplish in scale and purchasing power. CBRE found that owners outsourcing property management functions gain cost savings, in the majority of cases of between 10-20%, across the property management spectrum (figure 2). Large service providers are able to run properties for less than property owners because they are able to pool procurement, lease administration and other services across multiple portfolios.

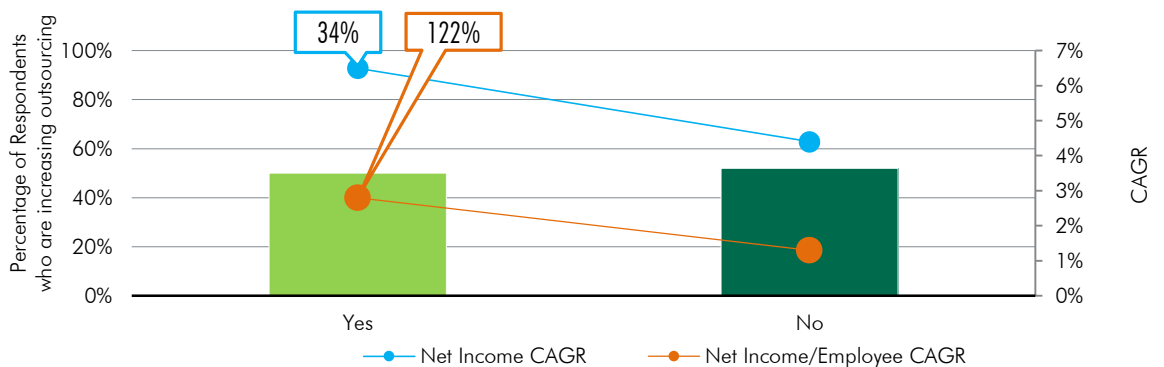
**FIGURE 2 - % COST SAVINGS FROM OUTSOURCING PROPERTY MANAGEMENT**



Source: Challenging REIT Property Management Orthodoxy, CBRE

Research by the CBRE Institute (in the US) found that an increasing prevalence of outsourcing corporate real estate is one of the many attributes of high performing companies in the Fortune 500. Companies that increasingly outsource have outperformed those that did not on both net income (a 34% higher CAGR) and net income per employee growth (122% higher CAGR). Notably, these businesses tended to have higher OPEX per employee implying that while cost management is a focus, overall business performance (including top-line growth) is more important.

**FIGURE 3 – INCOME AND INCOME PER EMPLOYEE GROWTH ARE HIGHER FOR FIRMS WHO INCREASINGLY OUTSOURCE**



Source: Presentation from The CBRE Institute 2016; Spheres of Influence - Mastering Change To Shape New Opportunities

This is not to say that outsourcing alone can change a business' fortunes but it does signal that firms using service providers are managing their businesses more effectively through outsourcing. While investors are looking for efficient solutions for property management, they are also looking for transformation and strategic partnerships which can help to deliver "top-line" return benefits. These partnerships enable property owners to focus on what's most important - maximising shareholder returns. Providers of outsourced services in property have also had to adapt and broaden their service offering. For example, an all-purpose facilities management model has evolved – organisations which historically solely focussed on "soft services" like catering and cleaning have expanded into "hard services" like building maintenance and energy management and vice versa.

Outsourcing can assist asset owners/managers to achieve scale, eliminate duplication, reduce costs, and free management to focus on core functions. These core functions include strategic asset management and long term planning which require greater insight into the drivers of customer experience and how that influences tenant renewal and attraction. As a result, an understanding of how real estate influences occupier business metrics like employee productivity and retention is becoming critical.

### **FOCUS SHIFTING TO VALUE ADDERS TO DRIVE TOP LINE GROWTH**

Effective asset management has a significant and tangible impact on tenant opinion and renewal behaviour which in turn drives asset value. Access to knowledge and expertise in order to implement best practice to meet rising demands of occupiers has prompted some owners to seek external property advisors. Asset management is not simply about delivering basic ("hygiene") factors at the lowest cost but is about supporting owners to drive improved asset performance.

**How?** Property managers are now equipped with a greater understanding of:

- a) **The drivers of tenant retention and attraction and;**
- b) **Occupier needs, the utilisation of space and the real estate needs of their workforce.**

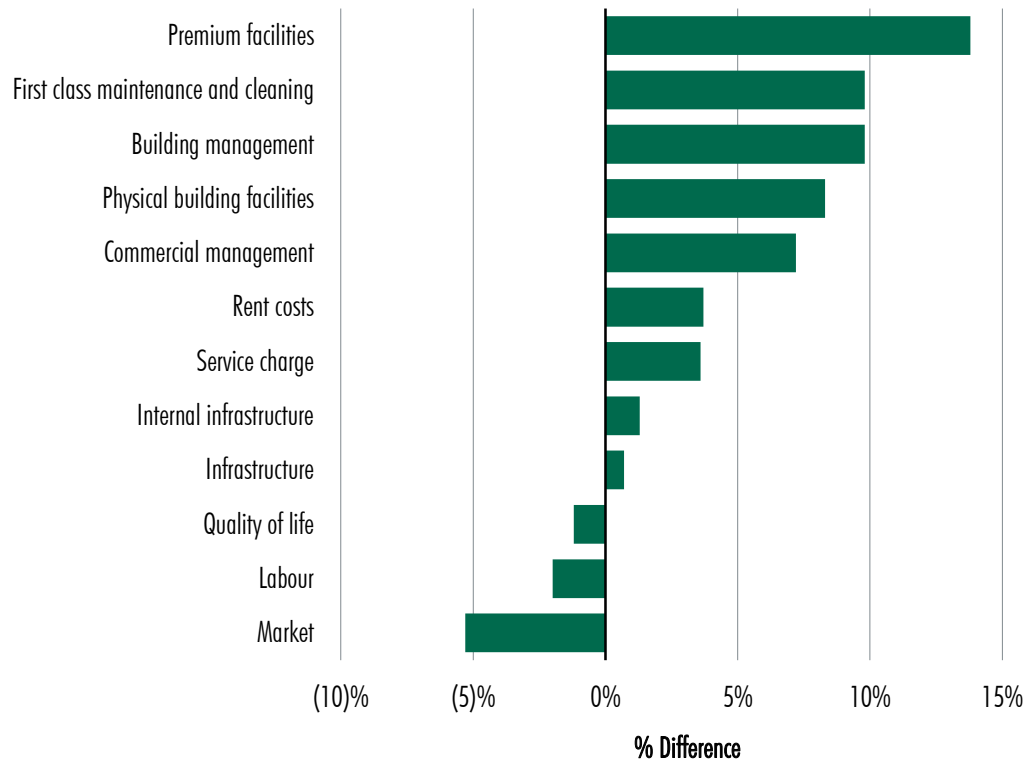
External advisors and partnerships act as a conduit for the inclusion of best practice to assist asset owners to answer these questions and deliver solutions.

**a) The Drivers of Tenant Retention and Attraction**

CBRE’s EMEA 2015 report “To Stay or Not To Stay”, identified factors which influence occupier decisions to renew or relocate from the perspective of building facilities and attributes as well as the quality of technical services offered by building management.

Occupiers’ experience of these factors can push them toward a “tipping point” that leads to relocation, even where they are broadly satisfied with other aspects of a property such as location. Our research shows that the percentage difference between renewers and movers was highest for buildings that offered premium facilities, first class maintenance and cleaning and high quality/responsive building management (figure 4). Rent cost was not as big of a differentiator between movers and renewers.

**FIGURE 4 - RENEWER–MOVER SATISFACTION DIFFERENCES ON KEY VARIABLES**



Source: CBRE Occupier Renewal Research 2015, from “To Stay or Not To Stay” article

**Case Study: building facilities and services**



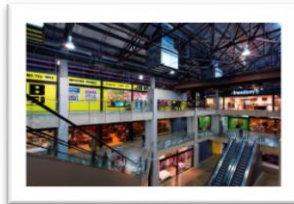
**Riparian Plaza, Brisbane, Australia**

- A mixed use development of residential, office and retail assets with high foot traffic
- Higher standards of security and access control were required
- Clear communication to varied stakeholders is key to success of this mixed tenancy asset



**The Cube, Birmingham, UK**

- Providing hotel-standard training to all on-site staff, so that tenants can experience professional customer service
- Synergies in mixed use development – balancing workers’ retail and leisure needs but also strategic changes implemented to convert leisure space to office and part of the car park to leisure space



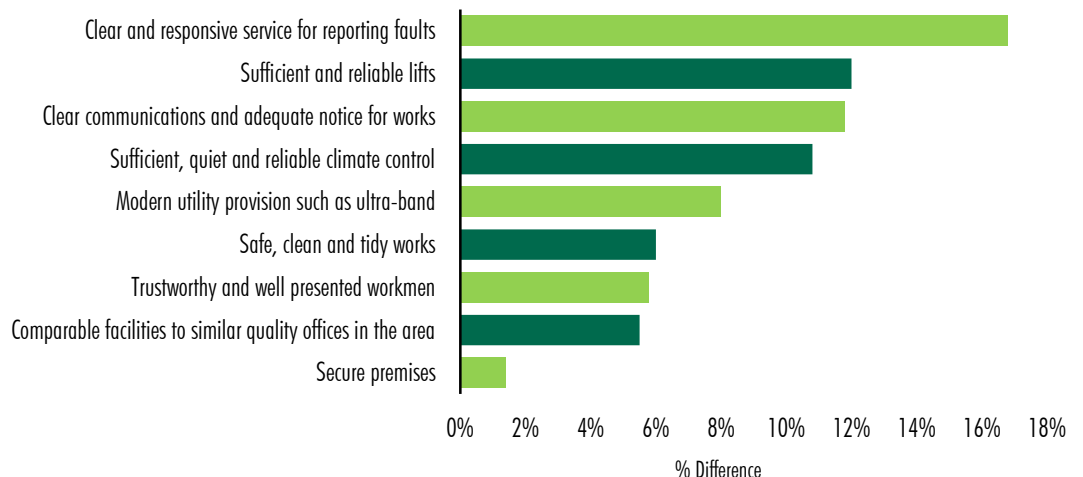
**Home HQ Artarmon, Sydney, Australia**

- Introduced a personal interior stylist service for shoppers so that customers can have an enhanced experience at the centre

When occupiers do decide to move, it is usually linked to specific experience of services within their existing occupancy. This includes processes for reporting faults and giving notice of works, as well as lift functionality. The top four “technical” areas that typically define the “tipping point” between prospective movers and renewers are (figure 5):

- Clear and responsive service for reporting faults
- Sufficient and reliable lifts
- Clear communications and adequate notice for works
- Sufficient, quiet and reliable climate control

**FIGURE 5- RENEWER-MOVER SATISFACTION DIFFERENCES ON TECHNICAL SERVICES (%)**



Source: CBRE Occupier Renewal Research 2015, from “To Stay or Not To Stay”

## How are outsource providers helping with tenant retention and attraction?

In consideration of the level of asset services required to retain and attract tenants, property owners are seeking to fill gaps in expertise and/or capacity in:

- **Technology systems and data.** Property owners don't need to make huge capital investment in infrastructure and undertake large scale staff training to access systems. The ability to analyse a building's performance through monitoring and use of data is becoming a critical attribute of efficient asset management. Large service providers have current industry standard software packages, risk management systems and audit processes which are costly for owners to develop. An outsourced system can be integrated with owners accounting systems so that IT costs can be reduced.

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### Case Study: One of the most connected building in the world – enabled by technology and data

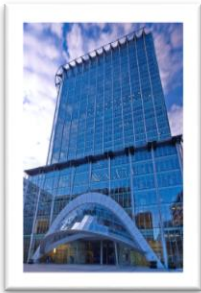


#### The Edge, Amsterdam

- Major occupier seeing rising employee attraction, supported by a quality working environment – building integrates smart technology and adaptable work spaces to encourage collaboration and promote sustainability
  - Extensive use of data to manage the building and predictive maintenance
  - Occupancy, movement, lighting, humidity and temperature are measured and monitored on a continuous basis
  - Smartphone app for occupants
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- **Leverage of global talent pools** by providing access to talent, expertise and training. In some markets, a shortage of skilled labour means that a third party can provide owners with access to talent through outsourcing companies.
  - While, prima-facie, in-house staff are easier to manage, outsourcing providers deliver staff with a consistent culture, approach and training which are important to deliver consistent service. Hence, outsourcing can reduce the cost burden of managing employment, training and compliance programmes.



## Case Study: Re-branding a building to be competitive – through technology and customer service



### City Point, London, UK

- The property needed to be recommissioned and rebranded to create an environment and service level that would enable it to compete with brand new office stock
- New portal, helpdesk and website to enhance tenant experience
- Introduced visitor processing using smart phone technology improving speed of access to building for visitors
- Advanced service delivery training provided to building management staff – service culture based on 5 –star hotel principles

- **Service providers can help evaluate current space utilised; identify opportunities to use space more efficiently; create the right environment for staff work and increase productivity.** Workspace strategy is increasingly critical for staff retention and attraction. There are many aspects to workspace strategy. CBRE’s report, “Space Utilisation: The Next Frontier”, found that the global average space utilisation is close to 60% - suggesting plenty of room for efficiency gains. The latter is increasingly achieved through giving more choice and flexibility in space rather than through simply reducing space. Drawing on occupancy and utilisation data can also improve efficiency and cost for occupiers and building owners.

### b) Occupier Needs

Aligning assets with the needs of occupiers and their employees is fundamental to drive value creation in the long run. While cost is a key consideration for occupiers, CBRE’s Office Occupier Survey found that employee retention, attraction, productivity and collaboration are increasingly important business drivers. As a result, real estate strategy is now more explicitly connected to broader corporate objectives in relation to human resources and financial outcomes.

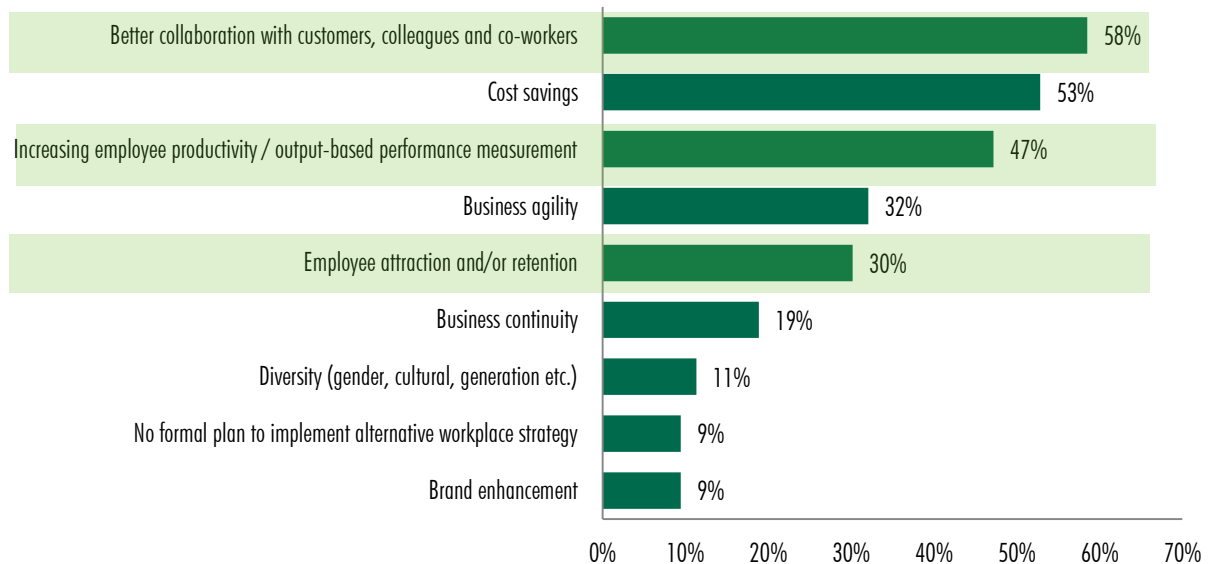
Property owners and service providers must appreciate the factors to which occupiers are most sensitive as these will ultimately drive income and asset performance. There are two areas that building owners should consider – **workplace strategy** and **meeting the needs of the emerging workforce**:

- **Workplace strategy** – Corporations are challenged by rising headcount and high real estate cost which prompts many companies to optimise real estate utilisation and efficiency. To align growing headcounts with budget allocations for real estate, companies must understand how efficient their current space utilisation is and how to reconfigure their workspaces to accommodate expansion. Due to the high capex involved in relocation, it has become important for companies to implement

effective workspace strategies. Utilisation studies can influence configurations of space but there are different standards of utilisation globally and across industries.

- Occupiers have to balance between cost and human resource objectives. Tenants now need to understand **workplace strategies in the light of retaining and attracting employees**. “Better collaboration with customers, colleagues and co-workers, cost savings and increasing employee productivity/output-based performance measurement” are highlighted as the three most important drivers of workplace strategy according to our APAC Occupier Survey 2016 (figure 6). Clearly, implementing alternative strategies is more than cost saving; as organisations seek to balance this with initiatives to drive staff attraction, productivity and satisfaction.

**FIGURE 6 – MAIN DRIVERS OF ALTERNATIVE WORKPLACE STRATEGY**



Source: CBRE APAC Office Occupier Survey 2016, CBRE Research

- Flexible working, indoor environment quality and provision of amenities are key aspects of physical real estate provision. Health and wellness developments are becoming increasingly important to occupiers’ employees; things like health/wellbeing awareness sessions, organised exercise, relaxation and mindfulness sessions.

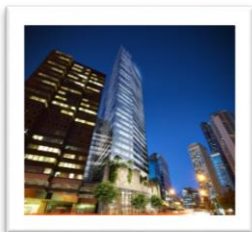
Workplace strategy is highly correlated to top line revenue. Proper planning, research and consultation with various stakeholders is crucial to achieving the right balance in order to meet productivity and collaboration objectives of the workspace.

**Case Study: Customer experience – wellness and sustainability**



**Galaxy Centre, Shenzhen, China**

- LEED is the industry’s leading brand designation for high-performing, sustainably operated facilities
- LEED’s team considered the owner’s key objectives – cost effectiveness, tenant satisfaction and sustainability
- Support for the owner from key stakeholder groups – building suppliers, tenants
- Retro-commissioning, energy conservation projects, green cleaning and sustainable purchasing – annual energy consumption reduced by ~8%



**480 Queen Street, Brisbane, Australia**

- Brisbane's first building to register for WELL
- To encourage fitness, the building offers extensive high quality end of trip facilities including 600 bike spaces, 500 lockers and 45 showers, the largest privately owned end of trip facility in the Brisbane CBD
- A rooftop tree grove is incorporated into the building
- Implemented tenant satisfaction survey and track improvements

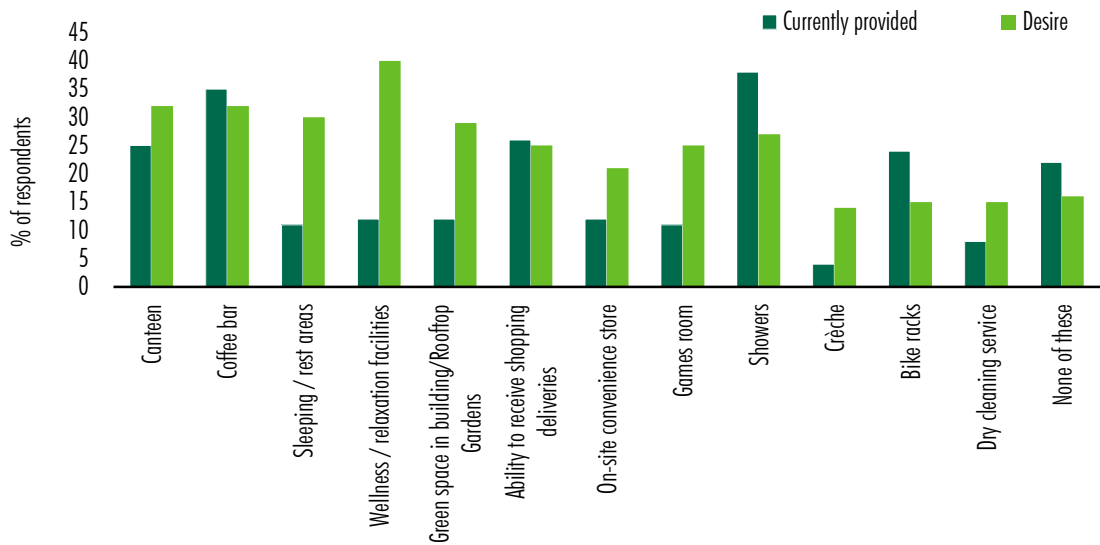


**City Point, London, UK**

- A sustainability review was undertaken resulting in over £1m of savings over 5 years
- Service culture and implemented staff training
- Platinum award from City of London for wellness standard

- Millennials – workers of the future** – What is missing in the current product offering? Millennials comprise a large and growing percentage of the workforce. It's important to consider attributes of building design in relation to the needs of the emerging workforce. According to CBRE's Millennial Survey (Australia results - preview) while base "end of trip" facilities such as showers, bike racks and food are well catered for in the current office workplace; millennials perceive that wellness features are under provided (figure 7).

**FIGURE 7- WHAT MILLENNIALS LOOK FOR IN A WORKPLACE WHEN LOOKING FOR A NEW JOB - AUSTRALIA**



Source: CBRE Research, Millennial Survey 2016 (Australia results - Full results forthcoming)

**SUMMARY IMPLICATIONS FOR PROPERTY OWNERS**

Traditionally, the decision to in-source or out-source property/facilities management has largely focussed on costs. Outsourcing tends to deliver cost savings of 10-20% on procurement costs.

Outsourcing is an observed characteristic of well run global organisations but there are broader motivations than cost. Costs aside, there is a growing requirement for property owners to understand how real estate decisions can impact the business performance of occupiers – with employee productivity, satisfaction, retention and attraction key areas of focus.

Drawing on global best practice and expertise is becoming increasingly important for property owners looking to drive income growth and asset values. Hence, we expect that more real estate owners and managers will see benefit in outsourcing and/or engaging external partnerships within property management. This provides scale advantages; not solely to reduce costs but also to broaden access to experience and knowledge.

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