



Respond, Recover, and Thrive
COVID-19's impact on corporate real
estate for organisations

May 2020

COVID-19 is an unprecedented event that has disrupted delivery models for organisations; and we should focus now on safety, business continuity, and optimising costs

Globally, COVID-19 has led to uncertainty for businesses, facing unprecedented challenges, and organisations are working hard to mitigate the financial and operational risks and the disruption to business continuity.

Organisations are taking various steps to keep their employees safe and run their operations, and a new normal is likely to emerge that may be nothing like it is today. It brings up the following questions:

- How will the workforce function?
- How will people interact with one another?
- How will real estate functions plan for and manage work places?

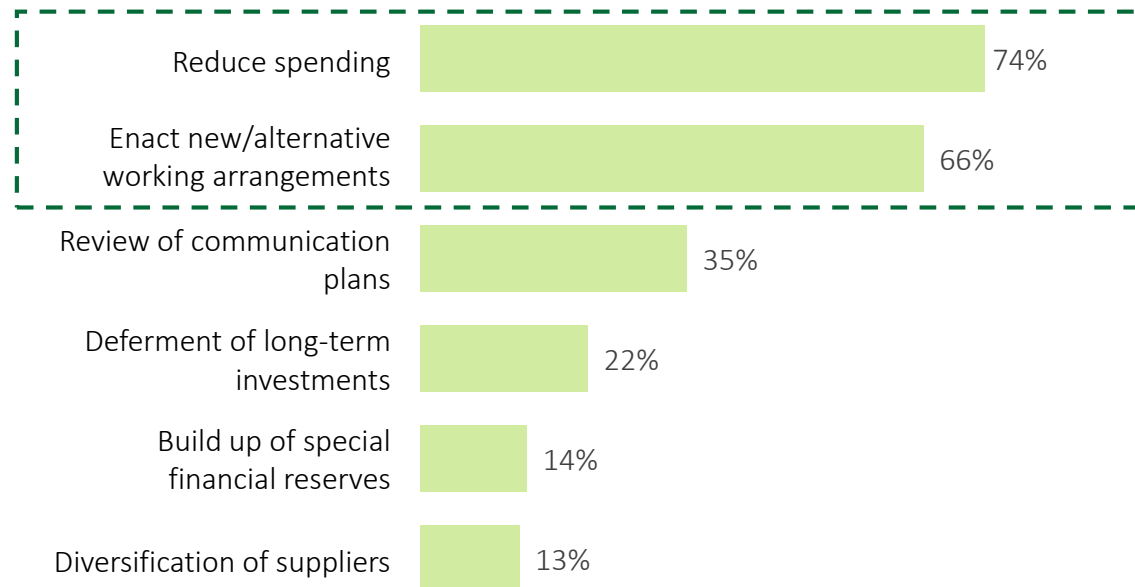
As the new normal, leading organisations have shifted to work from home and are keen to continue with it in the long term. This is expected to have a significantly impact the Corporate Real Estate (CRE) functions for the organisation and open up opportunities for easing cost pressures.

In this scenario, decisions around real estate are expected to become increasingly critical for the leading organizations as they focus on safety, and business continuity while trying to optimise costs.

CRE is a key lever for organizations looking to optimise costs; and typically 40-50 percent of the total non-personnel costs is incurred on real estate

Organisations can save ~ **\$2,000-2,500** per seat per annum by exploring alternative working arrangements for employees.

>65 percent respondents mentioned their organisations are looking at **reducing spending** and exploring **alternate work arrangements**

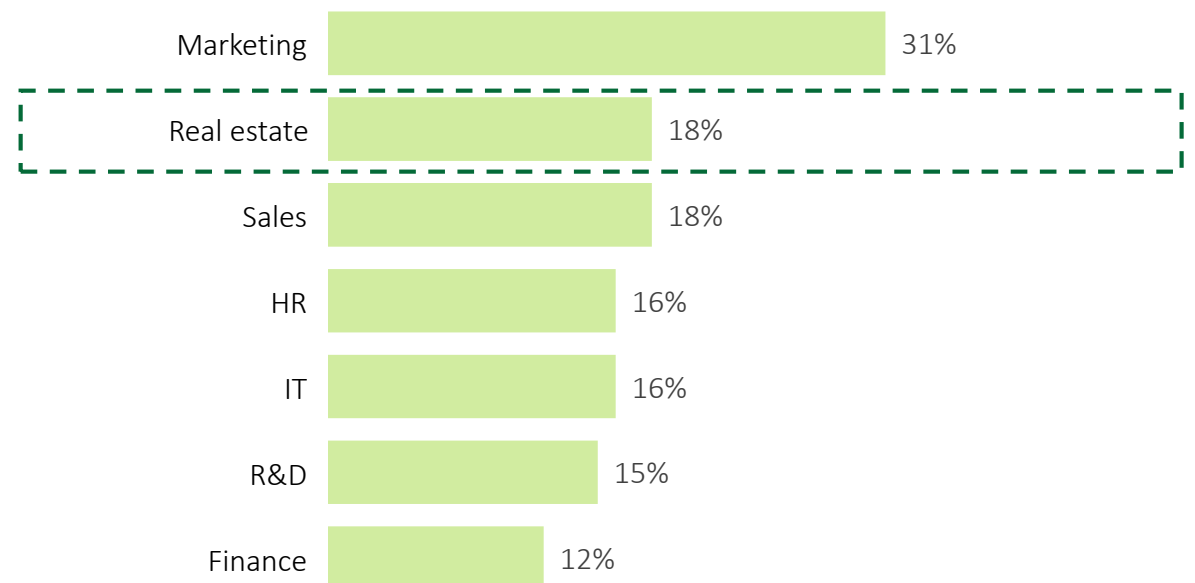


CFO Actions in Response to COVID

Source: Deloitte Survey - [link](#)

Real estate cost is typically around **40-50 percent** of non personnel cost, hence most organisations are focusing on it for cost reduction.






18 percent respondents believe that **real estate** is a key lever for **cost reduction** during COVID-19



SG&A functions likely to have budget cuts

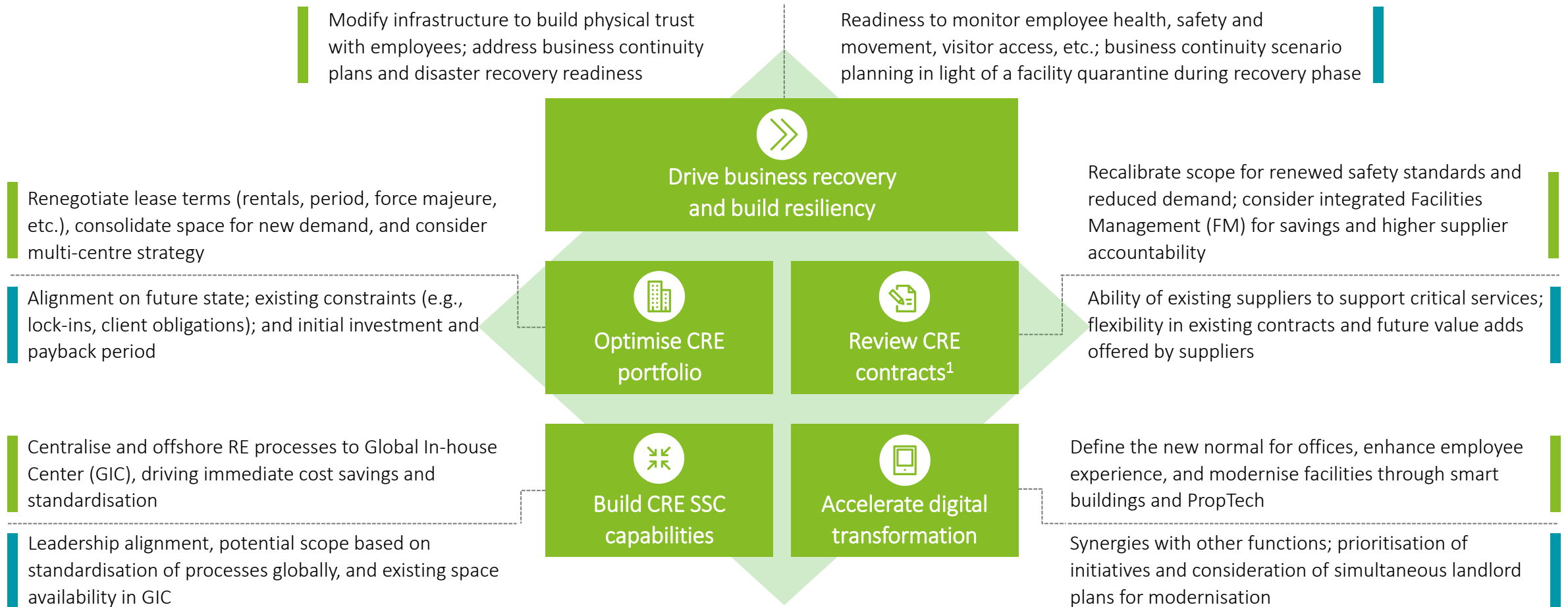
Source: Gartner Survey - [link](#)

COVID-19 is driving organisations to shift mindset, adopt newer ways of working, and engage their employees

Impact of COVID-19 on CRE	Organisations are planning for the new normal in the long term	
 Increased focus on health and safety	Making a long-term adjustment in how they think about their location strategy	Estimates 75% workforce will work from home by 2025
 Increased space per employee; however, reduction in overall office requirement	Large financial services company	Large technology company
 Lower lease rentals	Expects digital transformation pace to double with COVID-19	Foresees work from home on a rotational basis going forward
 Modernisation of existing facilities to support future of work	Large BPO player	Large financial services company
 Renewed force majeure and COVID-19 clauses in agreements	69% of respondents believe company's real estate footprint will shrink due to increased work from home	Expects work from home to be the new norm
	CoreNet Global¹	Ministry of Electronics and Information Technology

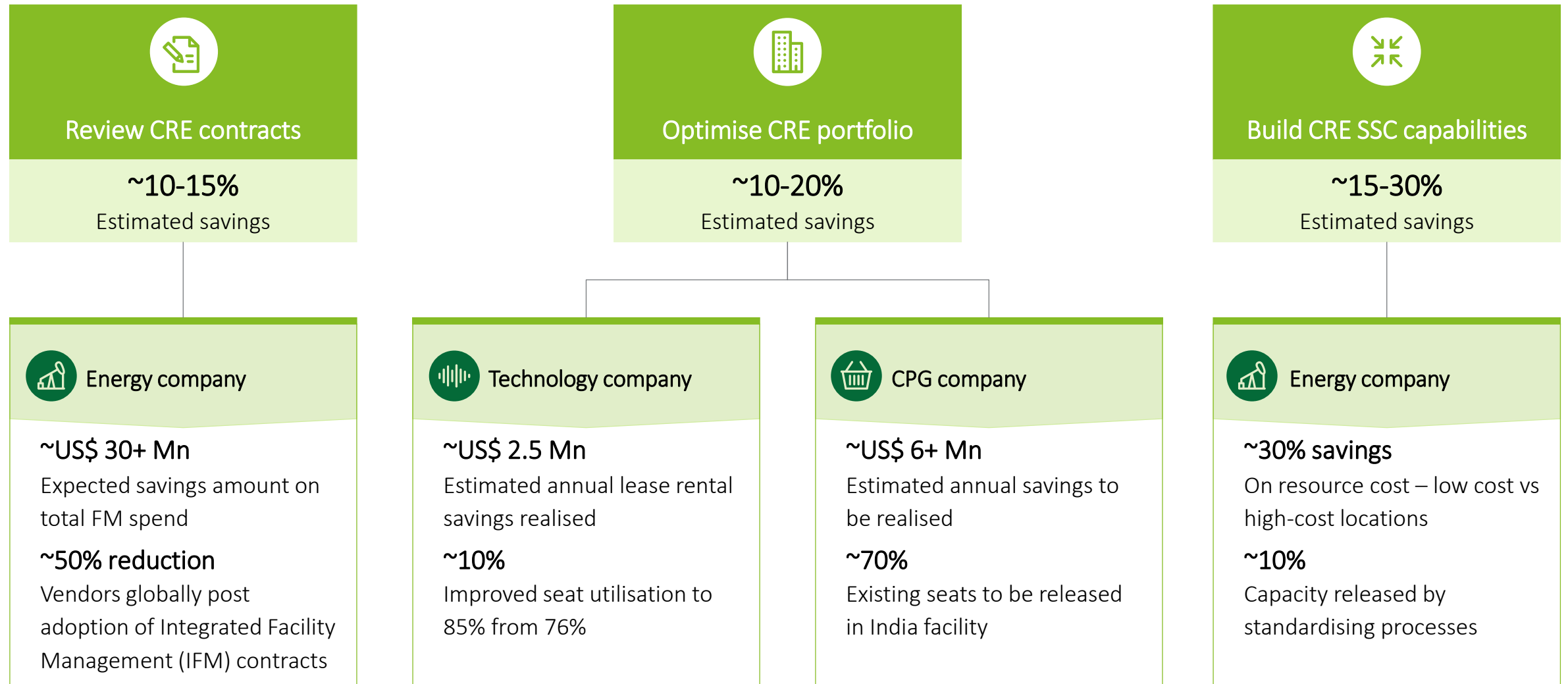
Source: News Reports ; ¹ In a survey conducted of its 11,000 members (CRE executives in 50 countries) in April 2020

Real estate function has an opportunity to elevate its role to reinstate operations, support in easing cost pressures, and collaborate with other functions in defining the new normal











¹ Includes facilities management, transportation, and security contracts
Detailed Slides for each opportunity in the Appendix

Corporate Real Estate function has a potential to reduce ~10-20 percent of its costs by leveraging the available opportunities



After successfully responding to the impact of COVID-19 in the short term, RE can commence optimisation of the CRE portfolio in the mid to long term

	 Respond Near term	 Recover Short term	 Thrive Long term
 Drive Business Recovery and Build Resiliency	<ul style="list-style-type: none"> Plan for re-entry, assess landlord's readiness for multi-tenanted offices. Prepare communications plan with Talent team to develop trust. 	<ul style="list-style-type: none"> Modify infrastructure. Use technology solution to monitor situation. Test readiness to manage COVID-19 related emergency across offices. 	<ul style="list-style-type: none"> Formalise and implement CRE policies for future of workplace. Leverage experience to enhance BCP readiness across offices and cities.
 Optimize CRE Portfolio	<ul style="list-style-type: none"> Recalibrate CRE strategy based on organisation's future plans. Assess current state; and develop lease negotiation and consolidation strategy. 	<ul style="list-style-type: none"> Renegotiate leases for rates, renewed force majeure, payout deferment, etc. Develop facility optimisation plans and ensure cross-functional alignment. 	<ul style="list-style-type: none"> Modify offices to support collaboration. Initiate with simpler consolidations; extend to others who require investment and cross-functional involvement.
 Review CRE Contracts	<ul style="list-style-type: none"> Modify scope to enhance the scope for health and safety measures. Reduce scope for low office utilization. Monitor supplier risk profile constantly. 	<ul style="list-style-type: none"> Assess existing supplier offerings and determine desired capabilities. Determine expected future demand; and plan for consolidation of suppliers. 	<ul style="list-style-type: none"> Consolidate suppliers and set-up integrated FM. Expand/reduce scope in line with consolidation initiatives.
 Build CRE SSC Capabilities	<ul style="list-style-type: none"> Understand global RE scope. Identify offshoring potential at high level and requisite capabilities. 	<ul style="list-style-type: none"> Determine existing infrastructure availability in GIC. Develop high level business case. Align with global leadership. 	<ul style="list-style-type: none"> Identify processes to be transitioned. Develop the roadmap for offshoring. Finalise operating model. Recruit people and offshore processes.
 Accelerate Digital	<ul style="list-style-type: none"> Explore synergies with existing physical security systems. Set-up systems to enable employee monitoring and social distancing. 	<ul style="list-style-type: none"> Collaborate with business, talent, and IT to assess digital infrastructure requirements. Develop vision for digitally enabled RE; integrate with landlord's initiatives. 	<ul style="list-style-type: none"> Support remote working with RE technology. Implement technology for employee experience (e.g., HVAC automation). Implement Proptech solutions.

CRE leaders can embark on their CRE transformation journey with a rapid diagnostic

1. Assessment

2. Business case

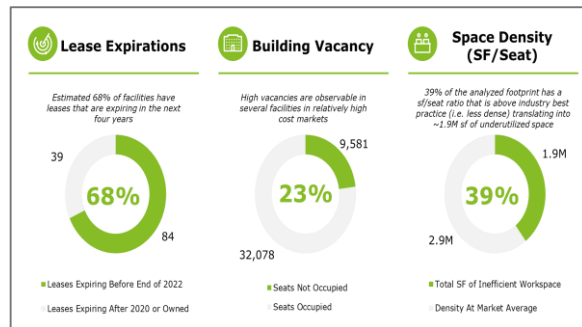
3. Execution strategy

4. Implementation

‘A collaborative diagnostic involving comprehensive analysis can help align on the strategic priorities with a robust business case’

Understanding footprint

Analyse existing data (RE portfolio, lease expiry, utilisation levels, badging, etc.).



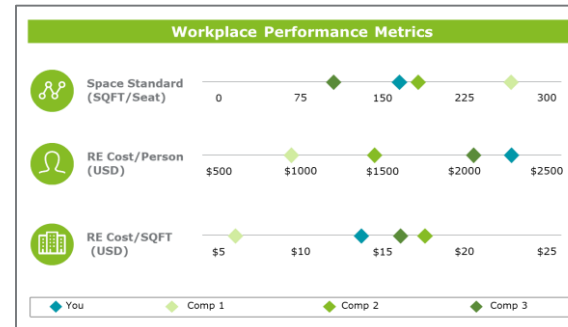
Identifying emerging trends

Identify emerging industry trends (workplace strategy, utilisation, etc.).



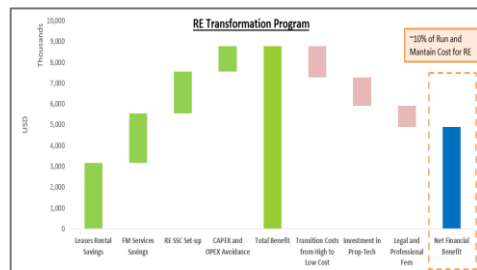
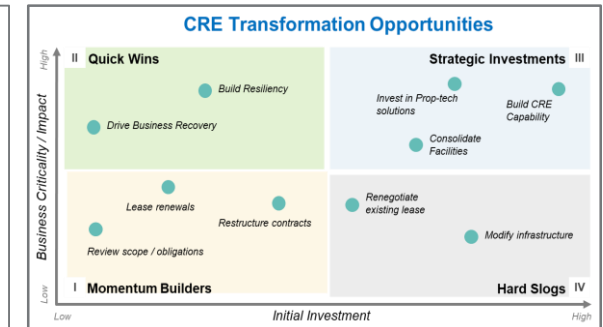
Benchmarking performance

Evaluate performance against competitors/similar organisations.



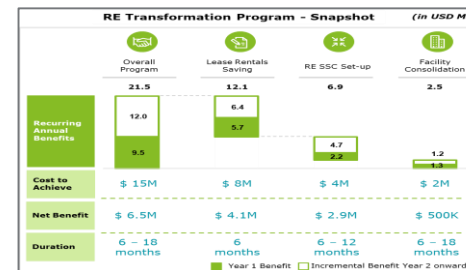
Prioritising opportunities

Interact with RE leadership to prioritise key opportunities in line with goals.



Build business case

Develop investment case for implementing the prioritised opportunities and estimate the payback period.



Conduct workshop

Conduct an interactive workshop with key stakeholders to present findings and business case and align on the final opportunities.

1. Opportunity Snapshot | Drive business recovery and build resiliency

CRE focus

-  Health and safety
-  Business continuity
-  Risk management

Key opportunities

- Conduct **short-term recovery assessment** for critical functions to resume operations; define **clear policies** and constantly communicate with employees.
- Implement **changes to facility infrastructure** to follow social distancing norms (e.g., de-densification, contactless doors, focus on health and sanitisation facilities, etc.).
- Review **business continuity and disaster recovery plans** and address gaps (e.g., multi-location strategy for critical services).

Key considerations

- **Readiness to monitor employees** and for dealing with a COVID-19 related event
- Impact of **multi-tenant vs campus facilities**
- **BCP scenario planning** in case of facility quarantine situation during recovery phase
- Align with **business partners** to address concerns and prioritise requirements

Initial investment






Medium

Expected impact




- Employee health and wellness
- Resumption of operations
- Reduced operational risk
- Business resiliency

Immediate next steps

-  • **Prepare workplace:** Review readiness to open offices; enhance safety measures for employee well being; plan for staggered entry based on criticality.
-  • **Building employee trust:** Collaborate with Talent team to develop communications plan; establish feedback channel to address concerns.
-  • **Monitor and respond:** Define crisis scenarios and perform stress test; collect and analyse data to make information-based decisions.

2. Opportunity Snapshot | Optimise CRE portfolio

CRE focus

-  Build competitive portfolio.
-  Reduce cost pressure.
-  Optimise use of associated resources.

Key opportunities

- **Renegotiate rentals**, invoke/amend **force majeure clause**, provide for community hygiene in case of multi-tenant facilities, etc.
- **Consolidate facilities** to rationalise office space (utilisation, space density, seat sharing) and optimise costs (facilities management, utilities, transport, etc.).
- Review real estate portfolio to **unlock capital** invested in owned assets.

Key considerations

- **Leadership buy-in** and **alignment with overall CRE strategy**
- Existing **constraints** for example, client obligation, lock-in period, regulatory constraints, etc.
- **Prioritisation of opportunities** with minimum investment and accelerated payback
- **Reset expectations** on operations for cash vs profit

Initial investment



High

Expected impact




- Cost savings
- Bolster overall liquidity
- Strengthen balance sheet
- Better utilisation of resources

Immediate next steps

- **Recalibrate CRE strategy:** Define 'Future of Workplace' for the organisation and recalibrate CRE strategy.
- **Define target CRE portfolio:** Perform a current state assessment and define future CRE portfolio based on the new strategy.
- **Review lease agreements:** Explore rent restructuring/deferrals with landlord; seek legal opinion on force majeure, termination, renegotiation, etc.
- **Optimise space usage:** Track space utilisation closely to manage space usage effectively, as the operations resume in a phased manner.

3. Opportunity Snapshot | Review CRE supplier contracts

CRE focus

-  Realign buyer supplier expectations.
-  Manage commercial and operational risk.
-  Reduce cost pressure.

Key opportunities

- **Review obligations and scope** (e.g., deep cleansing, mothballing of equipment, etc.,) of facilities management/transport contracts to renegotiate terms.
- **Explore integrated FM opportunities** by consolidating vendors for hard and soft services.
- **Evaluate financial and operational impact** of facilities optimisation strategy on contracts.

Key considerations

- **Ability of existing suppliers** to support critical services; opportunity to **consolidate demand** for suppliers
- **Modularity in existing contracts** that permits scaling up and down of services
- Explore **supplier value adds** and **risk taking ability**



Initial investment



Expected impact




- Manage supply chain effectively.
- Increase efficiency and reduce value leakage.

Immediate next steps

-  • **Modification of contracts:** Review existing contracts, open communication to renegotiate terms, expand scope, and review obligations.
-  • **Contingency planning:** Monitor supplier risk profile constantly and evaluate alternate supply chain options.

4. Opportunity Snapshot | Build CRE SSC capabilities

CRE focus

-  Cost efficiency
-  Standardisation and higher productivity
-  Trusted business partner

Key opportunities

- **Consolidation and offshoring** of RE processes (e.g., facilities vendor management, projects management, IWMS tool support, etc.) to India or other global hubs
- **Immediate cost savings** for the global organisation
- **Standardisation of processes and delivery** with improved governance processes

Key considerations

- **Requisite scale of processes** to accelerate payback period
- Ability to leverage **current infrastructure** (i.e., space and technology)

Initial investment



Expected impact




- Centralised operations
- Economies of scale
- Standardised processes

Immediate next steps

- **CRE scope:** Understand processes managed by CRE globally and identify candidates for offshoring.
- **Business case:** Develop business case for setting up SSC/transitioning roles to offshore.

5. Opportunity Snapshot | Accelerate digital transformation

CRE focus

-  Brand image and employee experience
-  Innovation
-  Sustainable and safe workplace

Key opportunities

- **Improve employee experience** by using technologies, such as real-time HVAC adjustment through automation and machine learning.
- Adopt **Proptech solutions** (Internet of Things [IoT], automation, etc.) to enhance life of assets and reduce maintenance costs.
- Increase focus on adoption of **smart buildings**; identify use cases and implement Proof of Concept (PoC).

Key considerations

- **Re-assess business case** for digital technology; **identify synergies** with other functions.
- **Prioritise digitisation initiatives** based on need and upfront investments.
- **Simultaneous plans** being developed by current landlords to digitise buildings.
- **Readiness of offices** to support future work models.

Initial investment



Medium

Expected impact

- Improve competitive positioning.
- Improve state of the art infrastructure.
- Improve customer/employee experience.

Immediate next steps

- **Immediate employee monitoring:** Collaborate with IT to set up systems to enable employee monitoring and social distancing.
- **Vision and objectives:** Develop a vision for smart buildings and integration of RE with technology; define clear business objectives of using automation/IoT.
- **Gap analysis:** Conduct a gap analysis to identify requirements and achieve objectives.



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