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Our study describes the influence of regulation and digitalisation on Corporate Real Estate Management and the associated challenges and opportunities.

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Corporate Real Estate Management Tomorrow

Published by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft

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June 2017, 36 Pages, 14 Figures, Softcover

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Introduction

Dear readers,

These are exciting times for Corporate Real Estate as it grows in strategic and financial importance.

This is partly due to expectations that there will be significant opportunities for costs savings on real estate, particularly when real estate portfolios (finally) become truly transparent. New technology for recording data is providing insights and promoting networking. New standards such as IFRS 16 are piling on the pressure for more transparency, which will allow portfolios to be managed actively and effectively. New benchmarks for defining Corporate Real Estate tasks and responsibilities, coupled with the increasing professionalism of internal and external services, are providing new impetus to discussions around the “best fit” of organisation, processes and resources.

At the same time, new drivers of change are coming from corporates’ core business in addition to the global and national economic and political operating environment. The corporates’ core business is also affected by digitalisation. This can disrupt or even transform business models, which has a knock-on effect on space allocation and real estate. Economic and political uncertainty is also building pressure on investing in real estate assets, with prices rising in many regions. This uncertainty will acts as a driver for acquisition, sale or building of real estate. So more and more companies are taking a closer look at their real estate strategies, reviewing the flexibility and scalability of their use of space and real estate portfolios. Operational processes and costs in Corporate Real Estate Management are also being scrutinised to identify ways of ensuring they will be able to mount an agile response to any as yet unquantifiable changes to their core business in future. The strategic aspect of Corporate Real Estate Management is increasingly complex and there is an urgent need to anticipate future challenges.

This study looks at the challenges facing Corporate Real Estate Management. A range of carefully selected global companies from various industries gave us their views on professionalisation, digitalisation, regulation and value creation in real estate management. Together they form an insight into the future.

We hope you find it stimulating reading.

Susanne Eickermann-Riepe
Real Estate Leader Germany

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A Executive summary

This study describes the challenges currently facing CREM (Corporate Real Estate Management), focusing in particular on their impact on corporate strategy and organisation. The study examines the status quo in various companies as well as the latest developments and trends.

There are currently three key factors affecting CREM: the new IFRS 16 (International Financial Reporting Standard) on leases; digitalisation; and professionalization in real estate management

The study therefore takes a more detailed look at the new IFRS 16 reporting requirements for leases, which apply to all companies filing IFRS accounts from January 2019 onwards. Most of the companies we surveyed are affected by the new standards and some have already taken appropriate action at departmental level. The greatest challenge here is clearly to acquire the data required. At the same time, many companies also view the new requirement as an opportunity to speed up urgently needed digitalisation. Somewhat surprisingly, the CREM departments surveyed do not expect the new standards to have a direct impact on the company's future leasing and ownership arrangements. These strategic decisions will continue to be stated separately even after IFRS 16 comes into force, making it clear that Corporate Real Estate Management wants to retain a flexible approach in order to respond to market changes. Apart from these strategic changes, real estate management departments are likely to see an increase in pressure from finance departments to reduce costs in response to the new financial reporting standards.

We found that the status quo on digitalisation varies considerably across the departments surveyed. Technical and digital support for individual CREM services was highly dependent on each department's core tasks. The companies surveyed see high potential for real estate management overall. In general, real estate executives are hoping that digitalisation will provide them with a better basis for decision-making and controlling real estate assets. The most common areas for potential or concrete action were reductions in the number of interfaces between various media and applications and speeding up automation. The companies also hope to see improvements in data management and data quality, which should increase the transparency around their real estate portfolio. Along with new workplace arrangements, these are the issues at the top of the agenda for the companies surveyed.

A look at the organisational models reveals enormous structural variety. The companies surveyed differ considerably in terms of size, sector and specific requirements, a difference matched only by the sophistication of the structures of their Corporate Real Estate Management functions. Overall, we see a trend towards centralised management and regional core process responsibility, as this enables centralised supervision and monitoring of real estate management while leveraging the use of local market knowledge. This allows expertise in individual areas of responsibility to be increased and used efficiently. The CREM departments are also continuing to concentrate increasingly on core processes whilst outsourcing operational and corporate activities.

But as a general rule, its potential can only be fully exploited when the corporate strategy, industry and market specific needs of the core business, and types of use and ownership rate of the property portfolio are sufficiently taken into account when the CREM policy is designed.

Fig. 1 Effect of current trends on CREM strategy and structure/processes

	Effect on	
Effect of	Strategy	Structure and processes
Regulation	• No direct effect on leasing/ownership • Pressure to improve data quality	• Adjustment of processes and digital support to represent contracts/portfolio better in future • Reap benefits of automation
Digitalisation	• Basis for better decision making and guidance	• Introduction of new systems/ improving existing systems • Creating transparency around portfolio
Professionalization	• Optimise benefits of central supervision and regional expertise • Focus on core activities in CREM	• Centralized guidance unit with decentralized responsibilities • Outsourcing of operational services • Bundling competences

B Introduction

CREM covers the sum of all tasks required to provide a company with the properties and plots it requires. As a management concept CREM, based on the corporate strategic goals, through structured development, planning, guidance and control of all real estate related tasks, provides added value to the bottom line at company or Group level. There is therefore a tension between optimizing support for operational business and the commercial interest in reducing costs for real estate activities. The focus is particularly on procurement costs: transaction costs, depreciation costs and rent, as well as operating costs. In addition to these factors a successful CREM also always needs to respond to changes in corporate strategy as well as external shocks such as changes in market conditions.

There are still wide divergences in the importance given to CREM within the companies although real estate often accounts for a large proportion of running costs, meaning that optimization would involve a considerable return on investment. Some steps have been taken in recent years as a result to make real estate management more efficient. However, there continue to be numerous challenges that CREM officers must face.

This study covers current trends and challenges in CREM, focusing on three main core topics: regulation (in particular the changes in leasing accounting in IFRS 16), digitalisation and professionalization of CREM departments in relation to corporate real estate management. The impacts of these on CREM strategy, structure and processes are also investigated.

Fig. 2 Core topics of this study

The topics were discussed in telephone interviews with a total of 16 companies in the German-speaking region (Germany, Austria and Switzerland) based on a standardised questionnaire. Below, we present the findings from our analysis together with theoretical underpinning.

The new IFRS 16 standard and the extent to which it affects CREM departments are discussed in the first part. The change in reporting standards poses a challenge for, amongst other things, the availability of data in corporate real estate specific systems. This aspect leads us to the second part of the study in which we cover the large topic of digitalisation.

The final part deals with the issue of how CREM departments in the different companies are organized. We use a process landscape model to provide, first, a general overview of CREM tasks, and then a more detailed discussion with reference to our previous study of the theoretical organisational models as well as their strengths and weaknesses. We focus particularly on the organisational models applied in practice and on the trend towards outsourcing specific functions, with particular emphasis on the opportunities and limits of outsourcing.

The study focuses on two core questions: What is the current situation for Corporate Management departments in the companies? And where can potential be increased in the coming years?

C Regulation

1 New leasing guidelines under IFRS 16

Operating procedures in many companies still mainly rely on outdated financial and tax guidelines. With the introduction of the new financial accounting guidelines under IFRS 16: Leases companies will therefore not only have to adjust their financial accounting procedures but also rethink their processes and strategies.

The new regulations do not affect all companies, just those that file IFRS accounts and those who as part of their operating model rent space. Under the new accounting model a lessee's rights and obligations under all leases (except for short-term leases under twelve months and low-value assets) must be recognised on its balance sheet. This applies to new and existing leases. Companies need to apply this standard for annual reporting periods beginning on or after 1 January 2019. Depending on the transition approach applied, prior comparative periods will need to be restated. Early adoption is permitted, but only in conjunction with IFRS 15 revenue recognition.

Overview of the new leases standard

The most important regulations under IFRS 16 are briefly described below:

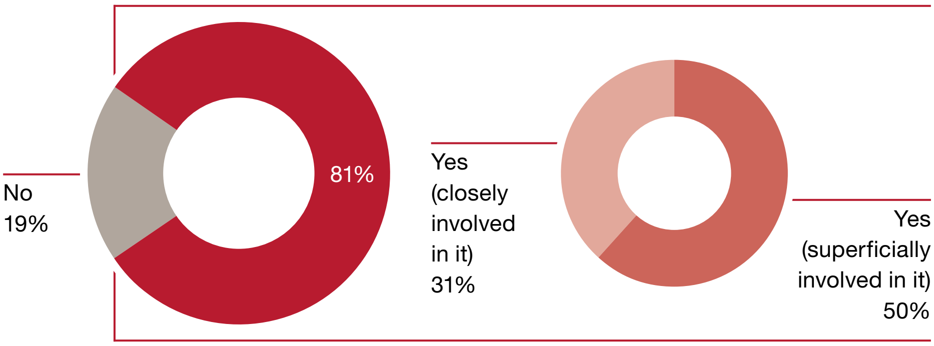
- The biggest changes affect lessee accounting. Generally, IFRS 16 will also apply to pre-existing leases at the date of initial application of the new standard, although for practical reasons companies are exempted from the need to reassess whether or not contracts contain leases. Lessor accounting is substantially the same under the new standard as under IAS 17.
- Essentially all assets/liabilities leased under operating leases (except short term leases that are less than 12 months at lease commencement and low-value assets) will be brought on to balance sheets. The lease liability will be equal to the present value of lease payments. A corresponding right-of-use asset will be recognised based on the lease liability plus items such as an estimate of restoration costs and initial direct costs.
- A lessee may decide as a practical expedient whether or not to separate lease and non-lease components (for example maintenance, other operating costs) when calculating the lease liability.
- A lessee will recognise in its income statement, depreciation of the right-of-use asset and interest expenses arising from the lease liability.
- The accounting of certain arrangements will continue to require significant judgment, whether they are within the scope of IFRS 15 revenue recognition or IFRS 16 leases.
- Lease accounting will require significant judgment when making estimates related to the lease term, lease payments, and the discount rate. The term of the lease will also include consideration of, for example, options to extend or terminate the lease assuming that there may be reasonably exercised.
- Variable lease payments are generally excluded when measuring the lease liability as under IAS 17, except those based on an index or instalment, which are initially included based on the index or instalment at lease commencement. IFRS 16 requires a reassessment of variable lease payments when there is a change in the reference index or instalment. This can result in significant payment volatility compared with IAS 17.
- When calculating present value, the applicable discount rate will be determined in a similar manner to IAS 17.
- A lease modification may be accounted for by the lessee as a modification to the original lease or as the creation of a separate lease depending on the nature of the modification.
- For some companies, the new standard will require significant systems and process changes prior to the adoption date.
- Financial performance ratios will be impacted and other new operating metrics may evolve as a result of the adoption of the new standard.
- Companies with international operations may need to consider the impact of the new lease standard under US GAAP as there are significant differences between the IFRS and US GAAP standards.

2 Impact of the new standard on CREM

The new IFRS 16 regulation comes into effect from 1 January 2019. This may at first seem a long way away for many companies. However the time and effort involved should not be underestimated. Large companies in particular are significantly affected since they lease a large number of properties, often spread out across the entire world; this heterogeneity complicates the lease contract management.

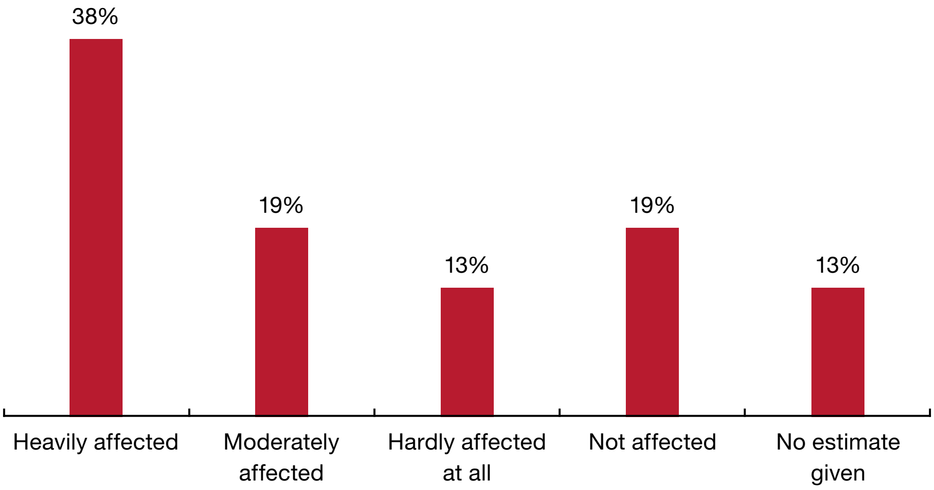
Interview participants were asked if they are aware of the impact IFRS 16 will have on lease accounting and the extent to which they are affected. Around 80% of those surveyed are aware with 30% reporting that they are very well aware. However, almost 20% of those surveyed have not yet looked at the new regulations (see Figure 3). This is partly because the companies do not file accounts under IFRS and are therefore not directly affected.

Fig. 3 Awareness of the impact of IFRS 16



The extent to which participants are affected by the changes to the regulation on lease accounting varies (see Figure 4). Around one third of companies could not provide an estimate, or were not affected since they were either unable or not required to consider the requirement yet.

Fig. 4 Degree to which the companies surveyed are affected by IFRS 16



The impact of IFRS on companies varies, partly as a result of differences in leasing or ownership arrangements. These differences are closely correlated with the specific sector within which the company operates its core business. Manufacturing companies traditionally have a large proportion of assets under ownership whilst service companies tend to lease. Generally companies with multiple leased units will be more exposed to the effects of the new IFRS 16 standard.

However the absolute number of leased premises also determines the impact. Many companies with an extensive portfolio stated that they are highly impacted by the new standard despite owning the majority of their property. It is also clear that companies feel less affected by the new standards if they are already in a good position on data quality.

Contrary to initial expectations, interview partners stated that the new standard is not initially affecting decisions on whether to own or lease operational real estate. The companies that anyhow tend to lease due to their strategy or core business profile will continue to lease, allowing themselves to mount a more flexible response to market changes.

It is important to note, however, that not all companies exclude the possibility that IFRS 16 will still have an impact on their real estate strategy. Some companies cited an expected increase in the pressure on CREM for cost savings from their finance department, since lease liabilities will in future impact major financial KPIs.

The companies affected view the greatest challenges from the introduction of IFRS 16 in acquiring and processing the data required. Many of them do not currently have the applications needed to correctly record all required information. In most cases, data such as lease levels, lease duration, options to extend and other financial obligations under the lease such as restoration costs are not available "at the touch of a button" and are often only available in very heterogenous formats internally.

It is clear that digitalisation will be increasingly important in meeting the increased requirements, recording all contracts in accounts in future and remaining competitive in an increasingly innovative business environment. We therefore now turn our attention to digitalisation in CREM.

D Digitalisation

1 Changes in real estate management due to digitalisation

CREM is pulled between optimizing support for the operational business and minimizing costs of real estate activities. Regulatory modifications and special requests from management add to this.

Digitalisation of real estate management can help to overcome a range of different challenges. Even now it is affecting the way we manage, lease, sell, purchase and value real estate. In real estate management, we distinguish between the digitisation of documents, processes and real estate.

Digitalisation of documents required for real estate management is key to the digital transformation. New applications can automatically recognise and verify the type and content of documents as they are inputted. Some applications use Artificial Intelligence for this, learning from the information input; this can be very useful, for example when processing leases. Refining document management systems also allows users to continuously modify documents and work on the same document with other people at the same time. A digital filing system facilitates data searches and allows access rights to be set. Use of virtual spaces allows data to be stored in external, internet-based Cloud platforms so that they are available anytime, anywhere. When the data's retention period expires, they are systematically archived and the Cloud memory cleared. Here, one of the challenges is to gain the trust of people and organisations involved in the process and to find solutions that are in accordance with the company's relevant data protection requirements.

Digitalisation is not only limited to recording, processing and archiving data, but also means embedding the company's associated processes into a consistent IT structure. This means intra-company processes are better networked and external service partners can be included in the process chain. Existing ERP (Enterprise Resource Planning) systems will be further enhanced for digital processing of corporate information. The number of PropTech (Property Technology) start-ups is also increasing. These offer technical services, mostly in the form of add-ons to existing ERP solutions. Current developments suggest that PropTechs in future will transform existing business models of companies across the entire real estate lifecycle using state-of-the-art IT and communications technology by offering solutions that optimise and automate real estate specific solutions across the board. BIM (Building Information Modelling) systems are increasingly being used for project development, from digital building modelling to operational real estate management.

Digitalisation of real estate itself involves individualised, efficient building design using technology support. The market now offers a wide selection of sustainable solutions. In this context the European Commission has, for example, passed new energy management directives that are binding on large companies. These require, for example, energy consumption to be measured using smart metering for gas and electricity, to increase energy awareness in member states. Sensors and smart solutions such as assistance systems allow usage information for buildings to be measured or self-developing tools to be installed for their optimization. Solutions of this type, which are associated with the Internet of Things, are bundled under the term "Real Estate 4.0". In the context of digitalisation real estate properties become smart properties, which will in future develop into a Smart City.

Digitalisation offers many different potentials and the transformation process is just starting for many companies.

2 Digital status quo in reality

There were relatively striking differences in the digital maturity of the companies we surveyed. Interviewees were asked how comprehensively their operating processes were supported by IT systems and what potential or requirements arise for their company from digitalisation.

Fig. 5 Status quo of digitalisation in the companies

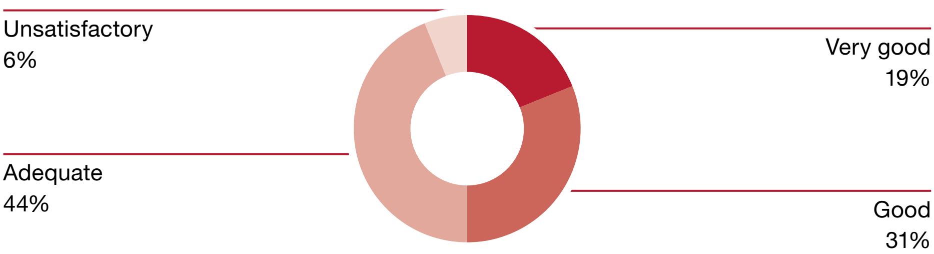


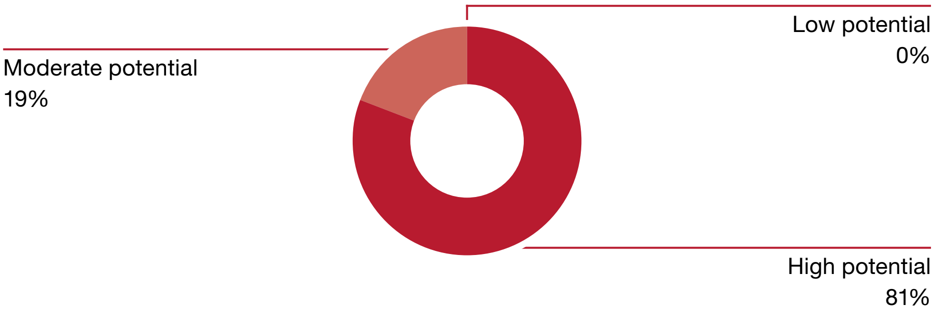
Figure 5 shows that half of the companies surveyed already rate the support of their CREM department by digital systems as good to very good. On the other hand, 44% of them only reported satisfactory support. They reported that in some areas digital support works well but many activities still have to be carried out manually in other areas. One of the companies surveyed even classed digital support as unsatisfactory.

All those surveyed currently use different IT systems in their CREM department. The level of support to the various real estate specific services varies greatly and is closely correlated with the degree of outsourcing for certain functions and the differences between work priorities of the individual CREM departments.

3 The digital agenda for CREM

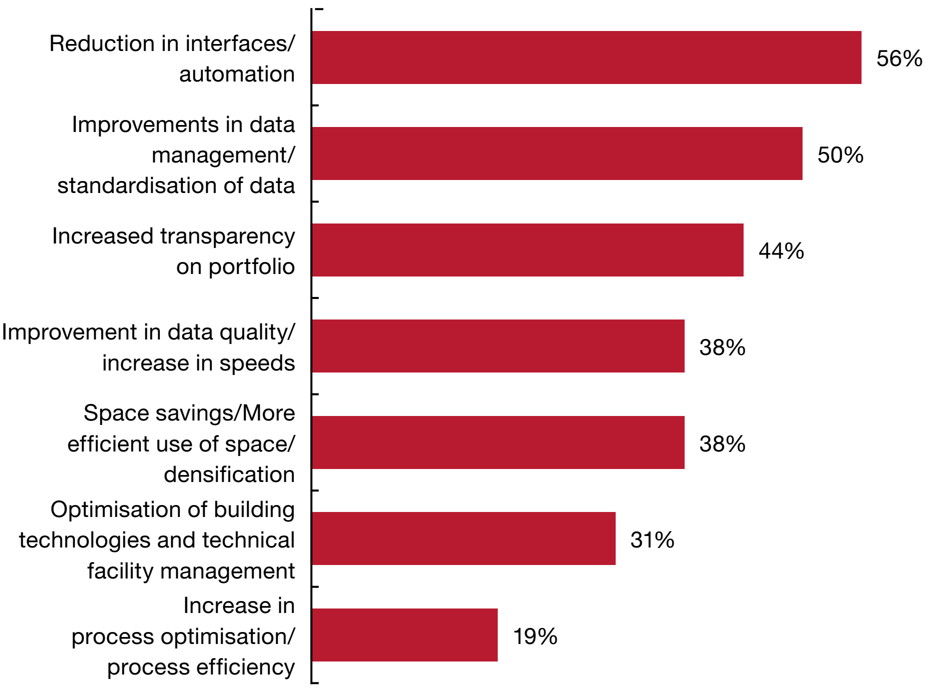
Interviewees almost unanimously stated that digital transformation offers "high" potential for CREM (see Figure 6). Companies that instead reported "moderate" potential do generally see the opportunities from digitalisation but have either realised these already or expect a longer implementation period for their company.

Fig. 6 Potential in digitalisation



One of the main questions in the study was what potential topics are seen for digitalisation in CREM. Responses differed considerably and were closely correlated with the development status of the company as well as personal preferences and priorities of the executives themselves (see Figure 7).

Fig. 7 Potential topics for digitalisation from surveyed companies' perspective



More than half of those taking part in the survey saw a reduction in interfaces and associated automation as one of the greatest potentials for digitalisation. The high costs of using different programs, systems and media were also raised here; those surveyed expect a reduction in interfaces, thus improving access to service provider's systems, make handling easier and increasing efficiency.

Many participants also agreed that digitalisation can improve data management and form the basis for standardizing data inventories. This is also needed with respect to the coming IFRS 16 requirements. This aspect is also connected to the desired transparency with respect to the portfolio. Key data required by head office for supervision is currently often not available or is not available in a standardised format or in the quality required. Improvements to data management systems and a transparent portfolio would allow users to undertake more precise and simplified data analysis and based upon that make better, faster decisions.

Some companies also attach a high priority to the transformation of the office as a workplace as part of the digitalisation process. Due to the digital transformation, for example, space required for archives will be reduced – since it will no longer be required in the same volume. There is also potential for more efficient supervision of building technology and/or facility management, which extends from heating controls, intensity of use to event-driven cleaning.

Although the level of the digital infrastructure varies from one CREM department to another, it is generally clear that all those surveyed will be working on upping their game this year. Each company has drawn up potential areas for optimization; the time has now come for implementation.

The most common response to the question “What is on your agenda for digital transformation this year?” was that a new system was being introduced or an existing system upgraded (using add-ons). Some interviewees said they had found it difficult to find a suitable IT consultant to assist with the launch, since demand is currently high.

Continuous improvement to data quality is also significant for creating the transparency required for strategic supervision and to deal with the changes in standards, as well as optimizing in-house portfolio management. The pressure to take action on improving data is largely due to the new IFRS 16 regulation. The biggest challenges here continue to be the heterogeneous process landscapes and the large number of incompatible systems, particularly for international companies, whose portfolio is scattered across the globe. Some companies are therefore working intensively on harmonizing their process landscape and systems this year.

As already identified in our previous study[1], high priority was also given to changes in the office workplace in this survey. Some companies this year intend to tackle the development or deployment of concepts for sharing the workplace with other employees (desk sharing), working at home (home office) and telecommuting. This will also have an impact on the future configuration of office real estate. The main driver here is to reduce real estate costs by reducing the working area per employee and, with it, allocating available space more efficiently. But efforts to change workplace models are also driven by the demographic shift and changes in requirements from younger employees in particular. Flexible, results and task oriented solutions offer more space for communication, teamwork and thus increase employee efficiency and satisfaction. Accurate knowledge of the key features, for example of existing leases (e.g. areas, rent, terms of lease, options, and termination conditions) is indispensable in order to realise these new workplace concepts.

Companies also want to make their systems more user-friendly. One interviewee commented that his company has a wide variety of systems but not enough training, and employees' holding back prevents them from being fully utilised. Comprehensive training should improve this.

Digitally more advanced companies are already planning to introduce sensor technology to increase utilisation efficiency this year. This allows a building to identify automatically, when the energy supply can be turned down, when there is little or no use. Improvements to sustainability and energy usage are still an important issue.

These trends demonstrate that digitalisation has arrived in CREM and real estate specific systems as well as innovative building technologies are increasingly important. The CREM departments will also continue to develop strongly in this dynamic environment.

Digital Agenda – What are companies planning?

- Introduction of a new system or upgrading existing systems
- Transformed work environment: Creating opportunities for flexible working using digitalisation, better and more efficient use of space
- Improving data and creating transparency around portfolios
- Reducing interfaces and harmonising existing system landscape
- Introducing initial robot and sensor prototypes
- Improving user-friendliness and simplifying system operation
- Improving sustainability

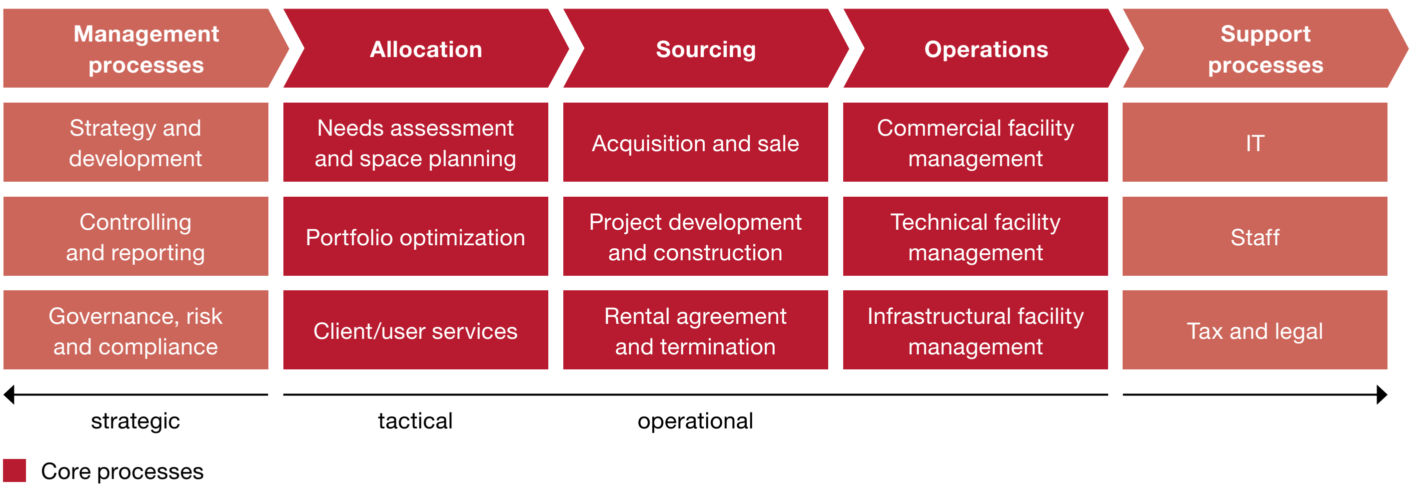
[1] PwC, Study International corporate real estate management, 2013.

E Professionalisation

1 Process model

Our process model of CREM functions is shown in Figure 8. In addition to management and support processes, it includes all the essential core processes of corporate real estate management with the primary objective of optimising usage structures and costs.

Fig. 8 CREM process model



Management processes
Companies are generally only successful if they pursue a well-defined, consistent strategy tailored to their markets; the same applies to corporate real estate management. Accordingly, the management processes of CREM include the derivation of a concrete, real estate management strategy aligned with the corporate strategy, the control of the implementation in the sense of an active controlling and the definition of organisational, process, system, risk and compliance principles.

Core processes
In the context of operational implementation, CREM essentially relies on three core processes:

Allocation
Dialogue with users and internal clients is particularly important for the way CREM is to be understood for example, as part of the coordination required in the allocation of space, in real estate portfolio optimization with regard to both user needs and cost concerns, or in client support services, such as relocation or complaint management. At the operational level, allocation thus plays a key role in achieving objectives. In this way, the allocation process in CREM differs significantly from traditional portfolio management, which as an element of real estate investment management has a clear profitability objective and thus revolves solely around a control function. Allocation, however, acts as a mediator between diverse needs and implementation through sourcing and management functions. The focus is on the user.

Sourcing
The acquisition and sale of real estate, as well as project development, facility planning, construction, project management, rental agreement and termination, are the main sourcing processes. This is also often understood to include not only parts of the allocation process but conventional real estate asset management as well.

Operations
Running a well-managed property is likewise crucial to ensuring business operations, and it generally takes the form of commercial (e.g. property accounting), technical (e.g. maintenance) and infrastructure (e.g. cleaning and security services) facility management services.

Support processes
The core processes described above are supported by, amongst others, services in the areas of IT (see Chapter D Digitalisation), human resources, legal and tax.

Responsibility for the processes described can be anchored at different places in the firm depending on which principles guide the CREM function. The following section presents possibilities for the organisational structure of real estate management on the basis of three models of organisation.

2 Organisational models for CREM departments

Our experience has shown that the overwhelming majority of CREM departments in large companies can be described using two theoretical forms of organisation: Central or regional (decentralised). In other words, the functions and competences of CREM are based either at the company or corporate headquarters or alternatively at regional level, where greater consideration is given to local criteria.

Central organisation

In this form of organisation, decision-making authority (economic responsibility) and administrative authority (operating profit responsibility) are based at the company headquarters. The focus is more on the minimization of corporate real estate costs and the allocation of necessary rather than optimum real estate infrastructure. Here, the real estate strategy is conceived as part of the implementation of the corporate strategy. The advantages of this organisational model lie in, among others, a clear delineation of authority, strategic focus, task specialization and the ability to adapt quickly. This model facilitates implementation of a company-wide real estate strategy and global standards for the entire real estate portfolio. The weaknesses of the model predominantly lie in the lack of proximity to markets. Implementation of unified structures is often held up by regional peculiarities or – particularly in an international environment – cultural differences. To take them fully into account entails significant coordination costs at the interfaces.

Regional (decentralized) organisation

In this organisational approach, functions and authorities are concentrated regionally on the basis of local considerations. Strategic control is exercised virtually on the basis of regionally consolidated user needs. The responsible regions serve the needs of each division locally. A decentralised organisation balances the weaknesses of the centralised form by placing a strong focus on local needs. Local markets can source, plan and control efficiently. Disadvantages are increased complexity and lack of transparency as a result of heterogeneous or missing standards.

Fig. 9 Organisational model assessment

	Management processes	Allocation	Sourcing	Operations	Support processes
Centralized	●	◕	◑	◔	●
Regional	◔	◕	◕	●	◔

● Very high ◕ High ◑ Medium ◔ Low ○ None

Each of the models has its own application and limitation in relation to the objectives and processes of CREM. As Figure 10 shows, none of the organisational models in their purest form has a clear advantage in terms of administration. For example, effective development, planning and construction, as well as rental agreement and termination, amongst other things, require regional market knowledge. However, typical management processes and all support services are much better controlled from the centre.

Fig. 10 Organisational forms of CREM departments in the companies surveyed

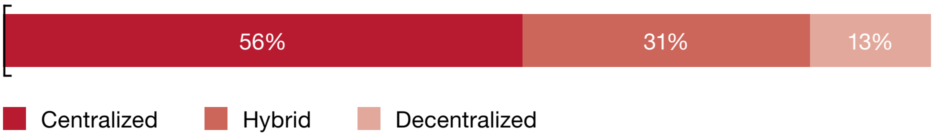


Figure 10 shows that most CREM departments in our survey view themselves as having a classic centralized arrangement. Those surveyed often added that they use a local contact for the real estate area and there are some interfaces whose purpose is to counteract the typical disadvantages of a centralized organisational form.

There are no purely decentralized organisations. The companies that consider themselves to be decentralized do all have a central controlling unit, but it is only responsible for a relatively small number of tasks. The companies surveyed that were unable to classify themselves as centralized or decentralized organisational forms used the term hybrid to refer to their company form. In hybrid models, real estate management has strong centralized supervision; while the regional units can influence the standards implemented and the overall strategy they also have many tasks for which they are responsible locally.

In conclusion, all the companies we studied have central CREM units which vary in authority and cover various competences and tasks spanning a purely governance function, strategy formulation and active supervision of the real estate portfolio.

An exclusively centralized organisational form is pretty much impossible for international companies since local or regional knowledge is essential for dealing with the market. Decentralized or regional management ensures the specific local needs and requirements can be addressed, albeit sometimes with the loss of advantages associated with standardization.

The findings from our study thus show, as in the previous study, a trend towards a hybrid model with centralized management and increased regional core process responsibility. By using solutions that combine both models (centralized and decentralized), the companies are attempting to grab the advantages of both organisational forms.

3 Opportunities and limits of outsourcing

Outsourcing is not suitable for all services within the process model. Figure 11 shows outsourcing potential: it is clear that the potential is higher for operating services. All companies surveyed have a CREM department that deals with strategic issues. The companies consequently implement all strategic priorities and strategic supervision themselves.

As the maturity of CREM increases, and the service provider market professionalises, the outsourcing potential also increases in allocation of space. There is particular scope for outsourcing in services related to space planning and optimization, where requirement profiles are homogenous in terms of types of use. User services such as complaints or relocation management could in future be outsourced depending on the corporate culture and industry.

There is even greater outsourcing potential for sourcing services. This relates particularly to services in the rental sector for repeat leases in a large number of markets, in mergers and acquisitions in real estate, in due diligence, real estate valuation and brokerage during purchasing and sale of real estate, in general planning and supervision services for in-house project management and in some aspects of project development services with a high degree of added value.

Almost all operational services can be outsourced subject to availability requirements. These tasks can usually be implemented with low value creation and low scale effects. The challenge here is largely in market maturity and availability of suitable service providers, particularly at international level.

Services for support processes are frequently based in the company or division and not in the CREM itself since the core business requires this. Only local services that affect the local market (e.g. regulation, employment law and tax law) can be partly outsourced.

Fig. 11 Outsourcing potential

	Management processes	Allocation	Sourcing	Operations	Support processes
Outsourcing potential	○	◑	●	●	◑

● Very high ◕ High ◑ Medium ◔ Low ○ None

Trends in reality

Half of the companies surveyed stated that they fully or partially outsource their technical and/or infrastructure facility management. This reflects statements in the 2013 CREM study. Since then the market has offered even more opportunities and the providers of real estate services are now even more professional, nationally and internationally. Those surveyed also outsource some sourcing services, predominantly in project development and construction of new real estate.

Service providers are extending their offering to include integrated management solutions to provide total customer support across various service sectors and internationally. In future it is likely that the outsourcing trend will continue to increase and affect more and more services. With this outsourcing potential the CREM department can concentrate on processes that create value.

F Outlook

Corporate Real Estate Management is affected by many external factors. Digital transformation will continue to have the greatest impact: 3D printing, artificial intelligence, Blockchain, drones and robots: all of these will change real estate management in future. But global political changes and demographic shifts will also play a role.

The coming changes will affect technological, social and organisational aspects in the world of real estate, too. Their impact will not be limited to management of corporate real estate but will extend to the real estate itself.

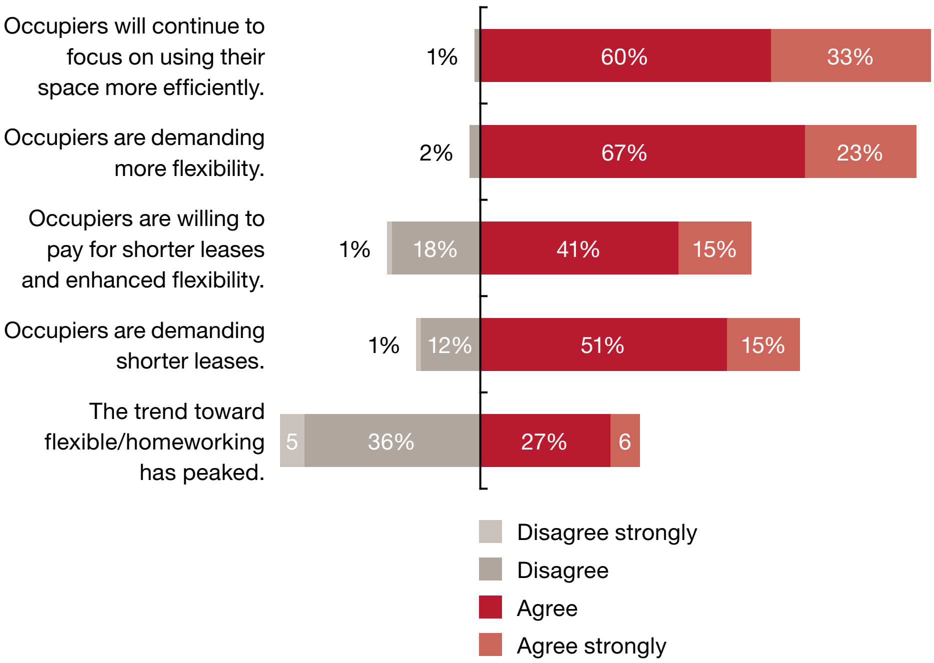
Knowledge and expertise in the CREM department are increasingly being bundled into a centralised organisation that leverages regional competence and market knowledge. Operational and some tactical activities are being outsourced, supported by the progress in professionalising the service provider environment.

Sustainability aspects associated with CREM will also play a greater role in the future since long-term plans are not only aimed at increasing efficiency and value as well as cost savings, but also at the ecological footprint that impacts on the company's reputation. This factor is particularly important for the younger generation with high levels of environmental awareness.

User requirements for real estate will also change: Digitalisation in particular, but the demographic shift as well, is changing the way we work and employees' demands around the workplace have knock-on effects for the use of office space. The new IFRS 16 standard will also involve changes in demand: shorter rental periods and a different view of sale and lease-back transactions.

A recent survey suggests that more efficient use of space, greater flexibility and shorter terms are priorities for users of office real estate (see Figure 12). In retail too, where the increase in online shopping is shrinking shopfloor space, there will be huge changes in space requirements. Modern ways of working and additional outsourcing of processes will reduce the amount of space needed at production sites.

Fig. 12 Changing occupier needs of office property



Note: Excludes "don't know" responses.

Source: Emerging Trends Europe survey 2017, p. 69.

What does all of this mean for corporate real estate management? It is difficult to predict how it will all actually pan out; it not only depends on many external factors but also on the various companies and their individual needs. CREM personnel must therefore adapt and respond flexibly to any changes that the new world brings for Corporate Real Estate Management. A professional approach to exploiting the (emerging) technologies will create genuine added value for the companies.

G Methodology

PwC conducted this short study in early 2017. It is partly based on our previous study "International corporate real estate management" from 2013. We have also drawn on the findings from PwC's recently published study "Emerging Trends in Real Estate: Europe 2017".

Core to the study are the findings from the interviews, which were conducted with CREM managers from a number of different companies in the German-speaking region (Germany, Austria and Switzerland). 16 companies in all were asked about the current situation and future actions regarding real estate management. The questions concentrated on organisational models, IFRS 16 and digital transformation in relation to CREM.

The interviews took the form of qualitative questionnaire based telephone discussions with CREM managers. The results were then analysed. The companies' Internet sites and publicly available information from other companies were also evaluated.

The participating companies are highly heterogenous and achieve annual turnover of between €3m to €150m. The majority of staff in the surveyed companies are employed outside Germany. Half of them are listed on the DAX. Figure 13 shows the companies by sector.

As a result of the differences in the companies' core business and real estate strategies, the size and responsibilities of each CREM department vary considerably. Figure 14 shows the different leasing and ownership ratios of the companies.

Fig. 13 Sectors from which companies in the survey come from

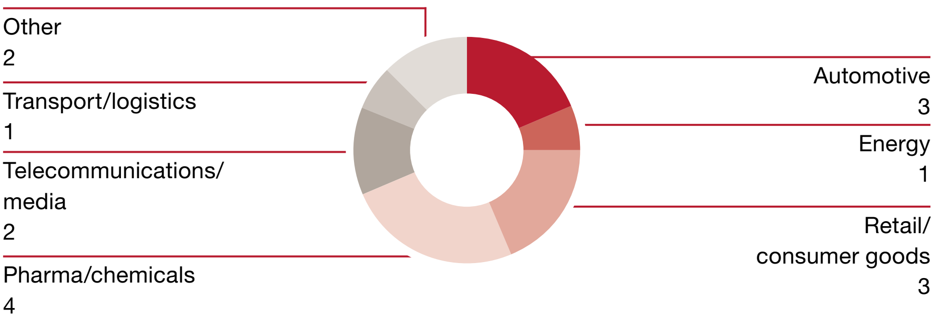
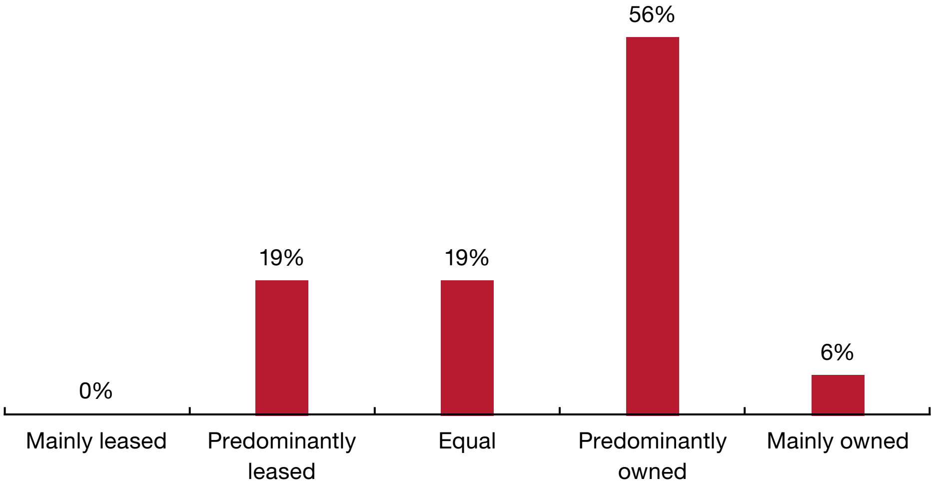


Fig. 14 Lease/ownership ratio of companies surveyed



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