A strategic approach to real estate management
The real estate industry appears to be straightforward at first sight, but in reality, it is a complex and ever-changing landscape. Strategic real estate management involves many different dimensions for different stakeholders. Indeed, the real estate business is currently experiencing a shift in demand away from the traditional business operating model and towards more flexible solutions, such as co-working spaces. Sustainability—though far from being a new consideration—is another key driver of change in the real estate domain. Among other factors, sustainability and new practices in operating/developing real estate are having a positive impact on the wellbeing of employees and leading to further efficiency gains in portfolio management in general. In today’s search for value creation, there is a clear need for greater efficiency in standardized solutions, and digitalization could be the answer.

From an investor’s perspective, efficiency begins with a successful asset/portfolio acquisition process. A key success factor for this is having an independent and transparent transaction process from A to Z. Key risks must be identified and mitigated from the outset, preventing unpleasant surprises at a later stage.

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New trend: co-working

“Co-working space” is not merely a real estate operating model that has experienced rapid growth in recent years—more importantly, it creates “a community of people” who share similar needs and interests. The concept of co-working has arisen from fundamental changes in lifestyle and ways of working. Typical users of co-working spaces include startups, SMEs and independent professionals such as freelancers, contract workers, and remote workers. The rise of co-working spaces is being driven by the influence of “millennials”, who prefer to work on their own and be in control of their own time.
The percentage of independent workers is set to increase in the coming years, boosting this trend. In countries like the United States, where co-working spaces are the most trendy and have been most successful to date, this percentage is as high as 35 percent and expected to reach 40 percent of the total workforce by 2020.

Thanks to rapid technological progress, it is becoming easier and more efficient to organize remote working solutions. As a result, large corporates are increasingly offering employees the freedom to work remotely. Luxembourg is following this trend. Studies show that it is a “win-win” arrangement for both the employer and the employee. Working from remote areas, particularly in modern and innovative places like co-working spaces alongside other professionals, fosters employees’ productivity and creativity.

From a corporate RE management perspective, membership of co-working spaces allows for:

- Flexibility in terms of RE commitment (less office space rented on a fixed term) leading to cost reductions since corporates can pay for it only when needed
- Increased efficiency of lettable area resulting in lower square meterage per employee.

What could be better than having happier and more productive employees while reducing the overall RE cost and operational work related to RE management? From the perspective of the operator of a co-working space, providing shared space, desks, internet, necessary office supplies, a comfortable environment, and other facilities it is not necessarily enough to attract and maintain customers. As mentioned in the beginning, co-working spaces are a place in which to build a community of people who wish to connect and collaborate with like-minded peers, to exchange ideas and be inspired by one another. Therefore, it is important to actively organize events and programs to effectively boost the engagement of all members and create a positive environment in the co-working space.

From a risk management perspective, the co-working business model seems to be vulnerable to downturns in the economic cycle due to the characteristics of the main users (startups, SMEs, and freelancers). In addition, operators of this kind of business model tend to have weaker covenants than traditional commercial real estate. A high fixed cost and variable-income business model requires greater scale for an operator to be profitable and sustainable. As a result, there is vertical consolidation happening among operators and bigger scale/multiple location operators have proven to be successful.

Sustainability and real estate

Encouraging sustainability has many positive impacts in terms of creating long-term value for the community, businesses, and shareholders. Sustainability helps corporates attract and retain talented employees and therefore increases efficiency and profitability. It also brings in new customers by boosting brand reputation. Moreover, thanks to the new concept of “green financing”, stemming from growing awareness of global warming, sustainable practices are helping corporates broaden their access to capital. Considering the fact that over one-third of global carbon emissions are attributable to...
buildings, corporates are increasingly willing to consider how their sustainable business practices can be adapted to their real estate. Besides contributing to corporate social responsibility ("CSR"), it also has proven economic value.

Once you decided to build a smart and green building, it is actually not that difficult to implement it considering all the technological and innovative solutions that are already available in the market, including wind and solar energy systems, smartphones and apps, big data, and IoT technology.

A perfect example of this is our Deloitte Amsterdam office building called "The Edge". The office was recently named as the greenest and smartest building in the world, scoring 98 out of 100 on the BREEAM authority scale. It has its own smartphone app that delivers information collected through thousands of small sensors installed in the building, allowing users to adjust their custom preferences in the rooms and spaces they are using (lights, temperature, etc.). The televisions can instantly connect to smartphones, the availability of parking spaces can be checked through the app, and electric car charging points are available on-site.

On the roof, the building has its own solar panels that provide a self-sufficient energy source for the building. The building’s operational solutions have increased space efficiency significantly by implementing a “hot-desk” policy, meaning that working spaces are arranged (standing desk, sitting desk, meeting room, concentration room etc.) to be best suited to the needs of each individual based on their schedule for that day. Compared to the previous office, The Edge building hosts the same number of employees with half the number of desks and workstations previously used, while also improving the quality of the working environment.

A key strength of smart buildings is the ability to effectively collect, control, and analyze big data to solve inefficiency problems in relation to real estate. Even cleaning costs can be optimized by monitoring and determining cleaning needs by checking via pre-installed office sensors to see whether or not an area was used during the working day. It is all about boosting efficiency!

Finally, health factors for employees in the office building are monitored through air quality, automatic windows, etc.

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Luxembourg is among the European nations that are leading the way in terms of sustainable construction practices. The latest research shows that about 110 buildings in Luxembourg have been certified as sustainable buildings by BREEAM International. Out of the total amount of office properties, that number is impressive compared to other European capitals.

**Wellness in the workplace**

According to recent studies, future workplace environments will be increasingly focused on health and wellbeing. An appropriate wellness offering is a crucial factor for employees when choosing their prospective employer. From the employer’s perspective, a healthy environment increases productivity at work and reduces various opportunity costs, such time lost to sick leave. Attracting and retaining skilled and talented employees and keeping them healthy and satisfied by providing a good environment is key to competitiveness for any business. The design of the office building is an important part of the corporate wellness program including, but not limited to, lightning and hydration systems, relaxation areas, and a fitness center offering.

**Asset/portfolio optimization**

**Value creation in RE**

There are two sources of value creation in RE: i) increasing income and ii) reducing cost. Optimizing the trade-off between these two sources requires analysis and expertise. An important question when choosing between the various RE portfolio management approaches (active vs passive) is whether or not the investor has the necessary knowledge, skills, time, and incentives to effectively take care of all aspects of their real estate portfolio. Before making an investment decision, a pre-deal analysis must be carried out thoroughly and with proper due diligence. Some people might consider an under-rented letting situation with a reduced weighted average lease term (“WALT”) to be a key risk, while others might view this as a clear opportunity to re-let at market conditions.

After the transaction is completed, efficient property and tenant management becomes crucial to optimize both sources of value. Digital is currently having a considerable impact on efficient real estate portfolio management tools, which are being transformed from standardized reporting solutions to cloud-based platforms that are accessible from anywhere in the world. This is even more important for diversified asset managers who have a global footprint.

The industry has seen many new players, namely startups, who have identified the need in the RE market, given the lack of digitalization in the RE industry, and are providing new solutions to their customers. Naturally, moving away manual processes to fully embrace digital is a process that will take time to mature.

**Independence in the real estate transaction process**

The real estate market in Luxembourg is a vibrant market characterized by limited supply, a low vacancy rate and continuously growing demand. Challenges are more on the buy-side, in “finding the right property”. In this kind of competitive market, independence in the transaction process is crucial. Ensuring independence in the transaction process prevents conflicts of interest and reputational damage and provides a strong base for legal and litigation cases. Independent transaction Advisors will identify the key risks linked to a transaction, from a financial, tax, technical, and legal perspective. Once identified, management should consider mitigating these risks, unless they are considered deal breakers. Risks should be quantified and qualified (i.e., level of risk), in order to provide a strong rationale for any potential price adjustments. An independent advisor will support the client throughout the transaction process, providing guidance and ensuring that the process runs smoothly, thereby limiting day-to-day business disruption. Overall, an independent advisor will provide comfort, add value throughout the process, and outweigh the time and monetary costs involved.
Conclusion
The real estate landscape is changing rapidly and facing many new challenges and opportunities. From new ways of working to new places of work (smart buildings), real estate is disrupting many traditional concepts. Given technological advancements and changes in users’ lifestyles, strategic real estate management now requires a greater level of adaptability. Investors are becoming ever-more demanding, and rightly so since the business model has evolved over recent years. We expect the business model to become even more disruptive, in light of recent trends towards digitalization.

Many corporates will need to adapt to this new environment in order to sustain their position, whether through greater efficiency in portfolio management or transaction process optimization. Employees are becoming more demanding as well, requesting greater flexibility and healthier working environments, creating challenges for employers to find and retain talents.

All these market trends may seem complex at first glance, but they are creating new opportunities and can be rewarding for market players that are willing to adapt.