As the forces of technological disruption ripple across the modern financial services landscape, we have seen clients struggle to stay ahead of a variety of challenges, not the least of which is maintaining an efficient and functional real estate footprint. The ever-evolving procession of mergers, acquisitions, and divestitures, not to mention ongoing efforts to restructure operating models to reduce cost, has left many organizations with overly complex, inefficient, and geographically sub-optimal real estate portfolios.

Traditional financial services firms, like large commercial banks and insurance companies, are encumbered with significant ongoing expenses and capital costs with regards to owned and leased facilities required to support day-to-day operations. Headquarters or regional office properties will often span hundreds of thousands, if not millions, of square feet, contributing to an enormous cost base and high potential for suboptimal utilization. Comparably, the fin-tech firms that serve as the new competition are much more nimble and flexible.

We have seen financial services firms address the need to optimize real estate costs by deploying a number of different strategies. Below, we will discuss three major components that affect real estate strategy – real estate portfolio and space optimization, location strategy, and workplace strategy – and how financial services firms can optimize for each component.
Real Estate Portfolio and Space Optimization

A major complication to the challenges of this evolving landscape is the infrequency with which firms have the opportunity to make significant changes to the structure and composition of their real estate portfolios. Historically, many large financial services firms owned a headquarters location and large administrative office assets in key urban markets. Firms made financial and operational commitments through long-term leases in downtown office towers. These financial arrangements may have committed companies to particular premises for ten, fifteen, or twenty plus years. While incremental modifications could be made to other parts of the real estate portfolio, optimization of the largest, and often most expensive, assets might only be possible at key financial intervals.

Given this context, financial services firms should plan for and prepare in advance of these key intervals or events, so as to not miss an opportunity to modernize and optimize. An effective real estate portfolio and space optimization strategy should be carefully coordinated as a component of broader target operating model restructuring.

Another innovative strategy that organizations are leveraging in order to optimize their real estate portfolios is the use of various serviced office concepts to meet a portion of the demand for office space. Some organizations pursue a serviced office strategy to reduce the number of small office locations (e.g. – perhaps any office space under 2,500 RSF) in their portfolios. Other organizations choose to leverage serviced office concepts, which can often serve as “incubator type spaces” that attract millennials, to house emerging business concepts that demand a more open, adaptable, and pay-as-you-go model. This approach allows organizations to reduce up-front capital expenditures and eliminate conventional mid- to long-term lease contracts.

The flexibility to expand or contract your managed workplace as business needs demand can be of significant value to many corporations.

Most organizations start by pursuing more tactical opportunities, such as deployment of more efficient workspace standards over time, reducing vacant space by restacking and renovating, and disposing of pockets of poorly utilized space across the portfolio. Once these more tactical opportunities have been generally exhausted, organizations should turn to more transformative strategies and opportunities in order to substantively impact the cost profile of the real estate portfolio.

As an example, Deloitte was retained by a major financial services company to help determine its optimal workplace strategy and real estate footprint a full five years in advance of a significant headquarters lease expiration. This timeframe allowed for appropriate preparation, organizational alignment, pilot deployment, and change management launches in advance of the pending event. In addition, proper planning enabled this client to secure an overall portfolio operating expense cost reduction of more than 25%.

1. A serviced office is an office or office building that is fully equipped and managed by a facility management company, which then rents individual offices or floors to other companies. Serviced offices, which are also referred to as managed offices, business centers, executive suites or executive centers, are often found in the business districts of large cities around the world. - From Wikipedia.
Another transformational strategy that has proven quite effective is the optimization of real estate demand based on the deployment of advanced workplace or mobility programs. While generational differences are a hallmark of the modern workforce with regards to mobility, knowledge workers across

Workplace Strategy

One of the more transformational strategies that can be leveraged involves relocating selected aspects of non-core operations from high-cost markets to lower cost geographies. As financial services firms have traditionally had a major presence in the central business districts of major financial centers, such as New York, London, and Hong Kong, the relocation of large support operations to second and third-tier markets can significantly reduce costs.

Some organizations have done this by moving support functions to the suburban areas of these major cities, but the most effective strategies involve both real estate cost and labor arbitrage by relocating to near-shore or off-shore locations that also have lower labor costs. Though there is often a legacy sentiment that these corporate support functions should be co-located with the rest of the business, the potential cost savings can be quite substantial and many lower cost labor markets have demonstrated the capacity to provide deep talent pools. In addition, an effective location strategy and site selection effort can identify and secure significant incentives (e.g. – job, training, tax, infrastructure, etc.) for the newly relocated operation.

Recently, one of our large financial services clients developed and deployed a new global business services strategy. This effort involved establishing a number of strategically placed shared services centers around the world. These service centers enabled the consolidation of many finance, human resource, and employee support processes in off-shore locations. This initiative reduced the real estate footprint in costly central business district locations and facilitated significant labor arbitrage as well. The organization anticipates that the labor savings will range from 40-60%, depending on the processes involved.
the generational spectrum have already adjusted how, when, and where they work to align with increased levels of mobility. Now, companies should rethink the workplace and better enable employees with the latest technologies in order to catch-up with individual worker expectations.

Over the past 5-10 years, financial services firms have embraced the concept of advanced workplace and mobility strategies to varying degrees. Asset management and real estate firms have been slow to adopt these new workplace models, while insurers and many banks have implemented programs within portions of their organizations. Large banks made an early effort to deploy selected aspects of mobility, such as telecommuting for some employees, seat sharing or hoteling for other professionals, and even in some cases for core line of business personnel. Too often, however, these “pilots” were promoted as limited scope, opt-in accommodations, rather than enterprise-wide programs.

Today’s employees have different outlooks about flexibility and mobility in the workplace, when they “need” to be in the office, and how they expect employers to embrace the need for flexibility. Workplace strategies that are not based on employee work styles (e.g., the definition of how a particular type of employee works and what type of workspace and technology enablement is required for the employee to work effectively), can create divisiveness, drive perceived levels of inequality, and foster the idea among certain employees that mobility is “not for me” within the organization.

Organizations are also exploring opportunities to leverage evolving sensor technologies (e.g. – Internet of Things) to enhance the workplace experience by reducing operational friction and automating processes. In order to optimize the use of individual workspaces and conference rooms, occupancy sensors are used to track actual use and vacancy. If an individual does not check-in for a space reservation, the workspace or conference room can automatically be released back into open inventory for use by the broader office population. These workplace technology enhancements are helping companies more effectively optimize real estate demand down to the individual workspace.

In an increasingly competitive talent marketplace, simply offering accommodations is not a compelling solution. Reduced cost is an output, but the real benefit lies in supporting and enabling how your employees already engage with the workplace. By deploying advanced workplace and mobility strategies in a holistic and sustainable manner, financial services companies can leverage the talent recruitment and retention benefits, while making significant contributions to long-term cost reduction goals.
Ultimately, real estate portfolio optimization is an important strategic consideration for financial services firms worldwide, and it should be addressed on a regular basis as part of an integrated operating model and performance improvement strategy. With a holistic understanding of how employees work, savvy firms can provide an informed view of the demand for innovative workplace concepts across the portfolio.

Transformation does not occur overnight. When dealing with real estate, firms should also take into account the nature of the asset class and the typically extended timelines that are required to make substantive change. By planning ahead and putting the right foundational elements in place (e.g., real estate market opportunity tracking, serviced office concepts, workspace standards, mobility policies, work style delineation protocols, and workplace technologies), organizations can be ready to drive significant real estate portfolio optimization at those key financial intervals, some of which only present themselves once per decade.