



## Space exploration: CFO considerations for strategically evaluating real estate

As companies face the challenges of re-entering their offices and other places of work, CFOs confront a sizable dilemma: re-evaluating the purpose and role real estate will play to align with the broader strategy as companies move into the post-COVID world.

Many CFOs are already encountering these issues. As they position their companies to emerge from the nothing-is-normal economy to being prepared to thrive in the next normal, many are strategically reevaluating their real estate assets. In Deloitte's Q2 2020 [North American CFO Signals™](#) survey, in fact, nearly one-half (48%) of 156 respondents expect their companies will have a smaller real estate footprint a year from now.

Why? The COVID-19 pandemic created a unique operational stress test, forcing

many employees to adapt to working from home and drawing stakeholder attention to significant fixed costs sitting idle. Moreover, recent changes in office space design, which focused on collaboration and more density, may now be in contrast to the next norm.

Still, companies cannot reinvent themselves by demolishing their vacant buildings as if they were outdated Las Vegas casinos. Many companies will likely bet on becoming hybrids, accommodating both distributed and centralized workers. But the need to critically challenge real estate needs may mean CFOs and their corporate real estate (CRE) leaders will face a multitude of additional decisions, including those related to corporate culture, as well as employee and end-user health and safety (e.g., the need to accommodate social distancing, provide enhanced cleaning services and

ventilation systems, and to adopt access protocols).

In other words, managing office space will likely be more nuanced and complicated in a post-COVID-19 economy. In this edition of *CFO Insights*, we'll help finance chiefs apply a new mindset to real estate, looking beyond narrow cost-per-square-foot calculations and guided by questions such as the following:

- What does the business want to accomplish through its real estate strategy?
- What level of risk, cost, and technology advancement should it expect to assume?
- How can CFOs balance the need to preserve the key elements of a company's culture while creating an environment where health, safety, and security remain paramount? ➔

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### Rethinking the future of remote versus onsite work

As their businesses begin to physically reopen, CFOs can expect that a portion of the workforce will return to the office for various reasons. They may need access to equipment or systems, opt to collaborate with colleagues in person, or occupy positions that require them to leave their homes.

Rather than making grand pronouncements (i.e., no one needs to come back to the office until 2022), CFOs should take time to identify patterns. Some employees—especially those who may be susceptible to the virus—may fear it's too dangerous to risk exposure at this time. Others may lack the childcare necessary to return to a previous onsite schedule. And some may have found remote work so much more productive that they want to continue the arrangement (see,

*"Remote control: How finance works, not where, matters most now," CFO Insights, June 2020).*

The last possibility is not lost on finance chiefs. In fact, more than 70% of respondents to the Q2 2020 *CFO Signals* survey envision that a greater share of their total workforce will be working remotely a year from now, roughly the same proportion of those who see remote working as the future of the finance function (see Figure 1).

Still, when it comes to footprint, the goal should be to align the company's real estate needs and expenses with its business strategy. For example, as companies begin to re-engage clients or strive to win new business, remote work may prove to be a roadblock. Videoconferencing tools may not be acceptable replacements for face-to-face interactions and the spontaneous

CFOs should work with their CRE leaders to find the right balance of onsite and remote employees and take the steps necessary to help guarantee worker safety.

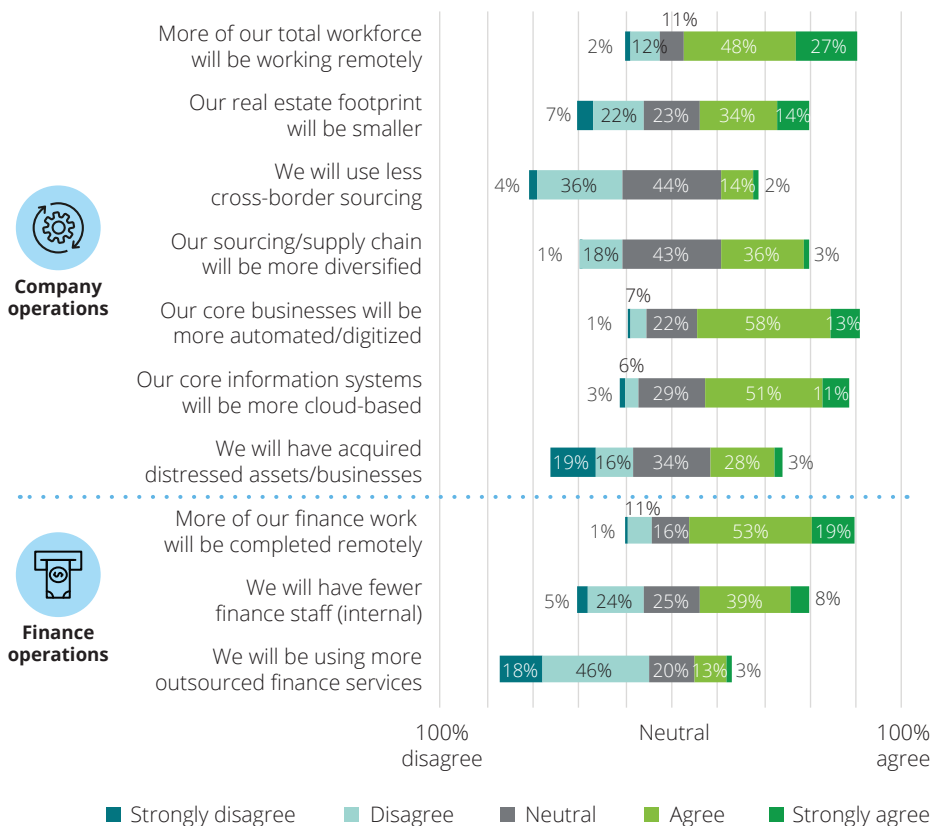
collaboration and creativity that can result. In fact, running a company remotely may turn out to be much more feasible than building a business that way.

Bringing employees back onsite, however, may require investment. For example, current workplace standards will likely have to be modified to provide for appropriate distancing, collaboration, and hygienic behaviors. Adequate personal protective equipment and safety supplies (N-95 masks, gloves, etc.) will need to be sourced, as needed. And then there are the common areas: Who will underwrite temperature checks in the lobby? How will companies deal with elevators, some only capable of accommodating two passengers per ride? Deloitte estimates that it could cost financial institutions, for example, about \$4,000 extra per returning office worker, as long as businesses operate under the pandemic-management protocol.

CFOs should work with their CRE leaders to find the right balance of onsite and remote employees and take the steps necessary to help guarantee worker safety. At the same time, they should work together to take interim steps to streamline costs. In reviewing corporate property expenses, for example, they may be able to swap some office footage for warehouse space or identify opportunities to renegotiate lease terms. There also may be opportunities to use space more efficiently by deploying workspace technology—a trend that the pandemic has accelerated. For example, companies may want to put more emphasis on digitizing property data, investing in analytics that will help them better understand demand and track utilization, as well as conduct scenarios for business continuity planning.

**Figure 1: Post-crisis company and finance operations**

A year from now, how do you expect your company and finance operations to compare to pre-crisis? Percent of CFOs selecting each level of disagreement/agreement



Source: Q2 2020 North American CFO Signals™ survey, Deloitte Development LLC.

**Real estate considerations going forward**

CFOs who make such moves, however, should consider how real estate fits into a company’s go-forward strategy. More than just a cost factor, real estate also contributes to a company’s reputation, as well as its risks. And it’s traditionally formed the basis of the work experience, which can often be a decisive competitive edge. To align real estate’s role with a company’s strategy to thrive, CFOs should consider the following:

- **Decide what you want to accomplish through real estate.** Given the likelihood that more employees will be working from their homes, it seems logical to assume that businesses will need less space. But employee development and continuity of organizational culture need to be considered. In some cases, it’s critical that employees attend company-sponsored classes and conferences—both for training and social purposes.

Companies intent on attracting and retaining younger workers—millennials and Gen Z, to be specific—may achieve that cultural outcome by showcasing the flexibility and choice they offer regarding how, and where, employees work. In a 9,100-respondent pulse survey, published in [The Deloitte Global Millennial Survey 2020](#), more than 60% of respondents

who belong to those generations say they want the option to work remotely more frequently, even after the pandemic fades. Nearly as many said they would prefer to use videoconferencing instead of traveling for work (see Figure 2).

- **Recalibrate culture in the post-COVID-19 workplace.** At some point, employees will return to operating as they have in the past—well, some percentage will. Others may be in and out of the office, while a substantial portion may opt to stay home permanently. CFOs, who exert a big impact on shaping the work experience, need to figure out how to stitch those experiences into a single culture. What can you do to make remote workers feel part of the fabric of the business? What tools are necessary to familiarize new hires with the distinctive culture?
- **Look for ways to de-risk the remote experience.** In some cases, companies may consider the integration of satellite offices, thereby enabling employees to reach their desks without taking the risks now associated with public transportation. But remote work, whether it be from home or in such satellite offices, also [increases exposure to cyberattacks](#), making it imperative for CFOs to maintain investments required to apply

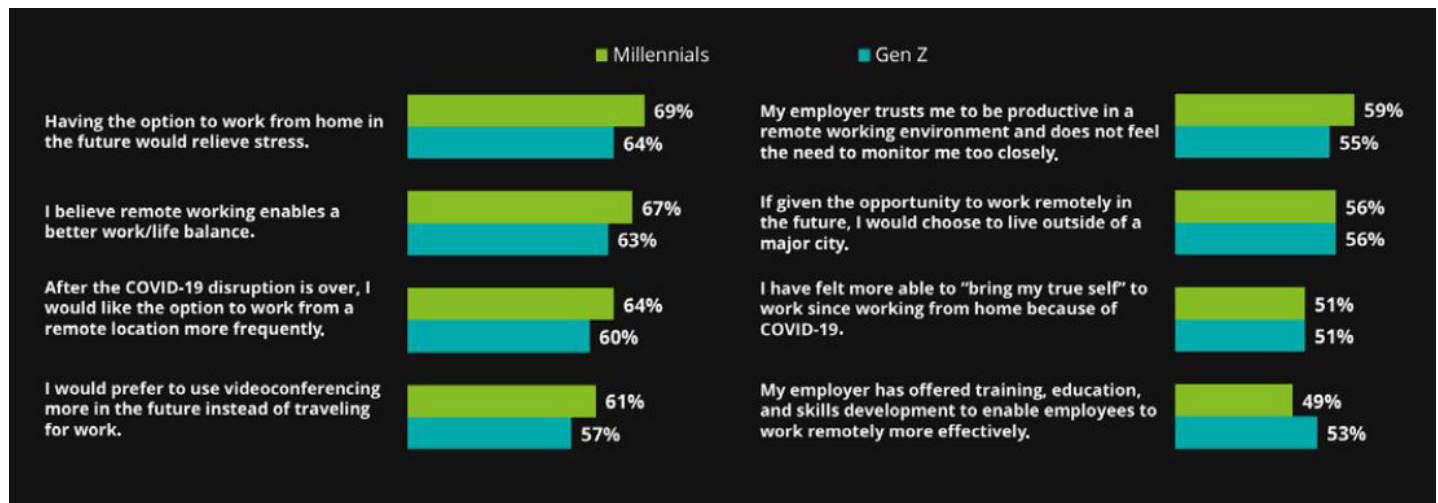
a systematic approach to bolstering cyber hygiene. Organizations may need to establish new protocols or expand the scope of existing ones—such as those governing file-sharing on collaboration platforms—to address the adversarial threat landscape. Given the current economic climate, companies will likely also need to adopt programs to detect insider threats.

- **View real estate through a strategic lens.** Some CFOs have tended to consider real estate as a large expense, but only a peripheral concern. The current situation should not only prompt CFOs to re-examine how their companies are utilizing real estate, but also to appreciate the impact it can have on the organization’s mission.

In an era of “smart” buildings—digitally connected workplaces that monitor employee well-being—CFOs also should view real estate as an investment in that organizational well-being, evaluating smart building-management capabilities across leased and owned facilities, such as predictive maintenance solutions, air quality sensors, UV cleaning, infrared temperature cameras, and HEPA air filters.

**Figure 2. Appetite for remote working to become the norm**

Percent in pulse survey who agree with the following statements about working from home/a remote location



Source: [The Deloitte Global Millennial Survey 2020](#), Deloitte Global, 2020.

## Real estate CFOs: Rebuilding in a post-pandemic world

For much of the last 12 weeks, CFOs in the commercial real estate (CRE) sector have rightly been focused on responding to the COVID-19 pandemic's immediate impacts on employees, tenants, and their businesses. Next, they face the challenge of leading their companies through vast health and economic uncertainties—in the midst of an unparalleled industry transformation.

The COVID-19 pandemic, after all, created a great world-wide experiment at the intersections of real estate and technology. As people physically return to work, for most, it likely won't be the same as it was before. They may engage with spaces differently; their needs for services from the spaces where they work, shop, and stay will change.

To meet the challenges, CRE companies should be agile and consider more real-time analyses of changing user preferences, as well as prepare to adapt, design, and redevelop space and tenant engagement strategies as preferences evolve. The major moves they should take include the following:

- **Building out their operational and financial plans.** Over the next 12-to-24 months, CRE companies can collaborate closely with tenants, evaluate their portfolio assets in light of the pandemic's impacts on end-users and investors, and prioritize how they will spend their cash. To help optimize financial and operational agility, it's also important to evaluate contractual rights and obligations related to leases, especially as they pertain to property closures, operational changes, and insurance and vendor contracts.
- **Exploring digital transformation.** As catalysts for change and improvement, CRE CFOs may want to consider additional technology investments to prepare their organizations for the future. [Digital transformation in CRE](#) was a strong trend before COVID-19, and accelerating technology usage now can help drive top- and bottom-line growth through more informed decisions, greater efficiency, and improved tenant experiences. Using a wider variety of advanced data and analytical tools and techniques could enable companies to make better-informed decisions—and enable CFOs to leverage finance's analytical skill sets to enhance their business partnering and strategic advisory roles.
- **Employing scenario planning and forecasting.** In their strategic capacity, CRE CFOs can also make decisions about how to position their asset portfolios, where to direct available capital, and how to evaluate potential opportunities. Similarly, conducting a strategic review of core competencies will help aid decisions on diversifying into properties that complement their existing portfolios.

A big question is: What's going to drive value in CRE for investors, end users, and owners in the short- and long-term? The answer will vary by asset class, but some broad considerations include: How will real estate tie to core strategies and values, including end-user engagement and employee and tenant well-being? How will real estate be optimized considering a likely portion of the workforce will be remote? How can data and analytics assist in cost oversight as tenants and owners'occupiers' operating costs increase as a result of new safety measures?

Going forward, there's an opportunity for real estate to align even more closely with the core strategy of a tenant, but that will mean change—and risk. This crisis, like others before it, will produce winners and losers in many industries, including CRE.



**CFO punch list**

Many CFOs are optimistic that their businesses, once they have reopened, will be able to operate effectively, safely, and profitably, as revealed in a [COVID-19 CFO poll](#) conducted in mid-June (see Figure 3). Yet, CFOs should use the coming months as an experiment, watching carefully for patterns of real estate usage. In the shorter-term, they may also want to collect the information they will need to make the best decisions about the portfolio going forward, and should consider the following:

**Reassess safety costs.** Your workforce may face an abrupt reintegration process as offices and facilities reopen. Do you have accurate out-of-pocket cost estimates for provisions and adequate safety measures to support a smooth transition? What about for the foreseeable future, since the pandemic management protocols will most likely be in effect until a vaccine or adequate treatment is found?

**Evaluate longer-term technology needs.** While virtualization technologies were quickly deployed once the pandemic

hit, CFOs should now consider workplace technologies that help optimize workspace utilization and facility operations over time. In addition, they may want to identify opportunities to leverage Internet of Things devices and workplace technology to better enable a safe and healthy environment. And given the importance of communication, they may want to establish feedback channels and listen to the workforce to understand concerns as conditions change, leveraging analog and automated processes.

**Review the company’s real estate portfolio.** Finally, along with the FP&A team, CFOs should examine the performance of any and all real estate assets. The goal of such a review should be to produce an implementation roadmap to reduce and reconfigure the portfolio to optimize the workplace. That roadmap should also help management rethink design and planning for new office facilities to incorporate the next normal of workplace behaviors and requirements.

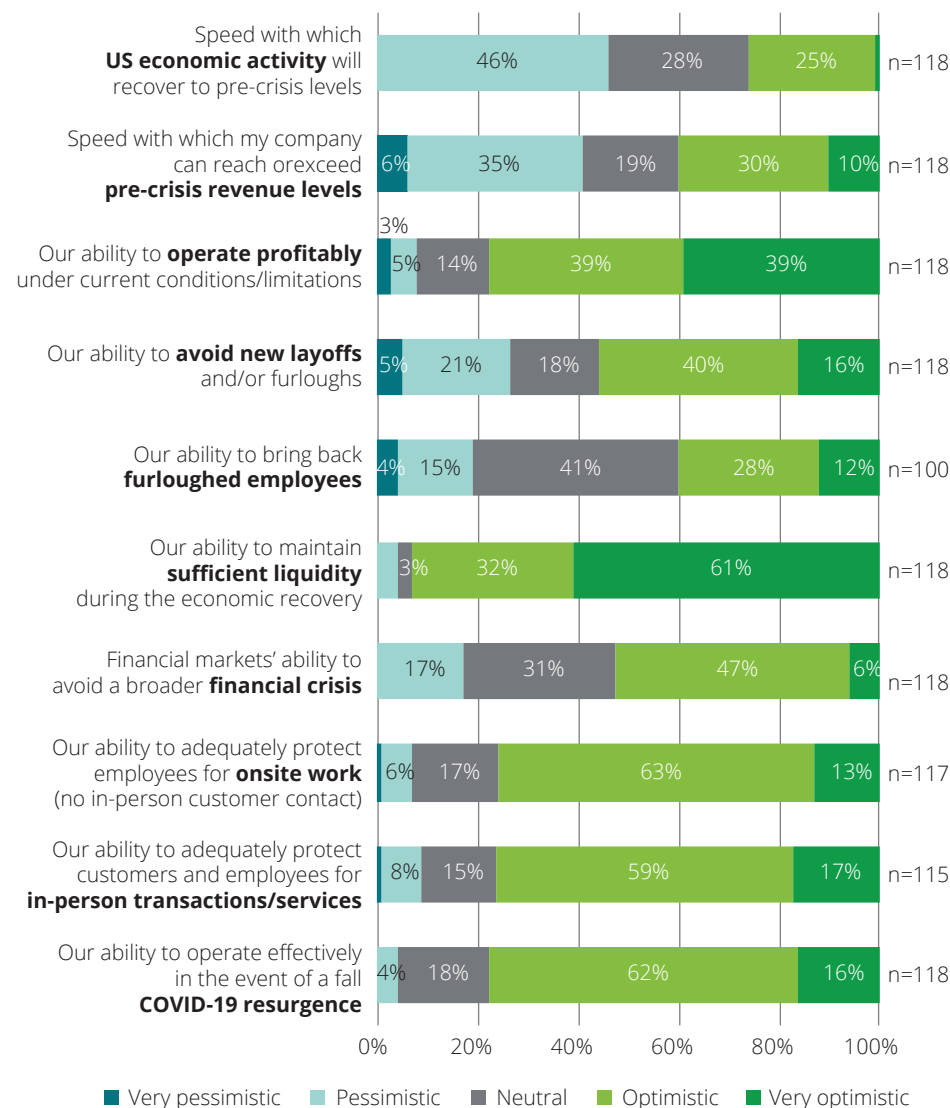
**Building the future footprint**

The COVID-19 crisis is a pivotal point in time. While organizations are taking steps to keep their employees safe and operations running, a next normal will emerge that may be nothing like today. That transformation extends to how real estate teams plan for and manage workplaces—and how CFOs work with those teams to assess the company’s real estate portfolio.

At a time when CFOs in just about every industry are bound to be plagued with questions about their future footprint, CFOs need to think carefully about what they are building up, and not just focus on tearing down. There’s never a good time for a pandemic, but that kind of deliberative thinking is always essential. ◀

**Figure 3. Reopening of operations**

*Based on what you have seen as the reopening of the US economy has accelerated, how do you feel now about the following?*



Source: [COVID-19 CFO Poll](#), CFO Program, Deloitte LLP, June 2020.

## End notes

1. [Bloomberg TV](#), Bloomberg Surveillance, June 23, 2020.
2. [The Deloitte Global Millennial Survey 2020](#), Deloitte Global, June 25, 2020.
3. [Deborah Golden](#), "Cyber Management Critical for Remote Workforces," *Deloitte CFO Journal*, April 3, 2020.

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