Deloitte.

Real estate and leasing strategies

Introduction: Find your hidden savings and optimize profits

LeasePoint™

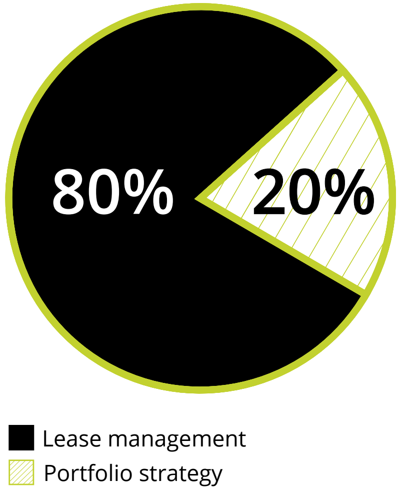
Real estate is typically the second largest expense on the books. Yet surprisingly it's often overlooked as a back-office concern and not a strategic priority… that is, until someone casts a light on it.

Real estate is a critical piece of an organization's business, and thinking of it strategically can add significant value to the bottom line. Market conditions are ripe to take a deeper look now, and whether you want to reduce cost or have reason to invest, we're introducing a new six-part series on finding the hidden savings in your lease portfolio. Each step in the leasing life cycle can be improved to make leasing a profit driver, not a cost center. It's a year-round affair. And with new regulations putting a spotlight on lease portfolios via company balance sheets, executives everywhere are taking a closer look.

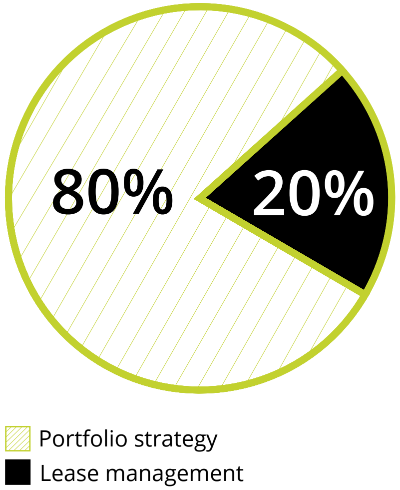
It’s time to move ...
Move leasing to the head of the pack

The reality is that the leasing function has been significantly downsized over the last decade. Today, organizations may have as few as 10 employees managing hundreds if not thousands of real estate contracts, versus a staff of 75 who managed them in the past. Thus, approximately 80 percent of their time is often spent on management of those leases, while only 20 percent of the time is spent on portfolio strategy. The time ratio should be quite the reverse. Behind staff, real estate is typically the second or third largest expenditure on the books. It’s time to take a fresh look at your portfolio strategy. Boardrooms everywhere are taking note.

Current state of leasing



Ideal state of leasing



What's forcing the boardroom's eye on real estate?

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New Financial Accounting Standards Board (FASB) rules

Nothing like a new regulation to shake things up. Many leases are moving onto the balance sheet for the first time, creating more transparency and therefore prompting companies to get leases right the first time or possibly face regulatory scrutiny later. Make sure your team is ahead of the curve.

Worker productivity and the draw on talent

As baby boomers continue to retire, talent shortages in certain job functions and industries will likely force companies to get smarter about attracting and retaining talent. Having grown up in a technologically connected world, millennials' work style preferences are much different from that of their predecessors. Companies can use the workplace as a differentiator to obtain and keep a world-class team. Take a deeper look at how you design and use your space for future generations.

Greater leasing options

Developers and owners are changing their leasing models to provide greater flexibility—not just in the design of the space but in dynamic, multi-use scenarios that can prove more economical for companies. Look for innovative ways to adjust leases and take advantage of new opportunities.

New technology developments

With regulatory pressures in play, CIOs are looking at new and evolving technology, including IBM's TRIRIGA® and IBM Watson analytics to help their real estate and leasing function make smarter, strategic leasing decisions and act more efficiently. Deloitte's lease management product, LeasePoint™, helps organizations prepare for compliance according to the new standards. Look towards bots and artificial intelligence to offer even more productivity potential down the road. Companies managing their lease portfolio via spreadsheets will likely have difficulty surviving in today's competitive, evolving environments—and could fall to the back of the pack. Use new technologies to positively impact performance.

Time to wrench things up!
Rethink your portfolio strategy

Forecasting long-term needs in fast-moving markets has always been challenging. And new regulations are prompting questions about whether to buy or lease. Where are the quick wins when it comes to lease portfolio optimization? How does your organization look at site selection and negotiate the best deals for your leases? Are you missing opportunities because your leasing function doesn't have the technology and analytics you need? And most importantly, is your organization ready to execute new lease regulations?

The race is on

By utilizing all the parts of a winning peloton strategy, C-suite, real estate, and leasing executives are able to push forward an inter-connected race plan. All parts of the strategy operate harmoniously, but take on their own significant role in achieving ultimate victory.

1 **Portfolio strategy**
What does your finish line look like?

2 **Real estate and portfolio optimization**
Where are the quick wins?

3 **Site selection**
Did you look beyond the obvious?

4 **Lease portfolio management**
Are you missing opportunities?

5 **Technology and analytics**
Do you have the necessary insights?

6 **Lease accounting and reporting**
Are you ready to deliver without question?

Two strategic cases
One to save, the other to grow

There are typically two end objectives that bring real estate and leasing into the boardroom: cost savings and increased revenue. That's why designing your portfolio strategy should center around a mix of steps to support the win for your organization.

Read on to find out more about how two companies achieved success via these two different objectives: Deloitte using workplace strategies, and the other using technology.

Optimizing space, saving on costs
How Deloitte did it

Deloitte's internal real estate team set out to optimize its U.S. portfolio due to steadily declining usage patterns over the last decade. Like similar organizations, Deloitte personnel access the office 30 percent of the time on average, and our millennial population prefers a more collaborative work style. By adding collaborative space, assigning offices based on frequency of access, and offering hoteling space to our more mobile populations, Deloitte has reduced occupancy costs significantly through reduced footprints despite increased headcounts. This office portfolio optimization effort is poised to deliver $60M in savings over the remaining lease terms. Deloitte's practitioners are drawn to the collaborative spaces in the new offices and feedback is favorable.

More locations, growing for service

How one technology company did it

A large technology company just announced that it is ready to break ground on its new headquarters and has opened offices to accommodate new division operations in several markets across the United States. With more than 70 locations in over 35 countries, nearing a billion-dollar annual rent expense, Deloitte recently helped the company install an upgrade of IBM's TRIRIGA® to manage it all efficiently. The technology is a key component of this leading technology company's portfolio strategy. Without it, they wouldn't be able to optimize their leases or manage them efficiently. Now? They are saving money as a result.

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What does the start line look like?

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The lifecycle of a lease is full of opportunities to improve margins, increase revenue, and lower costs, improving the overall ROI of real estate and lease portfolios. As you think of your portfolio strategy, consider the following insights.

An unbiased mindset is key.
If it seems impossible, consider seeking out a third party without conflicts of interest. Biases can exist internally and externally among brokers.

Seek the buy-in of the entire C-suite.
The expenditure is too great, and its implications too far-reaching, not to take your portfolio strategy to the leadership team. That said, even as you engage, it is important that you have one executive sponsor guiding the effort. A single owner with decision-making power goes a long way towards success.

Use data to your advantage.
New technologies can wrangle data in ways that were not possible before. Looking at the right insights can achieve stronger outcomes in the end.

Think of the ideal state and work backwards.
Dream big. Determine what you want your business footprint to look like and how people will collaborate 10 or 20 years out. Devise a plan that gets you from where you are today to that future vision.

Want more?

Find your hidden savings and optimize profits in your lease portfolio. It's time for a new play on real estate. To start a conversation about your real estate and leasing portfolio strategy—and all the parts that can be tuned up for success—please reach out.

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