



# HOME OFFICE AND LATEST REQUIREMENTS: MOMENTUM FOR PORTFOLIO STRATEGISTS!

Those who want to raise the qualitative and quantitative potential from changing user behavior and home office have a long way to go with reactive portfolio strategies. Empty office space or too low occupancy rates were not uncommon even before the Corona crisis. The virus accelerates this decreasing demand for space provision and increased home office quota. In addition to the rental costs, there are also operating costs for the space. Proactive space management can significantly reduce real estate costs. The problem exists, but what are the challenges and quick solutions?

## REACTIVELY MANAGED REAL ESTATE PORTFOLIOS

In the first step, companies ask the question:

**"Do the areas and locations fit my future business model?"**

The answer is a holistic and active view on the often reactively managed portfolio. Initial analyses and approaches involve little effort compared to the savings potentials.

**Overarching and cross-divisional portfolio strategies** are rarely in place.

Leases expiring at different times and the lack of management makes the consolidation of space redundancies difficult.

If the company has already carried out a **strategic property valuation**, the first locations can be excluded for further consolidation analyses.

For those properties, there are other ways to achieve savings, such as the development of multiple negotiation scenarios. Locations that cannot be relocated

under the following conditions and are relevant to the company's long-term success are referred to as **core properties**:

- The business unit grows or stabilizes in the long term (≥10 years)
- Significant investments have been made, for example test tracks, R&D or production facilities
- The availability of highly qualified personnel is guaranteed exclusively at this location
- Proximity to the customer is essential
- The location has a significant relevance for the supply chain

## RISKS AND RESULTING OPPORTUNITIES

Basically, four major opportunities or risks can be identified to counteract the provision of redundant space:

- **Increases of rent in core properties**  
Landlords know rented core properties are inflexible and immobile. With a strategic approach, targeted negotiation scenarios can be developed and rent increases avoided. In best case,

even rent reductions can be negotiated.

### ▪ Missed savings potentials

Initial savings potentials are possible related to consolidation of office and warehouse space. In-depth feasibility studies are needed to analyze production locations.

### ▪ Decentralization of footprint

Due to a lack of cross-divisional portfolio management, space is often rented randomly. Without a holistic overview, the decentralization of space is pushed forward, and costs are increased.

### ▪ Smoothing the irregular peaks

Lease contracts are signed at different times and therefore expire at different times. Irregular peaks limit negotiations and further chances. Harmonization through **Critical Date Management** (see excursus) of out-running contracts to bundled points in time is one approach to a solution.



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### Excursus: Critical Date Management (CDM)

The **challenges** in CDM are in the CREM departments with resource bottlenecks, lack of structuring of departmental tasks and projects, and targets with a monetary orientation.

The **project procedure** is divided into three main components:

1. Analysis and comparison of the real estate portfolio with regional markets
2. Determination of strategies regarding the period (lease renewal, leases | purchase of new properties or project developments), the designation of quick wins and the required use of resources
3. Conducting in-depth market studies, identifying options for action, and achieving the best possible negotiating position

The **result** is a harmonized roadmap, which has been successively harmonized regarding the rental contracts' ending. This enables the following points to be planned:

- Short-, medium- and long-term tasks per location
- Resource

### WHAT ARE THE CHALLENGES?

A strategy can be overthought and perfectly developed, but it **must be agreed with many stakeholders**. In the first instance, this includes the group management board and, if available, the prior agreement of the management in the real estate division. Once the approval has been granted, the divisional management boards, the users and the works councils must be convinced, because...

**„...the works council is one of the most important and powerful stakeholders to convince.“**

Furthermore, a **lack of Critical Date Management** makes it difficult to realize consolidation potentials, as leases expire

at different times. Lead times for achieving the best possible negotiating position are also often not defined.

Industrial concerns have considerable real estate portfolio worldwide. This is distributed over different continents and thus in the most diverse cultures. Depending on the company's strategy and the local conditions, it must be **prioritized** which **areas** are chosen for initial potential analyses.

Essential for a desktop analysis is the **data quality**. Optimally, notice periods, rental costs, floor space, coordinates, business divisions and number of employees are available for the properties.

### RESULT: SAVINGS AND SOCIAL ACCEPTANCE

Savings through...  
**„Post-Covid-Potentials“**



In group companies, the proportion of workplaces to users is usually 1:1. The pandemic is accelerating the demand for home offices thus reduces the space requirements. First DAX companies have already reduced the quotas to 5 to 7 workstations per 10 users in comprehensive resolutions.<sup>1</sup>

Savings through...  
**„Footprint-Consolidation“**



The result of an initial cross-divisional desktop analysis is a business case for the next 5 to 7 years. In addition to the consolidation potential, this also takes into account assumptions for facility management costs as well as investment costs, e.g., for relocations and the provision of space. After the mandate has been obtained, an implementation roadmap has to be developed to realize the potentials.

Savings through...  
**„Global Roadmap“**



In case of a successful implementation of the Critical Date Management, a safe use of core properties is guaranteed. This is ensured by a global roadmap that provides sufficient lead and implementation times for possible alternative actions. Through this proactive management, real estate costs can be sustainably reduced.

### TME APPROACH

From the beginning to the final decision stage, the whole analysis passes 4 levels (see figure 1).

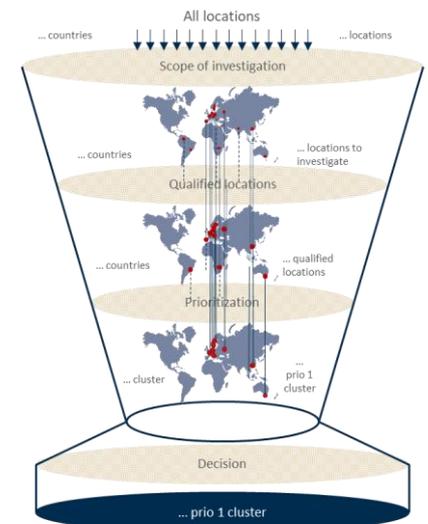


Fig. 1: TME-Top-Down Approach

#### 1. Scope of the analysis

At the first level, properties are filtered out of the global portfolio. For example, countries with one location can be excluded, as there are no target locations in which they could be reconsolidated.

#### 2. Assumptions on qualification

In the next step, assumptions are made for consolidation. For example, the maximum distance and travel time between origin and destination, the maximum value of the reduction

<sup>1</sup> Experience from corporations >30k employees



## White Paper

based on experience, and other "showstoppers". The results of this stage are concrete consolidation proposals including a visual representation. Alignment meetings between the country manager and analyst are mandatory necessary.

### 3. Prioritization

After the proposals have been aligned and approved, concrete savings can be allocated to each potential. These are made up of leases, operating and depreciation costs and, if applicable, dismantling obligations. The result is a business case including a roadmap for the next 5 to 7 years. In detail, lease terminations can be worthwhile in order to realize potentials earlier.

#### Author

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### 4. Final decision

In the final step, the action plan is approved with all stakeholders. This also involves coordination with ongoing or other planned initiatives. The result of the discussion is the decision on a prioritized pilot.

## CONCLUSION

Many companies manage their portfolios reactively and shy away from initial optimization approaches. The project approach developed by TME achieves concrete results with little effort. Among other things, the result is a presentation suitable for management boards, including a business case, which shows the initial investments as well as the final savings.

#### TME Associates

TME is an international management consultancy focusing on Real Estate Management and Brands & Retail. Founded in 2011, we advise corporates, investment & asset managers, investors, housing companies and service providers along the entire real estate value chain

Our consulting approach is as sustainable as it is holistic: from strategy to organization to implementation.

Around 50 employees work at TME's German-speaking sites in Munich, Frankfurt and Zurich. TME Associates also has international offices in China, Korea, UK and USA.

In conjunction with Critical Date Management, a project pipeline is systematically developed that enables the targeted and efficient use of resources.

TME's approach provides the necessary tools, methodology, resources, and know-how.

**Feel free to contact us!**