

CORPORATE REAL ESTATE MANAGEMENT DURING THE COVID-19 CRISIS AND BEYOND

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May 2020



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Corporate Real Estate Management (CREM) has faced several challenges in recent years. Globalization, international competition, demographic change, innovation, new workplace models, and – at the forefront – digitalization have changed the Corporate Real Estate world significantly. Now, the COVID-19 crisis has disrupted the Real Estate environment with travel bans, office closures, split-teams and a step change in remote work. Regardless of whether or not pandemics break out more regularly in the future, some of the changes made to cope with this unprecedented situation are likely to wholly or partly become permanent features of our work lives. We may even be on the cusp of an evolution in the way we work and how we utilise Real Estate for business.

CYLAD Consulting has explored how CREM can be utilized as a short-term mitigation lever during the crisis and contribute to a faster business recovery mid-term. We have also hypothesized which structural changes could be instituted in the long run as part of a smart operating model, to secure the health and safety of employees and maintain business resilience.

1/ Short-term: Contain costs and secure liquidity

The #1 priority for companies during the crisis (apart from securing health and safety) is cash management to ensure economic survival. Due to declining revenues from core business and challenges in securing payments from customers, there is a need to identify short-term cost savings. A range of CREM related levers may be activated to improve short term cash flow:

- CREM decision-making: shift all cash-relevant decisions from the property / department level to the central HQ Finance function (especially for international companies with decentralized portfolios).
- Technical Facilities Management (FM) (freehold buildings): suspend maintenance temporarily and reduce maintenance budget accordingly, shutdown non-essential building technology, suspend preventive measures and investments (e.g. real estate acquisitions or construction).
- Infrastructure FM: reduce service levels temporarily during lock-down, e.g. reception, canteen, catering, cleaning (dependent on contractual terms or goodwill of FM provider).
- Space management: subject to good adoption of home office and/or crisis-related FTE reductions, a part of the office space may be reduced permanently – concentrate on vacating rental contracts which expire soonest (rental space), enforce sell-off (freehold) or consider sub-letting where applicable. If the full space is unoccupied during the crisis, a building might even be shut down completely to minimize its costs.

As a side-effect of the crisis, consumption-related operational real estate costs (e.g. energy and water) will be reduced through lower utilization.

2/ Mid-term: Prepare recovery phase and business ramp-up

When the end of the crisis is foreseeable, companies will attempt to regain momentum and refocus on revenue growth. This transition to a 'new normal' operational state must be carefully choreographed. The focus of CREM should be to allow for a ramp-up according to the requirements of the core business while still preserving cash and protecting the health of employees:

- Withdraw short-term measures: phased withdrawal of measures from 1/ to allow for regular operations with the optimal Real Estate footprint.
- Prepare working environment: implement social distancing for access points / elevators / desks / cubicles / workplaces and canteen, phased employee returns, limit number of people on the premises and allow for split-team multi-shift operations, provide disinfection (e.g. hand sanitizer stands) and protective clothing (e.g. face masks).
- Check building technology: if buildings or building technology have been shut down, check and clean especially all drinking water-, ventilation- and air conditioning systems as well as humidifiers completely before recommissioning.
- Adjust infrastructure FM-contracts and policies: step-up cleaning frequency, establish special cleaning of risky surfaces (e.g. desks, door-handles, handrails, fittings), implement more stringent security procedures for staff and service providers (e.g. health screenings at entrances), hold reception and security responsible to support staff regarding compliance with social distancing rules.
- Support core business: identify spaces that allow for temporary storage of material to support supply chain ramp-up, provision of space for additional production to catch up on COVID-19 backlog (e.g. for additional shifts or changed production processes).

A careful preparation and close collaboration with Operations, HR, Finance and other departments is the key to success in this phase.

3/ Long-term: Manage structural changes

In the long run, the priority for companies will be to mitigate the impact of future pandemics on employee health, operations and overall business. This implies structural changes to Corporate Real Estate and its management. Just as the 9/11 attacks created higher security standards, the COVID-19 crisis is likely to prompt a permanent elevation of health protection at work. CREM can play a key role by enabling productive social interactions while maintaining physical distancing. Even building codes may be amended to limit the risk of future pandemics. Thus, CREM is responsible to create conditions to ensure ongoing business operations, e.g.:

- Automated health protection: upgraded ventilation, air conditioning and air circulation systems with higher standards for filtering, disinfection and automated analysis for germs. Recent innovations include thermal imaging cameras which identify employees who may have a fever. Microphone-arrays systems may be used to evaluate office sounds (e.g. coughing) and estimate the infection risk based on artificial intelligence.
- Low touch' technologies: contactless / voice- or sensor-activated controls reduce the number of surfaces that need to be touched, e.g. access to buildings / rooms without touching a door handle, activating elevators with a wave of the hand and touchless restroom dispensing systems.
- Different surface materials: antimicrobial surface materials used in hospitals or laboratories may migrate to office environments. Self-sanitizing materials like Copper and its alloys might find more use again. Easy to wipe, smooth surfaces will be preferred to textured / porous ones that are more prone to harbor germs.

- Reimagined office spaces: densification and open-plan layouts may face a trend reversal to more sqm per employee to maintain physical distancing – however, this is likely to be balanced by a higher proportion of staff working remotely from the home office, so total space or office footprint may not increase. That said, layouts will certainly change and the recent trend of open plan, socially orientated working environments will need to shift to a new 'intimate but not close' configuration, posing a challenge for interior designers.

These measures should help maintain workforce productivity not only during future pandemics, but also during seasonal waves of influenza. While higher health protection standards will apply to all kinds of real estate, they are arguably even more important for business units that cannot easily switch to remote work, such as production, logistics and warehousing.

Along with innovations to Corporate Real Estate itself, the Corporate Real Estate Management function will need to incorporate new tasks and adapt its structures (organization, processes, etc.) in order to drive the transition, effectively manage the complex trade-offs and engage employees in creating new ways of working.

What is your vision for the upcoming months and for when the worst of the crisis has passed? Despite the negative effects – what are the opportunities that might be found during the crisis? How will CREM help you capture these opportunities?

About the Authors

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