

# Building Blocks of UPskilling

Business Unit  
Relationship

TALENT

training

Systems

Process

CB RICHARD ELLIS  
GLOBAL RESEARCH AND CONSULTING  
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**SPECIAL REPORT**

## The Evolution of CRE "Upskilling" the Downsized CRE Organization

## EXECUTIVE SUMMARY

Corporate real estate (CRE) organizations have undergone significant evolutionary changes over the last decade, most notably transforming from decentralized to centralized organizations and furthering the development of shared services and outsourcing models in the context of the CRE function.

Notwithstanding the ever-present pressures to rationalize real estate operating costs, the current global economic downturn has forced many CRE departments to downsize their own organizations. This downsizing comes at a time when CRE organizations

are also being called to be more strategic and proactive in how they navigate dynamic business cycles, intense competitive environments and increased scrutiny from regulators.

In response to the mandate to do "more with less," CoreNet Global and CB Richard Ellis (CBRE) recently completed an Evolution of Corporate Real Estate survey to ascertain current trends on CRE organizational size, sourcing strategies, services and skill sets. This survey, as well as empirical evidence from CBRE's own industry observations, brought to light the following key, interrelated findings:

<p><b>CRE Organizations are Rightsizing</b></p>	<p>Findings suggest that the centralization and outsourcing of real estate functions continue as anticipated. In addition, CRE leaders are also looking to gearing ratio benchmarks to help determine optimal staffing levels, using "rightsizing" to reconcile strategic priorities with staffing efficiency.</p>
<p><b>CRE is Increasingly Focused on Specialized Services</b></p>	<p>As CRE organizations look for ways to provide more service with less staff as a result of rightsizing, energy management, program management and other specialty focus areas are in demand.</p>
<p><b>CRE is Adopting a Partnership Approach With Service Providers</b></p>	<p>While focused on specialized services, CRE still requires effective, holistic delivery of fundamental real estate services. In an effort to move from tactical to strategic roles within the enterprise, forward-looking CRE organizations are also migrating from vendor contracts to strategic partnerships with their real estate service providers.</p>
<p><b>CRE Departments are "Upskilling" Their Organizations</b></p>	<p>As specialized services become commonplace for CRE organizations and service providers centralize fundamental service delivery for CRE departments, CRE leadership will need to "upskill" their groups to meet the needs of an increasingly complex and challenging business environment.</p>

## KEY FINDINGS

The research conducted by CoreNet Global and CBRE revealed four interconnected trends outlined in the following section. In essence, CRE departments, as a result of economic climate and desires for greater efficiency and service delivery, are centralizing and using gearing ratios to develop optimal staffing levels. At the same time, they are focused inward, finding strategic, specialized service capabilities to augment their core competencies. To achieve increased specialization and fundamental services, CRE departments continue to turn to service providers for assistance in delivering centralized real estate functions. This frees the CRE department to focus on increasing skills to respond to internal customers' business demands and opportunities.

- I. CRE Organizations are Rightsizing: Trends in centralization and outsourcing continue, while use of gearing ratios helps determine optimal staffing levels.

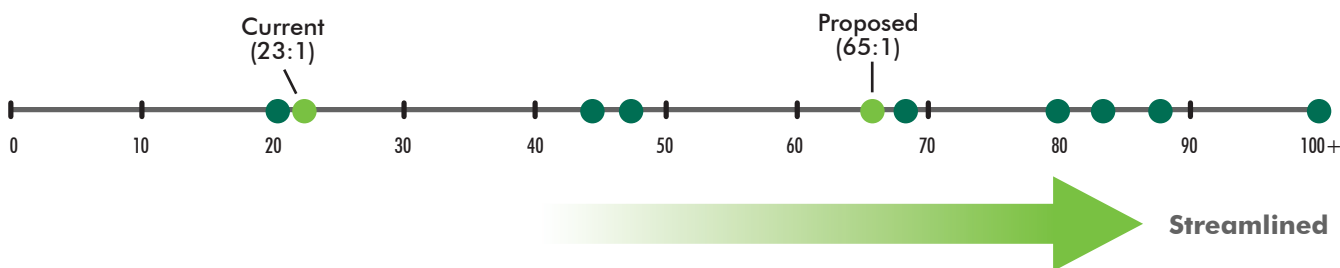
Of the survey respondents<sup>1</sup>, 57% indicated that their real estate operations were centralized, while 17% reported decentralized operations and 26% described their operations as being a hybrid. These results are consistent with a 2008 CoreNet Global-Deloitte Consulting study<sup>2</sup> in which 57% of executives surveyed rated their CRE functions as "fully centralized."

In response to continuous pressure to improve efficiency, 22% of respondents expect some decrease in CRE staffing over the next three years, while the majority of respondents (70%) expect the staffing to stay the same. When analyzing projected trends among centralized CRE departments, the number of respondents who expect some decrease jumps to over 80%, suggesting that efforts to achieve greater

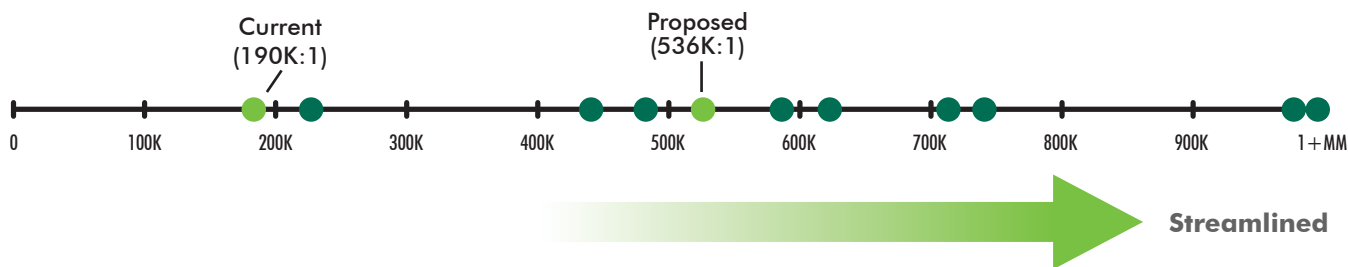
<sup>1</sup> n=23; average 22 million square feet under management and 636 FTEs including in-house and outsourced employees  
<sup>2</sup> CoreNet Global in partnership with Deloitte Consulting, April-June, 2008

**Figure 1: Illustrative Internal CRE "Stay Back" Team Benchmark**

Number of Properties Per In-house CRE FTE



SF Managed Per Number of In-house CRE FTE



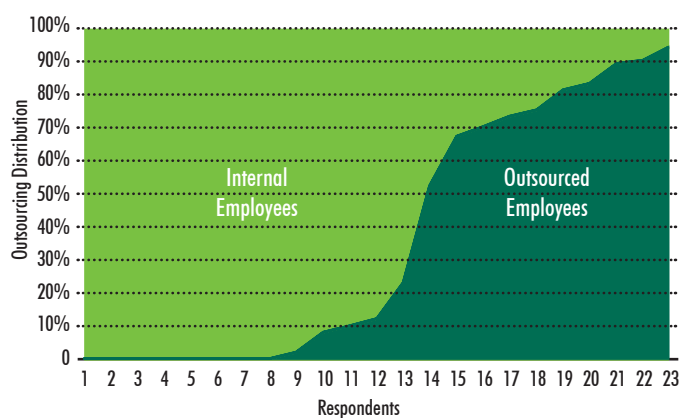
Source: © 2009, CB Richard Ellis, Inc.

staffing efficiencies are more easily achieved in a shared-services real estate environment.

While not in widespread use, gearing ratios, or the relationship between FTE and the underlying real estate requirement, are increasingly being used to determine the "right" size of a CRE organization, particularly when benchmarked against peers and competitors. Figure 1 on the previous page illustrates some sample internal CRE "stay back" team benchmarks. Gearing ratios, such as the ones illustrated in Figure 1, can be used to optimize the overall organizational staffing level, as well as the efficiency of in-house or service-provider staffing levels. They also can be tranced to normalize data for number of properties, square footage and other key metrics.

Survey results also indicate a wide range of outsourcing models, ranging from a first-generation, partially integrated and multiple-provider model all the way to third- or fourth-generation, fully integrated, single-provider platforms. Of those who reported an outsourced model, approximately 45% of FTEs were in-sourced and 55% outsourced. Figure 2 provides an overview of the distribution of internal and outsourced employees for each survey respondent.

**Figure 2: Distribution of Internal and Outsourced Employees for Each Survey Respondent**



Source: 2009 Evolution of Corporate Real Estate Study: CoreNet Global and CB Richard Ellis. Copyright © 2009. CoreNet Global. All rights reserved.

For those respondents who outsource, outsourced headcount is expected to grow, with approximately 35% of respondents projecting an increase over the next three years. Further, 35% of survey respondents expect an increase in the number of outsourcing service providers, while 61% expect to maintain the current number of service providers.

We will likely see a continued evolution in organizational models as CRE leaders seek the right balance between in-sourced and outsourced models for their changing needs.

## II. CRE is Increasingly Focused on Specialized Services: Energy Management, Program Management and other specialty focus areas are in demand as CRE organizations provide "more with less."

The 2009 survey suggests that many CRE organizations are focused on a variety of specialized practice areas (see Figure 3). This finding is not surprising given that in today's CRE world, most of the "low-hanging fruit" cost-savings ideas and initiatives have been harvested. CRE leaders are escalating efforts to identify new and innovative cost-saving opportunities as well as provide new levels of service to their internal customers, suggesting that the continued success of CRE organizations will stem from their ability to harvest "high-hanging fruit" and tap new areas of innovation in the real estate industry.

The survey indicates that CRE leaders are increasingly drawing on their ability to provide the following types of services to their internal customers:

- Portfolio Planning
- Sustainability/Energy Management
- Program Management
- Alternative Workplace Program Design and Implementation

## PARTNERING TO ACHIEVE ENERGY/SUSTAINABILITY INNOVATION IN WASTE DIVERSION

### Case Study: Sprint

#### *The Challenge*

Sprint, a national wireless and technology provider, wanted to add reliable data to its already impressive sustainability platform, which included a robust Energy Management program, a trial employee commute program, and a leading recycling program. Waste diversion, a combination of waste source reduction and recycling programs, was selected as a logical area to address current company initiatives to reduce carbon footprint and minimize waste diverted to landfills.

#### *The CRE Solution*

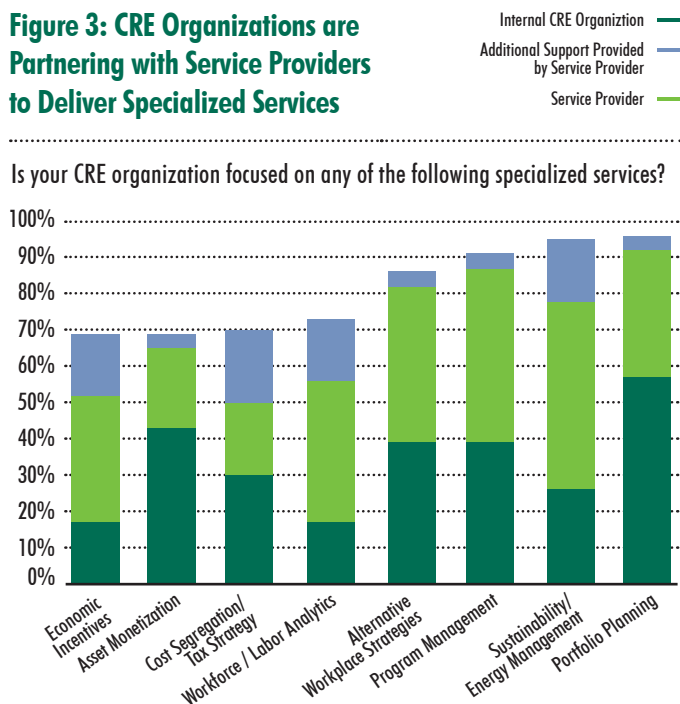
In January 2009, Sprint's Overland Park headquarters' already robust recycling program included paper, cardboard, plastic, aluminum, yard waste, wet waste (food compost), wood pallets, batteries, lamps, toner cartridges and other items. Upon hiring CBRE to provide facilities management services at its headquarters campus, the partnership developed a tracking system to capture all of the sustainable waste reduction activity at the campus.

Additional recycling containers were placed conveniently throughout the campus with clearly marked labels for waste and recyclables. In addition, the team researched and found a local composting vendor that could process all of the wet waste from the two dining centers and coffee shops. The resulting compost product is now purchased by Sprint and is used to landscape the more than 200-acre campus. The Sprint-CBRE team also recently partnered with a local for-profit venture among several vendors for glass recycling. Recycled glass collected from the Sprint campus will be crushed into cullet, and then turned into a fiberglass insulation product manufactured by Owens Corning. Finally, the partnership continues to manage an employee personal document-shredding program at the Sprint campus. All of the recycled paper is then added to Sprint's materials and is reported monthly by CBRE, along with all other recycle and waste data.

#### *Results*

Sprint is moving quickly toward its goal of increasing its recycled materials to 50% of its total waste stream by 2017, with the headquarters campus already recycling approximately 25% of all waste from the property. However, the Sprint-CBRE partnership is more importantly committed to looking for ways to divert waste from landfills by using less. In the first half of 2009, Sprint recycled a similar amount of material compared to the same time frame in 2008 (427,180 pounds of recyclable material at the headquarters campus), despite the decrease of 3,000 employees at the campus. In addition, during this same period in 2009, Sprint achieved a 50% reduction in the amount of landfill waste it generated.

**Figure 3: CRE Organizations are Partnering with Service Providers to Deliver Specialized Services**



Source: 2009 Evolution of Corporate Real Estate Study: CoreNet Global and CB Richard Ellis. Copyright © 2009. CoreNet Global. All rights reserved.

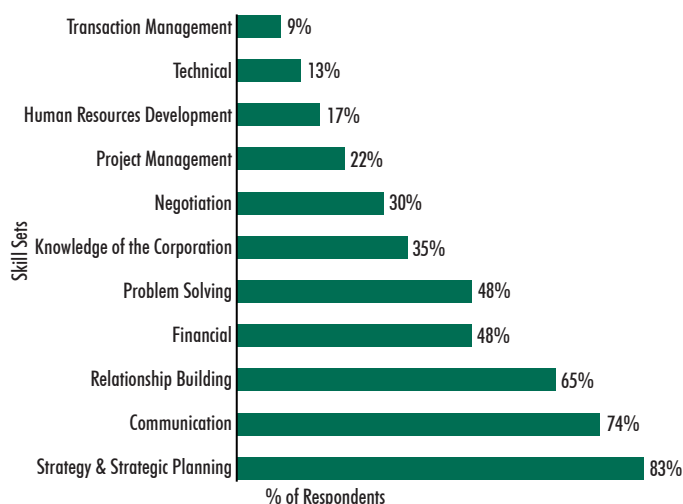
The survey results also suggest that CRE leaders are turning to service providers to provide additional support in these emerging scopes of service, particularly in the areas of Cost Segregation, Labor Analytics, Economic Incentives and Sustainability/Energy Management. The Sprint story on page 5 provides an example of a CRE organization that is leveraging the support of its service provider to further develop an already robust sustainability platform.

**III. CRE is Adopting a Partnership Approach with Service Providers: As internal CRE organizations reposition their orientation from tactical to strategic, service provider relationships are evolving to the partnership level in many forward-thinking companies.**

As indicated in the Robert Half International story (see page 8), CRE leaders are working to find the right balance between in-house and outsourced services while

evaluating the core competencies and skill sets that are best kept in-house. As this survey and prior research corroborates, many CRE organizations are shifting their focus to place greater importance on strategic and communication-focused skills. The survey results presented in Figure 4 show that the top four critical skill sets of the future CRE organization are Strategy and Strategic Planning, Communication, Relationship Building, and Financial Skills. Less than 10% of survey respondents reported that Transaction Management would grow in importance in the next three years.

**Figure 4: Skill Sets Predicted to Grow in Importance Over the Next 3 Years**



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This “upskilling” of the CRE organization—the effort to make the internal CRE organization more efficient (through the use of well-gearred staffing ratios, performance measurement and benchmarking) and more effective (better partners to the business units and enterprise stewards)—represents a significant transformation in our industry, and one that is both enabled and supported by the evolving relationship with the service-provider community.

Figure 5 illustrates the evolution of the internal CRE organization's focus and capability, as well as its relationship with its external partners. While no one organization fits comfortably in any one "generation" (in fact, most organizations have elements that rest in multiple columns), a thoughtful reflection of a company's culture, skills and orientation will typically place a CRE organization's evolution in one part of the spectrum.

Given the continued downsizing of CRE organizations and the mandate to do "more with less," forward-thinking CRE organizations are taking advantage of their ability to reposition their internal resources as they shift more tactical and specialized work to service-provider partners. Looking back to the survey data in Figure 3, more than 70% of survey respondents indicated that service providers were either wholly performing or supporting the internal CRE organization in the following areas:

- Workforce/Labor Analytics
- Sustainability/Energy Management
- Economic Incentives

An additional 50-60% of survey respondents indicated similar support in the areas of Program Management, Alternative Workplace Strategies, and Cost Segregation/Tax Strategy.

"CRE [outsourced] partners provide expertise and specific training and development to their real estate professionals. The corporate [CRE] group is not as skilled in those market-based functions. You should continue to see more integration between CRE departments and service partners at a strategic level."

**Alan McGinty,**  
*Director, Global Partner Strategy,*  
*Workplace Resources*  
 Cisco

**Figure 5: Real Estate Organizations Continue To Evolve**

	1st Generation	2nd Generation	3rd Generation	4th Generation
<b>Strategy</b>	<ul style="list-style-type: none"> <li>• Reactive</li> </ul>	<ul style="list-style-type: none"> <li>• Increasing focus</li> </ul>	<ul style="list-style-type: none"> <li>• Established discipline</li> </ul>	<ul style="list-style-type: none"> <li>• Integrated and evolving with the business</li> </ul>
<b>People/ Organization</b>	<ul style="list-style-type: none"> <li>• Heavily in-sourced</li> <li>• Focus on early adopters</li> </ul>	<ul style="list-style-type: none"> <li>• "Core competency" concept</li> <li>• Functional silo outsourcing</li> <li>• Heavy functional shadowing</li> </ul>	<ul style="list-style-type: none"> <li>• Integrated outsourcing</li> <li>• Eliminate the shadows</li> <li>• Variable resource models</li> </ul>	<ul style="list-style-type: none"> <li>• Global integrated outsourcing</li> <li>• "Just in time" expertise</li> <li>• Leadership</li> </ul>
<b>Partnership</b>	<ul style="list-style-type: none"> <li>• <b>"Vendor"</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>"Service Provider"</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>"Partner"</b></li> </ul>	<ul style="list-style-type: none"> <li>• <b>"Collaborator"</b></li> <li>• <b>"Innovator"</b></li> </ul>
<b>Process</b>	<ul style="list-style-type: none"> <li>• Ad hoc, inconsistent process across multiple locations</li> </ul>	<ul style="list-style-type: none"> <li>• Process documentation and codification</li> </ul>	<ul style="list-style-type: none"> <li>• The drive for consistency</li> <li>• Global</li> </ul>	<ul style="list-style-type: none"> <li>• "Innovation through collaboration"</li> </ul>
<b>Systems and Technology</b>	<ul style="list-style-type: none"> <li>• Ad hoc implementation</li> </ul>	<ul style="list-style-type: none"> <li>• Focus on key functions (e.g., lease administration)</li> </ul>	<ul style="list-style-type: none"> <li>• Standardization; integration</li> <li>• Reporting</li> <li>• Point Solutions</li> </ul>	<ul style="list-style-type: none"> <li>• The promise of breakthrough efficiency through enabling technologies</li> </ul>
<b>Performance Measurement</b>	<ul style="list-style-type: none"> <li>• Ad hoc</li> </ul>	<ul style="list-style-type: none"> <li>• Functional KPIs</li> </ul>	<ul style="list-style-type: none"> <li>• Measure what matters</li> <li>• Benchmarking</li> </ul>	<ul style="list-style-type: none"> <li>• Total outcome KPIs</li> </ul>
				<b>VALUE</b>

Source: © 2009, CB Richard Ellis, Inc.

## "UPSKILLING" THE DOWNSIZED REAL ESTATE ORGANIZATION

### Case Study: Robert Half International (RHI)

#### A Perspective by Tom Crowley, Vice President, Director of Real Estate and Facilities

##### *The Challenge:*

RHI, the world's first and largest specialized staffing firm, experienced significant portfolio growth over the last five years that taxed the internal team's ability to stay current with the growing workload. Most of the in-house personnel were focused on transactions and projects, and consequently, were spending most of their time in the trenches working only on tactics. With limited headcount and hours in the week, we could only get a certain volume of transactions and projects over the finish line. As the volume grew, and the CRE team was spread even thinner, our delivery quality suffered along with our customer relationships.

##### *The CRE Solution:*

We realized that the workload would continue to grow and additional headcount would be tough to justify under the current model. Instead of trying to turn the crank faster, we focused on moving upstream in the process. We believed that an individual with the right training and tools could oversee a portfolio of projects from a planning perspective, versus focusing on individual projects from a delivery perspective. We also identified centralized Web- and network-based tracking tools to allow easy distribution of data and enhanced collaboration with partners and vendors. To enhance our planning capabilities, we provided sales training to our CRE personnel to facilitate their transition from transaction and/or project managers to customer relationship or portfolio managers.

For added resources, we engaged vendors throughout the world (global, national and local) to focus on all tactical aspects with the overriding theme that a vendor/partner is only as good as the person assigned to a specific job. We also utilized change-management techniques with in-house staff to help foster an environment of living vicariously through vendors versus doing everything themselves.

##### *Results:*

This journey has allowed our internal CRE team to develop skills, methods, practices and relationships to further its strategic value to the firm, to handle an increased workload with reduced full-time staff, and to guide real estate strategies versus simply implementing tactics. Our team is now routinely sought out for counsel and input during quarterly and annual planning processes, and is seen as a strategic business partner with our field organizations. Our customer- and portfolio-management skills have improved to mirror best-in-class internal CRE and vendor organizations. During the recent economic challenges, with this newly established seat at the strategic table, the CRE team was integral in driving proactive cost-containment strategies throughout our worldwide portfolio, while handling the increased workload of reviewing each location for potential savings opportunities.

**IV. CRE Departments are "Upskilling" Their Organizations: Bolstering skills is critical to continued success in an increasingly complex and challenging business environment.**

Given the mandate to be effective with fewer resources, maintain service levels, and leverage service-provider relationships, the "upskilling" of the internal CRE team has never been more important. However, industry research has shown that CRE executives perceive a gap between what skills are essential for success and the current capabilities of their teams. The question then becomes: How do we enhance the skills of our increasingly scarce resources?

In his widely read book *Good to Great*<sup>3</sup>, Jim Collins suggests that transformation begins by getting the right people on the bus and in the right seats. In this context, this means refocusing and reorganizing the CRE function to:

- Define the CRE value-add to the enterprise and business units given the underlying business outlook
- Determine the core purpose, interface and deliverables of the CRE team and where it can add the most value
- Identify the key leadership and management talent that can drive the new organization and mandate
- Create partnerships with service providers that can adapt to and evolve with future needs

In Jim Collins' words, "confronting the brutal facts" about the right organizational structure, talent and gearing ratios will ensure the new mandate is achieved.

Upskilling the internal CRE team is certainly no easy task. Figure 6 suggests that a variety of complex factors make up the "building blocks" of upskilling. The right organizational structure serves as the foundation for the success of the entire CRE organization. This structure, along with an effective CRM function, will foster a successful partnership with the business units. The right processes and systems will enable CRE organizations to work more efficiently and effectively with fewer resources. Once the proper CRE organizational model, processes and

<sup>3</sup> Collins, Jim. *Good to Great: Why Some Companies Make the Leap...and Others Don't*. New York: HarperCollins Publishers Inc., 2001.

**Figure 6: Building Blocks of UPskilling**



Source: © 2009, CB Richard Ellis, Inc.

systems are in place, ensuring the right people are in the right roles is crucial to upskilling the scarce resources.

"You will see more emphasis on in-house people with vision and broad perspective."

**Con Healy**

*SVP, Corporate Services Administration*

**AMERIGROUP Corporation**

However, even the "right" people often lack all of the necessary skill sets to be most effective in their new roles. There are a variety of training opportunities available for in-house CRE teams, but the challenge for many CRE

leaders is to effectively identify the precise skills that are critical to the successful upskilling of the CRE staff.

The 2009 survey respondents commented that CRE organization skill sets will shift more in the future to accommodate a "strategic partnership with business units versus tactical delivery of transactions and projects," and respondents noted that future skill sets must move toward higher competency levels. These results highlight CRE organizations' need for more strategic and consultative skill sets as the internal "stay back" team plays a more strategic role with the business units and C-level executives.

Research conducted by: CoreNet Global and CB Richard Ellis, April – June, 2009

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