



SPECIAL RESEARCH REPORT

The Economy's Impact on Corporate Real Estate
*The Continuing Influence of
Changing Economic and Market Conditions*

May 2009

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Report Overview

The tone of this report is consistent with previous, related tracking of economic trends and their impact on the corporate real estate (CRE) industry, as well as the commercial and capital markets.

This update offers some signs of improvement as silver linings possibly turn to green shoots.

But tentative, early signs of recovery are still offset by what is now regarded as the most serious commercial real estate downturn since 1990 – 1992.

CRE is one of many business sectors to be hard hit by a macro-economy that is, in turn, seen as the worst downturn since the Great Depression. In fact, the current period is now sometimes referred to as the “Great Recession.”

The global nature of the recession, along with its length and depth, is making it so. Resulting issues like rising unemployment, the near absence of liquidity, weak rental prices, low levels of capital expenditures and access to capital for refinancing remain among the reasons why the commercial real estate markets are unlikely to see recovery at least until 2010, as our report data show and expert views support.

With the arrival of spring in the Northern Hemisphere, a new sense of optimism is emerging. However, the hopeful mood is tempered by the fact that property markets continue to decline around the world. Vacancy rates are climbing, the thawing in global credit markets is slow to reach the property sector and transactions are few.

[Click here](#) for a Global Market Perspective via Jones Lang LaSalle

Our latest report is part of an ongoing series of findings about how the supply and demand sides of the CRE industry are impacted by and responding to sustained recessionary pressures.

Report Methodology

This CoreNet Global Research Report draws from a wide set of CoreNet Global sources culling survey data, expert analysis, reportage and direct input from senior leaders and other industry professionals. Some of the findings are also tracked against previous, related studies to offer a longitudinal view.

All of the data and findings that form the report's basis have been culled from surveys conducted largely in or completed by April of 2009, or the outset of Q2. Previous versions of the study were done in August and November of 2008, Q3 and Q4 of last year.

The findings are based on:

- Survey Results on [Current Strategies for Expense and Capital Management](#)
- Corporate Real Estate and the Economy: [Dallas Global Summit Survey](#)
- Global Survey on [Alternative Workplace Strategies](#)
- Dallas Global Summit [Mega-Session Expert Presentations](#)
- Dallas Global Summit [Mega-Session Roundtable Results](#)
- Executive Leaders Council [Visioning Session](#) at the Dallas Global Summit

Considering the fast-changing nature of the current landscape, the findings and observations contained within this report may take on different outcomes or appear to have shifted yet again in future weeks or months as compared to the snapshot or baseline offered at this time.

Industry Outlook

The industry's general perception of the current economic outlook is being captured in our rolling survey series on [Current Strategies for Expense and Capital Management](#) mainly through the CoreNet Global membership base.

A key, implied expectation is that the CRE markets could bottom out in 2009

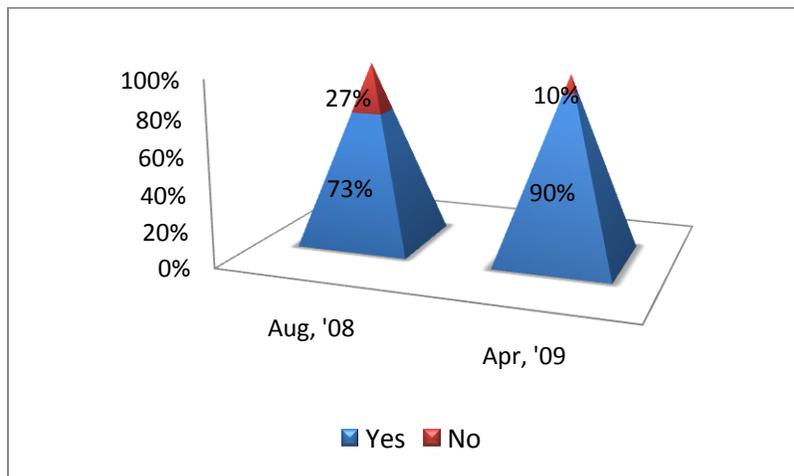
The latest sample completed in early April 2009 totals nearly 400 respondents from the occupier and service provider sides of the industry globally.

As seen in the November 2008 sample, respondents to the most recent survey expect the recession to end in 2010 (46%). The proportion that sees the downturn ending in 2011 also remained in line with previous samples (35%). A key, implied expectation is that the CRE markets could bottom out in 2009.

The leading issue hasn't changed in the nine months of tracking the results. A prolonged lack of access to and availability of capital still resonates as an overriding factor that is at once the central problem and solution for the current economic state.

The latest results show that pressure on CRE capital expenditures is intensifying. "Cash is king," as one global head of real estate remarked at the recent Dallas Roundtable Mega-Session. It's an echo of a similar feeling expressed early in 2009 that "hoarding cash is the new chic."

QUESTION: Within the past 12 months, has your company made significant changes in planned initiatives and activities to reduce expenses or conserve capital?



Source: CoreNet Global

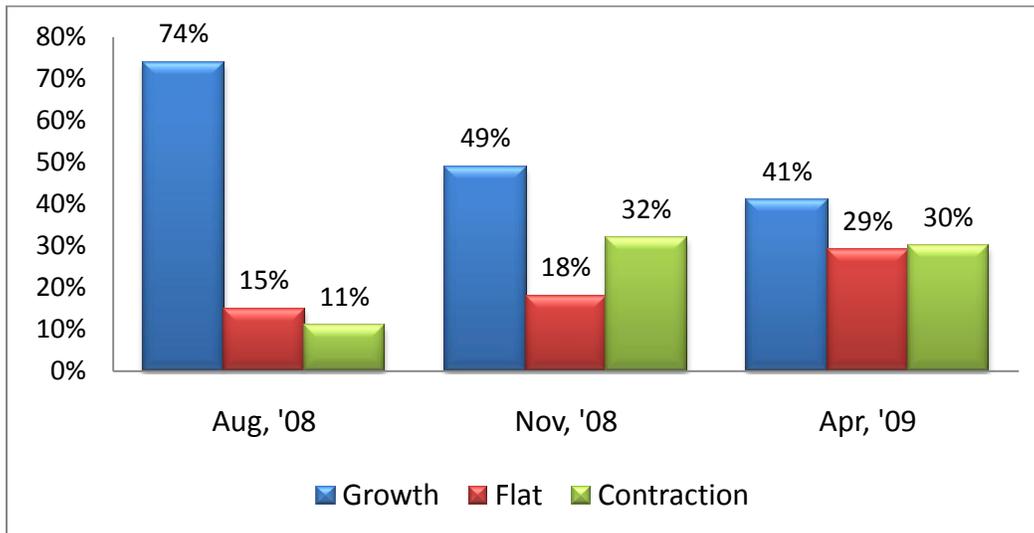
As part of the cap-ex squeeze, CRE operating budgets continue to decline, capital budgets are more constrained, travel restrictions and hiring freezes are becoming common, and portfolio management is more aggressive, including leasing and alternative workplace strategies. The frequency of outsourcing is still growing (25%) but it slowed, probably due to tighter capital on the client side, compared to November 2008 (33%).

Another aphorism running across the industry is, "Flat is the new up."

While nearly three-quarters (74%) of respondents said that growth is the term best describing conditions at their companies last August (prior to "Black October"), less than half (41%) ascribed the same optimism in April of this year.

Whereas less than a fifth (15%) said conditions were flat in August, the proportion grew substantially (29%) this past April.

QUESTION: Which term best describes current business conditions at your company?



Source: CoreNet Global

Looking Beyond the Downturn

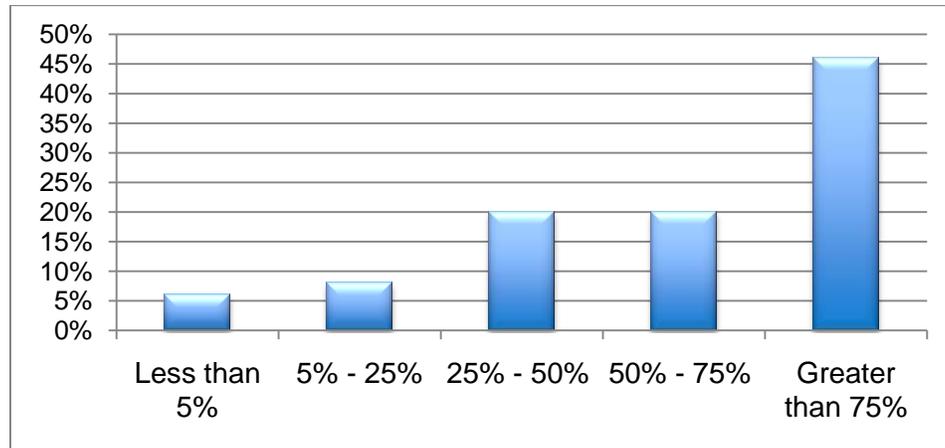
A [related survey](#) conducted on site at the recent [Dallas Global Summit](#) probed approximately 200 members' concerns for what might happen after the recession ends.

Overall, there is a lack of consensus on possible key outcomes, because the results fall consistently below the 50% level on these possible scenarios:

- Chances a structural correction in global capital markets will impact all sectors and the CRE markets
- Devaluation of corporate-owned real estate assets having major negative impact on balance sheets
- A significant number of landlords becoming financially insolvent
- Commercial mortgage backed securities remaining the primary funding instrument for CRE
- More consolidation among global service providers, resulting in fewer major players
- Increased risk assumption leading to the failure of a major service provider

The one point on which nearly half (45%) of CoreNet Global respondents agree is the profound depth and length of this recession, concurring that this recession's impact on the CRE industry has a strong probability of reaching levels seen in what is considered the commercial real estate depression of the early 1990's.

Likelihood of outcome: The current environment will become the worst real estate downturn since 1991- 1992.



Source: CoreNet Global

How Industry Experts View the Economy

The view expressed above about how this downturn could likely reach the severity of levels seen in 1991 – 1992 carried over into other channels and indicators.

One of them was a panel of experts convened for the [Tuesday Mega-Session](#) at the [Dallas Global Summit](#) to address the macro-economy and its effects on the capital and commercial markets, as well as on private equity sources. The latter are viewed as part of the solution to a turn-around.

Ray Torto, Global Chief Economist for CB Richard Ellis, surpassed the general thinking about how today’s situation matches that of the early 1990’s. “The fundamentals show that 2009 is actually worse than 1990 – 1992,” he advised.

***The U.S. government ‘is doing the right thing as best it can ...
China is the only one doing it larger’***

While Torto offered some optimism by saying “GDP may turn positive this year,” he cautioned that job losses – which directly impact occupancy levels, leasing activity and investment vitality – won’t reach bottom until Q2 of 2010. Previous job growth peaked in January 2008, he added. “Job losses as a key indicator are a better reflection of (CRE) market fundamentals.”

He called it a “demand-induced, not supply-induced” CRE downturn, alluding to the near absence of capital spending and space expansion by corporations in most sectors.

Vacancy and Availability Rates

	2009Q1	Previous Peak Year	"Natural Rate"
Office	14.7	19.0 / 1992	13 to 15
Industrial	12.2	11.8 / 2004	9 to 10
Retail	11.5	11.4 / 1992	9 to 10
Multifamily	7.3	6.8 / 2003	5 to 6
Full Service Hotels	40.1	44.2 / 2001	32 to 34

Hotel 2008q4

Source: CBRE Torto Wheaton Research Q1 2009

Other key points raised by Torto:

- The housing bubble was an historic starting point for the recession late in 2007
- The U.S. isn't the only country to have had a housing bubble or high unemployment (near 9% or so in the U.S. as of May 2009)
 - o Spain unemployment is 17%
 - o The U.K. "is even higher and suffering more"
 - o Employment growth in Singapore is at -20%
 - o GDP growth in the U.S. is running at -6.3%
 - o In the UK, GDP is at least -6.5%
- The U.S. government "is doing the right thing as best it can (via TARP, TALP and PPIP). China is the only one doing it larger."
 - o A [Globe Street](#) interview termed the government stimulus package as "the lesser of two evils."

When recovery comes, it will be mild because of:

- Weaker consumer spending
- Restructuring of the financial and auto industries
- Housing in a slump
- Slow corporate return to spending

Torto cautioned corporate tenants that “if you already haven’t given it (excess space) back, it’s too late.” He also advised them to “stress-test your landlords to see if they’re going to make it,” adding that for corporate occupiers, “It’s a wonderful opportunity to make a good deal.”

Kenneth Rudy, President and COO of Capital Markets for Jones Lang LaSalle, picked up on the same point about how current conditions have made for another tenant’s market. “There are tremendous opportunities to go long with leasing or acquiring properties,” he observed.

Sam Gillespie, COO of the private equity firm Behringer Harvard Opportunity Advisors, agreed. “It’s the right time to go long on lease obligations,” he added. “Blend and extend is a good idea to take advantage of lower lease prices.”

Rudy injected that lower prices may spell “some movement back to the owner-occupier model” seen before the Dot-Com crash, despite the question of lower valuations. Reasons include real estate capital costs and GAAP accounting issues that will remove property from the corporate balance sheet.

No doubt, there have been some positive indications of an upward swing, otherwise known now as “green shoots.” Some of them include:

- Better performance of the stock market
- Relatively positive initial bank ‘stress test’ reviews
- Lower interest rates
- Factory orders increasing slightly
- Recognition of a re-strengthening in the value of REITS
- Lots of capital waiting on the sidelines for conditions to improve

But the expert panel agreed that these are potentially ephemeral signals that haven’t yet become pronounced trends. That’s why federal stimuli, while political, now represent an important path to recovery, at least in part.

The latest action taken by the U.S. Federal Reserve introducing the PPIP (Public-Private Investment Partnership) is meant to reintroduce private equity as part of the solution to refinancing a large tranche of commercial backed mortgage securities now coming due, for example.

If the stimulus packages are not effective, “Will we have the political will to go back for more?” Rudy wondered.

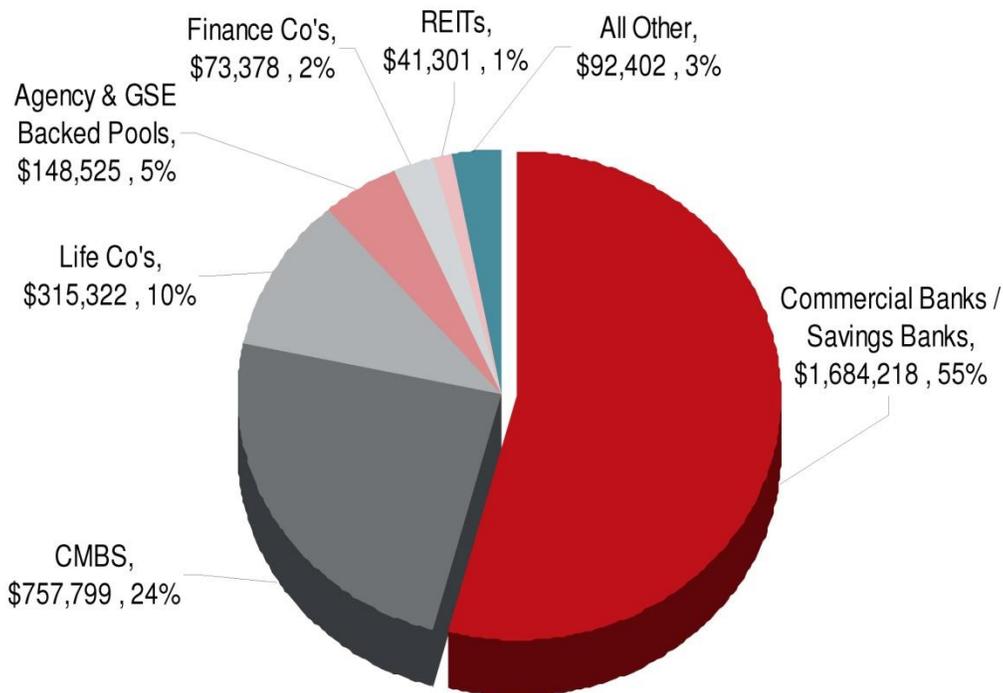
The PPIP will use up to \$100-billion in TARP funds to help with:

- **Shared risk and profits with private sector participants**
- **Private sector price discovery**
- **Maximizing impact of public sector capital**

Source: Behringer Harvard

“The debt markets are a cornerstone to the capital markets,” Rudy said, which is why using \$100-billion in remaining TARP funds combined with private equity is important to cleaning toxic assets, restoring liquidity and recreating the markets again.

As the graphic below reflects, refinancing considerable levels of outstanding commercial debt is one of the key issues currently facing the industry, Rudy also explained.



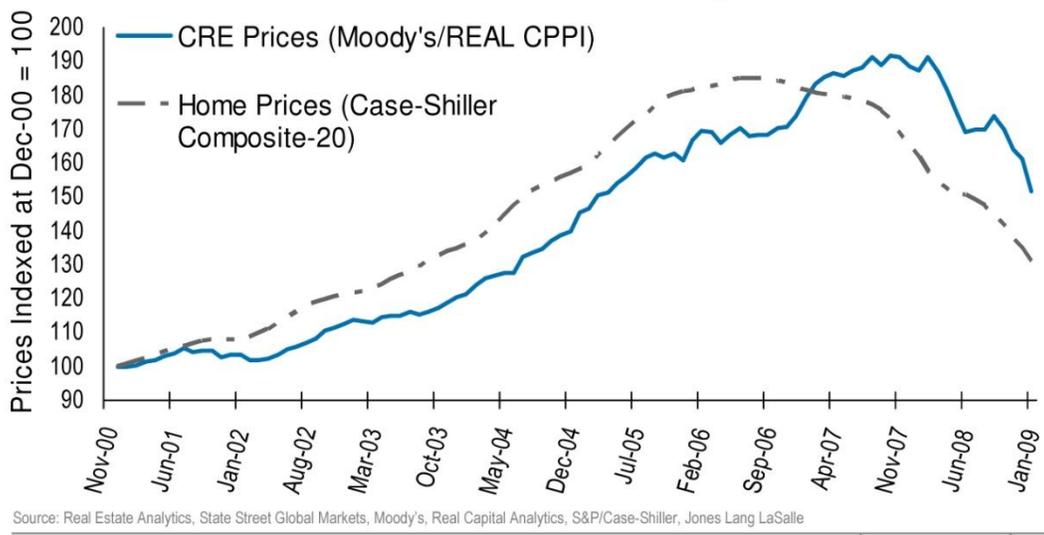
Source: Mortgage Bankers Association via JLL

Part of this will entail “the acquisition of existing debt at a discount,” as Gillespie related. “Lenders need liquidity too,” he said. Gillespie added that “it’s a very interesting time to be an opportunistic investor,” providing a strong hint of the vital role that private equity interests such as he represents will play in a recovery.

Lower prices may spur investor or even occupier interest, but this points to one of the many paradoxes characterizing the downturn: “Asset values are an issue,” as Torto noted. They are down by as much as 30%.

Values Are Expected to Fall More

Moody's/REAL Commercial Property Price Index Down 21% from Peak To-Date
Further 20-30% Decline Likely



Transactions and leasing are ‘severely impacted by the continuing adverse and unprecedented conditions in the global capital markets and the economic recession in the U.S. and in a majority of other global economies,’ as one service provider CEO commented in early May. Following the first quarter, all the major brokerages reported losses together for the first time in memory.

[Click here](#) for the CoStar Advisors report

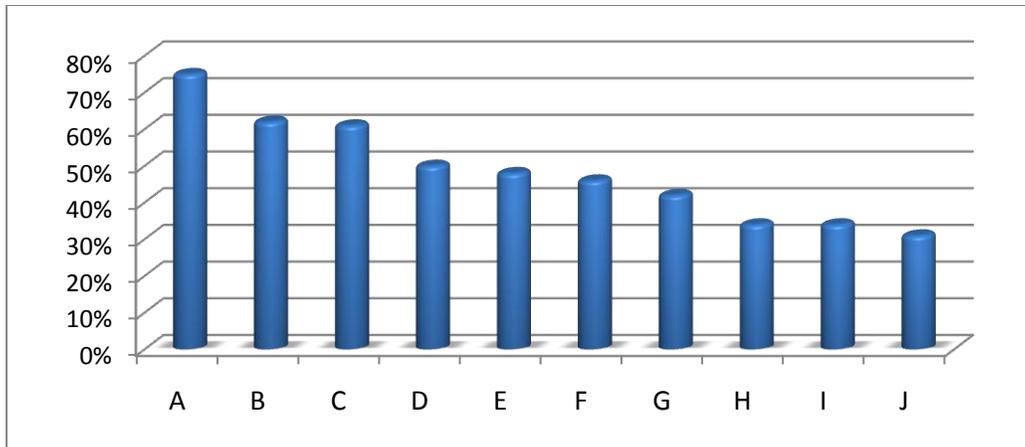
Torto rates this time as “worse than any post-war recession. It’s not the depression, but it’s bad.” Rudy also offered the observation that, “The credit and financial markets led this recession. That’s unusual.”

Against this highly uncertain backdrop, new data show that CRE organizations are responding to the internal call for more aggressive portfolio management as an economic hedge.

Leasing strategies have emerged in recent weeks as the most preferred way to take immediate cost out of the CRE run rate, but alternative workplace strategies (AWS) like mobility, telework, VOiP, high resolution video teleconferencing and densification are also moving to the forefront of expense reduction actions being taken.

**Strategies companies are using to reduce costs
Associated with the portfolio of leased and owned property**

- | | |
|---|---|
| A: Deferment of capital projects | F: Accelerate projects reducing cost |
| B: Restructure leases | G: Cancel capital projects |
| C: Redesign office space/density | H: Sale of owned properties |
| D: Early lease termination options | I: Implement telework programs |
| E: Reduce/defer maintenance | J: Move to lower-cost facilities |



Source: CoreNet Global

Economy Spurs Wider AWS Adoption

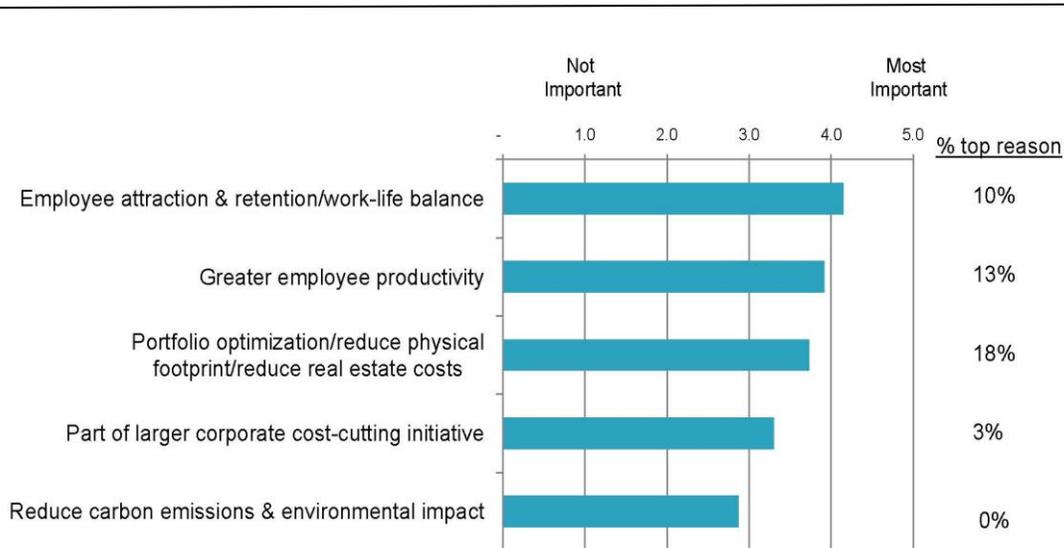
Another CoreNet Global ongoing worldwide survey is our study tracking [the adoption rates of alternative workplace strategies](#) (AWS) in partnership with Microsoft Corporation. Nearly 300 industry executives, most of whom have global responsibilities, responded to the survey prior to the Dallas and Macau Global Summits held in April and March, respectively.

While the Dallas sample shows more than three-fourths (76%) of the respondents have alternative workplace strategies already in place, the findings also indicate [AWS adoption is growing](#) now more due to economic and cap-ex pressures, whereas before the downturn AWS were mainly associated with business drivers like productivity, talent retention or even sustainability.

Three key operating expense areas are at the heart of the issue currently, the survey outlined:

- Big pressure on travel cuts or freezes
- More pronounced salary freezes, or cuts in some cases
- Widespread hiring freezes and staff reductions or layoffs

More than a fourth (29%) of respondents introduced AWS in the past two years, a reflection of the growing influence of the economy on AWS adoption rates. Cost control factors now comprise 21% of the top reasons for using AWS compared to the 23% who associate AWS with employee retention and productivity, as the graph below shows.



Source: CoreNet Global – Microsoft AWS Survey

One outcome is that companies responding to the survey have already saved 20% on travel costs by stressing virtual collaboration instead of travel. It's also a sign of an increasingly dispersed workforce globally, regardless of the economy.

It has led to a very substantial 30% decrease in space, along with lower telephony costs because of more advanced and lower-cost technologies that promote teamwork even when people aren't located together. Still, the cost of technology for companies just now embarking on AWS versus others that started them before the downturn, is considered an obstacle.

Another data point of note: more than half (59%) of respondents report that they are leading AWS initiatives inside their enterprises, directly implying the strategic alignment of CRE with the business plan.

Industry Practitioners Share Their Views

Members and other industry professionals shared their first-hand views of the economy and its impact on CRE as part of this study, offering a more granular perspective on a complex set of dynamics. ([Click here](#) for an in-depth roundtable summary.)

We captured their opinions and probed their expectations in a series of roundtable discussions held in conjunction with the Dallas Global Summit Mega-Session on [Corporate Real Estate Capital Markets: Threats and Opportunities Today](#).

After the expert panel framed the macro-economic and industry outlook, nearly 100 roundtable participants offered their analysis on these [key issues and challenges](#):

- Portfolio Opportunities and Solutions
- New Approaches to Outsourcing
- Workplace Strategies
- Maintaining Sustainability as a Strategic Objective
- Risk Mitigation
- Solutions for Today: Positioning for the Turnaround

Portfolio Opportunities and Solutions

There are many ways CRE leaders are delivering on a 'rapid response' to the economic crisis by using the portfolio as an economic hedge to benefit the enterprise. "The focus is on immediate cost reduction," as one global head of CRE put it. "Cash is king," another major occupier contended about the unprecedented pressure on cap-ex. This type of thinking won't change when there's an upturn. As a third senior-level occupier predicted, "Don't believe changes we're seeing now will be temporary. Things will continue in the same manner even after recovery."

Readiness of the portfolio to help drive the business is key, regardless of the economy

Questions include:

How is CRE balancing the needs of immediate cost reduction against the strategic view of an eventual economic and corporate recovery?

New Approaches to Outsourcing

There's some talk about how the CRE service delivery model will morph yet again on the other side of this downturn. But to what extent can it change even more, given the fact that most global corporate clients now need service providers who can deliver on a global scale? Add to that the continued long-term tendency by corporations to outsource most functions that are non-core or unrelated the business. Any fundamental change is likely to come through fabric of strategic service delivery, the partnership role played by service providers and the assumption of more risk as part of that higher-level relationship. The classic question of the single-provider vs. multiple-provider model is still open for debate, too.

Questions include:

Will there be a consolidation among major players in the service provider industry as a result of the economic downturn? If there is a consolidation, how would it affect services (and costs) for corporate occupiers?

Executive Leaders Council Forecast

Members of CoreNet Global's Executive Leaders Council also weighed in on [what's next for CRE](#) as part of the Dallas Global Summit.

Industry Leaders project a 75% or greater probability of:

- Ownership model for real estate will change
 - Especially with new GAAP Accounting Model
 - Increase in Flexible Space
 - Lower Priced Assets
- Valuations will permanently change
- Institutional vs. Flexible Financing
- There will be a Surplus of Available Space
 - Leading to more flexible leases

"Forward thinkers are taking advantage of opportunities that markets now present" - Global S.P.

"In the last real estate recession our company paid \$.50 on the dollar for real estate." Global E.U.

Source: CoreNet Global

Workplace Strategies

Optimizing space and portfolio reduction have become the major motivations for using AWS in the current climate. Before the recession, talent issues topped the list. While they're still important, corporate workplace drivers like talent and productivity are balanced against immediate cost-cutting pressures. Recent [workplace survey results](#) show the leading areas of operating expense management are travel costs, salary freezes or cuts, and staff reductions or hiring freezes. Still, as the study suggests, AWS can deliver both efficiency and effectiveness in a sort of 'virtuous circle' of cost management and productivity enhancement.

Questions include:

Does your company employ mobility programs or Alternative Workplace Strategies (AWS)? If yes, have you found that the increasing focus on costs has enabled you to expand participation in the program?

Speed to market issues and cycle times, plus location factors, are placing CRE at the point of the enterprise

Executive Leaders Council Forecast

Industry Leaders project a 75% or greater probability of:

- Continued Globalization
 - “Growth is overseas” – Global S.P.
- Consolidation
 - “2-3 mega-providers”
 - Mid Level : “Consolidate or fail”
 - Niche Firms more agile, will survive
- Financially driven event due to T.I./debt ratios etc.
 - Could create opportunities to add service, capacity, or geography
- Service Providers focus broadens with client business model
 - Better budgeting for strategic services

“Risk transfer through outsourcing, will bring down a major service provider” - Global E.U.

Source: CoreNet Global

Maintaining Sustainability as a Strategic Initiative

Companies clearly consider sustainability and corporate social responsibility (CSR) as strategic priorities despite the economy. However, with profound cost cutting pressures rising to the fore, indicators like LEED certification haven't disappeared, but they are less prominent.

CRE people are being asked to deliver lower-cost sustainability solutions with quicker ROI. That's why energy management has become the leading form of sustainability inside a growing number of companies. Saving on energy use saves money, reduces carbon emissions and pays for itself in reasonably short intervals. Alternative workplace strategies help save energy, too. Still, there are many other forms of sustainability that some companies integrate across their supply chains, product lines or daily operations, many of which are harder to fund right now.

Questions include:

We asked this roundtable group one key question: *How do you maintain or implement sustainability on a shoe string?*

‘We need to be able to make a strong business case for sustainable practices’

Member Perspectives

Roundtable Views on Sustainability Issues

“Why has interest in sustainability seemingly declined in the last year?” wondered one end user. “It’s because it is perceived as costing more, at a time when nobody wants to spend. But the reality is sustainability isn’t about *spending* money. It’s about *saving* money.”

“Yes, people are focused on how bad the economy is. But look at sustainability as a way to generate ROI by changing behaviors. It’s an interesting way to reduce costs and prepare for the turnaround and even generate some revenue that wasn’t there before.” “We work a lot of restructuring leases for corporations,” countered a service provider. “We’re helping them to save money. But sustainability tends to be a long-term investment. Companies are not that interested now in the long term. Everyone is in survival mode.”

Noting the passion younger workers often have for sustainability, “the demographics are screaming for a commitment to sustainability,” an end user urged. “If we do not act, we will find ourselves in trouble later in attracting people for whom sustainability is so important.”

Said one Baby Boomer: “I work with young guys. When they leave the office, they turn out the lights. Now they’ve got me doing it. It’s social pressure that’s bubbling up.”

Maybe it’s better to encourage behavior change and get people to turn off the lights vs. installing capital investments that will do it for us, suggested someone else.

One company in attendance noted that its home-page announcement of a new company-wide sustainability program got more hits than any other announcement in the history of the company, illustrating clearly that sustainability is still very much on the agenda for many employees.

Key in advancing the sustainability agenda is “changing behaviors of our organizations,” offered another attendee. “We realized we were spending millions of dollars a year on paper. To get people to change the way they used paper, we personalized it and connected the individual worker to what we were doing.”

“We must be able to put in place metrics to measure the impact,” another executive reminded the group. “Without demonstrating ROI or some kind of competitive advantage, we won’t get anywhere.”

‘What new technologies are coming on that will make old buildings green? Or do we need to get a bulldozer and start over?’

A related point: “You have to run sustainability like a business. At least start with the easy things, like reducing paper or pursue daytime cleaning. There are some simple things you can do, visible things, such as going with multifunction devices.”

“In these tough times, when investment in new initiatives is hard to come by, we should go back to our existing measurement systems and start there,” advised another attendee. “We’re already tracking energy costs; what’s that in carbon emissions? We only need to add one more column.”

Then there’s a growing sense of urgency vis-à-vis the U.S. federal government’s posture: “The focus of the federal government on sustainability is shifting toward the real estate sector,” another attendee pointed out. “They’re saying, ‘Fix it (your carbon emissions) or we will fix it for you by cap and trade legislation.’ ”

“From our perspective, it’s all about attracting and retaining great corporate tenants,” observed a landlord. “A high percentage of them won’t move into a new facility unless it reaches some level of green. If you want a high-credit tenant, you probably need a green building. So what’s going to happen to other buildings that are now not so much functionally obsolete, but they’re brown? What new technologies are coming on that will make old buildings green? Or do we need to get a bulldozer and start over?”

Risk Mitigation

The practice of CRE lends itself to risk management in so many ways. Flexible portfolio strategies including leasing and workplace are one way. Location strategies mark another, as do facility management, energy management, talent retention and service delivery.

The recession brought with it a heightened call for more cost control and better resource allocation. It’s also brought a more pressing need for risk management. Companies that have placed CRE departments at the center of their governance models are that much further ahead on the upside of the risk management curve.

Questions include:

Governance seems to be a rising issue in the corporate world. Are you seen governance become a topic in your business? Specifically, are you centralizing decisions to exert more control over the direction of the business units?

Solutions for Today: Positioning for the Downturn

“Strategy is out the window,” claimed one corporate end user reacting to the sudden and urgent call for immediate cost cutting. On the other hand, as one recent survey respondent commented, “Sadly, these are dire times that are driving dire actions, many of which are not based on sound business decisions or with any thought about the future.”

Managing at a time when “hoarding cash is the new chic,” or “flat is the new up,” as we’ve been hearing recently, poses its share of challenges. One is the ability to have a vision for how the future might look when the economy turns back up. The other is the pressure to cut costs today in a protracted recessionary environment.

Questions include:

What types of initiatives would be most effective to position your organization well to come out of the downturn?

‘Most of the talk seems to suggest that folks are not ready to position themselves for a turn-around yet’

Conclusion

There’s an obvious wide range of views and opinions not so much about how the economy is impacting corporate real estate (CRE) in the immediate sense, but on how CRE might change after the downturn ends.

On the important question of “What’s next for CRE?” the jury is still out, so to speak.

While the economy no doubt spells big changes ahead for most of the global corporations served by CoreNet Global and its 7,000 members worldwide, “There’s not much clarity on how change will affect CRE,” as CoreNet Global CEO **Dr. Prentice Knight** observed at the end of the Executive Leaders Council (ELC) Visioning Session held prior to the Dallas Global Summit. “More change, fundamental or not, is likely to come,” as Dr. Knight observed, but there’s not a lot of agreement on the specifics or the nature of that change at this time.

Perhaps it’s an indication of the difficult view brought on by the sticky persistence of this downturn, which makes it hard to see beyond what we’re in the middle of and when there’s no certain light at the end of the tunnel.

But there's also the view, as expressed by one senior leader, that "the recession will be over when people decide it's over. Let's start looking at the positives out there, of which there are many!" Some green shoots are evident. Maybe they'll multiply.

One day, the [Keynesian](#) "animal spirit of confidence" will be restored, but hopefully not to unrealistic levels of "irrational exuberance," as JLL's Kenneth Rudy pointed out. When we finally get past the "boom or bust" cycles that characterize the first decade of this millennium, the CRE outlook on what lies ahead will crystallize around potential welcome and unwelcome outcomes like those described within the recent ELC deliberations:

For Internal CRE Organizations

- There's a greater 75% likelihood that internal CRE will continue to benefit from "structural change"
- Although CRE departments will continue to get smaller in general, more of us will have "a seat at the table"
- That's because with this downturn, as before it, CRE "is being drawn into the core of the business"
- As a major global corporate services executive termed it, "We're now part of the speed to market solution"
- That means there is an equally high probability that CRE will play the role of the integrator
- "CRE steps in where HR and other parts of the enterprise don't," is the way that one global head of real estate for a major technology company positioned our expanding leadership role
- A key factor in our creating more strategic value internally is the CRM role we're learning to master
- With CRM, CRE has central governing authority but ideally plays the role of trusted advisor to the business units through the CRM role
- Another reason why CRE will become more strategic: the art and science of change management are largely carried out by CRE professionals and their outsourced partners
- This will eventually spell a more advanced, hybrid form of the evolving service delivery model that has changed the CRE industry for the long term
- A more general business skill set will be needed to meet this change
- But all this adds up to corporate occupiers seeking more strategic and advisory types of services from an otherwise transactions-funded service provider side of the industry
- Will service providers be able to transform today's transactions-driven reward and compensation model, a key question posed in our [2009 State of the Industry Report?](#)
 - o Will we continue to fund or capitalize the industry based on debt?

There are no clear answers yet for these questions. Time, however, will likely bear out the need to address these and other questions like them.

'We're now part of the speed to market solution'

For Outsourced CRE Service Providers

- There's at least a 75% likelihood of another major global service provider M&A
- As likely is the continuation of the supply-side consolidation trend
- The end game is 3, maybe 4, global service providers
- Corporate clients expect their outsourced partners to assume more risk
- But as one global head of real estate worried, "Corporations are going through step change, but service providers can't fund big changes."
- The "step-change" gap could threaten to bring down a major global service provider
- "It would be a disaster in the making," one senior director of global real estate cautioned, for a service provider's risk exposure to exceed its market capitalization
- Still, some service provider executives insist that there will be less of a fundamental change and more of "a tweaking around the edge" of the CRE industry
- "It will be a continuation of existing trends," as one C-Suite level person on the supply side predicted
- One of those trends is the need for service providers to find ways to fund the delivery of strategic and advisory types of services other than through transactions
- A big risk exposure for service providers in this economy is the record-low transactions volume has taken away a key funding source for services other than leases or deals
- "The dialogue over how to pay for strategy will get more transparent as a result," as one global service provider foresaw it
- "There will be more open dialogue on scope and how to pay for it," another stated
- Another aspect to the funding question is the implication of rewarding long-term outcomes over short-term returns
- Like the question of effectiveness over efficiency, the industry compensation model is one of the many paradoxes framing the current recession against what's next for CRE
- Another one is the notion that the single provider model will prevail, or not
- It's thought that while mid-level service providers may not survive the current climate, smaller, more niched providers will
- Some corporate clients prefer using multiple providers for local or regional expertise
- Global service providers also subcontract with local firms to deliver work against higher-level strategic planning scenarios
- Another likely shift will take place on the supply side: global brokerages that also house corporate services will need to place greater emphasis on advisory services

‘There will be a more open dialogue on scope and how to pay for it’

- But with corporate clients asking for more of the so-called ‘value-add,’ they are also less willing to pay directly for commissions
 - Again, it ties back to a central question: Will the industry compensation and reward model become less reliant on transactions, or not?
-

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