VIEWPOINT

Liability or Asset? Real Estate in a post-pandemic world

The past year-and-a-half has been marked with significant business challenges, business disruptions, strains on technology platforms, and shifts in work styles. Despite these challenges, there have been some positive takeaways.

Both employers and employees found new ways to maintain business continuity in a strikingly different work environment. Employers learned that remote work can and does work for much of the workforce. Knowledge workers of all generations rapidly embraced technology, which resulted in a boom in productivity. Now, as more employees contemplate a return to the office, many are left with a dilemma. Employees do not want to sacrifice productivity gain and flexibility for commutes and distractions of CBD officing, but at the same time, they desire to congregate and work at least part of their time in an office. Although employers remain focused on business-first objectives (i.e. revenue and profitably) one of the most significant employer takeaways of the past year-and-a-half is the realization that talented employees are a companies' greatest asset. With this realization comes a battle for talent. The talent war is in full swing, and the workplace is becoming an integral component to attract and retain the best talent. But how to best allocate resources and support this evolving workforce remains a challenge.

As companies look to grow their market share and further differentiate themselves from the competition by recruiting and retaining the best and the brightest, they are becoming keenly aware that real estate is one of the fundamentals tools that not only enables the creation of a distinct culture but also directly supports workforce requirements and enables productivity. In fact, a carefully curated workplace can extract and unlock the full potential of the workforce.

Although long viewed as a long-term cost liability, company leaders now have an opportunity to re-think their approach toward corporate real estate with an investment focused mindset. Forward-thinking companies can position this "liability" as a strategic asset to recruit, retain, and better support employees, enhance productivity, bolster innovation and creativity, and activate ideation through intentional design to transform the pre-pandemic workplace into the workplace of tomorrow. Company leaders can maximize resource allocation, better mitigate risk, set targets, rebalance when necessary, and extract value and increase return on investment of their workforce by providing a truly optimized real estate footprint.

Traditional View

Pre-pandemic, companies both large and small maintained real estate footprints to house their employees. For most companies, real estate was (and remains) the second largest expense after employee compensation and benefits. Yet, because it was not part of the core business and deemed an expense line item, corporate real estate received minimal attention outside of cost savings initiatives. Moreover, with the significant costs associated with operating and maintaining real estate and long-term hold strategies, corporate real estate rarely, if ever, aligned with market conditions. This meant that most companies operated in a perpetual reactive state. The buy high and sell low cycle is typical for the CRE manager, and this exacerbates hesitancy and exuberance around decision making for real estate commitments. This strategy essentially persisted until the 2020 pandemic hit.

Post-Pandemic

With the pandemic experience and the related acquisition of new knowledge, forward-thinking companies have an incredible opportunity to deconstruct dated methodologies and look at their business needs and requirements through a new lens. Rather than reverting to pre-pandemic approaches to real estate and cost mitigation focused strategies, companies should embrace the worker focused environment and build a better strategy to support employees. Workplaces, technology, the user experience, design fundamentals, financial commitments and leases should be reimagined to solve the workforce and business needs of tomorrow. In order to truly create impactful change and build the workplace of tomorrow that directly supports the workforce, company leaders should consider corporate real estate as a strategic asset with a return on investment rather than a costly liability.

By positioning internal real estate as a strategic asset, and expecting a return on those assets, companies can free themselves from the constraints of previous ideologies and use it to maximize workforce efficiency, productivity, and engagement. Through resource allocation optimization, companies can focus their provided support to where it has the greatest impact and tailor that support to meet the needs of departments, teams, and individuals. Employees are the means of production and innovation for a company and every tool and resource should be carefully and strategically evaluated for the greatest impact and return on investment.

Return on Investment

The primary business goal of any company is to generate and grow revenue and profits from the resources they have at their disposal. Revenue and profits are created by innovating, ideating, selling, procuring services, gaining market share, and establishing and maintaining product differentiation. These attributes mostly come from employees and from human talent. Smart companies should carefully evaluate resources allocated to their employees and should view these investments as enablers of productivity, as strategic investments.

Investments, regardless of type, industry, size, etc. share many similarities; the single most important metric is profitability. Although there are a number of profitability ratios that highlight slightly different financial views, expenses constitute the denominator of these ratios. Corporate real estate is traditionally placed in the “expense” category and often rationed and subjected to ongoing cost cutting. This methodology of constantly choking the denominator to reduce expenditures can, and does, impact long-term profitability. When tools and resources are taken away from or not provided to employees, employees cannot perform at their maximum potential and productivity is impacted.

The shift to strategic asset mindset enables business leaders to take a completely new and different approach to decision-making, risk mitigation, and short and long-term planning that more closely aligns with business needs and market cycles. In direct contrast to the traditional reactive real estate strategy of executing decisions based on lease terms, which in most cases is once every five-to-fifteen- years, a proactive investment focused approach forces the business to continually make adjustments to extract value.

Company leaders can align and match real estate assets with business goals, better meet short-term needs and balance these needs with longer-term goals with greater precision. Companies are also better positioned to balance return and risk, adjust when needed, and escape from the perpetual buy-high, sell-low cycle that stems from signing long-term leases without carefully assessing long-term impact. Real estate solutions can be carefully tailored to align proportionality to the relative importance of the business it supports. Waste can be minimized by critically evaluating every dollar spent. Such an approach allows for a vastly improved and more efficient means of procuring and managing corporate real estate.

Conclusion

Employees are the most important asset of most companies, yet the tools and resources provided to employees varies and may or may not support the business need. Business priorities remain short-term focused while long-term implications go undiscussed. Given the significant changes over the past year- and-a-half regarding the prioritization of the human-centric workplace, wellness, and talent attraction and retention, company leaders should re-think their approach on how to support their greatest resource in a more impactful manner.

An investment-first approach toward corporate real estate is long overdue and will lead to vastly improved productivity and profitability margins. With such an approach, short and long-term needs are more closely aligned with employees and business requirements, expenditures are allocated more strategically and with better precision, employees engagement levels are higher, and long-term success is ensured.

About the Author

Ash Pajoohi
Principal, Head of Portfolio Strategy and Consulting
apajoohi@cresa.com