



Real value in a changing world

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Making CRE Partnerships Work in Asia Pacific

Introduction

Companies operating across Asia Pacific are presenting their corporate real estate (CRE) managers with twin challenges: drive down the total real estate occupancy expense while making the CRE portfolio highly responsive to the rapidly changing business environment. However, these seemingly opposing goals cannot be met through the traditional approach of managing the portfolio with a focus on tactical execution.

To successfully drive down cost and increase portfolio responsiveness, CRE leaders need to focus on strategic relationship management with business units, portfolio strategy, capital planning, and management. These are the capabilities that the C-Suite and business unit leaders value the most. In order to build these capabilities in-house, CRE leaders across Asia Pacific are increasingly leveraging vendor-partnering relationships to out-task and outsource service delivery to specialist real estate service providers.

Today, vendor-partnering models are most commonly used by US and Australian companies and an increasing trend among large European corporations. There is evidence suggesting that as Asian companies grow and expand beyond their

traditional domestic markets, they too are adopting vendor-partnering models. Asian companies are most comfortable developing a vendor model in their home market as a precursor to expanding the model internationally. As the outsourcing wave has already moved through the US MNC market, we expect to see European and Asian companies as the next wave of partnering and outsourcing over the next five years.

Vendor Partnerships in Asia Pacific

Much has been written about the complexities and dynamism of the Asia Pacific region, and these characteristics create challenges in making partnerships work successfully. Many of the challenges are derived from the geographic scale of the region and the mix of mature, emerging, and frontier markets.

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Major CRE Trends in Asia Pacific

- CRE leaders are grappling with the opposing forces of cost reduction and business growth.
- CRE leaders are shifting from a geographic and functional focus to a business-unit focus to better serve their internal customers.
- The shift to smaller and more dynamic in-house real estate teams is directly correlated to the greater reliance on vendor-partnering relationships.
- CRE leaders of Asian and Australian companies are gaining increasing influence over their companies' international portfolios, driven by real estate spend and growth in Asia.
- Corporate supply chain/procurement is gaining greater influence over real estate.



We have identified ten challenges commonly encountered in Asia Pacific and suggested actions to address these challenges, as outlined in Figure 1.

Figure 1: Commonly Encountered Partnership Challenges

Challenges	Impacts	Something to Think About...
1. Headcount volatility arising from high growth markets	Asia Pacific's positive economic growth above global averages comes with significant volatility for emerging and frontier markets and is complicated by the risk of continued global shocks.	Traditionally, the focus has been on building significant flexibility into lease structures, often at material cost. This remains a cornerstone approach to accommodating headcount changes. Workplace strategies that enable mobile work move beyond the approach of designating one desk per person. Mobile work strategies can provide an even greater level of flexibility in accommodating significant headcount changes.
2. Cost of delivering consistent CRE services across emerging, frontier, and mature economies	Market sophistication varies dramatically between the mature countries of Australia, Japan, and Singapore; the emerging markets of India and China; and frontier markets like Vietnam and Pakistan.	Train local resources adequately to deliver consistent services. Be flexible in applying global or regional service delivery standards and work to balance corporate standards with local norms without compromising ethics and occupational health and safety.
3. Real estate market volatility impacting business unit P&L performance	Real estate markets in Asia have relatively short cycles that generate significant swings in rentals and capital values. This can lead to significant year-on-year increases in real estate costs.	Proactive portfolio management is critical. Tools are available to assist in aligning business unit needs with the existing CRE portfolio and property market research and forecasts.
4. Low market transparency	This hinders effective comparison of real estate transactions and ability to benchmark corporate decisions against a peer group.	There are typically multiple data sources available, but significant effort is required to cleanse the data and ensure accuracy. Trusted relationships on the ground help bridge the transparency gap.
5. Complexities arising from operating across multiple countries, currencies, cultures, infrastructure, and languages	Without a common language and method for comparison, making sense of the CRE portfolio is often considered "mission impossible".	It is important to define and adopt a common language and metrics across a portfolio. In Asia Pacific, English is the most commonly adopted business language. There are also standardized real estate terms (refer to Jones Lang LaSalle's Book of Real Estate Definitions). Metrics to measure the portfolio can range from the simple (e.g., square foot per head) to the complex (e.g., total occupancy cost as a percentage of sales). In brief, to manage it, you have to be able to measure it.

Challenges	Impacts	Something to Think About...
6. Unclear, weak, or complex CRE mandate	When there is no clear leadership in real estate budgets and decision making, the triad of business units, procurement, and finance often implement sub-optimal real estate decisions.	The tipping point for optimizing the impact of the CRE function is handing over budget control for real estate costs. Without control over real estate budgets, CRE managers often struggle to measure and articulate their value to the broader organization.
7. Difficulty in getting visibility across highly distributed portfolios	Many organizations maintain inadequate portfolio data on rudimentary systems, leading to poor information for decision making.	Specialist portfolio management systems are available “off the shelf.” The bigger challenge, however, is collecting and maintaining complete portfolio data to minimize real estate costs. The most successful models incorporate the right technology with processes and people for data collection and management.
8. Business unit disregard for professional real estate advice	In emerging and frontier markets, business managers often seek to assert a high degree of influence and control over real estate decisions. This influence is often valuable, although at times colored by personal experience gained from investing in real estate.	Real estate markets are highly fragmented and often relationships with key local players are important. Gaining the trust of local business managers and leveraging their business networks effectively within the parameters of the corporate decision-making process is a constructive way to leverage these managers.
9. Insufficient pool of qualified and experienced local talent	This forces companies to employ expensive foreign talent, pay a premium for experienced local talent, or persist with inexperienced local talent.	There is a tremendous pool of high-potential, local talent that can grow rapidly with the right investment, training, and development. These talent programs must be run for a sustained period (multiple years) in order to build breadth and depth in internal succession.
10. Fragmented supplier market	This limits supply chain sophistication, making it difficult for the organization to leverage significantly fewer suppliers to drive cost savings.	Market forces are driving service providers to become more aggregated and integrated. There has been significant merger and acquisition activity among suppliers, and this is expected to continue. Look to partner with market leaders who are financially strong and most likely to survive industry consolidation.

man,
 missus, old ma
 better half; Brit. inform
partnership noun 1 close
 ship: cooperation, associ
 collaboration, coalition
 union, affiliation, conn
 2 thriving partnership
 firm, business, corpor
 association

What Works in Asia Pacific?

To help address some of the challenges that we have outlined here, CRE managers are leveraging various types of vendor-partnering models. We see six different models being used in the industry today. These range from the traditional out-tasked model through to specialized vehicles involving common equity ownership (Figure 2). These models are not unique to CRE; generically, they are also evident in other service-based industries.

Partnering is a journey-line for many organizations; and depending on their maturity, complexity, culture, and geographic footprint,

organizations typically migrate left to right across the spectrum.

While there are many characteristics upon which the models above can be compared and analyzed, there are five key aspects to note that influence the depth of the partnership:

- Degree of alignment between client organization and vendor
- Degree of leverage gained by client organization
- Level of strategic engagement
- Trust levels
- Value creation

Figure 2: Six Models for Vendor Partnering

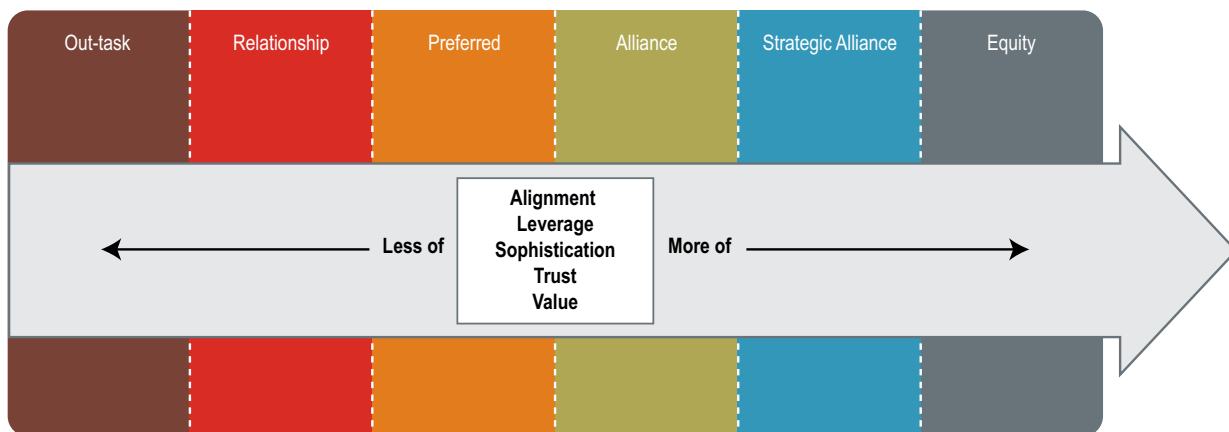


Figure 3: A Comparison of Models

Out-task	Relationship	Preferred
<ul style="list-style-type: none"> • Many vendors • Price based on scope • Commoditized product • One-off contract 	<ul style="list-style-type: none"> • Task-based, relationship driven • Generic product/service • Cost focus • Expanded activity 	<ul style="list-style-type: none"> • Contractual relationship • Defined scope • Mutual trust • Recurring activity
Alliance	Strategic Alliance	Equity
<ul style="list-style-type: none"> • More exclusive agreement • Higher degree of trust and collaboration (CRE, IT, HR) • Focus on value add and mutual advantage • Senior management interaction 	<ul style="list-style-type: none"> • Supplier collaboration • Higher level of commitment and investment • Longer term strategic value add • Senior management engagement 	<ul style="list-style-type: none"> • Common equity ownership • Common goals • Common risks/rewards • Long term

As with all models, each has inherent strengths and weaknesses (Figure 3). The out-tasked and relationship models are commonly favored in first-generation partnerships as they bring industry best-in-class to execute across the varied real estate tasks. As relationships mature, CRE managers typically look for more leverage and move to deeper partnering models such as alliance or strategic alliance, which require less tactical oversight and supervision.

Geographic coverage has a significant impact on the choice of model. A larger geography drives a significant increase in complexity. In the region, we have seen the models that are most successful at both multi-country and single-country levels. They are significantly easier to manage and are less risky if adopted at a single-country level. Conversely, the benefits of successfully implementing a more strategic partnering model across multiple countries will net significantly greater results if done well.

While the ideal is to keep the planning and strategy components of the function in-house and outsource the tactical work, the growing complexity of organizational growth and challenges brought about by competition in the marketplace has resulted in the need to strike some balance between planning, strategy, and tactics.

Conclusion

CRE leaders in Asia Pacific are successfully tackling the twin challenges of driving down cost and increasing portfolio responsiveness. The challenge is being met by focusing on strategic relationship management, portfolio strategy and capital planning, and leveraging service provider partners for tactical service delivery. This evolution is driving an ever-wider adoption of partnering models across the region. Partnering models are also becoming more sophisticated.

This success is being achieved in the world's most complex and dynamic region. While there are many challenges to overcome, the region is maturing at such a pace that sufficient best practice exists to address the most current challenges. Both CRE teams and service provider partners are evolving rapidly, fuelled by the growth momentum in Asia. As partnering models become more widespread and symbiotic, an even greater interdependency between partners is expected in the future. Additionally, as European, Asian, and Australian companies increasingly adopt partnering models in the region, new models and best practices are likely to emerge.

John Forrest

CEO Corporate Solutions, Asia Pacific

John Forrest is the CEO of Corporate Solutions, Asia Pacific for Jones Lang LaSalle. In this role, he has pan Asia Pacific management responsibility for Corporate Solutions, including Sales and Account Management, Strategic Consulting, Corporate Research, Transaction Management, Lease Administration, Project & Development Services and Integrated Facilities Management. Corporate Solutions operates in 13 countries across Asia Pacific with over 6,000 staff. Over the last 15 years, as the pioneer in the real estate outsourcing market, Jones Lang LaSalle has worked with over 100 companies in contracted vendor partnering relationships in the Asia Pacific region.

**Marina Krishnan**

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Marina has over 20 years of experience in the real estate industry with experience in account management, property and asset management, facilities management, and operations. Her current responsibilities include head of Corporate Accounts, Asia Pacific as well as head of Integrated Facilities Management, South East Asia and Regional Accounts. Marina was responsible for the creation and management of Jones Lang LaSalle's regional best practices platform in 2002, which supports the delivery of services to all clients in Asia Pacific.

**Corporate Solutions**

Jones Lang LaSalle pioneered the corporate real estate offering in Asia Pacific. Today, our platform provides unmatched services across a single project, country or regional portfolio. Our commitment to shaping our business around the needs of our clients and delivering on our promises keeps us at the forefront of our industry.

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Jones Lang LaSalle has over 50 years of experience in Asia Pacific, with over 19,000 employees operating in 77 offices in 13 countries across the region.

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