Corporate Real Estate Outsourcing in Asia:
Game Changer or Game Over

The recent appointment of Cushman & Wakefield by Chinese telecommunication giant Huawei Technologies (Huawei) for global transaction management signalled a distinctive shift in the way companies headquartered in Asia are addressing their corporate real estate (CRE) operations.

What is significant about this appointment is the changing dynamics with empowered Asian companies like Huawei and Alibaba not simply willing to adopt a global approach to outsourcing, but are pro-actively setting out to redefine the landscape.

So what's changed and why now? We set out to try and answer some of the big questions facing Asian companies and provide insight on the trends we think could radically challenge the current global CRE outsourcing model.

Do Asian companies view CRE differently?

The short answer is yes. Asian companies represent a third of the Forbes 2000 global list and this is likely to increase as the region continues to its realize it's full potential.

Although many rapidly expanding entrants like Alibaba and Huawei already have a presence in most major global markets, they operate as a conglomerate with separate and diverse trading companies, making them locally agile, but less consistent or centralized regionally.

For example one Japanese MNC has more than 300 separately run trading entities in more than 100 countries.

The focus is often more on the product output and less on the working environment or market presence.

The potential to disrupt the established balance is immense - signaling Asia as a game changer.

As a result, many Asian global headquarter offices are significantly understated by global comparison.

Another point of difference in the way Asian companies view CRE in management structures. "General Affairs" or other administrative groups (if they exist at all) are usually responsible for central or regional real estate.

It's common for country businesses to run their own real estate function in isolation with Headquarters approving large strategic projects.

Where there is a CRE team, it is often at a developing stage, which requires a lots of support. A good example is India where CRE has traditionally been led by ex-armed forces officers operating in military style. Chinese and Japanese corporates historically have large in-house teams in the home country with limited representation "internationally".

Local businesses typically have an ad hoc local broker relationship, or use the home country team for negotiation which may not deliver an optimal outcome.

One explanation for this structure could be what Professor Michael Witt, INSEAD Affiliated Professor of Asian Business and Comparative Management calls "liability of foreignness" - a lack of perceived understanding of how business is really done locally.

At Cushman and Wakefield, we think that doing business the 'Asia' way requires an intuitive understanding that each Asian country has its own set of business practices (and in some cases like China, multiple business systems), ranging from top down, highly centralized management, to collaborative decision making.

Asian economies therefore cannot be viewed as one, and businesses should focus on getting to know how Executives view the role of the firm in their own economy.

Trust is the biggest "social capital" influencing many business decisions and this "liability of foreignness" must be overcome if relationships are to develop into true strategic partnerships.

Is there an Asian CRE Talent Pool?

Absolutely. Increasingly, global multi-nationals are staffing regional management roles with local talent. Regional CRE lead roles are now held by leading talent like Ana Allado, recently appointed Head of CRES, APAC at Diageo. Furthermore, Asian CRE business leaders are taking on global roles, like Chua Ming Lee at Unilever and Lee Ying Shin at GE Digital.

This crossover of culture is influencing the evolution of CRE itself in global multi-national companies with professionals like Barbara Liu taking their real estate expertise into companies like Huawei that are adopting global real estate strategies and management models.

There is also much more of an overlap between Client and Supplier in Asia than in EMEA or the Americas. This means the focus is on in-house technical and market expertise, more local self-delivery on strategy or transactions like lease renewals which are more frequent (three years or less) and much more administration.

Do Asian companies see value in CRE and as an outsourcing opportunity?

The answer requires an understanding of the complex issues around defining value.

There is a common CFO myth that real estate in Asia is a fixed cost and not that “everything is negotiable”.

Asian companies often don't capitalize on value creation in terms of rent cost and more flexible lease terms, believing that this is necessary to maintain a good relationship with Landlords.

There is rarely a mechanism to measure performance or value from the CRE function and in many cases, there isn't even a business case to instigate one.

However, this will be more rapid in Asia with CRE professionals transferring from global MNCs leading the change, bringing a fresh perspective and creating confidence that global outsourcing benefits are worth pursuing.

Some other factors affecting this change include:

- Scale of global operations – 200+ sites in 50+ countries as one of the top three global costs cannot afford to be run by generalists with limited strategic real estate background.
- Governance and risk – moving up to the top of the corporate agenda, notably in China.
- New accounting regulations – taking real estate onto the balance sheet and directly into CFO focus.
- Competition for talent – affected by comparative workplace environments, for example competing TMT companies in Bangalore where workers have greater choice.
- Economic pressures – creating the need for new initiatives on cost efficiencies.

Are there pull factors against global CRE outsourcing in Asian companies?

Without value measurement or costs benchmarked to market, real estate is in danger of being overlooked or considered a lower priority.

Outsourcing costs are also seen as a barrier to entry but this is often perception rather than commercial reality. In many global markets the Landlord pays the transaction fee without affecting Supplier conflict of interest and this can offset overall costs, even creating a net profit contribution to further delight the CFO.

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One solution is a twin track approach between domestic and international markets, protecting the CRE team in the home market while developing partnerships globally. This was a structure adopted by many US Bay Area companies more than a decade ago and which have since been globally consolidated.

Resistance to global initiatives can also come from the other regions where in-house CRE teams have been established and have developed their own approach to regional partnerships, notably in North America.

Is there an emerging CRE trend across Asian companies?

It's too early to prove statistically but there are many ongoing discussions with Asian corporates undertaking strategic corporate reviews.

Huawei's decision to appoint Cushman & Wakefield for a global role has already elicited much interest in China and is similar to the current outsourcing initiative by Takeda from Japan.

The relentless pace of growth and change, together with a talent shortage in Asia, means existing CRE teams cannot keep up with demand and requires expertise to connect with the needs of the core business.

There is an increasing awareness about the impact of realizing CRE value and not just in terms of cost reduction, however this journey is still some way behind many global MNC perspectives.

In parallel, Asian CRE teams within global MNCs are bucking the trend towards full service partnerships, preferring small panels of advisers with in-house teams working on routine admin and less-complex transactions. Two good examples of this are GE and Pfizer, with the latter moving away from a single regional partner in 2015.

How are Asian service providers responding?

Service provider platforms in Asia are set up to work collaboratively and provide integrated service for global MNCs. They can offer the same to Asian companies but there is no current track record, simply because there hasn't been a market.

The market condition is now ripe for increased collaboration between Suppliers and Asian companies, who are prepared to invest in long term relationships and move towards true partnership.

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Summary

In researching and preparing this article, I was struck by three themes:

1

Many Asian companies are now assimilating the benefits of global CRE delivery models and its outsourcing opportunities. If the trend picks up it could become the new global CRE industry phenomenon.

2

Adopting new approaches can be easier in Asia than in Europe, such as agile offices and co-working space. There are parallels in the wider business context like WeChat which originally took its inspiration from WhatsApp and is now more widely used.

3

A distinctly Asian approach is increasingly being added to the global CRE system and I predict that it won't be long until we have an Asian led CoreNet Global. Equally what works in the West isn't necessarily going to apply in the East – like Uber's experience in China.

There's a real sense of change happening right now in CRE in Asia. The potential to disrupt the established balance is immense signaling Asia as a game changer. The new players will challenge the global CRE establishment and what will emerge is the next wave of outsourcing that is fit for the future. Are you ready?