

CBRE RESEARCH | ASIA PACIFIC

TRANSFORMING A BUILDING

TECHNOLOGIES,
TOOLS AND
TECHNIQUES FOR
INVESTMENT AND
ASSET MANAGEMENT

CBRE

INTRODUCTION

Planning a new development, repositioning an ageing or underperforming asset and futureproofing a high performing existing property are all frequently encountered commercial real estate investment and asset management scenarios.

Along with traditional investment strategies and due diligence, investors and developers are increasingly incorporating a broad range of tools and techniques into their assessments of these situations – particularly in the fields of workplace design, flex strategy, tenant engagement and sustainability.

However, adoption to date has generally been siloed and uncoordinated, meaning that investors and developers have been unable to accrue the full benefits of pursuing a more cohesive and comprehensive approach.

This Special Report by CBRE Research presents the case for adopting a holistic approach to integrating these tools and techniques into real estate investing and asset management, providing investors and developers with a roadmap to achieving their goals and ensuring they are covered at all stages of the investment lifecycle.

The report also identifies the appropriate combinations of tools and approaches – and profiles the leading-edge solutions in their respective fields - to be deployed in specific scenarios.



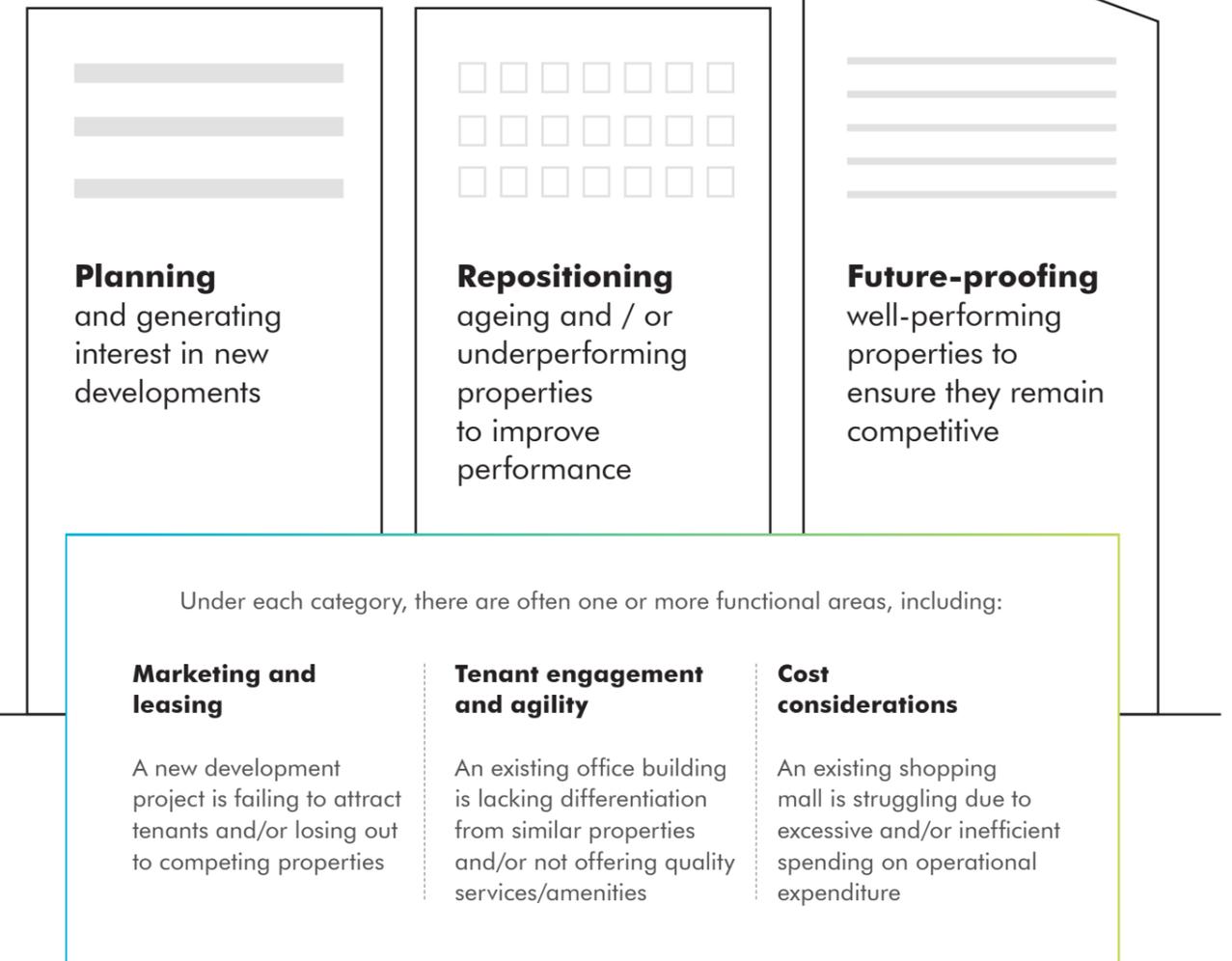
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INVESTMENT AND ASSET MANAGEMENT SCENARIOS

Investment and asset management situations can be generally be classified into several categories, including:



Although some investors and developers have adopted various approaches to addressing these situations, most have not embraced a holistic approach or considered how these instruments can be applied in tandem with other areas of commercial property expertise.

CBRE believes that each of these investment and asset management situations – and the functioning areas that fall under them - require comprehensive and tailored solutions.

The following sections of this report profile the new and innovative service offerings that are helping investors and developers win in each of the functional areas of these common investment and asset management scenarios.

For many years, office landlords have charged rents for the provision of standard office space on fixed terms. However, with occupiers' corporate real estate strategy now focusing on achieving greater lease flexibility; companies looking to maintain a contented and productive workforce; and employees striving for an attractive and appealing workplace experience, a fundamentally different approach is required.

When creating agile properties, landlords should also include a broad range of amenities and supporting services. In addition to basics such as parking space and F&B, occupiers are increasingly demanding conference and meeting room services, personal fitness spaces, and other wellness facilities.

dedicated tenant lounges and bars, and on-site wellness programmes.

Agile properties seeking to distinguish themselves from competitors by providing amenities and services that will attract and retain tenants, raise occupancy and boost rents, can utilise **tenant engagement platforms** to create an attractive workplace experience for building users.

A few progressive landlords are now offering hotel-like services and amenities such as concierge,

AGILE REAL ESTATE

Although some landlords are experimenting with a range of new strategies to differentiate their properties beyond the traditional selling points of specification, location and accessibility, many are still struggling to devise an effective response.

This phenomenon requires landlords to adopt more intensive asset management strategies as they transition away from being pure space providers. By adopting a more proactive approach and taking on a more service-oriented role, landlords can improve tenant retention.

Rather than simply filling up a building with tenants on conventional long-term leases, landlords striving to achieve a competitive advantage can create a blended, 'agile', offering including traditional space, flexible space and turnkey solutions, all supported by a comprehensive set of amenities, leading edge technology and personalised human delivered services.¹

The obvious starting point is for landlords to create a blended space offering at the building and portfolio level. While securing flexible space operators as tenants is the most direct approach, landlords wishing to exert greater control over their end user profile, services and experience can create and operate their own flexible space platforms – effectively an on demand 'space as a service' - as an amenity and component of their overall portfolio.

Conversations between CBRE and a number of leading landlords in major Asia Pacific markets prior to the onset of the COVID-19 pandemic indicated that a majority expect most buildings in their portfolios to have some kind of flexible office component in the future – a structural change that is likely to accelerate in the coming years.

Progressive landlords therefore intend to position flexible space as a core – but optimally proportioned - component of new office developments when they look to provide tenants with their desired "core + flex" solution. The coming years are also likely to see greater optionality in lease contracts – a trend already gaining traction in recent months as occupiers reconsider headcount requirements.

CBRE's 2018 Investor Intentions Survey found that allocating around

20%

of an office building to flexible space can enhance its value.

While each building must be considered on a case by case basis, any proportion over this amount is likely to involve a discounted valuation – a hypothesis supported by CBRE's recent discussions with lending institutions.

Figure 1:

The Agile Asset of the Future



Source: CBRE Research, October 2019

Mobile applications such as Host, which can be tailored to specific tenant requirements, allow users to navigate the workplace, schedule meetings with colleagues, reserve workspaces, use food and beverage services, and access building and concierge services.²

knowledgeable experience professionals stationed on site who are responsible for creating a supportive and comfortable atmosphere; welcoming visitors; and acting as air traffic control for all employee facing services.

While much of the conversation around tenant engagement platforms invariably focuses on their technological sophistication and efficiency, many platforms overlook the importance of genuine human interaction, particularly regarding service delivery. For tenant engagement platforms to be truly effective, they must utilise well trained and

Landlords and investors looking to create agile assets are advised to engage consultants to conduct flex strategy planning for buildings, such as determining the best third-party flex operator or possibly running a tender process. Consultants can also conduct specific reviews of an investor's portfolio to advise on best practices to maintain performance.

¹ The Hotelisation of Office Space: New Approaches to Future-Proofing Commercial Portfolios, CBRE Research, October 2019.

² Tenant Engagement Platforms: Digitising the Workplace Experience, CBRE Research, June 2018

Although workplace strategy has traditionally been implemented at the occupier level, there exist a range of services that are of relevance to landlords and investors in specific situations, particularly around how to enhance the workplace experience and developing and maintaining a community for their tenants.

WORKPLACE STRATEGY

Workplace consultants can be commissioned to engage with prospective tenants to understand how they can be efficiently accommodated in a property and the amenities, services, and layouts that address their needs. Advisors can also assess the potential for creating a high-performance workplace and help occupiers make informed strategies about how to make core and flex work for them.

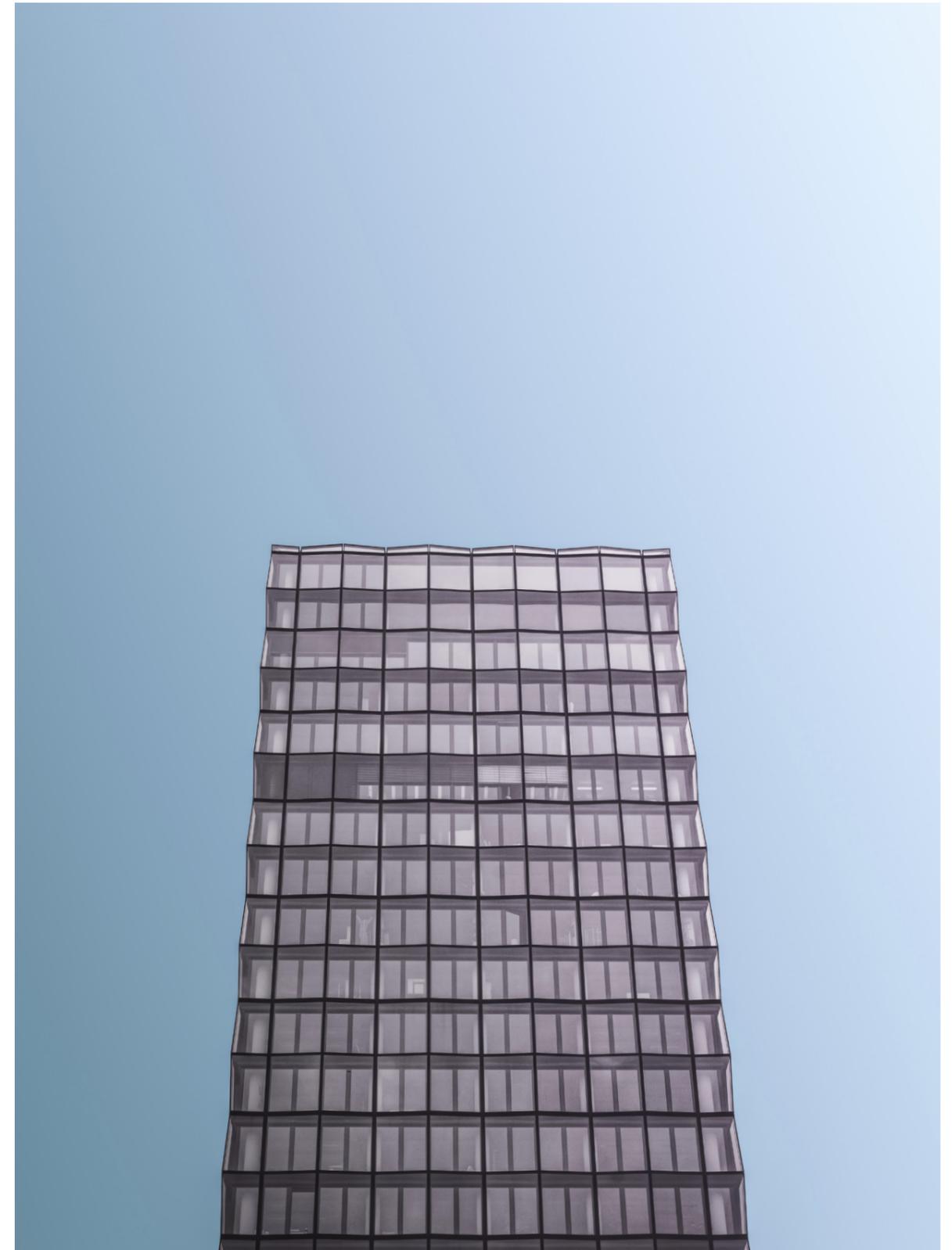
For example, a landlord of an ageing office building can engage workplace specialists to assess the viability of a repositioning exercise by evaluating current strengths and deficiencies and making recommendations for design and service improvements.

This may include the assessment and development of sample floor layouts for a broad mix of tenants, ranging from more traditional occupancy to higher collaboration seat ratios for more agile working tenants. Space planning and design recommendations can then be implemented into tenant spaces and used in marketing collateral, helping property owners attract their desired tenants. Similar approaches can be used to engage with and improve workplaces for tenants in an existing building.

For owners with large property portfolios, workplace teams can develop and design operations guidelines to be used with local design partners in the planning and designing of a typical building, in areas such as the provision of spec suites, amenities and services.

No matter whether it is a new or existing property, workplace teams have a role to play in supporting the marketing and delivery of workplace changes back to tenants – communicating the reasons behind what’s new or different in order to improve engagement.

Advisors can also run “as if we were the tenant” scenarios to provide tenants with ideas of potential options and what they would need to do to make a renewal option more suitable than the relocation option that they might be considering. Landlords can offer workplace strategy services integrated into a renewal – including change management support – as a way to help tenants stay and reinvent their workplaces in their existing space.



There exist a range of digital technologies that are helping transform the way in which commercial properties are being planned, marketed and leased.

DIGITAL SOLUTIONS

At the project planning stage, **geographic information systems** such as Dimension can leverage a wealth of proprietary real estate data across all asset classes, market knowledge and understanding of client requirements, and use this information to create maps helping users visualise the impact of decisions around site selection.³

Practical examples include identifying prime locations for new distribution warehouses by ascertaining distances to key infrastructure; planning routes to minimise distance, time and cost; and calculating the number of trucks required to deliver and unload goods to end-users.

The same platforms can also add value for property owners seeking to create narratives around specific assets and opportunities. For example, a landlord wishing to fill a vacant space in an existing shopping mall could create maps based on the number of residents and office workers in the vicinity of the property, combine this with income and spending data and then use this information as a marketing tool to approach suitable retailers whose offering caters to the appropriate demographic.

Should a landlord wish to sell a property, it could use data from the same platforms to create marketing collateral highlighting the qualities of a particular asset, such as its connectivity to mass transit networks or proximity to high-income residential areas.

Other applications that can be used at the project planning stage include cutting edge **consumer analytics tools** such as Calibrate. These tools can harness and analyse mass mobile data, giving investors and landlords insight into where their potential customers come from and where they go.

For developers looking to enter new areas of a city, data can be used to form a picture of common locations during different times of the day, which can aid in identifying suitable locations for new developments.⁴

The same information can be used by a landlord of an existing mall to understand how its property is impacted by a new development and the steps it must take to retain customers. This would be especially useful for a landlord of a struggling mall seeking to diagnose the causes of underperformance in its property; considering a repositioning exercise; and/or wanting to identify and respond to competitors that are affecting sales.

There are several other technological tools that can help landlords and investors create compelling branding and storytelling around specific properties at the marketing and leasing stage, including:



Commute optimiser platforms can create interactive maps that let potential tenants select various locations and instantly see the average commute time, distance, and costs for their workforce to reach each site – providing landlords with compelling evidence to use when presenting the case for their property.



Test fitout tools such as Plans and Plans Pro have digitised the previously time consuming and labour-intensive process of creating office test-fits. This can help landlords assist tenants in better understanding what their potential new space looks and feels like in interactive 3D and how their staff and workstations will fit into it.



Virtual tour software can help landlords assist potential tenants explore properties from every angle and visualise spaces that do not yet exist or are being repositioned for specific needs. Software such as Build 3D enables developers and architects to build virtual 3D models that turns sketches, photos, floor plans and Computer Aided Design (CAD) plans into bespoke 3D environments that can be delivered to prospective tenants and then explored via a website.



Lease administration systems enable owners to have full visibility of their portfolios, maximising income generation and reducing expenses, driving maximum occupancy whilst simultaneously providing risk mitigation and governance.

Landlords and investors are advised to carefully evaluate the different technological tools available on the market to ensure their asset stays ahead of the competition. They may also consider reviewing existing portfolios to determine ways to improve building performance through introducing new technologies, e.g. by installing smart gates.

The COVID-19 pandemic has placed the onus on landlords to quickly install new technologies to enhance the health and safety of building occupants. These include temperature scanners in lobbies, touchless access in entry/exit points and elevators and UV handrail sterilisers, to name just a few. CBRE believes these technologies are crucial to providing reassurance to tenants as their employees gradually and safely re-enter the workplace and advises owner-occupiers to implement these solutions in the immediate term.

³ Geographic Information Systems: Deepening Location Insights, CBRE Research, April 2019

⁴ Consumer Analytics: Powering Retail Strategy, CBRE Research, October 2018

With buildings and construction together accounting for 36% of global final energy use and 39% of energy-related carbon dioxide (CO2) emissions (when upstream power generation is included), they are a major contributor to global warming and climate change.⁵

SUSTAINABILITY

While many companies have focused much of their effort on reducing energy usage and associated emissions, such as through the development and leasing of green buildings, the coming years may see several markets introduce legislation requiring companies to make significant and measurable steps to reduce their carbon footprint.

It has been estimated that energy intensity per sqm of the global buildings sector needs to improve on average by

30%

by 2030 (compared to 2015) to meet the ambitions set forth in the Paris Agreement.

The potential introduction of strict criteria around energy consumption therefore has clear implications for real estate investors and developers as it would require more sophisticated and innovative building designs including features such as natural ventilation and potentially those which also consider factors such as embodied energy in construction cost.

Although energy efficient buildings are cheaper to operate, they typically require higher CAPEX, meaning that landlords may achieve a lower yield from operating property in the short-term and would have to wait longer to achieve a satisfactory return on investment. This could also impact the capital value of such properties.

The environmental impact of new building construction may also lead to stricter metrics related to building flexibility and longevity. Factors such as demographic change and business cycles can shift dramatically within a short period of time, rendering buildings obsolete and requiring extensive and costly – both in financial and environmental terms – conversion exercises.

Mandating more flexibility into building design and specifying building lifecycle periods could reduce material and energy consumption and minimise environmental pollution. This could also have major implications for new-build construction, meaning that renovations and retrofitting of older properties rather than demolition could become increasingly common.



Landlords and investors are advised to address these and other sustainability issues by integrating sustainability practices throughout all stages of the property life cycle. From acquisition and development to leasing, and all phases of property and project management, there are significant opportunities for investors and landlords to reduce waste, improve business efficiencies and build greater value into their asset, portfolio and brand. By reducing resource impacts and greenhouse gas emissions, sizable reductions in energy and water use can be achieved through operational, capital and behavioural interventions to improve efficiency and long-term profit margins.

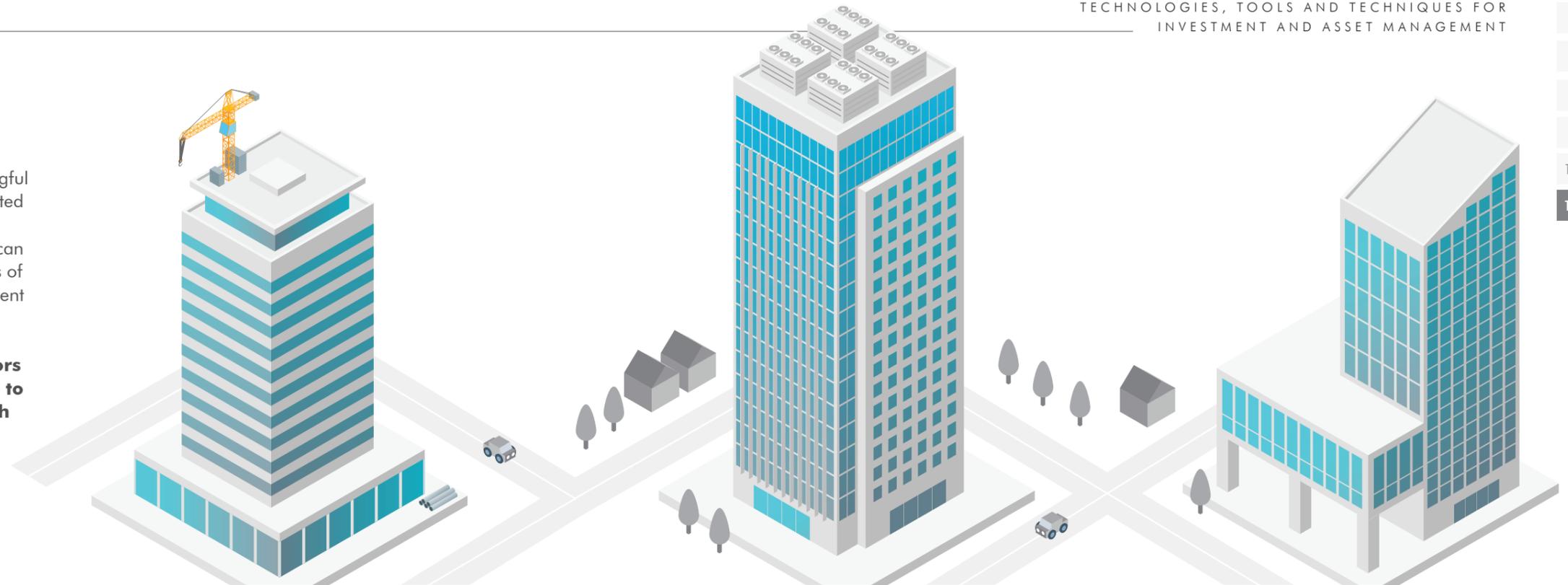
Key priorities may include conducting portfolio and individual asset sustainability performance reviews; performing green building gap analysis and certification (including LEED, and national schemes such as BCA Green Mark); compiling energy audits (level I & II) using ASHRAE and other national standards; achieving Global Real Estate Sustainability Benchmark (GRESB) certification; introducing green transaction management and green leases; and engaging in benchmarking exercises such as NABERS energy and water assessments.

⁵ Global Status Report for Buildings and Construction 2019, International Energy Agency

CONCLUSION

This report explains several ways developers, owner-occupiers, and investors can take meaningful steps to enhance their assets. CBRE has highlighted some focus areas including agile, workplace strategy, digital solutions and sustainability that can have an immediate impact across various stages of a building lifecycle, whether it's a new development or existing property.

Developers, owner-occupiers, and investors can learn more about steps they can take to enhance their assets by following the path in the infographic below based on their specific scenario.



INVESTOR
SCENARIO

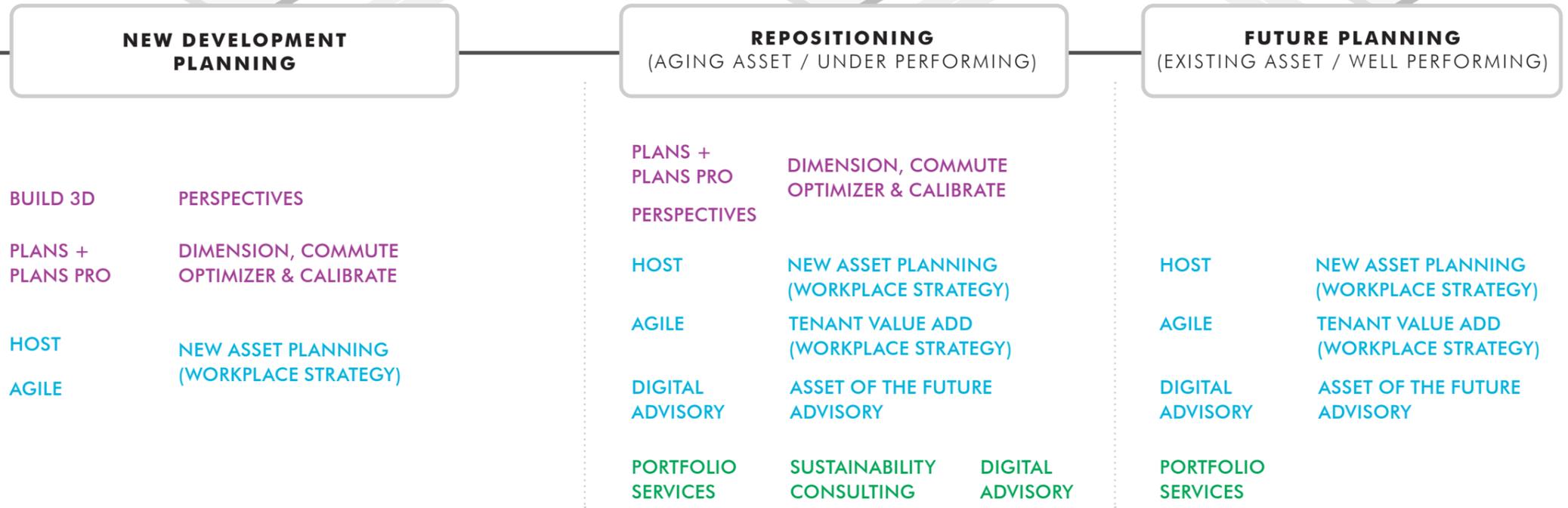
CBRE
SOLUTIONS

FUNCTIONAL
CHALLENGES
UNDER EACH
CATEGORY

MARKETING
/ LEASING

VALUE ADD
SERVICES

COST
CONCERNS



DEFINITIONS

Build 3D
3D renders of what the asset/development will look like

Plans + Plans Pro
Interactive test-fits and virtual tours

Perspectives
Collaborative digital interface that focuses on the customer experience and the elevation of marketing materials

Dimension, Commute Optimizer & Calibrate
Demographic, catchment areas, where people are coming from/going, based on mapping tools and mobile data

Host
Creating a better experience for tenants through a mobile platform and elevated concierge and hospitality services

Agile
Flex strategy planning for a building, including determining the best agile operator and asset mix

Digital Advisory
Unbiased opinion of what proptech solutions are available in the market

Asset of the Future Advisory
Tech / Agile / Tenant Experience (specific review of investor's asset/portfolio and determine bespoke solutions to improve performance)

Portfolio Services
Improve lease and tenancy management through data solutions that provide more insights on expiries and market benchmarks

New Asset Planning (Workplace Strategy)
Ensuring the asset is capturing the needs of tenants (providing insights on what tenants want in a building)

Tenant Value Add (Workplace Strategy)
Improving the workplace for existing tenants in portfolio (additional service landlords can provide to retain tenants)

Sustainability Consulting
Improve asset performance and achieve cost savings through energy management systems and environmental accreditations

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