



## Shifting Gears

### Corporate Occupants Re-evaluate Real Estate Outsourcing Models

#### Executive Summary

The decision-making process for corporate real estate (CRE) outsourcing has become increasingly dynamic. The drivers that frequently tipped the scale in favour of the largest global service providers with their expensive proprietary technology are no longer as compelling given the rise in importance of behaviour-based qualities of service providers, including trust. Smart industry leaders should keep an open mind to both large and medium-sized service providers when evaluating outsourcing candidates.

#### Introduction

The challenges posed by commercial real estate industry mergers and consolidations, changing demographics in the corporate workplace and various permutations of organizational design have shifted the landscape for service providers and outsourcing models in recent years. Within the context of these changes, and given the industry's heightened focus on customer experience, Avison Young set out to understand the latest thinking from CRE leaders and consultants on how these forces have affected the use of two key models for CRE outsourcing.

While the task may seem like an age-old question—comparing the broker-led model for transaction services to the more traditional integrated corporate services model—this white paper sheds new light on the influence and impact of trust on the occupant's choice of a real estate advisor.

## It all begins with trust

Trust in an outsourcing relationship is more important than what both parties negotiate into the service agreement. Trust is a key element to the long-term success of the relationship. Trust is causal—that is, a direct link exists between trust and longevity in outsourcing relationships. And, trust requires an intention to produce, nurture and maintain. Trust also requires that there be an explicit acknowledgement and declaration that the client's decision to select a particular real estate service provider, and the real estate service provider's decision to take on a client, are based on a choice. And with that choice comes confidence in expected behaviour, reliance on the other party's word, removal of uncertainty and honest communication.

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Of course, the trust factor can work both ways in an alliance relationship. A 2017 Deloitte survey, *Outsourcing in Corporate Real Estate: A CoreNet Global and Deloitte Consulting LLP Survey Research Project*, featured service providers who were asked what they considered the most significant challenges in working with corporate clients. Most service providers first cited the complex process of responding to requests for proposals (RFPs) in the competitive bidding process. That challenge was followed by the difficulty in building trusted strategic partnerships. Similarly, KPMG's *2018 Global Real Estate and Facilities Management Outsourcing Pulse Survey* report noted that the lack of trust was one of the top five drivers working against successful outsourcing partnerships.



**VIK BANGIA**  
Verum Consulting, LLC  
CEO and Founder

Vik Bangia, CEO of CRE outsourcing consultancy firm Verum Consulting, agrees.

"The traditional RFP process used in the majority of commercial real estate outsourcing initiatives isn't designed to allow the service provider to demonstrate trust, commitment, or transparency," he said in an interview with Avison Young. "Service providers go in knowing that there is more to tell than what can be communicated on paper in the response to an RFP. That is why we recommend that 30% of the decision-making criteria be behaviourally based. This approach supports and reinforces the results from these surveys regarding trust."

While trust has always been a key part of most outsourcing decisions, the historical concept of trust is akin to the old industry catchphrase that "nobody ever got fired for choosing IBM." In practice, this notion meant that trust was applied specifically, and almost exclusively, to those firms in the industry that were considered too big to fail. Interestingly, some industry watchers are now wondering whether larger service providers have lost the ability to move quickly, think entrepreneurially or take reasonable risks similar to what happened with IBM.

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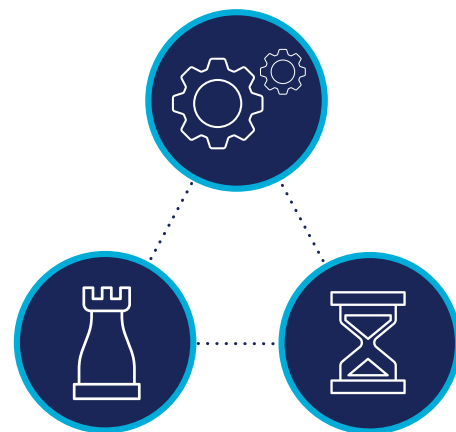
Indeed, and potentially because of their size, some of these large firms are investing heavily in technology, betting that their platforms will be game-changers for the industry and key factors in developing trust. However, with so many unknowns—scale, adoption and cost, among them—smart CRE leaders understand that technology can be both a blessing and a curse.

Certainly, technology can result in productivity enhancement and more efficient day-to-day operations. However, the notion of technology as an enabler of trust remains suspect. In fact, technology gives rise to a number of other factors that tend to diminish trust, including questions of data integrity, confidentiality, security and access.

## Elevating trust as the main factor in outsourcing decisions

Outsourcing decision-making drivers appear to be changing among heads of CRE for occupants, especially those with smaller or medium-sized portfolios. Their companies often do not need fully integrated, global services. These leaders now have more choices and are more open to working with smaller- and medium-sized firms that do not necessarily position themselves as full-service global CRE providers.

In Avison Young's series of interviews and industry checks with clients and non-clients across the world, one factor emerged as the key to CRE decisions: trust. To avoid bias, the company dug a little deeper with sources to determine the factors that go into trust, or the lack thereof. In addition, interviewers sought to answer a crucial question that would be applicable to all firms in the real estate services space: what specifically can the industry do to increase the trust level between the client and the service provider?



Interviews touched on topics such as capabilities, coverage, transition planning, technology and customer service to unpack where and how trust is developed and where the gaps exist. Interestingly, in every conversation, the service provider's technology platform was not cited as a main driver for the outsourcing decision. Regularly, however, interviewees mentioned communication, honesty, transparency and commitment.



**PHILIP GROSSBERG**  
Naya Energy  
Board Director

According to Philip Grossberg, the former head of global CRE for Avnet, Inc., a Fortune 500 electronics-components distributor, service providers naturally aim to broaden their delivery scope and become more integrated with clients. However, sometimes these firms build up their shops as bigger than their true capabilities, he believes.

"It becomes more about what the service provider wants to be able to do rather than what it can do for the specific needs of the client," he said in an interview.

In truth, there is often a logical trust gap at the beginning of many client/service provider relationships, and it takes energy and focus from both parties to recognize and address this gap. Service providers claim that they can do everything—and they sometimes push that promise as a unique differentiator in the RFP process. However, in that same RFP process, occupants also make demands that do not match service providers' capabilities. Why? Because, often, occupants do not fully understand their own needs.

"There is fault on both sides of the table," Grossberg said. "The two parties can be so far apart that the relationship starts off on shaky ground and quickly becomes antagonistic. The client needs an advocate who understands the nuances."

One common analytical lens on outsourcing focuses on global occupants that shift from a broker-led model to a more traditional corporate-services approach. Often, this decision is made with the goal of accessing deeper portfolio-strategy resources, and because the client is concerned about a perceived limited depth and breadth of integration at the global level. In the client's view, the broker-led model worked well for a limited scope of service, and it should not be a difficult transition to a more traditional full-service model with a broader mandate. In reality, things do not always work out that way.

More recently, some CRE leaders have reversed course from a traditional corporate-services model to a broker-led one.

The new broker-led service providers are not burdened by the overhead of typical large full-service brokerage firms.

“Hub-and-spoke brokers with smaller specialized teams can do exceptionally well for clients, particularly mid-cap clients,” Grossberg said. “It can even be a refreshing change to occupants to make a switch if costs need to come down, or if occupants don’t need some of the services from traditional full-service firms. With the right mindset, that change is not that difficult to achieve.”

That mindset is important. As a case in point, Minneapolis-based Thrivent is a not-for-profit financial institution, and its Manager of Real Estate Kelly Stenzel notes that large firms do not always deliver the attention or benefits that they promise through dedicated resources or technology. In Thrivent’s case, the shortfall was an outdated lease-administration system. Stenzel explained that the bigger firms that he once used were not as proactive as he had expected.

“Our goal at Thrivent was to bring in the right-sized contractor,” he said. “With larger firms, many service options are presented, but we only needed a handful of services that were done well.”

Stenzel’s advice is for occupants to seek out the right-sized service provider based on customer service, quality and price, but not to make the assumption that biggest is always best.

“In my experience, the staffing with a medium-sized firm is fine, the relationship management, processes and reporting are all good, and the cost to the end-user firm is reasonable,” he said. “I initially thought that market coverage might be a concern, but it has never been an issue.”



**MARK BLAIR**  
athenahealth  
Executive Director

Mark Blair, Executive Director of Environment for Boston-area athenahealth, a publicly traded American company that provides network-enabled services for health care and point-of-care mobile apps in the United States, largely agrees. He likes the service and relationship from a mid-sized firm, particularly the personal touch and just-in-time nimbleness.

“Our account leader knows our needs and where we are in our growth journey,” he said. “We’ve had lots of interaction up to the C-suite level. It is nice to have an ally in the room when talking to the CFO.

There is more trust.”

Blair also noted that larger firms are frequently trying to upsell or oversell, and athenahealth does not need many of the proposed services.

“Everything that I asked for with my current arrangement (including technology) has been delivered and has met my needs,” he said.

The best part: “I’ve never seen a bill.”

In both of these companies’ cases, the concern of leaving something on the table when choosing the broker-led model appeared to be a false flag. The conventional wisdom is that a broker-led model, which supposedly casts aside the breadth of non-brokerage ancillary services, is somehow lacking when compared with a corporate services-led brokerage approach. But interviewees did not express any concerns or share this view.



**TOM PULLINEN**  
Pullinen Property Group  
Principal

Tom Pullinen is an Australia-based Principal and brokerage leader with the Pullinen Group. He often receives transaction management assignments for Australia and Asia from North American corporate occupants that utilize traditional corporate service provider models. Pullinen maintains that this structure often drives more of a contract-management approach than a client-management mentality from the real estate service provider serving the occupant in the more traditional model.

“[Contract management] is the only way for the larger service-provider model to work,” Pullinen said.

In his view, the contract management approach can also, unfortunately, lead to account teams with unimpressive intermediaries—who are not necessary—or young account staff who do not always know what they are doing. Nevertheless, things are changing for the better.

“After so many years of contract management, there is a slow shift back towards client management, and this is a good thing in my view,” he said. “Clients are best served by looking at each transaction and market separately: If you are not changing your staff to meet the changing needs of your clients, then you are not doing your job.”

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## Bridging the trust gap

One additional possible cause for a trust gap noted by several CRE occupant leaders and told to Bangia may be that all of the larger service provider firms are publicly traded. That factor alone is not the issue, but shareholder sentiment at public firms generally supports the idea that a larger service provider needs to be a one-stop shop for all CRE services in order to maximize revenue and profits to meet quarterly financial targets. One has only to look at the number, scale and dollar value of acquisitions by the top CRE service providers in the last five years to buttress this claim.



According to Bangia, finding the right model for any client has more to do with understanding the specific evolutionary stage of the client’s CRE department (i.e. whether that team is entirely insourced, uses some preferred providers, or relies on a small number or one single outsourced service provider).

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“It may be trite to say no one size fits all, but it’s even more dangerous to assume that any service provider can fit the needs of every client,” he said. “In our experience, there is always one service provider firm that rises to the top of the RFP process . . . with the team chemistry between that provider and the client leading the way. It’s not always the same firm, or firms, which proves the point that [the choice of provider] does boil down to a feeling of trust.”

Service providers need to remember that success is all about the customer experience: how clients are treated, how they are made to feel and how expectations are set and met. These issues begin at the early stages of the RFP process, and trust, collaboration in creating a partnership and respect are crucial to establishing a good client relationship. It can be useful for CRE clients to have access to a full suite of in-house services like those offered by the biggest service providers, but sometimes it is better to utilize a right-sized, specialized network. Both models can be fully functional, and both are often only as good as the individuals performing the work.

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Perhaps the best advice for both parties at the beginning of any outsourcing relationship is not to ask for more than you need as an end user, nor promise more than you can deliver as a service provider. Trust is truly a two-way street, and it is the key to unlocking the power of successful occupant/service provider CRE alliances—no matter the global size and reach of the vendor. The aforementioned KPMG study specifically cites a team approach as one of the most powerful levers in better preparation for outsourcing.

It is fitting to close with insights from CRE leaders who have had to weigh the pros and cons of their service providers' resources, scale and reach against other providers' fees in the context of an ongoing multi-year contractual relationship.

"Ninety percent of my sites are located where our advisor has an office," Stenzel notes. "We partner with best-in-class brokers in the other markets," he adds. "Trusting that our service provider will execute consistently on a global basis has never been an issue."

In addition, as far as Blair is concerned, there is no need to switch service providers given the strength of his current arrangement.

"We could not ask for a better partner."

## Conclusion

Decision-making drivers for corporate real estate outsourcing are changing, and for good reasons. For years, the default corporate option was to favour the largest global service providers, most of which rely heavily on expensive proprietary technology as a way to smooth over any gaps in integrated service delivery. Increasingly, CRE executives are realizing that the behaviourally based qualities of service providers like commitment, team chemistry and trust are just as important (or even more important) than sheer scale or technology to the overall success of the joint relationship. As a result, smart CRE leaders should include both traditional large *and* medium-sized service-provider firms when contemplating outsourcing candidates. The results achieved for satisfied clients by many of these nimble mid-sized firms are simply too compelling to ignore.



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