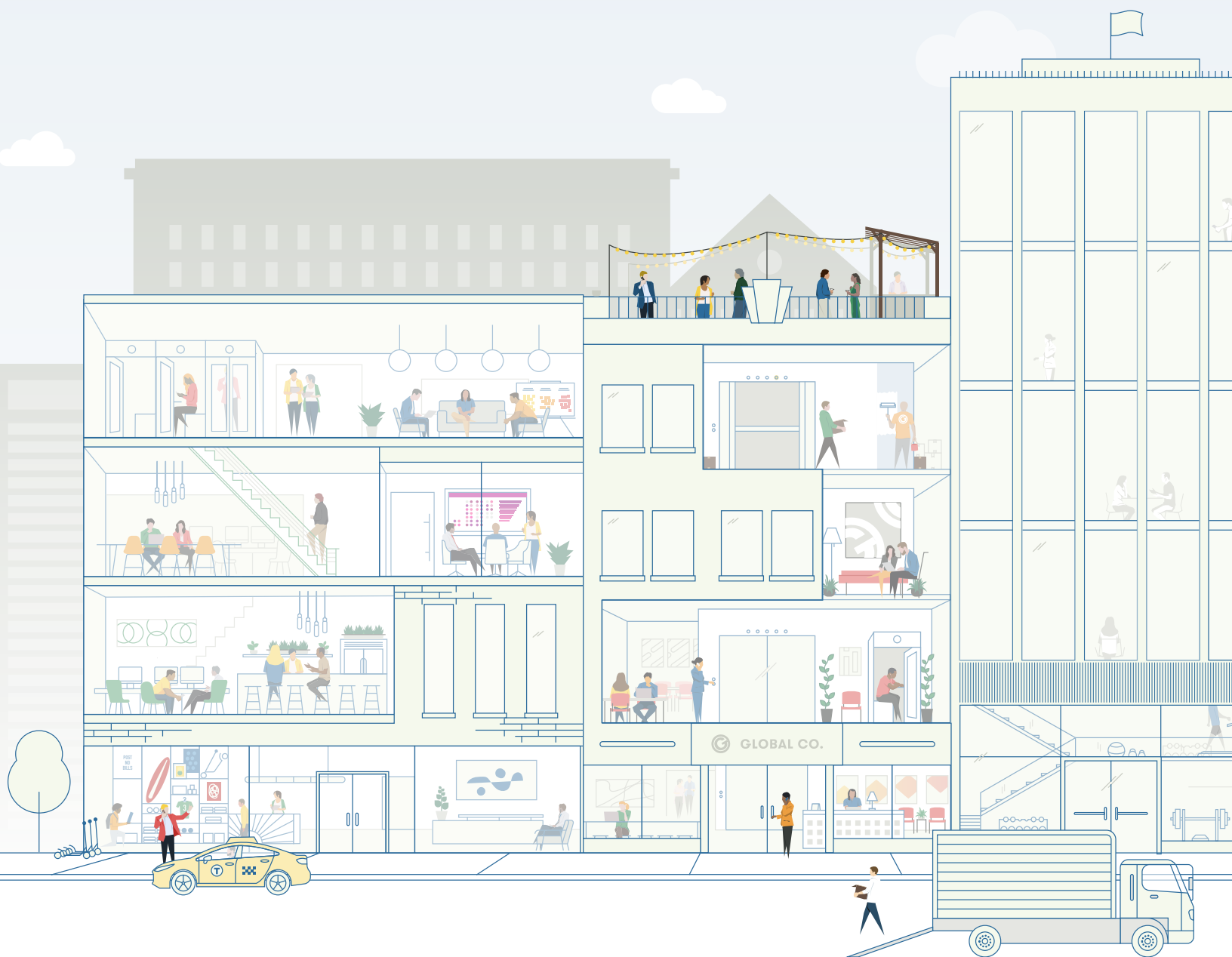
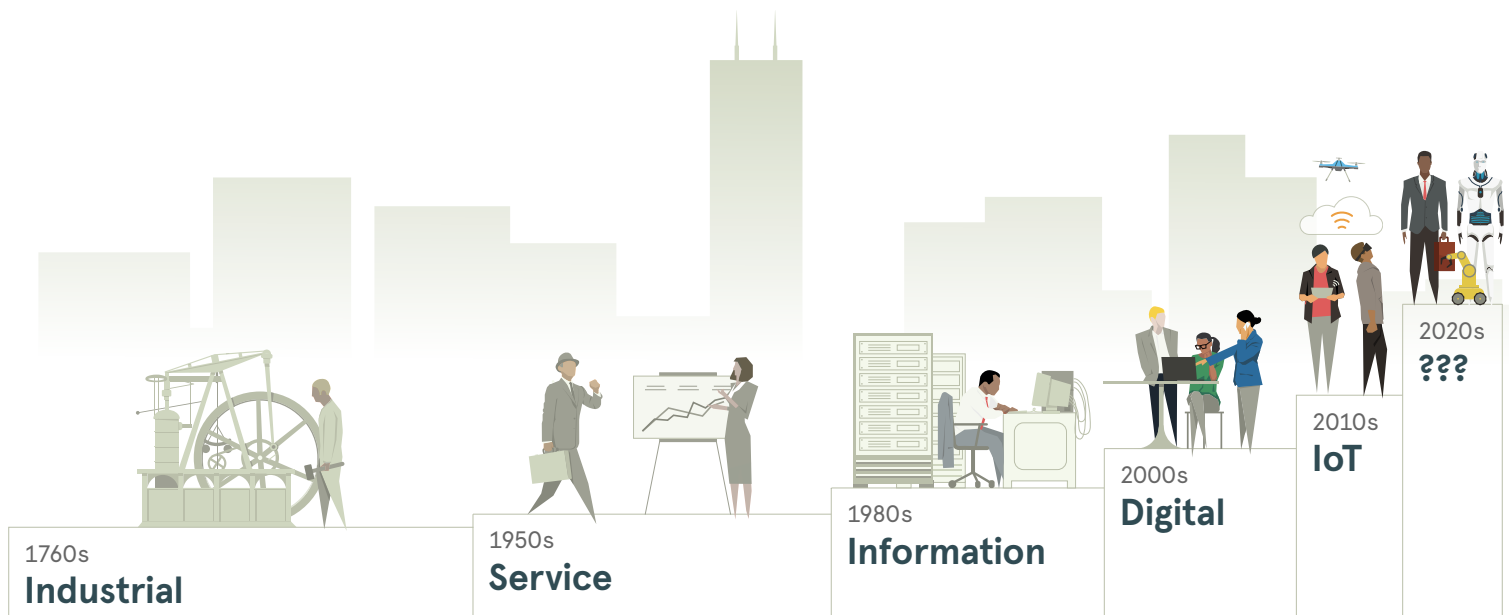


# The Future of Corporate Real Estate



# The pace of change for business is accelerating



**The way we live, work, play, and connect has undergone seismic shifts. Technological advances have unleashed an era of unprecedented change, and the pace will only continue to accelerate.**

While technological progress has always been disruptive, prior to the last 20 years these changes were more gradual. The political, economic and social shifts of the industrial era spanned over more than 100 years, but as business has moved from industrial to service to information to digital, the time between such transitions has become increasingly compressed. We're now transitioning to a new era, signaled by the rise of advanced technologies like artificial

intelligence (AI), machine learning and automation--technologies that will force structural changes within business and change the nature of work itself. The speed of these advanced technologies is already making this transition more disruptive than previous epochal shifts. While it's impossible to predict what the next 5-10 years have in store, there are indications of what companies will need to be prepared for:

## 01

## Uncertainty is the new normal

The accelerating pace of change means that uncertainty is the new reality for business. New types of challenges and risks will emerge as increasingly short-lived market opportunities demand quick responses. Technological changes, political upheaval, environmental impacts, mounting social unrest and unclear economic outlooks will force companies to adapt quickly to remain competitive. These stakes are incredibly high, as over the last 15 years, 52% of the S&P 500 have disappeared. Looking forward, businesses must be agile and flexible in order to survive, and especially to thrive.

## 02

## The rise and spread of advanced technologies

The promise of advanced technologies is limitless. From transport, to healthcare, to education, these technologies will permeate and improve nearly every aspect of individuals' lives. Innovative companies have already begun to implement machine-learning, AI and robotics to discover new markets, reinvent processes and delight customers with new products and services.

However for workers, the outlook is mixed. Existing technologies are already capable of automating 50% of job activities, with 30% of workers facing the prospect that at least 60% of their work can be done by machines.<sup>1</sup> As AI replaces not just routine manual work but increasingly takes on more complex cognitive tasks, many of today's workers will become displaced or find themselves in different roles. Yet new jobs will also be created, and with them, new opportunities to find more meaningful work. In this context, the role of human work will increasingly focus around collaboration, creativity and connection.

## 03

## Every company is a tech company

Today, every company has to think and operate like a technology company. Across industries- media, retail, banking, professional services, utilities and CPG - business has been upended by technological advances, forcing companies to redefine their strategies, reinvent their business models and digitize their operating models.

Most companies now recognize that accessing and attracting workers with the skill sets for a digital future will be a key driver of their success. This has intensified the war for tech talent in an already tight labor market. Already 46% of US companies say they cannot hire the people they want with the right skill sets.<sup>2</sup> To compete, companies will have to offer experiences and environments that these workers have come to expect. For many companies in traditional industries, this means a complete cultural and workplace transformation.

<sup>1</sup> McKinsey Global Institute. Jobs Lost, Jobs Gained: Workforce Transitions in a Time of Automation. Dec 2017

<sup>2</sup> ManpowerGroup's 2018 Talent Shortage Survey

## 04

## The changing workforce

By 2020, Millennials will make up 50% of the workforce – a generation of workers with fundamentally different expectations for the nature of work. Unlike generations before them who sought stability and security, Millennials crave new experiences and a sense of purpose. This attitudinal shift will give rise to a distributed and transient workforce, quick to jump on new opportunities in search of personal and professional fulfillment.

Already today, most workplaces are not meeting the needs and expectations of their workforce. 85% of employees are not engaged at work<sup>3</sup> and 51% percent are looking for another job.<sup>4</sup> This statistic is alarming considering the cost of lost productivity and employee turnover.

## 05

## Shifting geographic focus

By 2025, global consumption is forecast to have doubled since 2013. There will be 1.8 billion extra consumers, and more than half of the world's population will live in cities. There will be 37 'megacities', up from 23 today, and 12 of these will be in emerging markets.<sup>5</sup> For businesses, accessing this growth won't be easy, with the fastest growth forecast to be across the 400+ midsize cities spread across the developing world.<sup>6</sup> As companies move to establish a foothold in these new markets, they will face challenges setting up a local presence, finding a sense of community and belonging, and accessing (and retaining) talent. Retaining ultimate flexibility and agility in these volatile and hypergrowth markets will be critical.

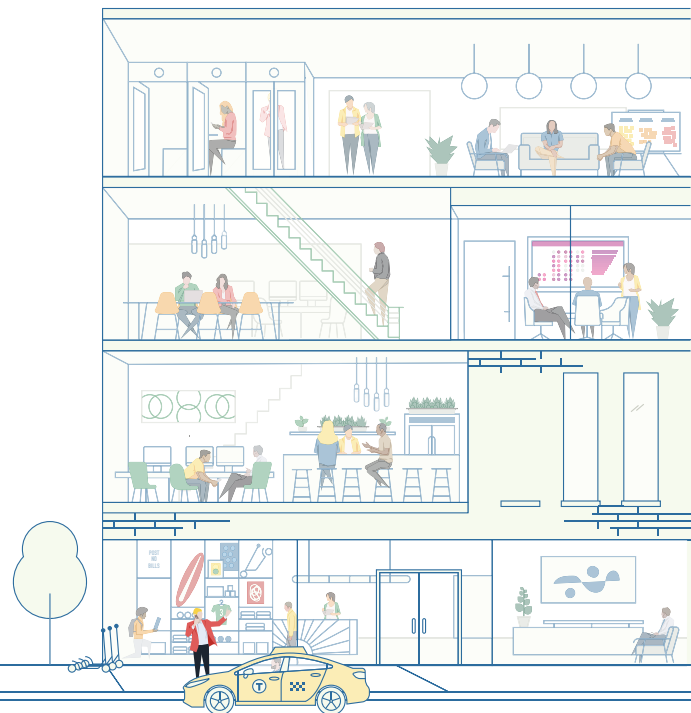
We will also see the spread of industry hubs, across the US and globally, as cities offer incentives to desirable companies to set up shop. The greater dispersion of talent will make accessing the right people with the right skills more global, and more competitive.

<sup>3</sup> Gallup: State of the Global Workplace. 2017

<sup>4</sup> Gallup: State of the American Workplace. 2017

<sup>5</sup> United Nations, Department of Economic and Social Affairs, Population Division (2012).

<sup>6</sup> McKinsey. Global growth, local roots: The shift toward emerging markets. August 2017



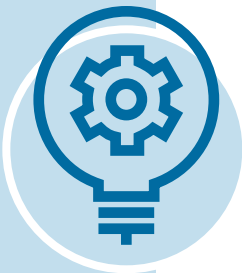
# Today's imperatives, tomorrow's success

Preparing for these futures – and the uncertainty that comes with them – is a challenge that companies are grappling with globally. As business leaders seek to future-proof their business, some things are top of mind:



## Flexibility and agility

Across industries, long-term strategy has become risky and obsolete, replaced instead with aspirations of short-term agility. As uncertainty and market-entry risks increase, the ability for an organization to be agile and flexible will become even more of an imperative.



## Innovation and digitization

Digital-first operating models and the digitization of processes and journeys can improve sales, enhance the customer experience, reduce costs and drive agility and innovation at scale. The ability to leverage new technologies and data, develop new business models and reach new markets through innovation will define success across nearly every industry.



## Workforce transitions and integrating new types of workers

As tasks become automated, some workers will shift to new positions while others will be displaced entirely. Directly and indirectly, advanced new technologies will also require new roles and skillsets. Organizations will need to invest in attracting new types of workers while upskilling and retraining their existing workforce.

# Traditional Corporate Real Estate isn't aligned

While business leaders look to the future, the real estate and construction industries are firmly anchored in business models and operating principles of the past. Many traditional industry players are happy to maintain that status quo, reaping profits from a model proven to protect their interests and maximize their returns.

## Business leaders are thinking about...



**Flexibility and agility**



**Innovation and digitization**



**Workforce transitions and integration**

## Industry barriers



**Complexity**  
*Misaligned incentives*



**Slow to innovate and digitize**  
*Unsophisticated processes*  
*Limited knowledge transfer*



**Cost efficiency comes at the expense of employee experience**

Source: McKinsey; WeWork

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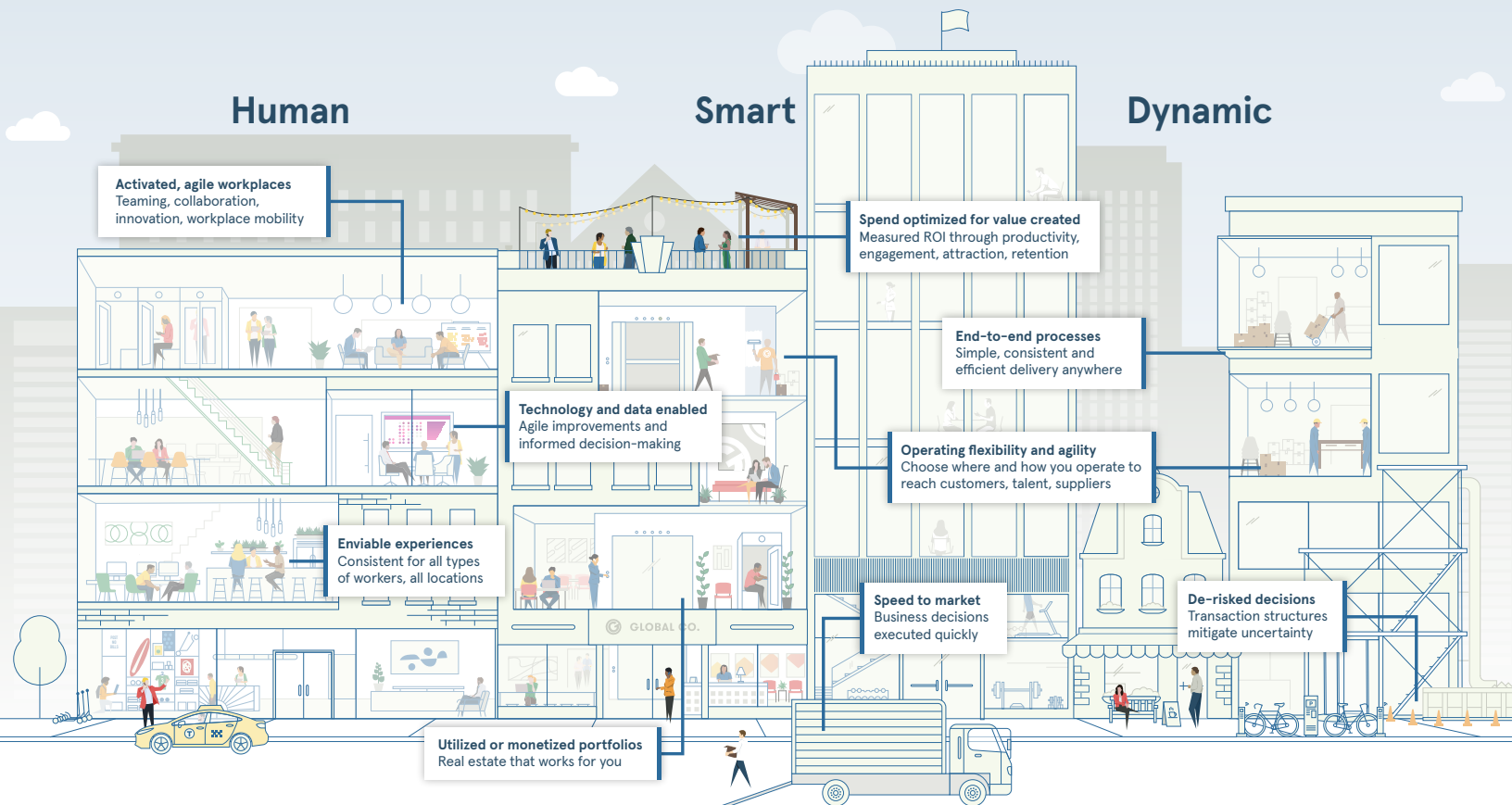
As a result, corporate real estate teams must navigate a fragmented, complex and opaque ecosystem of providers with misaligned incentives, leading to unforeseen costs, delays and risks in design, build and operations. The average lease terms is 10–15 years, reaching far beyond most companies' planning cycles of 3–5 years, resulting in heavy balance sheet liabilities and suboptimal utilization that adversely affects employee experience. As it's nearly impossible to forecast headcount that far out, companies either have too much space, and their offices become 'ghost-towns' with low engagement levels, or alternatively, too little space, and employees are cramped and overcrowded resulting in productivity losses. The industry also lags in digitization and innovation, and

limited knowledge transfer and investment in R&D or IT has resulted in inefficiencies and suboptimal tenant experiences.

Understandably, many real estate teams end up underutilized, focusing on transactions, vendor management and legal issues and cost reduction at the expense of employee experience. The consequences for business overall is a loss of talent, innovation, growth and supply chain efficiencies. Across industries, organizations struggle with underutilized buildings in suboptimal geographic locations, costing them millions of dollars while simultaneously impeding their ability to attract and retain talent. They struggle to scale efficiently, mobilize workers and access customers.

However, as the second largest business expense, a company's physical connection to customers and communities, an access point to local talent and a key driver of employee experience and output, real estate can be transformational in helping companies future-proof their business and create value across the organization.

# Propelling Corporate Real Estate into the future



Some organizations have started to overcome the industry's limitations and are moving ahead of their peers by transforming the way they think about real estate. They recognize and embrace the role corporate real estate can play in advancing broader strategic priorities like accessing customers, de-risking decisions, attracting and retaining top talent, driving operational efficiencies, and building and maintaining a strong company brand. In short, they see real

estate as a strategic lever to drive growth and create value, rather than a cost center to contain.

This transformational role of Corporate Real Estate has three overlapping characteristics:

## Human

Real estate moves beyond just the provision of a physical workspace that's optimized for \$/SQFT, to the curation of an experience with a focus on the end-users and humans that will occupy it. Space is designed to enable varied types of workers and ways of working, increase collaboration, and encourage innovation. The return on real estate spend is measured by the human value that is created across the organization, including the ability to attract and retain key talent, engage workers and drive productivity.



## Smart

Technology and data play a key role in automating processes, improving decision-making, and enabling workers to be more effective. Workplace environments and activities across occupancy, utilization and spatial analytics are tracked, measured and continuously improved to improve employee experience and optimize space efficiency. Streamlined end-to-end processes drive global efficiencies and consistent, high-quality outcomes. Flexible transaction structures are employed to unlock capital, monetize assets and de-risk business decisions.



## Dynamic

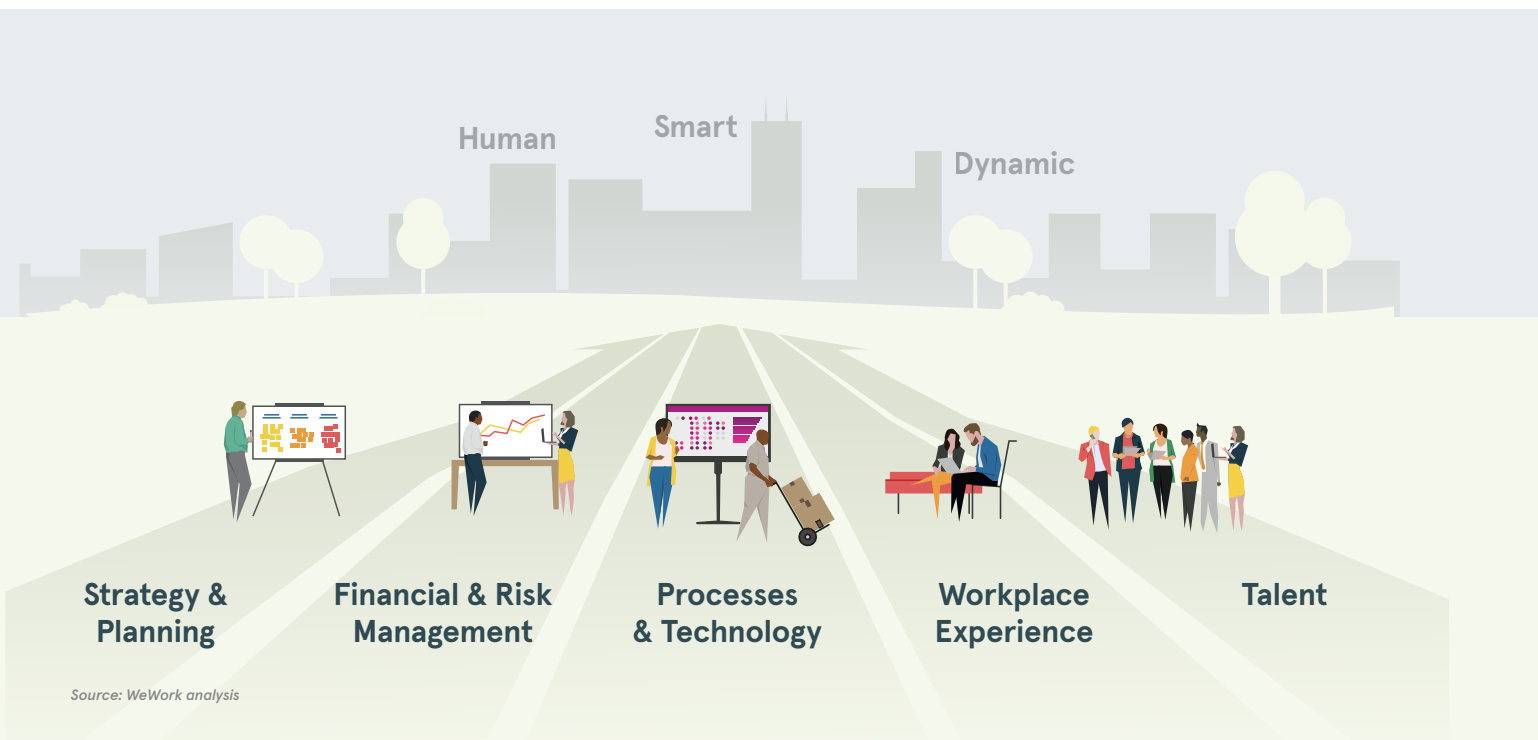
Real estate is agile and responsive to changing business needs, risk and market uncertainty. A company's portfolio is fluid and elastic, and footprint strategically aligns with competitive advantages. Businesses have the flexibility to choose where and how to operate, reaching customers, suppliers and talent anywhere in the world. Physical workspace environments evolve and respond to the people that use them.





# The path to transformational

Companies that are moving ahead of their peers and transforming their real estate are investing in five connected capability areas:



01

## Strategy and planning

Be in the right place at the right time, drive growth and create operating efficiencies.

02

## Financial and risk management

Deliver measurable returns on real estate spend, de-risk business decisions and increase shareholder value.

03

## Processes and technology

Make agile improvements, smart decisions and deliver consistent, accelerated outcomes.

04

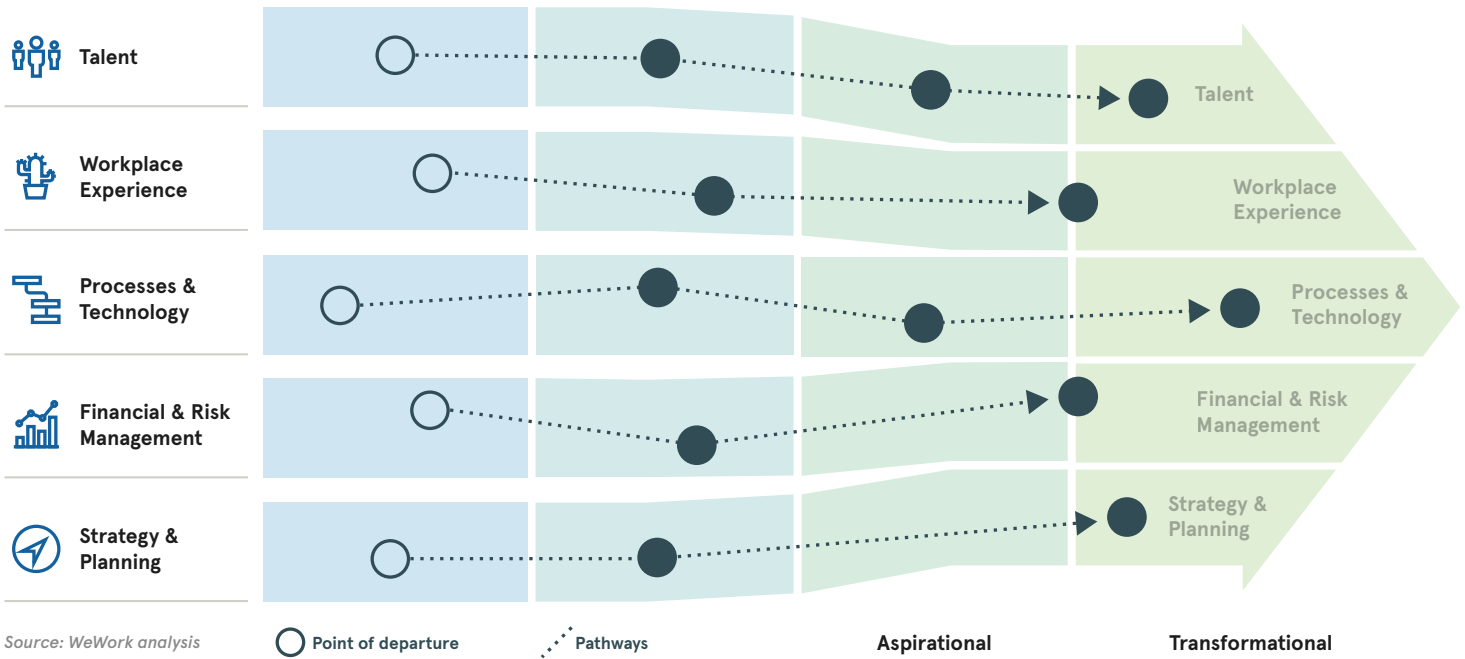
## Workplace experience

Drive productivity, engage and retain talent, and enable different ways of working.

05

## Talent

Access and attract top talent across dispersed locations and different types of workers.



Each capability area is an intersection point with the broader organization and a lever to create impact and value. When the five capability areas are interconnected and performing – and are in alignment with the rest of the business – real estate has the power to drive transformational outcomes. On a journey towards transformational real estate, the five capability areas become practical and tangible pathways. Not every company will need to invest in each capability to the same extent. Across companies and industries, different goals

and priorities will mean a focus in some areas over others. And every company will have its own starting point. The champions – those who move meaningfully ahead of their peers – prioritize the pathways that will drive the most impact for the business. They then develop concrete stepping stones and clear actions at an operational level to move them towards their real estate and broader business goals. Those who settle for traditional real estate, or who fail to develop concrete pathways towards transformation, are the companies that will be left behind. ■

## About WeWork

Over the past decade, WeWork has designed, built and operated innovative and tech-enabled workspaces for 30% of the Fortune 500. WeWork has 45M square feet under management, in 100 cities and 26 countries around the world, and adding around 3M sqft every month. The WeWork platform combines an exceptional global real estate portfolio with ultimate flexibility, and the connective power of intentional design, operations, event programming and technology.

## About the Authors



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Global Head of Powered by We Advisory Services

Veresh delivers amazing workplaces and experiences that enable enterprise employees to be at their best. Veresh has a proven track record of disruptive innovation and transforming conventional business models to deliver hassle-free, friction-less customer experiences. Before joining WeWork, Veresh held Chief Digital Officer positions at Emaar and Colliers, and served as Chief Information Officer at Alaska Airlines.



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Global Head of Powered by We Services

Craig leads Powered by We's global business development, service delivery, client account operations, and platform investments. Craig has spent more than 20 years advising enterprises and building full occupiers' services businesses. Prior to WeWork, Craig was CEO of global corporate services at Newmark Knight Frank, and president of the U.S. region of Colliers International Group Inc.



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Global Head of Facility Management Services

Maureen's Facilities Management team is innovating to create the next generation of facilities management with new service models, technology and products that speak to our members' portfolio needs. Maureen has over 25 years of experience in the commercial real estate industry. She joined WeWork from JLL, where she was the former president of global integrated facilities management.



### Kendall Collins

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Kendall oversees all Powered by We technology. Kendall joined WeWork from AppDynamics, where he was the Chief Marketing Officer. His career includes a 12-year tenure at Salesforce, where he held executive positions across a wide range of business and product.

