CFO Call to Action:

Synchronizing CRE & IT Investments

FlexPaths Insight Report

WINTER 2023

FLEXPATHS®

Innovators in Workplace Change

It is imperative, in optimizing RE spend, that we educate and equip ourselves to think differently about RE investments when planning future business, technology and talent strategies.

Over the past five years, how and where employees want to work has gone through a period of change that was rapidly accelerated by the pandemic. For many companies, the pandemic pulled forward pre-existing trends that drive how people work, forcing companies to reconsider the alignment of real estate to the changing needs of their workforce.

The pandemic ushered in hybrid and remote work models, providing employees the flexibility to choose how and where they work. The changing needs of the employee and the reality that hybrid work is here to stay has driven businesses to strategically reevaluate their real estate footprints. As for many companies, when the process has provided an opportunity to rethink its future real estate investments with a renewed focus on flexibility, optimization, and ROI.

While most previous Corporate Real Estate business models were arranged in many cases vertically — building a physical location on a function-by-function, need-by-need basis — it may be prudent to now look at an enterprise-wide relationship with our offices. Instead of treating each office or location as a separate entity, an alternative approach would be to evaluate each geography at the enterprise level with a preference to co-locate functions, providing the opportunity to share duplicated investments such as reception areas, HR, IT, conference rooms, kitchens/lunchrooms and outdoor spaces as well as high-cost infrastructure such as gyms, day care, studios, dark fiber connectivity, audio rooms, IT infrastructure and security.

In other words, companies are driven to find that they can optimize their metrics and goals for success, aligning BU strategies with talent location, retention, future of work, work experience and the physical attributes of real estate.

Furthermore, CIOs rose to the challenge during the global pandemic and accelerated efforts to accommodate the growing demand for remote capabilities that was already underway. This need ushered in more robust and resilient remote connectivity, a host of collaboration tools, and enhanced security to protect the multitude of "unmanaged endpoints" that would suddenly connect to corporate infrastructure.

We can begin to think differently about our Total Cost of Real Estate (TCORE). It's time to assess our portfolio to reveal ways to make objective, data-driven decisions about current and future RE investments, considering factors such as occupancy, utilization and collocation.

FLEXPATHS®
Innovators in Workplace Change

Purpose of This Insights Report

As our working environments continue to be reshaped, we are faced with a continuing need for innovative, flexible leadership and solutions to these remaining challenges:

- Align on our approach to optimization of our complete real estate investments.
- Inform and provide insights into key real estate trends and implications as we re-envision the workplace experience.

FLEXPATHS®
Innovators in Workplace Change

Our Observations

THE KEY THREE PILLARS OF EFFECTIVE CORPORATE REAL ESTATE, HR, CRE and IT are often collectively misaligned and even more so out of sync with the needs of the company's businesses. Where these functions, associated spending and forecasting are independently managed, opportunities abound to synchronize and bring efficiency into long-term investments in RE.

THE IMPORTANCE OF COMPREHENSIVE BASELINING of RE costs to any Facilities, RE, IT, HR initiative, is key. With RE Opex alone often in most entity's top 3 – 5 spending categories (typically trailing right behind Talent costs), C-Suites and BoDs may be shocked to find TCORE representing 10 and as much as 30% of their company's EPS.

With occupancy/utilization challenged to consistently reach levels above 30%, particularly on a full-week basis over which RE costs are incurred, **RE INVESTMENTS ARE LIKELY THE POOREST PERFORMING ASSET ON COMPANY'S BALANCE SHEETS ON AN ROI BASIS** — and this even if an entity's portfolio is primarily leased.

In addition to evaluating TCORE on an ROI basis, **RE, FACILITIES, IT AND PHYSICAL SECURITY STRATEGIES NEED TO BE DEFINED AND MANAGED** as Talent-based Initiatives, presenting attraction, retention and Competitive Advantage opportunities.

It is an opportune time for technology leaders to partner with HR and challenge the assumption that the only solution to productivity and culture concerns is to return to a dated model of commuting, cubicles, and water coolers. Instead, there's the opportunity to **REINVEST REAL ESTATE SAVINGS** into a new tech-enabled working model that can meet the needs of all stakeholders.

The five-day-office-work week is behind us. **FRESH THINKING AND NEW MODELS ARE NEEDED TO MEET TALENT WHERE THEY ARE SO THAT WHAT RESULTS IS ENGAGEMENT AND HIGH PERFORMANCE.** Having HR, CRE and IT collaborate and create supports and settings for our workforces to do their best work will be a win-win for our society, businesses and employees.

FLEXPATHS®
Innovators in Workplace Change

Global commercial real estate markets are rapidly changing due to macro-environmental shifts; important considerations for both location and talent strategy decisions.

The global real estate market continues to change rapidly due to multiple shifts in the macro environment. Research has predicted as much as one billion square feet of office space will become vacant and functionally obsolete in the US alone by the end of the decade, due to the change in how people work. In addition, there is a strong correlation between the economic and real estate cycles, but impacts are not always linear. Over $1.5 trillion of US commercial real estate debt comes due by 2025. This is causing immense pressure for landlords with office buildings still materially available (for sublease or vacant) to default, convert or spend capital to attract new tenancy. Inflation, peak interest rates and tightening ESG norms against the backdrop of an uncertain economy have made 2023 — and will make 2024 — challenging years for commercial real estate, but also present great opportunities for well-informed, strategically aligned, and focused corporate tenants.

Recruitment & Retention

- The war for talent continues to dominate the labor markets with most companies challenged to recruit and retain the best talent. One in five organizations globally are having trouble finding skilled (particularly tech) talent.

Inflation & Cost Increases

- Cost pressures across all segments of the market create significant pressure on companies looking to reduce expenses. Companies have rolled back capital spending in the face of economic uncertainty and increased costs.

Sustainability, Net Zero & ESG

- Continued pressure to reduce carbon footprint and energy costs — and increase sustainability — through specific action and commitments.

Quality over Quantity

- Markets are shifting to the newest, highest quality real estate assets to reduce footprints, carbon footprint and employee demands. Companies will prioritize locations with the strongest innovation and talent characteristics.

Interest Rates, Insurance Market and CPI

- Cautious lenders, uncertainty over the future of office markets, rent and Common Area Maintenance (CAM) CPI.

Evolved Workforce Expectations

- Flexible work schedules are now seen as a requirement rather than a perk. 45% of employees are not collocated with their manager and distributed teams. Workers need to collaborate remotely which reduces the pull of on-site work.

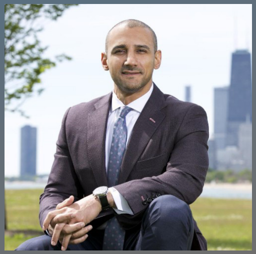
FLEXPATHS®
Innovators in Workplace Change

Where Do We Go From Here?

There is a lot to unpack. We have a readied team who can help your organization:

- Align on workforce planning, bringing together HR, CRE, and IT in terms of strategy, approaches, forecasting, and spend.
- Reassess how real estate, facilities, IT, and physical security strategies are defined and managed along with talent-based initiatives.
- Set clear expectations and approaches to in office work that translates to real estate strategy and investments as part of your future of work strategy.

KEITH T. CHEATHAM | ***Vice President, Consultant***
Keith is the former Vice President of joined Global Real Estate and Global Security & Resilience at Electronic Arts. Keith has led similar dynamic/developing leadership roles assuming responsibility for the bottom-up build of these critical business support functions and leveraging their contribution in providing multi-faceted competitive advantage and protective services internationally and across multiple industries. Keith has routinely played an active role in analyzing the effectiveness of real estate portfolios, developing strategies that align the roles of Real Estate and Security to the overall business goals and objectives, and optimizing the value of real estate in meeting current and future challenges, while keeping locations, events and talent safe and secure. www.linkedin.com/in/keithtcheatham



MIGUEL EDWARDS | ***Founder and CEO of FiveM Consulting, LLC***
Miguel Edwards is the founder and CEO of FiveM Consulting, LLC which provides boutique management and strategy consulting services focused on assisting companies looking to execute on broad expansion, modernization, and digitization. Previously, Miguel served as the SVP & CIO at Pan-American Life Insurance Company, successfully completed a 3-year, $40 million modernization and digitization strategy, including a full-scale cloud migration. Prior to his tenure at PALIG, Miguel was the CIO of Kemper Life & Health Insurance, a subsidiary of Kemper Insurance (NYSE: KMPR). Prior to Kemper, Miguel rose through the leadership ranks in the insurance industry at Allstate, Cover-All Technologies, and Willis North America. www.linkedin.com/in/migueledwards

ROBIN ROSCHKE | ***Co-founder and Board member of FlexPaths, LLC***
Robin Roschke is co-founder and Board member of FlexPaths, LLC. She has demonstrated success in designing, implementing, and overseeing impactful talent strategies aimed at attracting, nurturing, and retaining essential talent. Committed to fostering high-performance and inclusive workplace cultures through cohesive planning in collaboration with infrastructure partners. Most recently, she led the Agile Operations team for HSBC's Wealth & Personal Bank Transformation function in Asia.
www.linkedin.com/in/robinroschke

FLEXPATHS®
Innovators in Workplace Change

In a world adapting to new work norms, FlexPaths can help you address these challenges — working with your business leaders to mitigate risk, create efficiencies, and reduce spend.

A trailblazer in flexible workplaces and hybrid policies since 2005, we provide bespoke approaches to help clients manage the acceleration and complexity of change in today's workplaces.

Schedule a complimentary initial consult with FlexPaths CEO Meryl Rosenthal:

Email: meryl.rosenthal@flexpaths.com
LinkedIn: www.linkedin.com/in/merylrosenthal

FLEXPATHS®
Innovators in Workplace Change

FLEXPATHS®

Innovators in Workplace Change

Shifting business priorities increase the rate and complexity of change needed in every company.

We're here to help.

www.flexpaths.com