

WHITE PAPER

# REDEFINING COMMERCIAL PROPERTY PERFORMANCE

The alignment of property and workplace with corporate objectives



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***This white paper explores how corporate organisations are changing the way they perceive and evaluate their commercial property portfolios both as a physical workplace and as a strategic asset.***

# Introduction

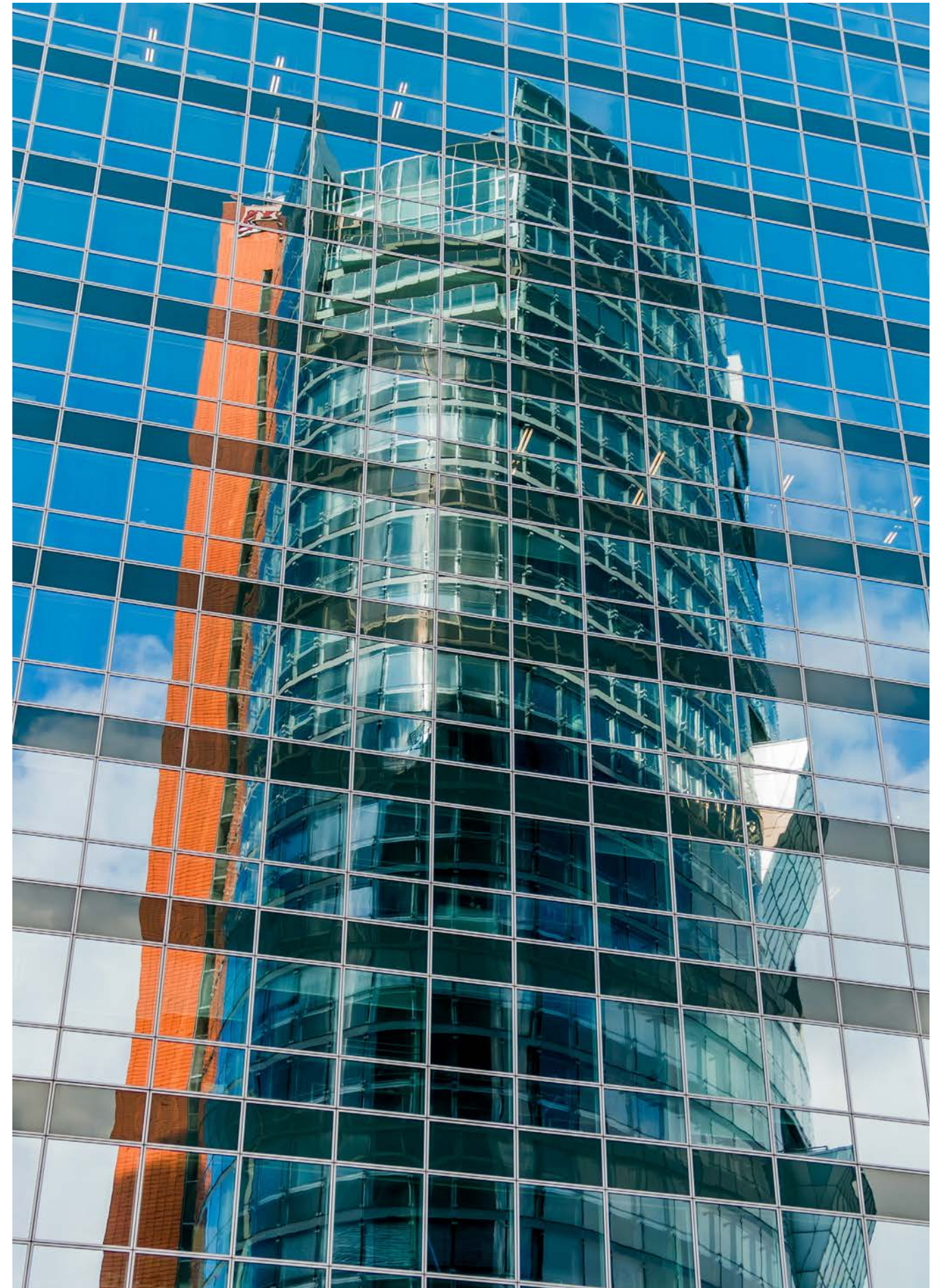
**Office take-up in city centres across nine major UK cities during the second quarter of 2015 rose by almost 50 per cent ahead of the five-year quarterly average, according to a review of the regional office occupier markets by GVA<sup>1</sup>. This coupled with a general shortage of Grade A office space means there will be increased demand for property to maximise its performance on a number of levels.**

This white paper explores how corporate organisations are changing the way they perceive and evaluate their commercial property portfolios both as a physical workplace and as a strategic asset.

Through interviews with leading property professionals, workplace consultants and occupiers, the research seeks to uncover the growing importance of measuring the performance and return from commercial property.

In particular the paper focuses on how the status of commercial property has risen to become pivotal at board level and how businesses are now actively measuring the contribution that commercial property makes to their bottom line in different ways.

Firstly, the paper reviews how property operates in relation to a company's overriding business goals. Secondly, it examines how the actual workplace itself helps to boost overall productivity, effectiveness, brand values, well-being and retention of staff.



<sup>1</sup> FM World [www.fm-world.co.uk/news/fm-industry-news/office-take-up-is-rising-across-key-uk-cities/](http://www.fm-world.co.uk/news/fm-industry-news/office-take-up-is-rising-across-key-uk-cities/)



***What RICS has identified in its research is that the role of property needs to be seen as more than a business support function, but one that is strategically linked back to the business.***

Paul Bagust, RICS

***For the C-Suite there is the wider understanding of what their business is trying to achieve and how property fits into that picture.***

John Pike, Bellrock Property & Facilities Management

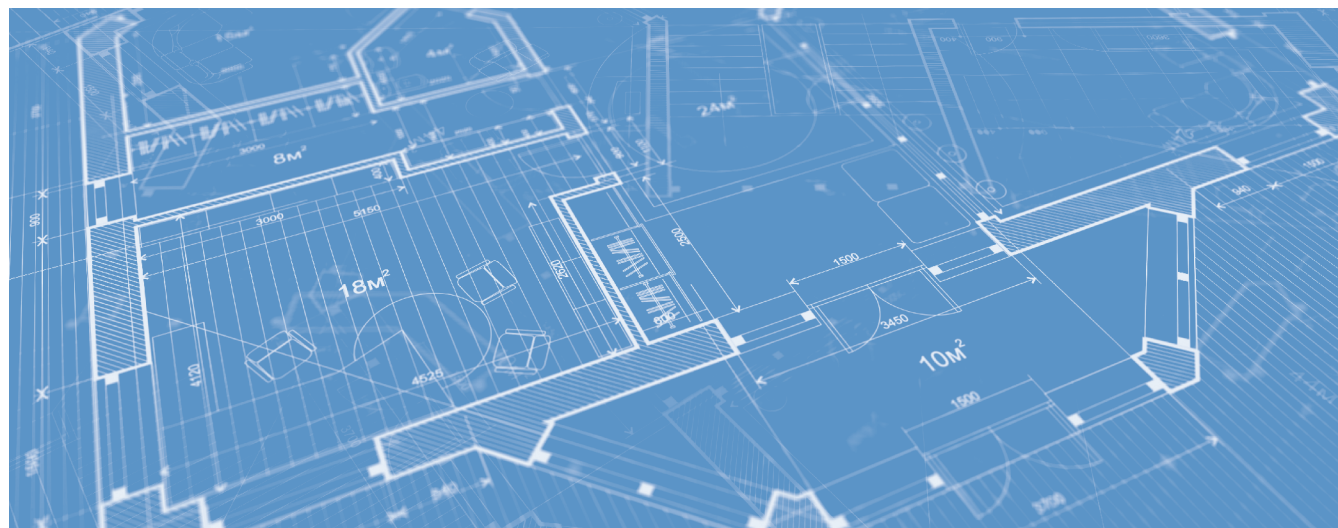
# Commercial property moves up the corporate agenda

**The last few years has seen a fundamental shift in where commercial property sits within the corporate agenda. It is no longer just a space where your staff come to work, but is now central to the overall performance and future success of a business. So what's changed?**

Director UK Commercial Property Professional Group at RICS, Paul Bagust, believes that conventional attitudes still prevail but that new ways of thinking are emerging.

*"What RICS has identified in its research<sup>2</sup> is that the role of property needs to be seen as more than a business support function, but one that is strategically linked back to the business. The key is that it becomes part of the conversation and not some add on piece"*

*"The trend has been about keeping costs down, because there's been a recession, but this has shifted more recently towards employee retention, as recruiting can be more difficult in a strong economy, therefore the property needs to support that objective, by really fitting the message to the business."*



## ***Property falls under the C-Suite radar***

While it might be safely assumed that it is the primary role of property and Facilities Management to align the property portfolio to the aspirations of the business, John Pike, Senior Adviser to Bellrock Property and Facilities Management, and Managing Director of 40 Percent Symposium argues there is a growing realisation by the Board of the pivotal role played by property in contributing to overall organisational success.

*"Within the large corporate sphere, the C-Suite now has a much deeper understanding that to get the best people they've got to create the best working environments, so that their people are more productive."*

These views suggests a shift in how organisations are now seeing commercial property, what is expected of it and how it can make a positive impact on the overall aspirations of a business.

As Paul Bagust observes, *"the key is to understand the business. Everyone talks about Google, but if you're manufacturing widgets in Northampton, that's a very different workplace conversation, you need to apply what you're doing and make it relevant to the business. And it's that conversation that you need to be having with the C-suite."*

Cameron Thomson, Senior Surveyor, Business Space at commercial property agents, Cushman & Wakefield also concurs that the influence of the board on commercial property decisions is magnifying, *"We've found that CEOs and the Board are getting involved much sooner in the search processes and not just the property person, as there is an emphasis on making sure that the Board approves of the type of building, the nature of the building, and of course the location."*

## ***Aligning space with strategy***

The influence of the board on property choices is growing and so too is the recognition of aligning a property with commercial goals.

John Pike (40 per cent Symposium) says, *"Most CEOs do not want to have a conversation about technical real estate issues, leases or dilapidations; they want to talk about the overall business strategy. And while a lot of finance directors will be primarily driven by numbers, for the C-Suite there is the wider understanding of what their business is trying to achieve and how property fits into that picture."*

*You need to look at the strategy of the company you're dealing with, business plans, acquisitions, all that kind of stuff before you ever look at the property itself. Then the property guys have to match the property portfolio to the aspirations of the business. Once you're into 'this is the estate we want and this is where it's going to be located', it's going to be about cost, because all the business divisions of an organisation need to know about the cost of their property."*

<sup>2</sup> RICS Raising the Bar: Enhancing the Strategic role of Facilities Management  
[www.rics.org/uk/knowledge/research/research-reports/raising-the-bar-enhancing-the-strategic-role-of-facilities-management/](http://www.rics.org/uk/knowledge/research/research-reports/raising-the-bar-enhancing-the-strategic-role-of-facilities-management/)



***It's important to secure the right space, and not necessarily having the final decision based on finance; so the attitude has changed towards a much more operational way of thinking – alongside the finances.***

Cameron Thomson, Cushman & Wakefield

*"For example where divisions might occupy freehold property, the only charge to them is to the services, while other divisions might lease property and they will also bear the costs of the rent, so there's an unfair distribution of costs within the company. People prefer the charging of space – with an overall charge which says this is the cost of your space."*

Cameron Thomson at Cushman & Wakefield observes how thinking has altered towards acquiring office space, "Going back a few years there was a perception that because [many] offices were poor [ly specced] and supply was high, there was an opportunity to get a really competitive occupier financial package, which often led to decisions that were purely financial based."

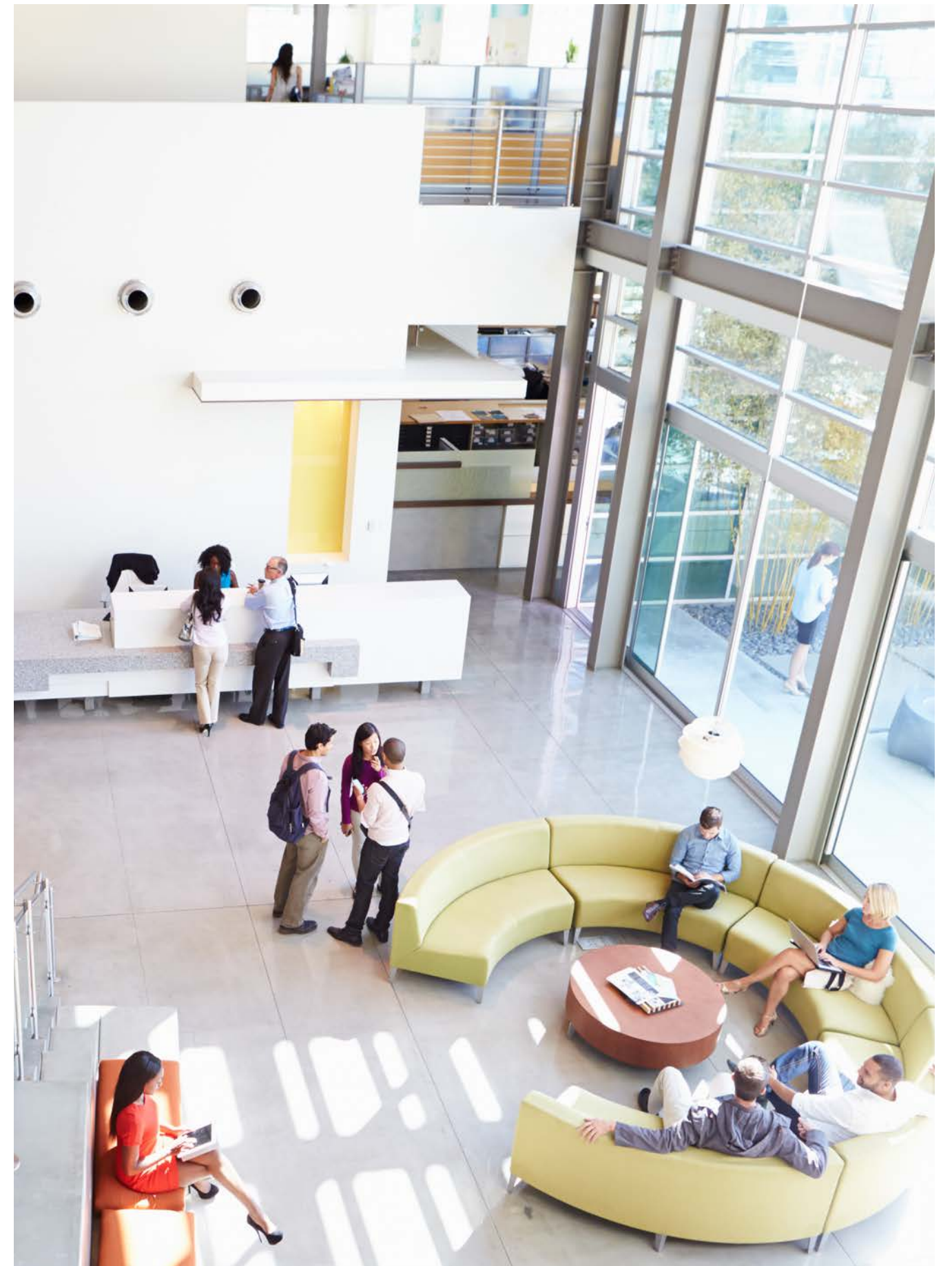
*This has changed now to an acceptance that there is a limited supply of quality space, so it's important to secure the right space, and not necessarily having the final decision based on finance; so the attitude has changed towards a much more operational way of thinking – alongside the finances.*

*However, creating efficiencies doesn't just mean putting people into the smallest area possible, but making sure employees are happy in the right environment, which includes providing high spec and flexible office space.*

*Quite often when CEOs come to look at a space the focus is on operating from the space, on how staff will feel about working within that environment, and it is very rare that the Board or CEO would just say 'show me the cash flows' as there is an assumption that property will have done that and the Board will want to check on how the space feels, how it might impact on productivity, and the level of prestige of the property."*

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Cameron Thomson,  
Cushman & Wakefield





***The Managed Office approach which provides a tailored property, fit out and services solution aligned to the client's specific needs is increasingly seen as providing strategic benefits.***

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John Pike, 40 percent Symposium

### **Meeting changing needs**

The experience at Cushman & Wakefield is that organisations are also considering the changing needs of a business over time and how buildings can adapt to mitigate the risk of unforeseen circumstances,

*“Many firms are considering where they are going in the future so looking at the longevity of the space and overall taking a longer term strategy on how the office will be managed.*

*In some cases, particularly with smaller companies that are rapidly growing, there is quite a bit more focus on serviced offices being an option. Serviced office operators we've worked with are seeing fairly high occupation rates at the moment and for companies in a state of flux there is a trend for them to use serviced offices as a flexible solution.”*

As an alternative to Serviced or Leased agreements, the Managed Office approach which provides a tailored property, fit out and services solution aligned to the client's specific needs is increasingly seen as providing strategic benefits. It mitigates Capital Expenditure requirements, can provide flexibility in ramp up requirements and presents contract costs over term with no exit fees; so organisations can effectively budgetary forecast for their agreed occupancy term.

John Gotley at Managed Offices Solutions supplier, Portal Group<sup>3</sup> also acknowledges that board-level criteria is now driving commercial property decisions, “Senior decision makers from the CFO through to the CEO are driving the selection process. They want a property solution that closely matches their objectives, so is it cost-effective? Will it support overall productivity but also limit risk in the future? If a company grows or contracts they want the reassurance that their property portfolio is flexible enough to reflect these changes without hefty financial penalties. All these factors need to be built into today's commercial property equation.”

What's important to the board has ramifications for the types of property that are being chosen and as Cameron Thomson believes, location remains critical “Most are pretty certain about where they want to be, not just a city but where in the city. We've just acted recently for an international firm of architects that recently came to the UK, opened their first office in London, and in Birmingham wanted to be in an up and coming area, which is a peripheral city centre location. On the same basis there will also be people who are insistent on a central business district and maybe in easy walking distance of a rail link.”

The importance of how an organisation is perceived by visitors is also a factor, “Many insist on a Grade A specification, which can also mean a Grade A building as well as the space. We find that a lot of companies still want a professional arrival experience, with the expectation that new buildings tend to have a much more substantial arrival and reception space, and those that don't are dismissed as unsuitable.” According to Cameron this is a relatively new trend with organisations thinking about the client impression and ‘wow-factor’ on arrival.

At the same time, organisations are more conscious of the working environment itself and how this can contribute to corporate objectives such as productivity and staff retention. As John Pike (40 percent Symposium) says, “More and more large corporates subscribe to this policy of ESG (Environment and Social Governance) – as they appreciate the importance of creating a really good environment for the people who work in their company.

*Additionally there is a focus on making the workspace more flexible, for example, making sure the office can accommodate anything from 50% turnout to 90% staff turnout. There are also many different ways of operating offices now, including hot desking, flexible workspaces and so on.”*

The next step for organisations is to consider how they build and measure workplace strategies that will support the overall business plan.



<sup>3</sup> [www.portalgroup.uk.com](http://www.portalgroup.uk.com)

***What organisations need to ask, is if the workplace is fit for purpose and function. Offices aren't showrooms, their purpose is to enable employees to work at their optimum – and in too many businesses it feels like we've lost that focus.***

Tim Oldman, Leesman

# Building and measuring effective workplace strategies

**So how can more sophisticated measures of workplace effectiveness help support the endeavour for commercial property to reflect commercial goals?**

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Tim Oldman, CEO at workplace performance benchmarking specialist, Leesman advises,

*"What organisations need to ask, is if the workplace is fit for purpose and function. Offices aren't showrooms, their purpose is to enable employees to work at their optimum – and in too many businesses it feels like we've lost that focus."*

Ian Ellison, Senior Lecturer & Course Leader in Facilities Management at Sheffield Hallam University warns that a superficially attractive, but risky calling card of the property industry is "change your space, change your culture".

He explains: *"Some would define 'workspace' as your desk area, and 'workplace' as the bigger office or building, so they see them in physical, material terms. I see them as an equation. Workplace is workspace + culture; people together. Workspace is ultimately just an arrangement of furniture – it's when culture gets involved that the magic starts to happen, or not, as the case may be."*

But who exactly is responsible for creating that culture?

*"In organisations, no one discipline is responsible for 'work' because it's the thing that everybody does. You may have elements of HR, IT, Property and FM – all representing people, process and place; at the sweet spot is work getting done. Who can claim they're totally responsible for this bit, which is why it's the Holy Grail?"*

***"A convergence of people and place"***

So how do organisations attain this Holy Grail? In order for a workplace to be truly effective, there must, argues corporate real estate expert Chris Kane<sup>4</sup> ex Head of Corporate Real Estate at the BBC, be a convergence of people and place. They are he says, a company's most valuable assets and only by developing them both in tandem will you unlock their true value.

He believes strongly that this requires organisations to break down the silos between the "people" side of the business and the "place" side, which means thinking beyond property as just a tool to improve efficiency and reduce property costs.

He describes this as "convergence cubed", in that if you look at the workplace equation there are three tribes; the asset, facilities and design/construction people with three different mind-sets and agendas. Their purpose though is to enable organisations to deliver value and that is what alignment is all about.



<sup>4</sup><http://ckassociates.co.uk/>



***However measuring occupancy levels does not necessarily portray the whole story. It may show you how the space is being used but it still doesn't tell you whether the space and the workplace actually supports people in what they do; and whatever occupant density ratio you achieve it won't tell you the whole truth – the effectiveness of your workplace.***

#### **Measuring value – the introduction of benchmarking**

So how do you measure the value that this alignment can bring?

Traditionally, the way of understanding the productivity of a workplace has been by looking at the space utilisation, i.e. whether and how the space is being used; alongside the utilisation rate, which calculates the frequency rate and occupancy rate.

However measuring occupancy levels does not necessarily portray the whole story. It may show you how the space is being used but it still doesn't tell you whether the space and the workplace actually supports people in what they do; and whatever occupant density ratio you achieve it won't tell you the whole truth – the effectiveness of your workplace.

The challenge is in how you measure an individual's contribution and compare that to their team's contribution and how that contributes to the businesses' bottom line. It is really difficult to get a measure of productivity that could be comparable between everyone. And while individual businesses might have ways of measuring their output - how do you compare that to other organisations?

This is what the Leesman Index<sup>5</sup> has set out to do since its launch in 2010: "to provide a wholly independent measure of workplace effectiveness" and show that the purpose of the workplace is to support employee productivity and organisational performance - by taking a measure of what the workplace contributes, not what it costs.

Leesman's CEO Tim Oldman argues that the fundamental problem for too many organisations is that, by being focused totally on costs some may get smarter in terms of utilisation but nobody is looking at output.

The Leesman Index goes directly to the occupants of a building - asks them what activities they perform and then measures how well the workplace supports those activities. In this way it can go some way into determining how well the work that the employees are doing is supported by their environment.

According to recent Leesman' figures, which has reached over 130,000 respondents, 54.4% of employees asked to participate in their survey have responded to say that the design of their workplace enables them to work productively; whereas 18% don't think it effects them either way, and 29% - nearly a third of the working population say that the design and infrastructure supplied by their employer does not allow them to work productively.

**Peggie Roth, Development Director at Leesman, explains there are two main components that create a productive workplace<sup>6</sup>:**

- **A deep understanding of an organisation's individual needs; and**
- **The way in which that workplace encourages interaction, by not only supporting employees in their individual activities and tasks, but also how it aids collaborative activities by helping to build a social infrastructure.**



<sup>5</sup> <http://leesmanindex.com/leesman-resources>

<sup>6</sup> [http://leesmanindex.com/system/leesman\\_pdfs/pdfs/0/000/027/original/Leesman%20Review%20Issue%20Leesman%20Review%20Issue%2015.pdf](http://leesmanindex.com/system/leesman_pdfs/pdfs/0/000/027/original/Leesman%20Review%20Issue%20Leesman%20Review%20Issue%2015.pdf)



***Successful alignment requires a change of mind-set and a realisation that property is not just about managing cost centres, but that the workplace can help drive value for the whole business by creating a physical environment that enables people to work in an agile, productive way.***

Chris Kane, formerly with BBC

### ***Inspirational workplaces***

Ian Ellison Senior Lecturer and Course Leader in Facilities Management at Sheffield Hallam University is interested in the factors that contribute to a “genuinely inspiring” workplace.

He agrees with Roth that the best way of evaluating the effectiveness of a workplace is to focus on the needs of an individual organisation, which can only be achievable by exploring the diverse needs and experiences of the people who will occupy that space.

*“So don’t start by looking over the fence and seeing what the Jones’ are doing, workplace wise - start by asking what do we as an organisation want to achieve?”*

Advises Ian Ellison (Sheffield Hallam University) on how an inspirational workplace is achievable in practice:

*“People need to feel this is in place for themselves, not be told it is through policies and espoused value statements. They need to feel, to perceive, that they are valued. Workplace can - and should - contribute to this.*

*“A reshaping of the workplace mindset is required, so rather than ‘managing facilities’, if we start thinking more about ‘enabling communities’ of people to work together, we can change the way we approach workplaces and ‘measuring effectiveness’ – because enabling communities is the sort of approach the likes of Microsoft [named the most attractive major employer to work for worldwide] understands. Whilst this might sound like wordplay, the deeper implications are profound”*

One C-Suite executive who appreciates the strategic importance of providing an effective workplace to enhance productivity and retain and recruit staff is Joe Hagan, CEO at National Equity Fund (NEF)<sup>7</sup>, a non-profit financial services organisation that constructs deals for the funding of affordable housing across the United States.

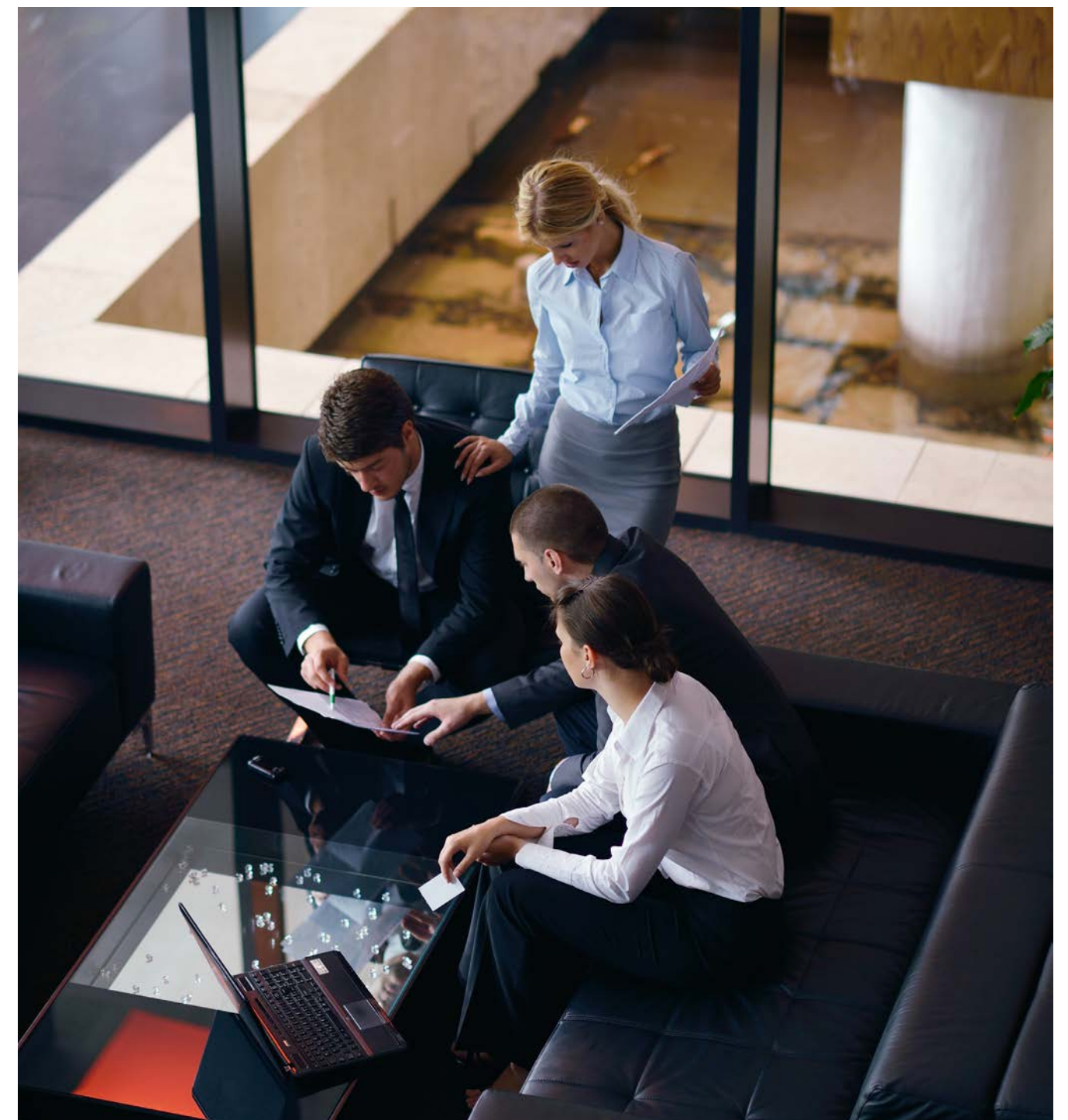
When he joined the company he discovered a dark and dingy office which fostered a depressing culture; not a place people wanted to be. He oversaw an office move and complete culture change programme that has resulted in lower staff turnover, higher productivity and a reputation as a high-energy and attractive place to work.

The physical changes made at NEF helped to change the culture of the entire organisation for the better. But whether an organisation is moving offices due to a lease break, or has decided to make changes to their existing space, simply assuming that taking a, “if we build it they will come attitude”, might not necessarily ensure a successful change to the working culture.

Chris Kane is also of the opinion that successful alignment requires a change of mind-set and a realisation that property is not just about managing cost centres, but that the workplace can help drive value for the whole business by creating a physical environment that enables people to work in an agile, productive way. This is reflected by the experience of TD Wealth International (See Case Study on page 16).

***So don’t start by looking over the fence and seeing what the Jones’ are doing, workplace wise – start by asking what do we as an organisation want to achieve? A reshaping of the workplace mindset is required, so rather than ‘managing facilities’, if we start thinking more about ‘enabling communities’ of people to work together, we can change the way we approach workplaces and ‘measuring effectiveness’***

Ian Ellison, Sheffield Hallam University



<sup>7</sup>James Ware, PhD - Global Research Director for Occupiers Journal: The strategic workplace: a CEO's perspective: <http://workplaceinsight.net/wp-content/uploads/2014/08/Work+Place4mje.pdf>



# Case study

## – TD Wealth International

**TD Wealth International<sup>8</sup>** - part of the Canadian Toronto-Dominion (TD) Bank Group, is one of the UK's leading online investing providers with offices in Leeds and Manchester. In 2013 the firm set out to undertake a full refurbishment of the 53,000sq feet Leeds office which housed around 400 employees.

Explains Pervinder Khela, Head of Shared Services at TD Wealth International:

"We asked ourselves, how do we make the best out of our assets while delivering our employees a space in which they can work which uplifts them when they enter it and is somewhere where they want to come to work every day?"

Building on the design proposals of design consultancy TSK<sup>9</sup> the firm carried out a series of team meetings with senior leaders and canvassed 360 degree feedback from staff via working group champions. This was then translated into a scheme that would effectively meet the needs of the occupants.

The finished design is an open and collaborative space, which offers the team access to pockets of space and break out areas as well as quieter areas for work that requires more individual concentration. The under-utilised canteen space has been replaced with a restaurant space which has become the hub within the building, where people go not only to eat and drink coffee, but have a meaningful conversation about work and share ideas.

According to Pervinder Khela the main ingredient to the success of the project was that a key stipulation was that the changes were not something that was "done to people", but was something people were a part of to make the whole change process a lot easier.

Pervinder concludes: *"With TSK's help we delivered our vision, which was all about our staff, giving them the right space, tools and environment in order to be able to deliver at their best which translates into the best customer service for our customers."*

To summarise, the changes have resulted in:

- An effective and productive workforce evidenced through increased collaboration and pace of work
- An attractive place to work evidenced through employee feedback
- Reduced energy costs
- Improved recycling provision
- Investment in the real estate in order to invest in our people to deliver for the shareholder
- Enhanced customer service

***It was all about our staff, giving them the right space, tools and environment in order to be able to deliver at their best which translates into the best customer service for our customers.***

Pervinder Khela, TD Wealth International



<sup>8</sup> [www.tdbank.com/](http://www.tdbank.com/)

<sup>9</sup> <http://tskgroup.co.uk/>



# Conclusion: Creating effective workplaces in tune with corporate objectives

What is evident from the research is that forward-thinking organisations are now beginning to acknowledge and understand how they can harness the value of their workplaces to support strategic goals. The findings of this whitepaper reveal a number of key trends that reflect this shift in attitudes:

- The rise of property in shaping the success of a business
- A greater involvement of the C-suite on both real estate and workplace
- Recognition of aligning a property with changing company objectives
- Understanding, creating and measuring the tangible value that a productive workplace can deliver

As RICS has identified “the role of property needs to be seen as more than a business support function, but one that is strategically linked back to the business.” Traditional approaches to property based purely on headline costs are now shifting towards more operational perspectives that takes into account the exact and often unique needs of an individual business and what it is trying to achieve at a strategic level.

Whilst in the past senior board members might have been purely interested in finances, C-Level executives are taking a more active role in property decisions and assessing both its performance and contribution to the entire business. Organisations now have new tools to measure workplace performance such as the Leesman Index that focuses on the output of employees and provides a tangible yardstick for calculating the joint benefits of what is referred to by Chris Kane as the ‘Convergence of People and Place’.

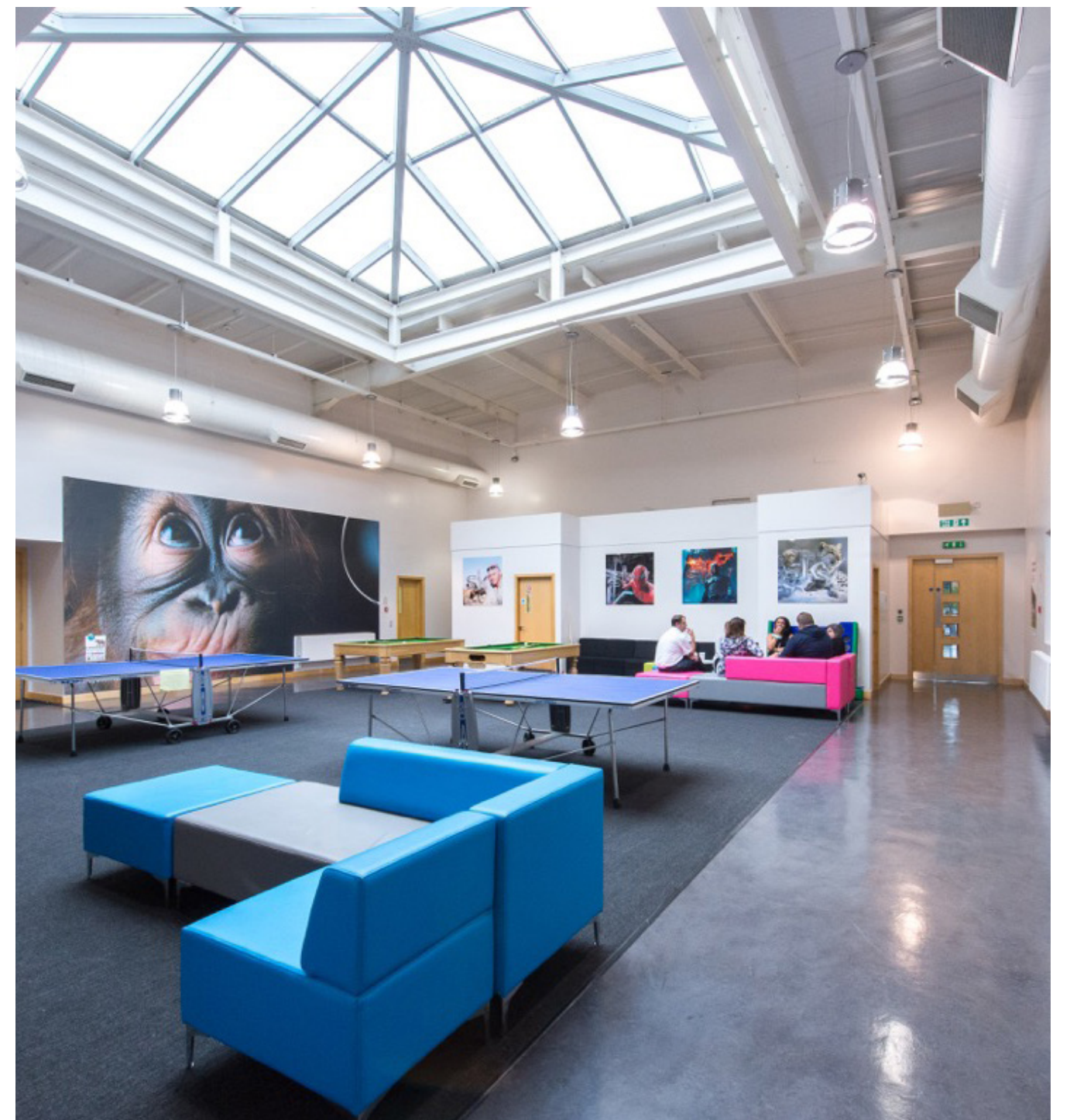
To achieve what Iain Ellison refers to as the ‘holy grail’ of property comes down to operating a ‘consultative’ and tailored change management process, which encourages the entire organisation, both staff and management to engage in the process of any workplace change initiative.

The experiences of companies such as TD Wealth International demonstrate how by providing the “right space, tools and environment” workplaces can be transformed to achieve this nirvana of ‘enabling communities’ so that staff are happy and perform at their optimum, translating into enhanced customer service and the overall fulfilment of the company’s strategic objectives.

At the same time it is recognised that property professionals still need to deliver maximum value by delivering workspaces that meet fluctuating business requirements effectively. As John Pike says “there is a focus on making the workspace more flexible, making sure the office can accommodate anything from 50% to 90% staff turnout”.

The secret to unlocking the greatest value from commercial property is to not only to create an inspirational workplace but also have the ability to continually mirror and support a company’s goals – the essence of true alignment.

***The secret to unlocking the greatest value from commercial property is to not only to create an inspirational workplace but also have the ability to continually mirror and support a company’s goals – the essence of true alignment.***







### About the Author: Sara Bean

Sara Bean is a journalist and editor who has been writing and reporting on workplace issues for nearly twenty years. Currently a contributing editor of Workplace Insight, Sara previously edited facilities management magazine FMX for six years before joining the professional services firm Workplace Law – which specialises in employment law, health and safety and environmental management. Sara has also written for and edited a number of business to business publications, and contributes to a range of publications covering workplace management and the built environment.

### About the Sponsor: Portal

Portal's Managed Office Solution (MOS) provides a tailored property, fit out and supporting services package at a location that best meets the client's need. Utilised by organisations including E.ON, Sky, Hewlett Packard and Hastings Direct nationwide, Portal provide 230,000 sq ft of Headquarter, Contact Centre and Back Office work spaces.

#### The key benefits of MOS include:

1. It removes considerable Capex requirements and provides clarity of costs. Customers are presented with a monthly operating charge for the contract duration. At the end of the contract there are no dilapidation or exit charges.
2. All associated property and project management risk is transferred to Portal. Portal deliver fit out and services on time to agreed specification and stringent Service Level Agreements.
3. Portal's expertise and demonstrable capability in providing business driven property solutions enable our customers to focus on their core activity, not their property.

For further information on Portal's MOS, or to discuss any issues raised within this whitepaper please contact

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