



JONES LANG
LASALLE®

Real value in a changing world

Trends in the Banking and Finance Sector

Global Corporate Real Estate Survey 2011



Are you ready?

Hope for the best, prepare for the worst. Readiness is what characterizes corporate real estate (CRE) executives in the banking and finance sector according to Jones Lang LaSalle's Global CRE Survey 2011. Building on the insight provided by our inaugural survey and a series of discussions with our clients, this report delves into the responses from banking and finance executives, exploring the future path, challenges and opportunities they are facing and highlighting the specific trends shaping CRE in this sector.

2010 turned out to be a good year for banks with profits returning. 2011 started with renewed optimism as investors began bristling with growth strategies and expansion plans. That collided with the surprise of the mid-2011 threat of a double dip. The corporate operating landscape continues to face a lack of confidence due to the US and European sovereign debt crisis and lukewarm Western economies. This, added to falling profits and hardening regulations, has dampened the initial buoyancy of the sector and reminded us of the necessity of being fluent in managing change.

Learning from past economic turmoil and recurring volatility, CRE heads of banking and finance firms have embraced the growth impetus of their corporate strategy while keeping in mind the necessity to control costs, to design leaner operations and to adopt geographically selective approaches. These considerations are what we call **'smart growth'**. CRE executives can achieve smart growth using many levers—from workplace mobility to strategic partnerships, including innovations that will enable them to further enhance productivity. With the importance of real estate enjoying an elevated position inside the organization, are CRE heads armed to respond to the higher expectations and to demonstrate the value of the real estate contribution, both at the business line level and to the C-suite?

We hope this deep dive will help you evaluate your readiness by comparing your CRE practice with those of your peers and enrich your perspective by contrasting your sector with other industries. We sincerely thank those of you who shared their thoughts either through our survey or through one of our banking workshops held in several markets around the world. Your input has helped form a clear picture of 'where next' for CRE in the banking and financial services sector.



Iain Mackenzie
Global Head, Banking
and Finance Group
Jones Lang LaSalle



Executive Summary

Three global trends are impacting CRE in the banking and finance sector:

1 Smart Growth is a key strategic focus adopted by banking and finance organizations. Growth remains the key driver, but will be moderated by the fact that it takes place in a volatile and morphing environment and at varying paces across the globe. Growth strategies that are more complex to deploy will be balanced by a renewed interest in optimizing costs, rationalizing the portfolio and driving even stronger operational efficiency.

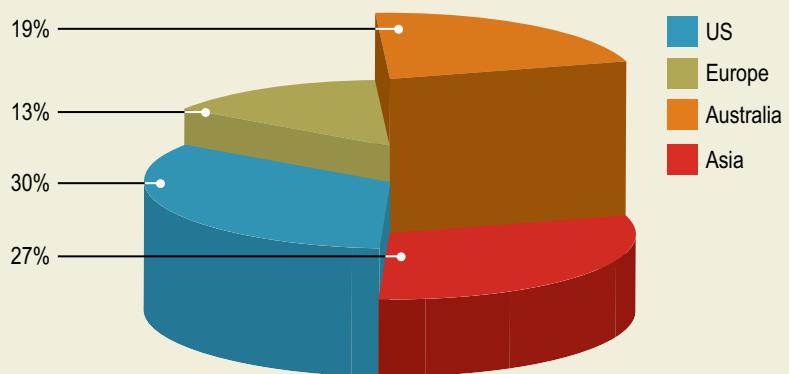
2 Flexibility is the characteristic common to the tactics employed to enable smart growth. Primarily impacted by the Global Financial Crisis (GFC), banks and financial organizations have had to resize their portfolios and quickly learn about the importance of flexibility. CRE teams are now ready to test and utilize a full range of options including productivity enhancement, workplace mobility and partnerships to achieve a higher degree of flexibility in their portfolio that will help them navigate through the continued economic turbulence.

3 A stronger connection to the C-suite is CRE executives' key ingredient for success. CRE executives garnered enhanced visibility during the GFC. With this comes higher expectations and tougher key performance indicators (KPIs) as well as an opportunity to impact the broader business financially and strategically and to enhance the contribution of the CRE function.

About the Survey

This report summarizes the results of Jones Lang LaSalle's inaugural Global CRE Survey 2011. The survey obtained more than 500 responses from CRE executives in 37 countries, with 89 responses from CRE leaders in the banking and financial services industry. These responses were collected from around the world via a combination of face-to-face interviews, phone interviews and a web-based survey tool.

>> Domicile Location of Banking and Finance CRE Respondents



The first findings were shared at a number of intimate workshops held in major markets with CRE banking and finance leaders to test the soundness and relevance of the results and to add their examples and commentary, bringing a higher level of reality to the findings.

Jones Lang LaSalle worked with Harris Interactive, a global research organization, to help collect, compile and segment the resulting data. The report was written by the Corporate Research team of Jones Lang LaSalle located in Asia Pacific (Singapore), the Americas (Boston) and Europe, Middle East and Africa (London).

Global Trend #1 Smart Growth

“A cluster of economic risks including macroeconomic imbalances and currency volatility, fiscal crises and asset price collapse arise from the tension between the increasing wealth and influence of emerging economies and high levels of debt in advanced economies.”

– World Economic Forum, Global Risks 2011, Sixth Edition

Key Statistics

- For 53% of respondents, growth is by far the most influential factor in shaping CRE strategy today and is likely to remain so three years from now.
- Cost pressures are creeping back and are identified as a key factor influencing CRE decisions by 29% of respondents today, with 31% predicting the same three years from now.
- CRE executives expect selective portfolio growth over the next three years. North Asia is followed by the rest of Asia, Central and Eastern Europe and Latin America as the prime benefactors.

CRE Implications

- 1** Customize – The varied growth trajectory, with different markets operating at different speeds, requires a geographically tailored CRE response. This is made easier by the fact that banks, as occupiers of premium buildings, still have the leverage to get what they want from the market.
- 2** Challenge – Traditional thinking about space needs and acquisition has to be tested against new operating criteria and against a focus on cost and productivity. Difficulties arise when it comes to changing the internal mindset and to managing the expectations of senior leadership. Although times of crisis (when traditional tactics are no longer as effective) facilitate acceptance, change is still a challenge in most organizations.

Banking and finance companies were at the frontline facing the GFC. Hundreds of financial institutions went out of business, some were acquired or merged, all of which accelerated the consolidation of the industry. The significant headcount reductions that took place and continue to capture the headlines today have a consequential impact on CRE.

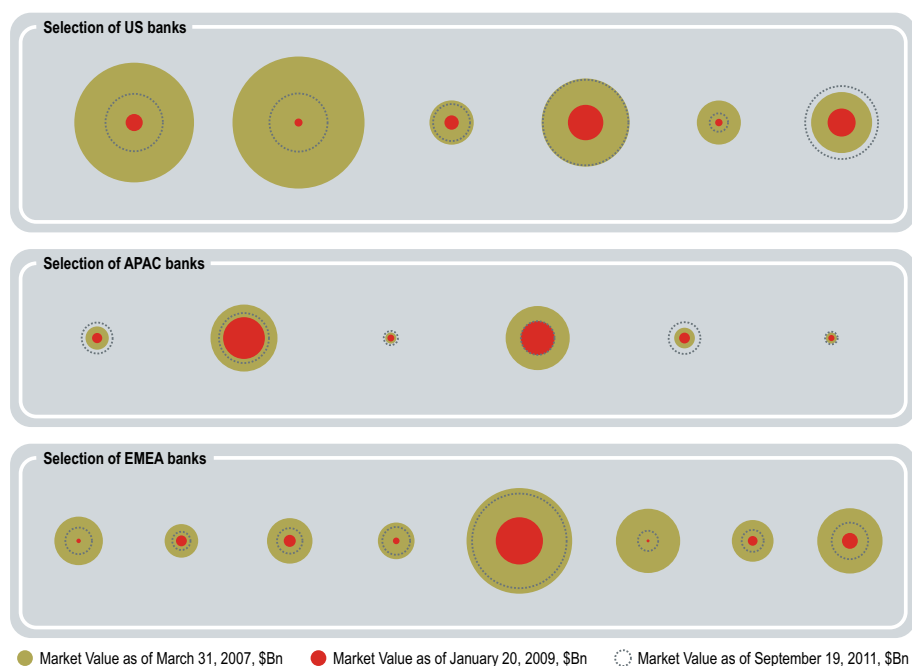
Bruised, but continuing to fight back, banking and finance CRE respondents optimistically selected growth as the most important factor shaping their CRE strategy. However, cost remains a key concern as market conditions continue to squeeze margins. These opposing forces of growth and contraction require a continued balancing act, which is at the heart of smart growth, with the added complexity of what continues to be a highly volatile market.

Early adopters of strategies to cope with the GFC –

The GFC had severe and immediate consequences on the revenue, market capitalization (Fig 1) and survival prospects of banking and finance organizations. Having been first to stare into the abyss, banking and finance companies were also the first required to act. Faced with demand for speed-of-thought and action, CRE leaders had to devise coping strategies quickly. Some of these are explored in the following section.

While there is no direct correlation between market capitalization and physical space occupied, we have used this as a rough proxy for long-term space needs to illustrate the impact of the GFC on the industry's operational portfolios over a four-year period.

Fig 1 >> Pre-GFC and Post-GFC Market Capitalization of Major Global Banks (USD billion)



Note: Figures may be distorted by mergers and acquisitions.
Source: Jones Lang LaSalle, Bloomberg data, 2011

Focus shifts to compounded growth –

Until the first half of 2011, the economic recovery saw a return to growth as the financial services sector was rebuilding. This focus on growth has lost some of its impetus in the second half of 2011 due to the crisis of confidence caused by global sovereign debt issues and the possibility of recession in some Western economies.

Emerging and developing markets now dominate the growth strategies of all major global banks, an attraction that has been described as the banking industry's new *El Dorado*. In search of fresh growth opportunities and believing in the southward and eastward shifts in the commercial

world, many banks are opting to pursue a 'follow the customer' strategy, targeting select countries (for example, those with bilateral trade relationships or strong cultural links) or creating regional hub and spoke organizations. At the same time, divestments are also taking place in the industry.

A swarm of growth announcements in 1H11 followed by a series of job cut announcements in 2H11 creates more changes for CRE teams to manage

America

- In its public acknowledgements of an operating environment that is more difficult given global macroeconomic concerns, Bank A (US) announced it is in the process of implementing expense reduction initiatives. However, plans to grow in countries such as China, India and Brazil, where the Firm has been doing the most rapid hiring, will not be affected.

Europe

- In the recovery phase, Bank B announced plans to build a retail powerhouse in Europe, as banking businesses are recalibrating toward a more profit-and-growth-oriented model with focus on Asia as a key driver of revenue growth. However, the Bank's CEO later had to acknowledge that he might need to cut jobs if markets did not improve after September.
- Bank C is scaling back or exiting a number of markets where it is struggling to compete and refocusing on others. While the Bank still expects to recruit several thousand in developing markets, particularly in Asia (India and China are classified as strategic), it will eliminate 30,000 jobs—10% of its staff—in others by the end of 2013, trying to eliminate red tape. Even locations as active as Hong Kong and developing countries (Brazil, Mexico and Poland) will be affected by the restructuring plan.

Asia

- Aiming to reinforce its position as a financial institution with a top level presence in Asia, Bank D (Japan) plans to develop selectively in high growth potential countries with a strong business affinity with Japanese corporations. This will be achieved via a combination of owned network expansion and external alliances. In October, one of the Bank's subsidiaries announced it could not avoid cutting 10% of its workforce as profitability was suffering from the severe market environment.
- Boasting a different story to other banks, Bank E declared that after cutting about 1% of its staff in the first half of the year to keep costs under control, it was now growing, hiring and delivering profit growth. The Bank has adopted a targeted growth strategy, which includes a focus on retail growth in India, China and Africa.



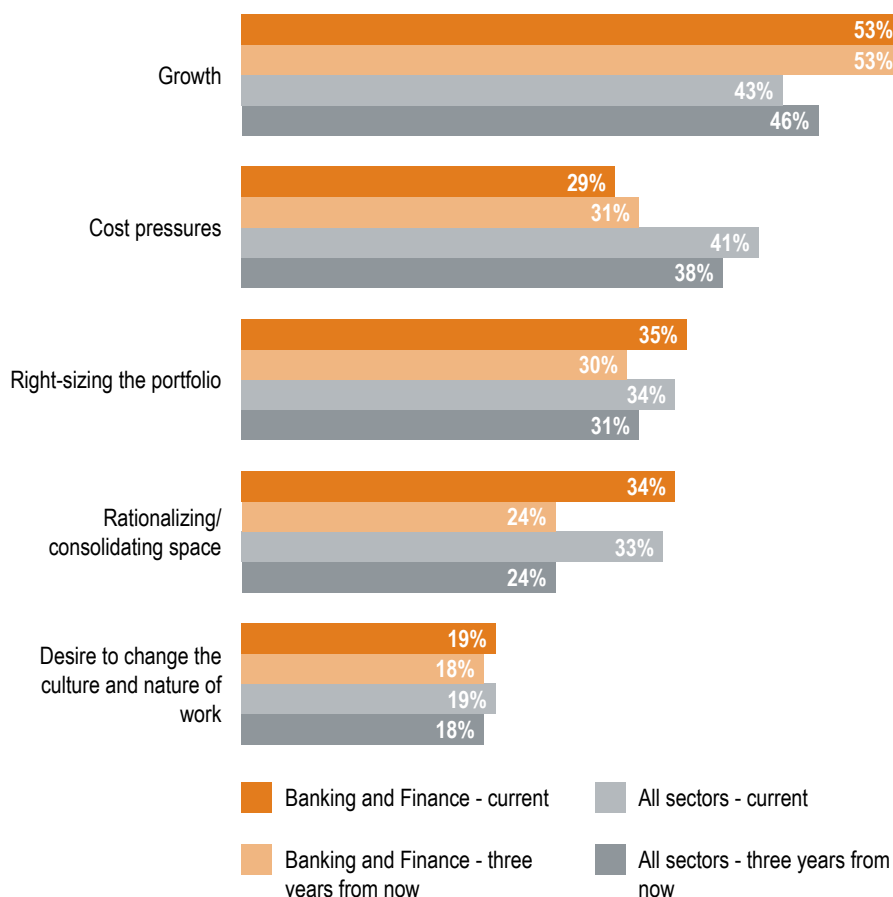
Banking and finance respondents to Jones Lang LaSalle's Global CRE Survey 2011 identify growth as the most influential factor currently shaping CRE strategies today and in three years from now (Fig 2). Second or third in terms of priority are right-sizing the portfolio and rationalizing/consolidating space. Since many of the banks already have sophisticated CRE strategies and have been proactively managing their portfolios, much of this is in response to changes in demand brought about by the GFC rather than legacy inefficiencies.

However, the banking and finance sector is, and will increasingly be, cost motivated. A tightening of regulation post-GFC has left most banks looking for new revenue streams to replace some of the more lucrative income channels that are no longer available. For example, they are looking for ways to get around the new requirement to retain capital, which leaves less cash available for running the business. The focus on cost is tightening. Three years from now, the survey shows that a shift will place 'cost pressures' at the same level as 'right-sizing the portfolio' among the key drivers for CRE strategy.

Important regional variations can be noted within the banking and finance sector:

- Growth gains even more weight in most of Asia, with the proportion of respondents prioritizing this factor jumping from 63% today to 78% three years from now, reflecting the eastward shift in focus of banks and wider commerce.
- In Australia, growth continues to drive CRE strategy, but drops significantly as other factors (cost pressures, rationalization or consolidation of space and portfolio right-sizing) are taken into account.
- In Europe, growth is still on CRE executives' minds, but it recedes to the second position as cost pressures become

Fig 2 >> Post-GFC, the Most Influential Factors in Shaping CRE Strategy Today and Three Years from Now - Banking and Finance vs. All Sectors



Note: Results based on top three box ratings.
Source: Jones Lang LaSalle Global CRE Survey 2011

Q As we emerge from the GFC, what will be most influential in shaping your current and future (three years from now) real estate strategy?

the most important consideration.

- In the US, the importance of growth factors continues to increase, but right-sizing considerations are seen as almost equally important—possibly a reflection of strategies that differ depending on where the business is expected to grow and where it is expected to shrink.

Smart growth does not translate into simply expanding the portfolio, but involves supporting business growth requirements in a flexible manner, while aggressively

managing total occupancy cost and reducing overall portfolio risk. With that in mind, banking CRE executives are making more strategic recommendations about existing and new locations, consolidating or downsizing where needed, or implementing workplace strategies to be able to grow the staff population without increasing square footage.

A common focus on cost control

- Europe – Bank F’s performance culture involves a continued focus on cost efficiency. A series of measures have been implemented with a target of reducing the cost/income ratio by 10 points in four years, with increasing cost savings achieved year after year. Real estate occupancy optimization measures are part of the Bank’s complexity reduction program, alongside the simplification and standardization of processes and the optimization of infrastructure.
- Australia – Bent on providing headroom for additional investment while enhancing customer experience and maintaining efficiency advantage, Bank G focuses on strategic investment priorities that include comprehensive productivity initiatives. The program has been successful in improving productivity, as evident in the three point reduction in expense/income ratio from 2008 to 2010—well below its industry peers.
- India – In a context of branch network expansion and increase in business volumes, Bank H keeps a stringent control on operating expenses, optimizing costs through the growth phase but containing the cost-to-asset ratio.
- Japan – Like many of its peers in Japan, Bank I is implementing a more stringent control of expenses, aiming to contain cost increases relative to revenue growth. In July, the Bank’s wholesale operations launched a vast cost-cutting program aiming to strike the right balance between selective growth and under-performance eradication.
- Brazil – Banks in this country are less focused on cost containment—apart from cost savings to be gained from post-merger synergies—and more focused on investments such as IT or footprint expansion.



Selective real estate portfolio increase to support global expansion or contraction –

For some, a focus on growth translates into an expected increase of overall portfolio size (Figs 3 and 4), but this growth will not be evenly distributed. Because the footprint of global banks adapt to markets that develop at different paces, portfolio growth will be selective. Banks are running parallel strategies, simultaneously expanding their portfolios in developing markets and right-sizing in mature markets. Asia and Latin America will see an overall increase in portfolio size at the expense of the mature markets of Western Europe and North America.

There is a sense that, until recently, CRE executives were operating in a cyclical

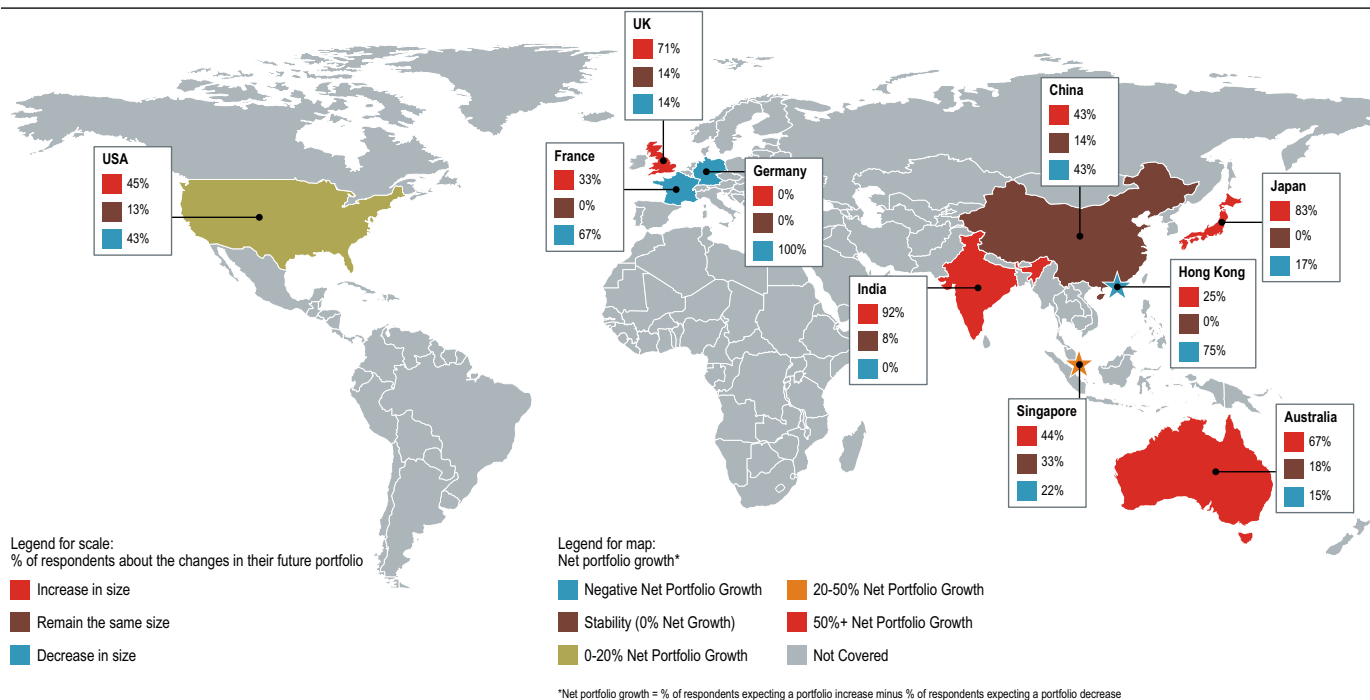
environment with crisis-induced right-sizing alternating with portfolio expansion in growth phases. Today, the regulation-induced margin squeeze is painting a more permanent cost-conscious landscape. The

need for flexibility is taking center stage, in all its forms, such as lease terms, lease versus buy decisions, workplace strategies and CRE organizational structures, to name a few.

About the heat maps on page nine

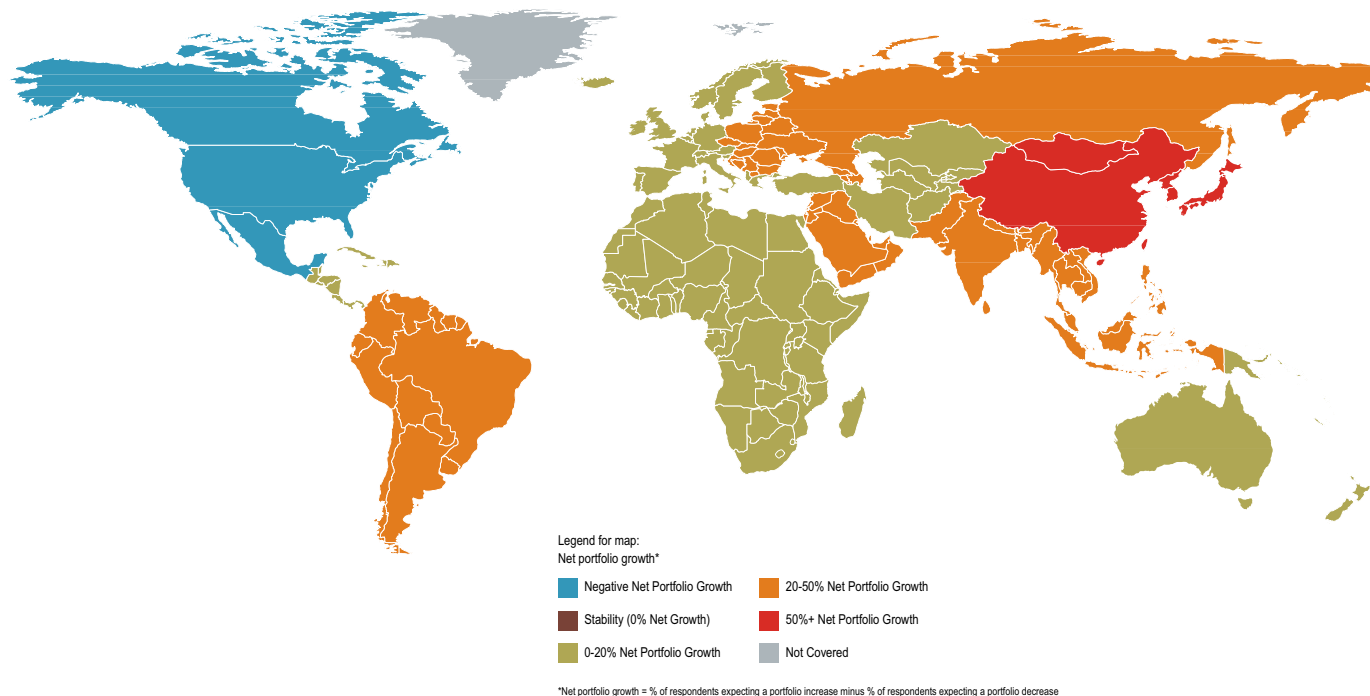
- Fig 3 shows the proportion of CRE executives expecting their net portfolio to grow, to decrease or to remain the same.
- Fig 4 maps where CRE executives expect the growth to take place: net portfolio growth alone.
- Net portfolio growth = % of respondents expecting a portfolio increase minus % of respondents expecting a portfolio decrease
- Net growth percentages indicate the trend expected by respondents but do not reflect the extent of the expected growth, which can be strong or moderate.
- The survey was completed before the Tohoku earthquake. CRE respondents might have slightly different answers today, although banks still see a lot of opportunities in Japan as it is a large market still untapped by foreign banking and finance firms.
- In Asia, the majority of respondents are global multinational companies, not Asian domestic companies. This explains the lukewarm portfolio growth expected by respondents based in China, a country hard to penetrate for international banks.

Fig 3 >> Which Banking and Finance CRE Executives Expect Their Total Portfolio to Grow Over the Next Three Years?




Source: Jones Lang LaSalle Global CRE Survey 2011

Fig 4 >> Where Do Banking and Finance CRE Executives Expect Their Total Portfolio to Grow Over the Next Three Years?



Source: Jones Lang LaSalle Global CRE Survey 2011

 Over the next three years, how will your portfolio evolve?

The Focus on Asia Heats Up

Moving east

- Bank J (Europe) is very bullish about its expansion in Asia, hiring teams of bankers in Japan to start the Asia roll-out of its full-scale investment operations from Japan. More recently, the Bank established a private banking joint venture with Japanese partners to provide wealth management services to high-net-worth individuals.
- The head of capital introduction of another Western European Bank emphasizes that within the global prime finance world, Asia is a big focus.

Australia crowding on Asia's doorstep

- Bank L aims to become an Asian investment banking power, applying for a banking license in Singapore and Hong Kong, and is considering entering India.
- Bank M is revamping its regional expansion strategy with renewed interest in North Asia, aspiring to join Asia's top four institutional banks. It has started investing in its Asian operations, hiring talent, taking up prime office space in central business district (CBD) locations across the region, securing its stake in Chinese banks and obtaining approval to start a branch in India.

...in spite of obstacles

- Most international banks know they have to be in China, but recognize it is difficult. They have so far found the country too hard to crack due to huge barriers to entry. Regulations create a lot of obstacles such as finding the right partner for a joint venture to acquire a license or allocating the considerable sum of money required. Already in possession of licenses in China, Bank N (Europe) is an exception. For the others, most of the China growth is happening in or from Hong Kong.
- Global banks also see a lot of opportunities in Japan but find this market difficult to access as an oligopoly of four large Japanese banks represents a strong entry barrier.
- Staff costs and attrition are a concern for all banks operating in Asia. Significant effort is needed to attract and retain talent in key Asian markets as competition intensifies between local and international banks. CRE has a role to play in attracting and retaining talent as potential new employees consider the total package and not just compensation as the decisive factor.



Despite a period of economic recovery, the macro-economic environment is far from stable. The need for agility is one of the key lessons learned by banking and finance CREs from the GFC. As demand for space is a function of headcount, which decreased during the GFC, many banks were left exposed to space surplus or vacancies all the more damaging as banks typically occupy the most expensive CBD locations. Reflecting this need to limit exposure and increase bounce-back capacity, the smart growth strategy adopted by a majority of banking and finance CRE heads is a compounded balancing act that uses several tactics to achieve a highly scalable, asset-light business. These tactics have a common component – *flexibility*.

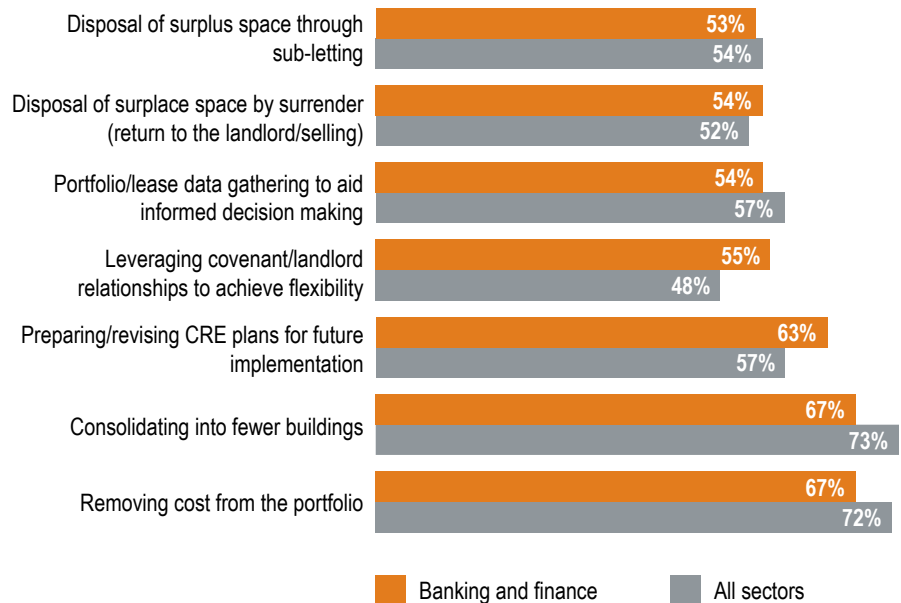
For companies planning to expand in new countries, flexibility is a pre-requisite as traditional structures might be inadequate to compete against local players and to capture the best revenue opportunities. Even among these, most are not willing or able to bank-roll a bet on a new market and are seeking cost efficiency and strong business cases. For all, flexibility has joined cost, location and space quality as one of the top factors shaping transactions and the negotiation process.

Nimble versus cheap portfolios –

At the height of the GFC, many financial services companies reduced payrolls, but were unable to adjust their footprint accordingly due to long-term lease agreements. Unable to physically downsize in order to mitigate costs, they were forced, where permitted, to dispose of surplus space through sub-letting (Fig 5).

As an example, many US banking and finance companies have since adjusted their transaction methodology, placing more

Fig 5 >> **CRE Tactics Implemented to Cope with the GFC – Banking and Finance vs. All Sectors**



Source: Jones Lang LaSalle Global CRE Survey 2011



What CRE strategies did your organization implement to cope with the GFC?

emphasis on flexibility in their portfolio, using specific flex-friendly filters early in the transaction process to prioritize space needs. US banks adopting this practice classify their properties into tiers and match lease terms accordingly. Typically, small space requirements (10,000 sq ft or less) are automatically assigned short lease terms of up to three years, with termination options after one year. In core buildings, leases have five-year to ten-year terms, with contraction and termination options built in half-way through the lease.

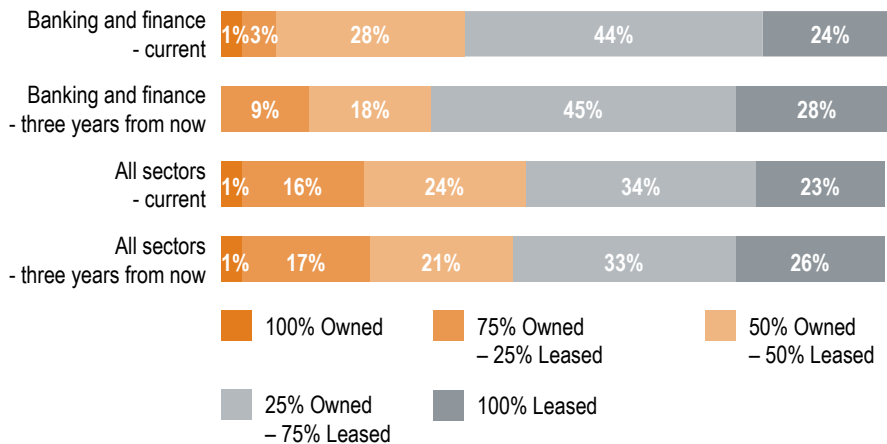
Flexibility can come at a cost. It is a trade-off between savings today and potential cost avoidance tomorrow. Paying rent above market in exchange for terms and options that provide flexibility on the premises, or paying an up-front premium for shorter lease terms and favorable options, could avoid

the future cost of sub-letting or carrying unnecessary space, or the risk of not being able to accommodate unplanned headcount growth. The ease of implementation varies with the strength of the property markets.

Lease versus buy –

One of the ways to tackle the twin challenges of growth and right-sizing is to make ownership structures as light as possible. Within the banking sector, the survey shows a movement toward leasing versus owning assets. Respondents are increasingly opting for full leasing, or at least moving away from full ownership of property (Fig 6), a trend that is largely driven by the need to have a highly flexible portfolio in rapidly changing markets. That said, owned real estate has historically played a large role in the portfolio strategy of many banks

Fig 6 >> **Owned vs. Leased Property Portfolio Today and Three Years from Now - Banking and Finance vs. All Sectors**



Source: Jones Lang LaSalle Global CRE Survey 2011



Which category best describes the current mix of your portfolio in terms of owned vs. leased property? How do you see this mix evolve three years from now?

and will not disappear completely. In some cases, the benefits of owned assets take priority, for example, when mitigating risk in developing markets or demonstrating a long-term commitment to the market.

It is, however, difficult to forecast future lease-versus-own choices. On the one hand, as the return on investment of financial services drops, even moderate returns on investment from property might become attractive enough.

On the other hand, with accounting and regulatory changes on the horizon, companies will have to keep more capital on the books, considering the expected return on money that may be higher with financial services than with real estate. As far as

International Financial Reporting Standards (IFRS)¹ and Basel III² are concerned, interpretations are not clear at this stage. Arguably, IFRS rules might narrow the gap (from a financial standpoint) between leasing and owning real estate, encouraging banks to start owning more again in the future.

Banking and finance companies have so far adopted a pragmatic approach to the lease-versus-buy dilemma. They purchase real estate when they cannot obtain the right space without ownership and for critical sites, such as data centers or centers of excellence. Sites of strategic importance include trophy assets or flagship buildings—some of these iconic landmarks owned by banks are featured on Hong Kong bank notes, for example.

CBD vs. periphery locations –

Another lever used to control real estate costs is the choice of building location within or outside CBDs to accommodate all employees or specific segments. For example, a major global bank moved 1,500 employees and all its backroom functions in Singapore out of the city center to occupy a new Grade A building in a lower cost area away from the city center. The Bank's Singapore CEO explains that in addition to being less expensive, the major factor in moving out of the CBD was the quality of the finish that they would enjoy there and the freedom to decide how to occupy the huge floor plates.

This strategy exhibits a break with past practices. It is often challenging for CRE heads to convince banking and finance CEOs to make these potentially unpopular decisions and, once they are made, support the significant change management effort that is needed. Attention to detail has proved rewarding. The International Commerce Centre (ICC) building in Kowloon, Hong Kong is a good example with its anchor tenants succeeding in supporting employee adoption and retention by investing in transportation options and recreational or catering services.

Fixed versus flexible workplace –

One of the best ways to accommodate growth in staff without long-term exposure to cost increases is via workplace enhancements that improve both employee productivity and space utilization within the existing footprint. Often in alignment with

¹ Wiki: IFRS are principles-based Standards, Interpretations and the Framework (1989) adopted by the International Accounting Standards Board (IASB).

² Wiki: BASEL III is a new global regulatory standard on bank capital adequacy and liquidity agreed by the members of the Basel Committee on Banking Supervision. The third of the Basel Accords was developed in a response to the deficiencies in financial regulation revealed by the global financial crisis. Basel III strengthens bank capital requirements and introduces new regulatory requirements on bank liquidity and bank leverage.

broader corporate goals, workplace agility is back on the agenda. During the GFC, upgrades were a casualty, with 16% of banking and finance organizations having canceled or postponed such programs due to capital expenditure constraints, economic fragility and uncertainty around the future shape and size of the business.

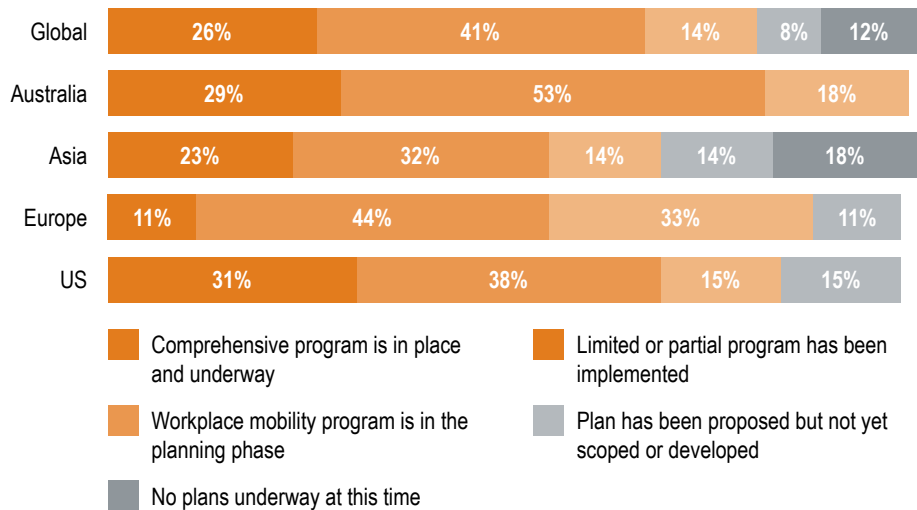
While many companies have accelerated their workplace programs over the past 12 months, the survey results highlight that this trend is not uniform across all regions (Fig 7) or across all sectors. Banking and finance respondents show on average a more moderate interest in workplace mobility programs. Nearly 90% of professional services firms and 76% of technology and telecommunications firms have at least a partial workplace mobility program in place, compared to only 67% of banking and finance companies.

The trend is progressing with strong regional disparities:

- Some of Australia's biggest financial firms are moving quickly into workplace leadership, far ahead with 82% of respondents engaged in workplace programs.
- US banking and finance firms are also strong adopters, with 69% of respondents having already implemented some form of workplace program.
- In Europe, things are about to change with 55% already engaged in workplace programs and 33% being in a planning phase.
- Asia is close behind, with 55% already engaged in workplace programs but 32% still without plans to change.

These findings suggest a stronger reliance of mature markets on workplace productivity improvements to achieve company growth

Fig 7 >> **Banking and Finance Companies' Current Approach to Workplace Mobility, by Region**



Note: Workplace mobility programs focus on the planning of real estate to allow for mobile work—a work style in which a person consistently uses multiple spaces/places to accomplish their work.
Source: Jones Lang LaSalle Global CRE Survey 2011



How would you describe your organization's current approach to workplace mobility (i.e. ability to work from multiple places)?

targets. It is possible that Asian-based companies are under less pressure to implement workplace programs as they continue to benefit from stronger market dynamics to support business growth. Cultural barriers also make workplace strategy implementations difficult in some Asian markets.

Discussions with banking and finance CRE executives show that there is a lot of interest in innovative workplace solutions such as desk sharing, non-territorial work and other workplace strategies catering to differing work styles and functions. However, while CRE executives understand the financial and non-financial benefits of workplace strategies, the business does not always see the advantages. Projects prove difficult to implement for banking and financial

services companies due to a series of barriers, such as:

- Lack of senior management support or visible engagement, often required to counter ego and legacy footholds
- Resistance of the 'rain makers' to forego large offices and their perceived cultural prestige
- Lack of mobility of certain employees, such as those on trading floors
- IT security issues due to being a highly regulated sector with data privacy issues

Segmenting the workforce is sometimes more straightforward. For example, back office staff are often already on the journey, desk sharing (three shifts) and even working from home.

Various approaches to adopting workplace strategies

- **Selective** – Bank O segmented its workforce, targeting employees for whom mobility makes sense. Only the mobile (40% knowledge worker, manager or executive) and super-mobile (20% nomad or traveler, home worker) segments of the workforce are eligible for flexible work and desk sharing, while sedentary employees (40%) keep their assigned desks. Expected benefits are 20% better space efficiency, 10% tactical growth reserve and 70% less churn cost.
- **Volunteer** – Bank P announced a few years ago that technology will enable the Bank to halve the workforce at its iconic UK head office within seven years. The Bank expects at least 4,000 employees to work from home or be on the road by 2014, rather than at desks. The Bank's CEO at the time challenged the Bank to empty half of the building in order to sub-let it. His rationale was that a really progressive and perceptive company would not let thousands of its employees commute long hours each day to come to the office while technology was available to avoid the waste of time, changing the thought process at the same time.
- **Global** – Bank Q has deployed workplace mobility globally, with more success in Europe than in Asia because of cultural sensitivities, a desk still being a significant status symbol in some countries and a 'face' issue. These types of issues have already been neutralized in other regions, although with more resistance than in other sectors.
- **Rewarded** – Bank R's new Sydney office building has been collecting accolades and awards for its architecture, design, environmental sustainability and workplace functionality. The Bank wanted to adopt a new, collaborative working style supported by a flexible work platform, and the new office facility played an important part in making this happen, using design as a catalyst for change, and in encouraging and facilitating a new way of working.



Key success factors include:

- Matching the type of space to each segment of the workforce
- Nurturing a willingness to embrace flexible work styles via change management
- Dedicating the necessary investments in human resources, technology, marketing and communications and property to drive the required change

Timing is also critical as it has often been easier to conduct these types of projects in times of change, such as in a post-merger context or in parallel with a corporate transformation program.

In-house versus outsourced –

Banking and finance companies have long outsourced, being one of the first sectors to work with real estate service providers, primarily because they have a culture more focused on the core business. The shift toward more highly centralized real estate functions led by a core functional team —'manage globally, execute locally'— has also been important as it helped the in-house delivery models of today evolve and draw on efficiencies and innovation from within the service provider market. A third driver of outsourcing is cost awareness, as they

tend to occupy the best locations in the most expensive business districts.

Following a cross-sector trend, the CRE function in the banking and finance industry is also progressing up the outsourcing curve as CRE executives are relying on their partners more often for delivery of tactical services, productivity and innovation. The hybrid model is the most embedded within the banking and finance sector with 78% of all respondents expected to be delivering through this model in three years (Fig 8).

Europe stands out, with nearly half the banking and finance CRE functions managed in-house. While there is a move toward more outsourcing, European companies are still not likely to fully outsource CRE in the near future. Conversely, full outsourcing is approaching 20% in the mature US market.

On the whole, larger banks have been early adopters and are now likely to move into third or fourth generation outsourcing relationships that are often characterized either by procurement-led decisions or the desire for a stronger, more rounded value proposition around workplace productivity rather than merely cost control or reduction. These procurement-led processes sometimes lead to a more commoditized effort where value-add is eliminated from the equation, unfortunately often in cases where it is critical to the success of the outsourcing solution.

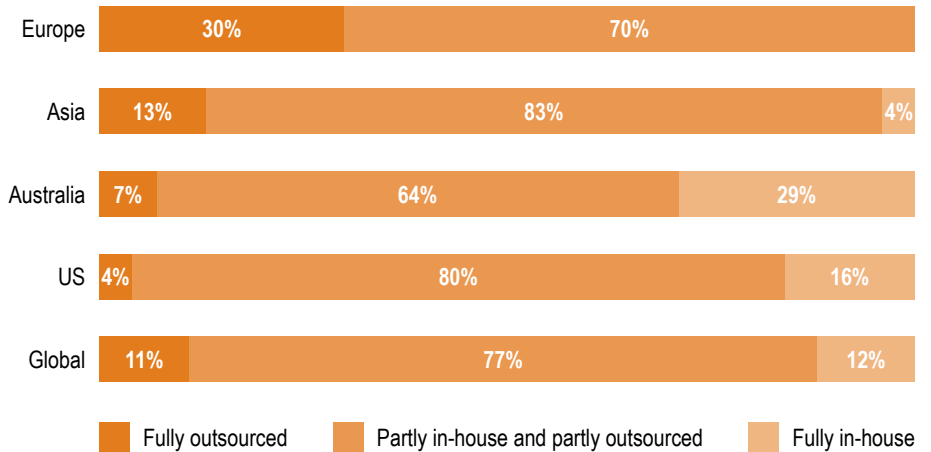
Diving into the detail of specific CRE tasks, we see that the hybrid model—a mixture of in-house and outsourcing—is preferred for all services apart from portfolio strategy, which figures as an exception as it is still largely managed in-house (Fig 9).

Best practice versus innovation –

The global head of property at a major Australian bank said, “I would like to see paradigm shifts and step change, (...not just incremental improvement.” CRE executives regard innovation as very important to their company—to increase productivity and competitiveness and to enhance performance.

However, so far banks have offered the paradox of being early adopters but not innovators. Reactions to the GFC, for

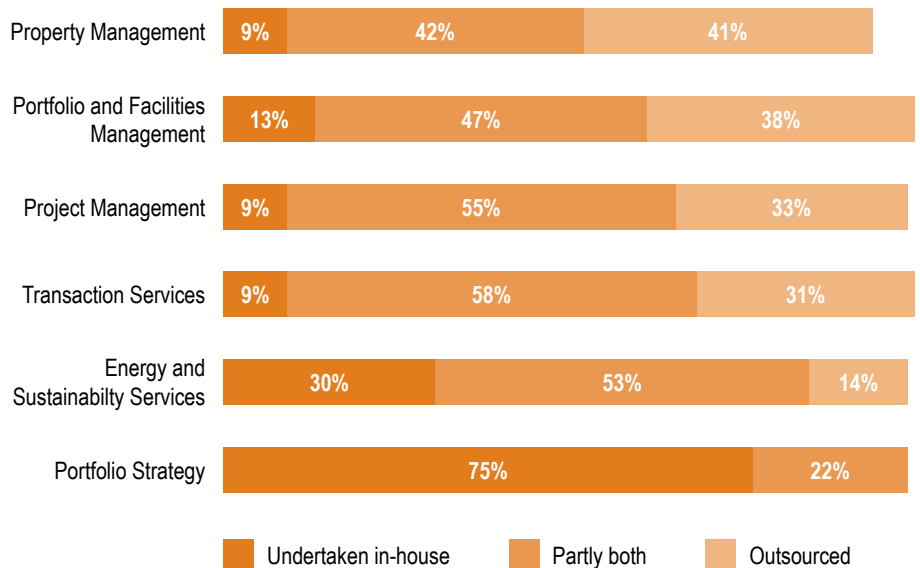
Fig 8 >> **Organization Structures Needed by Banking and Finance CRE Executives Three Years from Now, by Region**



Source: Jones Lang LaSalle Global CRE Survey 2011

Q What describes how your organization structures its CRE needs at present and how it will do so three years from now?

Fig 9 >> **Organization of Specific Banking and Finance CRE Tasks Among Those Who are Currently Partially Outsourcing CRE, or Plan to Do So Globally Three Years from Now**



Source: Jones Lang LaSalle Global CRE Survey 2011

Q What best describes how your organization structures its CRE needs (in-house vs. outsourced) at present and how it will do so three years from now?

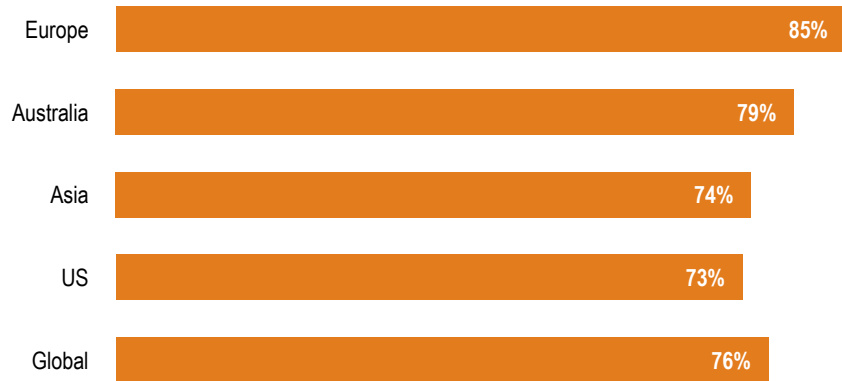
example, were prompt but not radical and with immediate action through tried and proven techniques.

One way CRE executives are trying to foster innovation is to engage people from outside of real estate or the immediate banking and finance industry. When opening new “smart banking” branches in Japan, a major US global bank built a global innovation team with talent across diverse industries and engaged a designer known for creating flagship stores for one of the most globally successful consumer high tech firms.

Banking and finance CRE leaders are being challenged by their internal customers to be more innovative, to do things in a different way. The survey results show that the banking and finance respondents are under significant pressure to show greater innovation and be solution orientated (Fig 10). Whether an idea is an innovation or best practice is a matter of perspective, as companies define innovation differently. However, today’s consensus among CRE executives is that innovative ideas are really only recognized as such if they drive costs down or revenues up.

In order to meet these challenges, banking and finance CRE executives are increasingly turning to service providers for help, with 82% of those surveyed indicating that they have turned to their partners for innovative solutions (Fig 11). Banks regard service providers’ benchmarks, collections of best practices and reach across sectors as a source that can be tapped to supplement their search for innovative solutions.

Fig 10 >> Likelihood that Banking and Finance CRE Executives will be Required by the Business to Show Greater Innovation and be Solution Oriented Within Three Years from Now

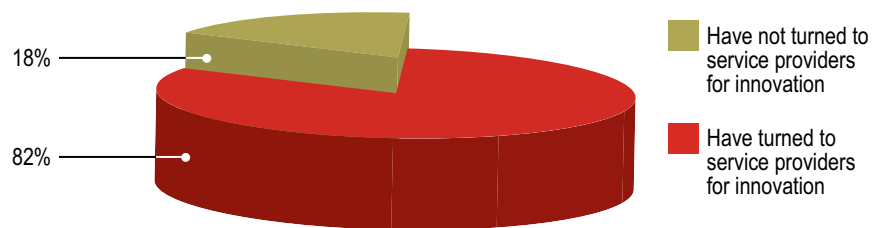


Source: Jones Lang LaSalle Global CRE Survey 2011



In your opinion, how likely is this scenario within the next three years?

Fig 11 >> Likelihood of Banking and Finance CRE Executives to Turn to Service Providers for Innovative Solutions to the Challenges They Face Post-GFC



Source: Jones Lang LaSalle Global CRE Survey 2011



To what degree have possible legacies of the GFC on the role of the CRE team (turning to service providers for innovative solutions to challenges) taken place in your organization?

Global Trend #3 Stronger Connection to the C-suite

“It is extremely important to have corporate real estate at the table whenever you’re making major decisions.”

– B.J. Losch, CFO of Wachovia Retail and Small Business Banking, CFO Publishing, 2003

Key Statistics

- Banking and finance respondents report a very strong engagement with senior leadership, which is predicted to strengthen even further from 53% today to 69% three years from now.
- More banking and finance firms are aligning their CRE structures with the wider business strategy, from 73% today to 78% in the near future.
- The survey reveals a very high level of empowerment for the CRE function, enabling it to examine and challenge business requests for more space.

CRE Implications

- 1 Focus on strategy – Align the CRE strategy with the long-term vision of the firm as a whole, positioning real estate as a lever to facilitate broader business objectives.
- 2 Partner with the C-suite – Use your proximity with leadership to keep abreast of the latest corporate developments in order to anticipate change—or to contribute to shaping it.
- 3 Be bold – Rise to the challenge, take a new authority, move further beyond ‘order taker’ toward ‘order shaper’ and be an advisor.

The connection between CRE and the C-suite has increased as a result of the GFC, primarily from the sense of urgency to reduce costs. Real estate is one of the top three to four operational expenditures and therefore it is very visible. In addition, banking and finance firms typically occupy the most expensive real estate. As CFOs attack their cost base element by element, they continue to put property high on their agenda.

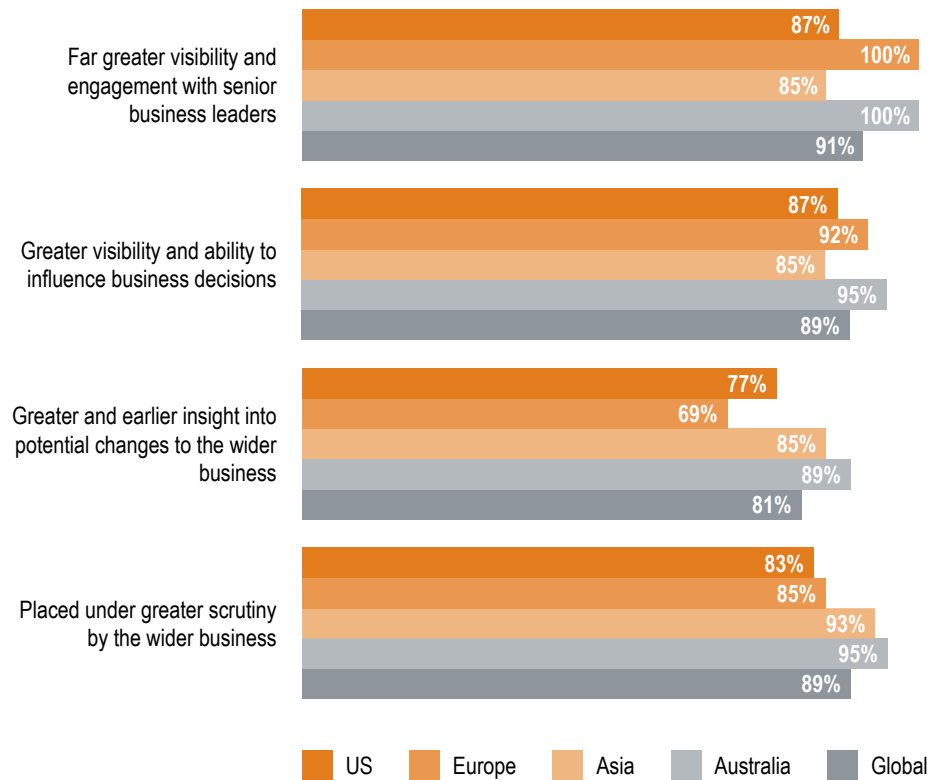
Empowerment and expectations –

CRE heads clearly feel that they have been empowered to examine and challenge business requests for more space, from 85% of respondents in Europe, to 80% in APAC and 73% in the US (Fig 12). Well poised for the future, they will take on a more active role in overall organizational strategy.

The trend is global, with only minor variations in priorities between regions, Australia being the country where expectations are highest, while they are slightly lower in Asia. In the US, CRE executives are particularly required to articulate the true costs of the real estate portfolio to the wider business.

A shift can be seen in CRE roles everywhere as they inch their way from being order takers to order shapers. The GFC has positioned CRE teams as being better able to challenge and push back on demands for new space from the business. CRE heads are involved at different stages of the definition of corporate strategy but, on the whole, are now involved much earlier than before. A few recent CRE career boosts

Fig 12 >> **Consequences of the GFC on the CRE Function in the Banking and Finance Sector, by Region**

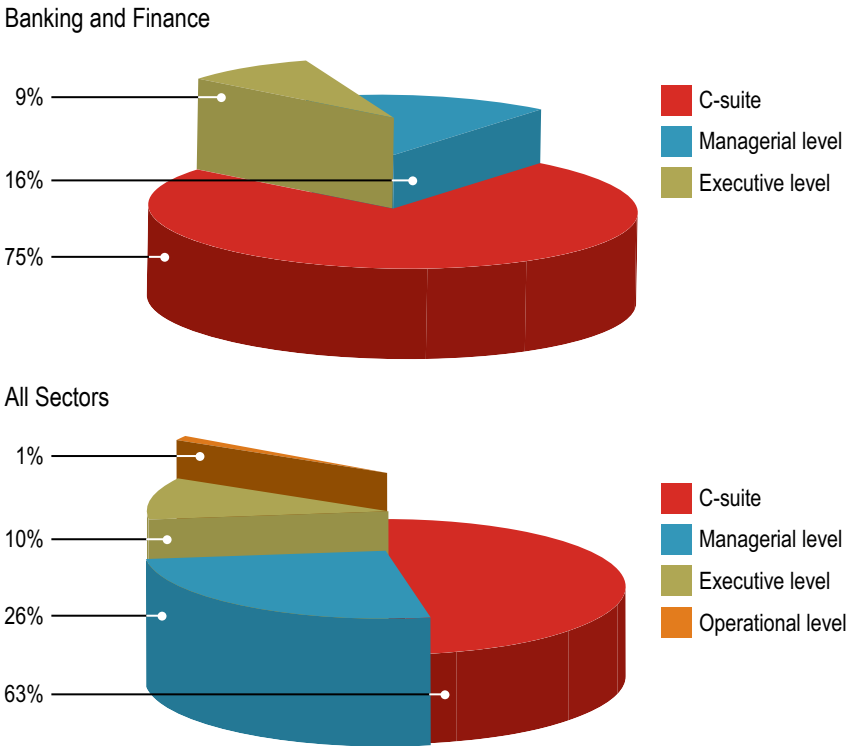


Source: Jones Lang LaSalle Global CRE Survey 2011

Q To what degree have possible legacies of the GFC on the role of the CRE team taken place in your organization?

illustrate the broadening of the function, such as the head of CRE for a multinational bank becoming the global head of corporate services—a structure that encompasses real estate, procurement, travel and IT. It is also worth emphasizing the impact of churn and transfer of senior CRE leaders between banks.

Fig 13 >> Reporting Level of the CRE Lead – Banking and Finance vs. All Sectors



Source: Jones Lang LaSalle Global CRE Survey 2011

Q What level in the organization does the CRE lead report to?

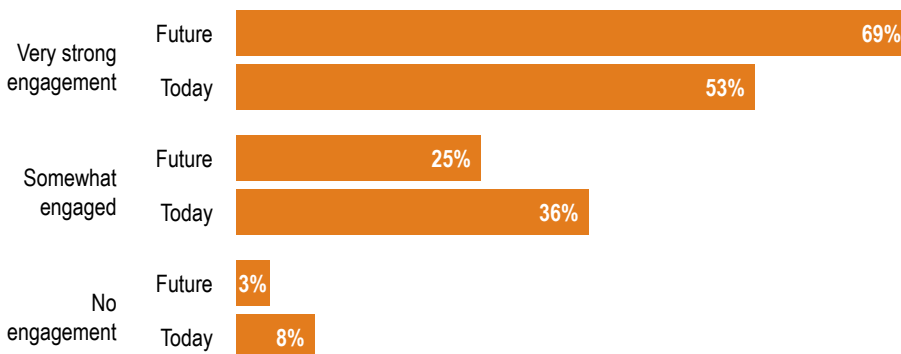
Visibility, engagement and reporting –

CRE executives interfacing with business is not new to the banking and finance sector, but the emphasis is changing as most expect the role they play as business relationship managers to become increasingly important.

Three quarters of banking and finance CRE leaders say that they report directly to a C-suite executive (Fig 13). The engagement is strong and likely to grow further. The majority of respondents already feel there is strong engagement between their senior leadership and the CRE function, and this is likely to grow from 53% today to 69% in the next three years—more than the global average (Fig 14).

The trend is particularly obvious in the US, followed by Australia, Europe and to a lesser extent Asia. There is no doubt that this will change however, starting with Asian multinationals that are increasingly expanding beyond their home countries and where real estate will have increasing impact on the overall business performance.

Fig 14 >> Engagement Level Between the CRE Team and the Leadership of Banking and Finance Companies, Today and Three Years from Now



Source: Jones Lang LaSalle Global CRE Survey 2011

Q How would you best describe the present engagement between the CRE team and the leadership of your company? How is this likely to be three years from now?



Strategy and long-term orientation –

For most banking and finance corporations there is already good alignment between CRE objectives and the business' overarching goals and objectives (Fig 15). The CRE function plays an active part in corporate programs, from infusing a performance culture to rolling out a transformation program or contributing to socio-environmental responsibility. This trend is set to accelerate in the coming years, and the telling sign is the appearance of real estate topics in corporate presentations to shareholders and analysts.

Conclusion

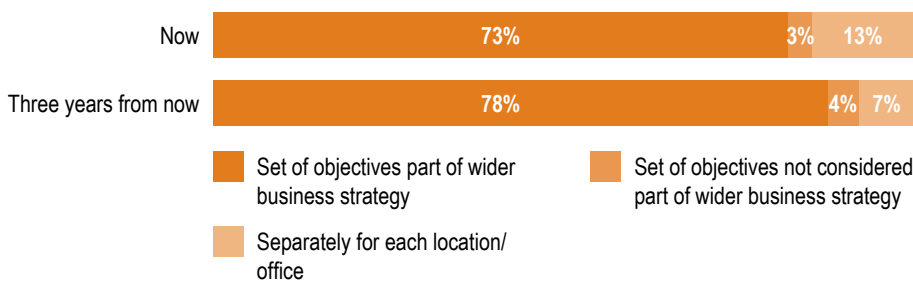
There have been many accelerated learnings brought about by the GFC. Better prepared than three years ago, closer to the decision table and more adept at translating corporate strategies into real estate terms, CRE executives have become familiar with the need to balance growth strategies with cost control.

Today, CRE heads have to be increasingly innovative as they are left with less room to maneuver. Much of the real estate fat has already been trimmed, making cost reduction opportunities less obvious and less easily

attainable. Transformative strategies will be required if CRE is to match the demands being placed upon it.

Going forward, the role of CRE heads will gain further relevance as they demonstrate how CRE enables value creation, while keeping risks under control. Banking and finance firms are ready for change, and those who embrace new ways of doing business will be the winners.

Fig 15 >> Alignment of Banking and Finance Firms' CRE Structures with the Wider Business Strategy, Today and Three Years from Now



Source: Jones Lang LaSalle Global CRE Survey 2011



What best describes how your organization structures its CRE needs at present and how it will do so three years from now?

Further suggested readings from Jones Lang LaSalle can be accessed via our website at [joneslanglasalle.com](https://www.joneslanglasalle.com)

- Opportunity Emerges from Crisis: Global Corporate Real Estate Survey, 2011
- Best Laid Plans: Key considerations for portfolio planning, 2010
- Lifting your game: Scenario planning for real estate, 2010
- Making CRE Partnerships Work in Asia Pacific, 2010
- Better by Design – Reshaping the CRE function for greater impact, 2011
- The ‘Swiss Army Knife’ CRE Executive, 2011
- Attracting and Inspiring the Knowledge Worker – Applying Maslow’s hierarchy to drive productivity in the workplace
- Occupier Special – Creating Winning Workplaces
- Workplace Strategy in Latin America
- Offices 2020 and Retail 2020 research programs
- Brace for Impact – How global lease accounting changes will lead to behavioral and skill set changes for CRE executives
- Jones Lang LaSalle Research blogs: From the Roof (EMEA) and Real Talk (APAC)

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Jones Lang LaSalle (NYSE:JLL) is a financial and professional services firm specializing in real estate. The firm offers integrated services delivered by expert teams worldwide to clients seeking increased value by owning, occupying or investing in real estate. With 2010 global revenue of more than USD 2.9 billion, Jones Lang LaSalle serves clients in 60 countries from more than 1,000 locations worldwide, including 185 corporate offices. The firm is an industry leader in property and corporate facility management services, with a portfolio of approximately 1.8 billion square feet worldwide. LaSalle Investment Management, the company's investment management business, is one of the world's largest and most diverse in real estate with more than USD 43 billion of assets under management.

Jones Lang LaSalle has over 50 years of experience in Asia Pacific, with over 19,700 employees operating in 78 offices in 13 countries across the region. The firm was named the Best Property Consultancy in Asia Pacific at "The Asia Pacific Property Awards 2011 in association with Bloomberg Television." For further information, please visit our website, www.ap.joneslanglasalle.com.

About Jones Lang LaSalle Corporate Solutions

Jones Lang LaSalle pioneered the corporate real estate offering in Asia Pacific. Today, our platform provides unmatched services across a single project, country or regional portfolio. Our commitment to shaping our business around the needs of our clients and delivering on our promises keeps us at the forefront of our industry.

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**Opportunity Emerges from Crisis**
Global Corporate Real Estate Survey 2011

Jones Lang LaSalle's inaugural Global Corporate Real Estate Survey 2011, undertaken in partnership with Thomson Reuters, is the first global survey designed to provide insight into the future path, challenges and opportunities facing CRE. With responses from over 500 CRE executives from 36 countries, this survey has captured data not previously presented in any of our research. The results pointed to four overarching global trends impacting the future state for CRE teams. Explore these trends via our interactive online site, or download a copy of the full report at www.joneslanglasalle.com/global-cre-survey-2011



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