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Generating Liquidity Capacity

Reorganization of structures and processes



Economic conditions make it difficult to secure solvency

The real estate sector tends to follow the real economy though with a delay in some areas. However, we are now seeing the effects of the current crisis, which has been shaped by many factors, in the real estate market as well. Increased interest and ancillary costs, changes in financing conditions, investment needs arising from ESG issues, and commodity and labor issues in the market will have a significant impact on the financial scope of real estate companies and require additional, previously unplanned liquidity. Therefore, it is becoming increasingly important to plan early and understand long-term which expenditures will be made in order to remain able to act. Additional expenditures, such as outlays for achieving ESG compliance, are indispensable and make securing solvency quite difficult.

It is not always possible for the financing banks to provide the additional liquidity required exclusively, especially in the current economic situation. Rather, there is an interest on the part of lenders to critically scrutinize existing (cost) structures and processes in order to adapt historically grown structures and processes to current requirements and needs and thus, release additional liquidity potential.

Cost-effectiveness calculations are more important than ever before

Previously presented profitability calculations were based on the prevailing structures of real estate companies. The economic framework conditions to date led to the perception that questioning the meaningfulness of existing structures and processes in the real estate industry was largely unnecessary. There was little incentive and hardly any pressure to act to streamline existing organizational structures and processes and thus make them more efficient. The current economic climate has heightened awareness of the need to identify approaches to increasing efficiency, as ongoing inflation, rising ancillary costs, rising interest rates and also the decline in demand are putting pressure on returns from real estate. Among other things, excessive process costs, redundancies as well as duplicate structures in the organization and a lack of allocation of roles and responsibilities also lead to inefficiencies. Reducing the complexity of structures and processes is therefore an accompanying approach to cost reduction.





In the real estate industry, the improvement of returns can be achieved through the implementation of reorganization projects with regard to the structural and processual organization. In addition, targeted

efficiency enhancements with direct cost savings offer additional liquidity potential, which can, if not completely offset, at least reduce the required capital. An important prerequisite for this is the creation of an awareness that historically evolved structures and processes contain previously unplanned potential for efficiency enhancement and optimization. The potential they contain can help to safeguard liquidity and earnings. At the same time, both the quality and speed of processes can be improved, which in turn increases the satisfaction of the stakeholders involved. Once the decision has been made to reorganize the back office, the type and scope of the reorganization must be defined in detail. The targeted reorganization will mainly take place during operational business. Against this background, a structured approach and experienced management are essential for implementation and success.

Possible approaches for targeted yield improvement are shown in the following figure. It includes approaches to reorganizing the organizational structures and processes.

Figure 01:

Approaches to the reorganization of the organizational structures and processes

Starting Points	
Focus 	Focus on core business, reduction of redundancies, bundling of decentralized tasks, standardizations
Outsourcing 	Outsourcing of loss-making service areas
Insourcing 	Use of free resources to improve results and increase quality
Overheads 	Adjustment of cost structures, reduction of overhead costs, simplification of legal structures

Source: KPMG in Germany, 2023

Identification of optimization potentials in the real estate industry

A central question here is how can an organizational structure and process organization be achieved by optimizing functions and processes in practice in order to establish a cost-efficient corporate structure with sensible processes? The objective of the following description is to define the target organization for performing tasks in the necessary strategic real estate functions (owner:in, user:in) and the operational real estate functions (i.e. provision, management and utilization of developed and undeveloped properties).

Status quo analysis and target definition

At the beginning of the reorganization, kick-off meetings are held with the client/principal to understand and appreciate short- and medium-term strategic objectives and necessities.

In parallel, a review and analysis of all relevant information and available documents relating to the area under investigation as well as the existing procedural regulations is carried out. In addition, the as-is organization will be surveyed and the as-is process model as well as a personnel allocation (FTE analysis) will be completed on the process level. The creation of transparency about the status quo of tasks and resources for the identification of cost drivers represents a fundamental basis for the design of the target structure.

The current cost development of, for example, interest and ancillary costs for energy and gas also increases the need for a detailed operating cost analysis. This involves comparing incurred operating costs with relevant benchmarks from a representative data pool from various available sources. From this, target values can be derived for the company in question. The orientation of future processes is mainly based on already identified best practice solutions from our many years of experience. The framework conditions of the target organization including the fundamentals of strategic portfolio management (including data, methods, capacities, processes) are discussed with the client and finally defined. The conception of the desired target organization as well as optimized procedures of real estate management processes is also carried out in comprehensive discussions, in which conclusions and alternative courses of action are presented in different scenarios of the model. It is essential here that the analysis of the respective business and strategic advantages and disadvantages of the various options is taken into account in the respective scenarios.

Tool-based implementation of measures to achieve goals

Once the decision on the target model has been made, the implementation of measures can begin. By comparing the actual situation with the target situation, the action steps for achieving the target processes and target organization are identified.

It is essential here that the individual target processes are described taking into account the optimized depth of added value. The fields of action and potential for achieving the economically meaningful savings target can then be qualitatively derived. In addition, the savings in the target concept compared to the actual organization are simulated within the framework of a quantitative model and the concrete improvement of the liquidity/profit situation is derived. As a result, the perspectives for the alignment of the real estate business in the Group are shown and time-bound within a catalog of measures. To achieve the target structure, packages of measures are defined with concrete actions and associated activities. The key to successful implementation is a consistent structure and a focus on the essentials. To create commitment, it is recommended to define responsibilities and to plan the timeframe for implementation.

The use of specific tools increases the commitment of the implementation process. In the course of the tool-based solution, it becomes possible to achieve centralized control. In addition, the focus on individual measures to unintentionally deprioritize other measures is achieved.

The described development from the actual to the target organization requires a precise definition of measures. To this end, potentials are identified and named at the work level within a defined time horizon. To ensure that the measures can be evaluated, they must be quantified with a realistic effect, which should ideally be differentiated by quarters and by months and backed up with responsibilities. It should also be taken into account that measures with the highest possible probability of occurrence should be targeted. Degrees of hardness are defined for the defined process steps or sub-steps on the basis of tools. A significant advantage arises from the use of tool-based project management solutions, in which the progress of the work can be seen by all those involved according to the situation, thus, creating transparency.

With the new, generally leaner organizational structure and process organization, the company is not only able to achieve savings, but also to maneuver adequately through more difficult times.

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Conclusion/Key Facts:

Macroeconomic conditions, in particular the rise in interest rates and inflation, as well as the need to invest in order to achieve ESG compliance, require additional, previously unplanned liquidity. Among other things, changed financing conditions require companies to release internal liquidity potential.

The reorganization of structures and processes is one way to generate at least some of the required liquidity.

With a structured approach to the identification and subsequent implementation of optimization potentials, we support our clients in maneuvering in the current situation.



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