



The evolution in real estate

**Insights from Global Real Estate
Consulting case studies**

June 2016

KPMG International

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Introduction

In addition to the traditional audit, tax and transaction related services, the KPMG Real Estate practice provides a range of consulting services. In this brochure, we are pleased to share with you some recent client case studies which highlight the capabilities of KPMG's Real Estate Consulting team.

CEOs, CFOs and other C-suite leaders in the decision-making process will find this 'snapshot' of success stories a revealing and instructive guide to the diverse challenges businesses and governments alike are facing in managing and supervising their real estate portfolios in current environments and how the KPMG Real Estate practice is delivering professional and knowledgeable strategies.

Globally, real estate markets have rebounded favorably following the financial crisis of 2008 and the outlook for this sector is strong.

The improved market conditions and innovation in the marketplace, combined with new demands being placed on organizations, continue to prompt a growing number of organizations to work with KPMG's firms to explore and execute significant new strategies aimed at:

- optimizing real estate operations and solving legacy issues;

- addressing regulatory and compliance requirements;
- innovating, with an emphasis on environmental and sustainability needs;
- introducing and applying data and analytics to improve portfolio insights.

A look at the noteworthy trends unfolding globally among the mature markets of Europe and the Americas, and the high-growth markets of Asia and India, reveals an interesting contrast in needs and challenges.

In Europe and, to a lesser extent, the Americas, many firms with significant real estate holdings are addressing regulatory and compliance issues while also trying to keep up with evolving requirements related to innovation and sustainability. On the regulatory and compliance front, the aftermath of the financial crisis has presented real estate fund managers with an array of both new and revised regulations demanding clear and effective solutions. At the same time, organizations are facing significant pressures and costs on the environmental front related to improving the carbon footprint of structures and overall portfolios.

To add to their challenges, organizations are also pursuing a deeper understanding

of the immense potential that big data and analytics present for future success.

In contrast, the landscape in Asia reveals an explosion of real estate development that's being accompanied by a proliferation of firms seeking to professionalize and optimize operations and cope with the unprecedented growth. At a different stage on the maturity grid, these real estate companies and/or organizations with significant real estate holdings face the challenges of a fast-growing operation, building value within the portfolio and complexity.

Success stories featured in this brochure are meant to illustrate the variety of consulting that KPMG's Real Estate Advisory professionals are delivering to help ensure every client's growth and success.

In this brochure, we have not covered our audit, tax and transaction related advisory services that we are providing to clients around the world. Of course, you are invited to request from us information regarding these services as well.

We hope you will value the examples outlined in this brochure and we look forward to further discussions with you about these cases.

Sander Grunewald

Lead for Global Real Estate
Advisory network

A selection of the services provided by KPMG's Global Real Estate practice



Source: KPMG International 2016

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Strategy and innovation

Advise on enterprise strategy, sustainability, big data and IT

Major metropolitan government needed over 1,300 buildings assessed

Generated cost savings and lower carbon emissions

The client's challenge

The Tokyo Metropolitan Government, which oversees Japan's largest metropolis and its nearly 14 million residents, set out on an ambitious plan of reviewing its massive real estate portfolio to assess energy consumption efficiency and reduce carbon emissions.

The scope of the project was formidable and widespread, covering more than 96.8 million square feet of space across 1,312 buildings of widely varied asset types, including office buildings, schools, hospitals, event spaces and public sporting facilities. Tokyo's goal was to drive savings and reduce emissions in areas such as heating, cooling, ventilation and lighting.

KPMG's solution

KPMG's Real Estate practice mobilized a team to compile and then assess an array of relevant data for each facility, including building type and size, occupancy, energy consumption and current carbon emission readings. The KPMG team used this comprehensive data to create a methodology for calculating the potential energy savings and emission reductions that Tokyo's government could achieve within its various heating, cooling, lighting and ventilation systems.

KPMG provided benchmarking across each of the client's 1,312 buildings while the criteria for evaluating specific emission-reduction targets was set by each facility.

Strategies to reduce emissions were limited to 'tuning' mechanical heating, ventilation and air-conditioning systems, controlling wasteful air leakage, replacing equipment where practical and modifying lighting systems.

The successful outcome

KPMG's team of experts, keeping the project focus on low capital-cost measures alone, established that the Tokyo Metropolitan Government could realize annual utility and energy cost savings equivalent to nearly US\$175 million, while significantly slashing carbon emission levels by more than 20 percent compared to 2014. KPMG also identified additional potential savings that could be realized through targeted capital investment in selected measures for specific building types.

Diversified property group needed to raise capital for sustainability projects

Provided assurance for green bond program

The client's challenge

A property company in Australia wanted to pursue a bond-based green finance program but no precedent existed for green bonds in Australia. A green bond is a fixed-income financial instrument allowing private and public sector organizations to raise capital for specialized projects, assets or other activities designed to generate economic, environmental and social benefits.

The client saw an opportunity to differentiate itself in the Australian market and property sector by issuing a green bond and used the Green Bond Principles as its criteria for allocating bond proceeds. The Green Bond Principles recommend that assurance is obtained regarding the definition that

a firm's management uses in choosing eligible green projects and the controls they will put in place.

The client required an assurance provider that was familiar with sustainability, the real estate sector and financial statement assurance, plus the agility to bring the project to reality amid tight and challenging timelines. The firm turned to KPMG's experts in its Real Estate Sustainability practice for the input it would need to succeed.

KPMG's solution

KPMG's experts advised the client on the diverse elements of the green bond market and how to respond to requirements and ongoing changes in guidance and standards for eligible green projects.

The KPMG team was particularly well-positioned to meet the client's demands thanks to its extensive experience in current international best practices, plus deep knowledge of significant developments affecting green bonds, sustainability and assurance.

The successful outcome

The client's green bond initiative was a success, with the KPMG team's real estate industry experience delivering the required reasonable assurance opinion. Under KPMG's guidance, the assurance was completed in an impressive 2 week timeframe and allowed the client to meet its objective of differentiating itself in the Australian market and real estate sector using a green bond.

European property manager wanted to develop a long-term view

Created a vision for the sustainable shopping street

The client's challenge

An independent real estate investment management company focused on retail properties in the European market wanted to strengthen its long-term financial performance. To accomplish this, the company embarked on an initiative to determine what a 'sustainable shopping street' of the future would look like, then integrate the characteristics of such a street into its investment management processes.

The client also wanted to upgrade its sustainability strategy and program by expanding the focus of current initiatives beyond individual buildings to cover the anticipated shopping street as a whole.

The client engaged KPMG's Real Estate practice to meet its objectives.

KPMG's strategy

The KPMG team comprised real estate and sustainability experts supported by strategy and innovation specialists. The scope of services included:

- research and working sessions to create a clear vision for — and internal alignment on — the 'sustainable shopping street of the future' concept, while identifying economic, technological, social and environmental trends affecting investment;
- an expert dialogue session to validate the vision for the future street, then a deeper dive to identify key criteria for such a street and its characteristics. The session defined roles among relevant stakeholders such as municipalities, peers and retailers in executing the vision for the street;

- reporting that included a checklist and accompanying roadmap of the street to integrate the vision with crucial investment management processes such as investment opportunity identification, assessment, management and exit.

The successful outcome

The KPMG team's expertise helped the client develop a realistic vision for its sustainable shopping street of the future. The team's knowledge of the real estate sector also allowed the client to expand its vision into a concrete set of criteria for the exacting processes of investment opportunity identification, assessment, management and exit. As desired, the engagement with the KPMG Real Estate practice contributed to the client's potential for long-term value creation.



Target operating model and enterprise operations

Advise on organization set-up and redesign of the operating model, process set-up and redesign, shared services and outsourcing, optimization of service costs and service provider management

Large electrical utility needed to evaluate real estate portfolio

Facility management outsourcing delivered 20 percent cost savings

The client's challenge

A large regulated electrical utility in the US faced significant pressure to reduce operating costs while maintaining service levels and regulatory compliance. One area of focus for potential savings was its real estate portfolio.

With 600 occupied buildings and more than 1,000 unoccupied sites covering a total of more than 8 million square feet, the utility wanted to evaluate the efficiency of its overall operating model and in particular the cost of various property-related services, including:

- building repairs and ongoing maintenance;
- janitorial and cleaning;
- landscaping and grounds upkeep;
- moves, additions and changes.

The client also wanted to evaluate its spending on construction project management services, which represented a large portion of its capital budget.

The utility turned to KPMG for guidance in assessing its current operating model and exploring future cost savings.

KPMG's solution

KPMG's Real Estate practice provided a team of professionals with both experience in utilities and deep corporate real estate experience to analyze and evaluate operations and costs. KPMG performed a gap analysis to identify significant opportunities for savings, including:

- reviewing data gathered and prepared by the client, conducting interviews with key stakeholders and then processing that data into comparable and industry standard metrics;
- assessing current performance on multiple dimensions of cost, service, process and risks, and quantified opportunities and future state base case;
- developing a future state operating model that defines service provider and retained team resources, deployment, technology and governance model and;
- developing a roadmap that would deliver the identified improvements, clearly defining scope, outcomes and standards for the external provider.

The analysis revealed an opportunity to significantly reduce costs by outsourcing the utility's facilities management. Applying KPMG's outsourcing methodology, the advisory team:

- developed a detailed RFP, strategy to approach the service provider market and evaluation criteria;
- advised on the selection and evaluation process;
- supported the client in negotiating and finalizing the outsourcing facility management contract. Developed a negotiations workbook with examples and guidance. Provided market benchmarks on costs, terms and fees.

The successful outcome

The utility adopted a new operating model featuring a multi-year outsourcing agreement that engaged a leading service provider to manage all facilities and construction projects. As a result, the client reduced its operating expenses for facilities management by more than 20 percent over the contract term, while maintaining service levels. The new outsourcing agreement also delivered savings of 5 percent on a large capital construction project by lowering management costs and improving process efficiencies.

Rapidly growing residential developer faced cost challenges

Streamlined process which solved operation issues

The client's challenge

A real estate development client with residential projects covering 7 million square feet was experiencing exceptionally rapid growth and new projects equivalent to about 18 million square feet were underway.

Success began generating unprecedented challenges. The lack of standardization and scalability across business processes made it increasingly difficult to sustain necessary cost and time efficiencies as construction and operations soared.

As the company took on several large projects that aligned with its business objective of becoming a large-scale player, it turned to KPMG for needed expertise and support in key areas, including:

- defining and implementing standard business processes to enable efficient growth within a clearer corporate structure;
- reviewing project schedules and project budgeting to create a more robust and agile monitoring framework;
- assessment of key organizational and management activities, including review of job descriptions, a human resources policy manual and an internal performance-management system.

KPMG's solution

The KPMG team put its experts to work on several fronts. To move the company toward a more sophisticated business model on its path to growth, KPMG helped establish new processes for key functions such as planning, budgeting, procurement, quality contracting, safety, sales and customer relationship management. KPMG also designed and staged workshops to educate staff

on new processes and then assisted in their implementation.

On the challenge of scheduling and budgeting, the KPMG team reviewed the procedures currently being used on one project and prepared — for use on all projects — a scheduling and budgeting template. The team also streamlined management reporting with a structured management information system (MIS).

KPMG provided recommendations to the client for improving internal staffing structure plus new job descriptions and a detailed HR policy to the client.

The successful outcome

With KPMG's assistance, the client streamlined and improved its processes in key functional areas, including:

- clarifying roles and responsibilities for all employees;

- improving business process management by reducing senior management involvement in daily operations;
- streamlining workflow and efficiency across day-to-day operations;
- detailed performance reporting based on monitoring of key performance indicators;
- introduction of process controls to reduce the risk of fraud and theft;
- introduction of a comprehensive MIS structure for senior management reporting.

KPMG positioned the client to meet its key business objective of continued strong growth and success on a larger scale.



Social housing associations needed to improve operational efficiencies

Succeeded in a complex market environment

The client's challenge

A third of households in the Netherlands occupy a house or dwelling owned by a social housing association (SHA). These non-profit organizations are responsible for maintaining an adequate supply of quality, affordable homes for lower- and middle-income families.

Social housing associations are independent not-for-profit organizations run by professionals and governed by a voluntary supervisory board. There are almost 350 SHAs, which vary widely in scale and their degree of professionalism. All SHAs are required to register with the government and comply with strict regulations governing the closely monitored market. Public pressure has led to recent legislation limiting the associations to activities that directly serve only those in the lowest income categories.

Social housing organizations have traditionally enjoyed large financial reserves and profitability but the operating environment has evolved significantly over the last decade amid changing tax legislation and tighter regulations.

In response, organizations have pursued improvements in cost and operational efficiencies, service delivery and management practices, prompting many of them to engage KPMG for guidance and services that will enhance their sustainability and success. Beyond the associations, the housing sector's supervisory body has also turned to KPMG for help in responding to legislative changes.

KPMG's solution

KPMG teams of SHA professionals are dedicated to helping the housing organizations devise and adopt critical new strategies for success. KPMG

experts are delivering invaluable input and significant results in an array of areas within the Dutch housing sector, including:

- mergers and acquisitions;
- strategy;
- human resources;
- process optimization;
- IT strategy and implementation;
- management information and control;
- asset management;
- purchasing;
- integrity and forensic research;
- project management of large transformations.

The successful outcome

KPMG's social housing team has been instrumental in helping participants in this market achieve and sustain new levels of success over the last 10 years. KPMG provides its diverse services to more than half of the country's top 100 SHAs, representing 65 percent of the total Dutch market. The housing sector's supervisory body has also taken advantage of the KPMG team's ongoing market monitoring and research to gain timely insights and guidance.

KPMG today is widely recognized — among Dutch housing associations, their supervisory body, the Dutch Association of Housing Organizations (AEDES), local tenant groups and Dutch municipalities — as market leading in advisory services, a key player in audit expertise and the thought leader on trends and issues affecting social housing.



Global real estate firm required assistance managing third-party property managers

Performance assessments improved collaboration with property managers

The client challenge

A large global firm managing investments in real estate relies on third-party property management companies to support its asset management strategies.

The firm's asset management experience and partner relationships are considered crucial both to its performance and the enhancement of value for investments under management. Efficient property management is also critical to success in meeting capital appreciation forecasts and income targets.

Partnerships with third-party property managers provide the firm with significant advantages by delivering both reliable property management fundamentals and important local market intelligence. As part of its ongoing fiduciary responsibilities and governance process, the company needed to assess the performance of its property management function for real estate assets under management.

KPMG's solution

The firm turned to the KPMG Real Estate practice for help in conducting a performance assessment that would focus on the effectiveness of specific property management processes and controls across the client's portfolio of real estate assets.

The assessment included significant input from the client's accounting and asset management teams. They conducted focused management roundtables and a collaborative online workshop to identify significant financial, operational and compliance risk indicators that property managers were facing in the current business

environment. The client's management team then approved a survey designed with KPMG's guidance to assess the significance of risk factors identified by the workshop participants and the effectiveness of risk mitigation work by property managers.

The successful outcome

KPMG's real estate experts collaborated closely with the client's management team to successfully evaluate the survey results, perform various validation procedures and identify potential action plans for property managers. The action plans included procedures to define the cause and appropriate response for any process improvement opportunities identified.

The survey data, combined with the input of asset management and accounting personnel, have allowed the KPMG team to conduct additional procedures during on-site visits. In addition to the enhanced on-site process, ongoing communication between the property managers, KPMG and the client's asset management and accounting teams ensures that action plans are being implemented successfully and high-value collaboration takes place.

With KPMG's guidance, the client was successful in strengthening collaboration with its key partners and making improvements based on the assessment of its property management function.



Global manufacturer wanted to integrate and improve end-to-end property processes

Forged new efficiencies and unified operations

The client's challenge

A global manufacturer asked KPMG for help launching a broad initiative to integrate and improve its real estate operations. The client faced significant challenges owing to the wide deviation of end-to-end processes among its international sites. Beyond the critical need to harmonize and integrate its properties, the company's real estate operations needed to:

- appoint people to oversee end-to-end processes in each region;
- define all business and supporting end-to-end processes;
- define key information elements in an information model for performance and process management;
- select and implement IT solutions that support in an optimal way the real estate and supporting processes and the information model.

KPMG's solution

The KPMG team of experts partnered with the company's internal project team to provide support, insights and guidance.

KPMG assisted the client first to identify the various real estate processes being used around the world and then to plan and draft new real estate processes that all regions had agreed upon.

All processes were documented in a shared process documentation tool, to bring users and departments into a uniform and more standardized environment.

The creation of a new information and processes model needed to include standardized and clearly defined key performance indicators (KPIs) and a

uniform data model. Finally, a new governance structure was required, with process leaders, process owners and subject matter experts appointed to represent each global site.

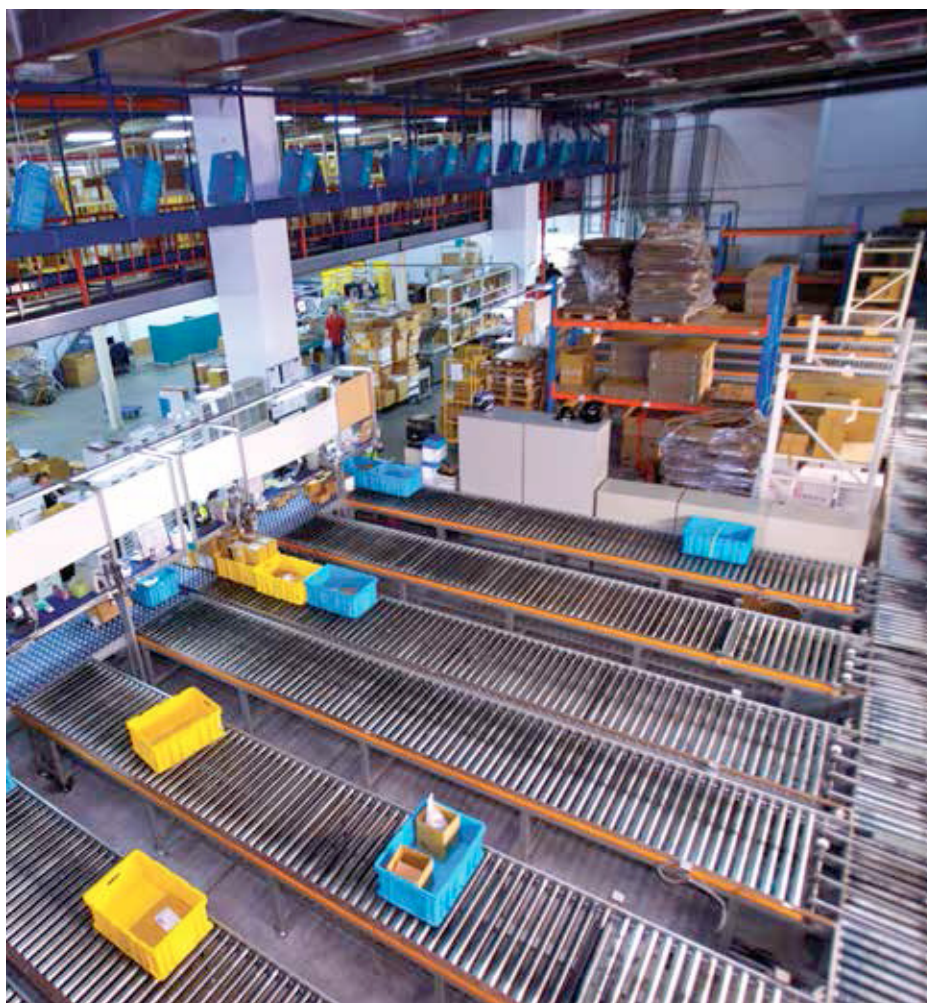
The successful outcome

KPMG's experts collaborated successfully with the client's internal project team to meet every objective.

An implementation roadmap, implementation roles and program structure were established and

new end-to-end processes were documented and centralized using project documentation tooling with cloud technology as planned.

A new harmonized information model featuring uniform, clearly defined KPIs was created along with a functional design for IT processes, while a new global governance structure to oversee and sustain new processes and their uniformity was established across all regions.



Large Asian developer needed to improve processes

Drove significant cost savings and improved operations

The client's challenge

One of India's largest real estate developers faced significant challenges brought on by rapid growth and a stunning increase in the number of projects it was managing.

The company, operating nationally in 24 cities, was executing construction projects totaling 44 million square feet and in the planning stages for projects totaling nearly 288 million square feet.

The job numbers represented an explosive increase but unfortunate by-products of this success included potential delays in completing projects, customer service and management issues that threatened delivery of units, and weak controls over key operational processes.

The client needed to quickly improve its project and customer relationship management and strengthen process controls. Key objectives included:

- the ability to monitor all projects and immediately identify and alleviate issues that could impair project delivery;
- establishment of a customer relationship management department for delivery of property units, plus documenting and maintaining the entire process while supporting the client-facing team as needed;
- evaluating and testing the effectiveness and efficiency of all controls being activated, to mitigate risk and sustain success.

KPMG's solution

The KPMG team of experts played a key role in helping the client establish and activate an innovative new Project Monitoring Office (PMO) to oversee the following key activities and processes:

- coordinating projects and monitoring progress;
- cash flow planning of the entire project portfolio;
- reporting on financial progress;
- customer relationship management and project delivery support.

To strengthen process controls, KPMG provided the following internal audit services to assess effectiveness, efficiency and compliance in key areas, while identifying gaps or missing elements:

- review of sales and marketing for accuracy of customer bookings, requirements and collections;
- review of transaction controls and vendor payments;
- assessment of on-site environment, health and safety compliance, and review of administrative records and contracts for regulatory compliance;
- review of management information system and enterprise resource planning controls.

The successful outcome

The client met its objectives by vastly improving operations and efficiencies among the many ongoing projects in the Delhi national capital region, including:

- identifying and resolving bottlenecks that placed project delivery at risk, while streamlining the overall reporting framework to deliver real-time status updates and faster solutions as issues arise;
- driving significant cost savings via contractor claims analysis and cost benefit analysis of new initiatives such as building information modeling (BIM) implementation;
- streamlining customer relationship management processes and delivery of units, as well as maximizing customer receipts and prioritizing construction based on sales analysis;
- faster cycle times for vendor payments across all processes, plus more efficient sales management processes, including faster collection of accounts receivable;
- more accurate contract administration and change management;
- more robust project and process controls.

Major real estate developer had operational issues

Streamlined workflow and improved cost efficiencies across diverse projects

The client's challenge

A major real estate developer operating in more than 21 cities in India had construction projects totaling 26 million square feet underway and another 52 million square feet in the planning stages. The projects were widely varied, from residential and commercial buildings, hotels and retail facilities to technology parks, amusement parks and special economic zones designed to encourage investment.

The developer began encountering a range of operational issues that disrupted construction workflow and impaired processes involving its completed facilities, corporate operations and support functions.

Seeking solutions, the client turned to the KPMG Real Estate practice for assistance in several areas, including:

- a review of key corporate and project management processes to identify areas for improvement or better monitoring and control;
- designing and implementing a plan to streamline operations and improve cost efficiencies by standardizing workflows across multiple facilities and construction sites across India;
- benchmarking key processes against leading industry practices.

KPMG's solution

The KPMG team designed and delivered a comprehensive program to closely review construction projects, facility management and corporate processes.

Properties under construction were evaluated for cost and quality

management, contractor invoicing, environmental health and safety compliance, contract management and gate controls. KPMG experts also took on the design and implementation of processes to optimize project management, including:

- materials management;
- procurement;
- project planning, execution and monitoring;
- contract management.

A review of the firm's facility management identified critical issues pertaining to facilities management (procurement, customer billing, safety, etc.) and provided recommendations to address them. Further, the KPMG team developed new training manuals and conducted on-site training. KPMG also developed robust controls and a checklist for certifying third-party billings.

The review of corporate operations prompted new processes, introduced with KPMG's support, to improve key activities such as sales and marketing, procurement, human resources, inventory management and corporate fixed deposits.

The successful outcome

The KPMG team played a significant role in solving the client's issues and putting it back on track for solid growth and success. The client reported:

- significantly improved management of existing facilities and construction sites;
- new cost and time efficiencies across the organization thanks

to standardized processes that improved workflow speed and accuracy;

- clearly defined employee roles and staffing needs;
- improved cash flow and reduced procurement cycle times.



Risk and compliance

Advise on risk management, internal controls, regulatory and compliance management, governance and reporting

European real estate fund manager faced significant regulatory changes

With advice provided, obtained AIFMD license

The client's challenge

The Alternative Investment Fund Managers Directive (AIFMD) is a European financial directive that essentially sets out rules for the authorization, operation and transparency of fund managers operating and/or marketing alternative investment funds in the European Union (EU).

The directive significantly changes the regulatory framework for a wide spectrum of funds, including hedge funds, private equity funds, real estate funds and infrastructure funds. The new rules not only affect managers of alternative investment funds but signal major changes for their depositaries, administrators and valuation providers.

EU member states were required to write the AIFMD into national law by July 2013. The directive's primary focus is to regulate fund managers as opposed to funds, which is the EU approach in the field of retail Undertakings for Collective Investment in Transferable Securities (UCITS).

KPMG's team of experts took on the role of supporting Netherlands-based real estate fund managers in addressing and responding to several areas affected by the directive.

KPMG's solution

With a clear understanding of the directive and its significant implications for the client and industry, the KPMG Real Estate practice took action on the following initiatives:

- designing and leading the AIFMD license-application program;
- identifying AIFMD regulatory requirements specifically for real

estate fund managers and the need to draft and implement policies related to risk management, valuation, delegation, remuneration, conflicts of interest and reporting;

- supporting the required writing and adjusting of the client's policy documentation;
- training the organization's employees to raise awareness and understanding of the directive's scope and impact;
- supporting the client with their license application and process management with supervisory authorities.

The successful outcome

With KPMG's insights and support throughout the complex compliance and application process, the client obtained its AIFMD license. KPMG ultimately provided similar support on license acquisition to more than 10 Dutch fund managers.

Each client organization gained a precise understanding of the directive's implications as well as the processes and policies designed and implemented with KPMG to comply with the comprehensive and ongoing requirements. In addition, the KPMG team provided training and workshops on the subject to several clients.



Major property developer required risk management framework

‘Risk universe’ delivered holistic view of potential issues

The client’s challenge

The Hong Kong Stock Exchange in 2014 issued a revised corporate governance code and requirements for listed companies. The new rules are effective in 2016 and require:

- company boards to determine and evaluate their tolerable risk level in pursuing business objectives;
- management to design, implement and monitor risk management and internal control systems and provide confirmation to the board on their effectiveness;
- establishment of internal audit functions to provide an independent appraisal of risk management and internal control systems.

To address the revised code and requirements, the construction and property management firm sought our expertise to identify principal risks and uncertainties and develop a complete framework for risk management.

KPMG’s solution

KPMG’s team proved particularly well-suited for the project, thanks to a strong relationship with the client’s management team, understanding of their business and strong capabilities in risk management.

To develop a precise framework, KPMG conducted interviews and workshops with senior management. KPMG also applied its enterprise risk management program principles and established a structured approach that included:

- a governance structure containing clearly defined roles and

responsibilities to manage risk and oversee management activities;

- standardized criteria to assess risk and risk levels that the business deemed tolerable;
- a ‘risk universe’ to illustrate potential risks. To gain a holistic view, the focus transcended core operational risks to identify emerging external risks and risks posed by business strategy changes;
- prioritizing of primary risks plus clear action plans and ownership for mitigation. Each risk was supported by metrics designed to provide early warning indicators on risk escalation.

The successful outcome

Beyond delivering a solid risk management framework, the exercise fostered consensus and alignment among management on the organization’s priorities. The ‘risk universe’ raised awareness on wider risks to the business, while the detailed risk documentation clarified key roles and accountabilities on managing and mitigating risk.

KPMG is now helping the client implement the risk framework across the organization. This will provide an effective new system for escalating risk issues to senior management while delivering an enterprise-wide view of the risk profile.



Real estate portfolio management

Advise on real estate strategy, value-based portfolio management, portfolio valuation, optimization of space management and property costs and transaction preparation (sale and lease back)

International energy and utilities company wanted to reduce costs and generate liquidity success

Reorganized real estate operations and holdings for future success

The client's challenge

A leading international energy and utilities corporation based in Germany faced significant challenges amid its exit from nuclear and fossil-fuel energy production and its need to streamline operations, reduce costs and find new financing.

Several of the company's corporate divisions were managed through a single holding structure and each division included a real estate organization operating closely with each respective core business. The total real estate portfolio was worth more than US\$1.3 billion.

Management pursued an initiative to determine how its real estate operations and property portfolio could deliver significant opportunities to reduce operational costs and generate liquidity.

KPMG's solution

The client asked KPMG's Real Estate practice to analyze its corporate real estate management (CREM) functions, focusing on organizational and operational structures as well as on the group's portfolio of non-operating properties.

All typical real estate-related processes — such as management of budgets, property acquisitions, rental contracts, construction, facilities and service providers — were examined for pooling and outsourcing potential as well as for internal cost-cutting opportunities. A particular focus was placed on exploring new efficiencies in how office space was used and how the accounts payable process operated, as well as potential advantages in pursuing sale-and-lease-back transactions.

At the portfolio level, about 150 non-operational and interchangeable properties were identified and a database of relevant portfolio data was compiled to determine a valuation of these properties. The properties were clustered according to investor profiles and the potential for transaction strategies such as sale-and-lease-back deals was explored.

In addition, a sub-portfolio of about 25 owner-occupied and leased properties involving office use was analyzed for potential improvements to space utilization. For the first time, factors influencing the usage of office space — such as personnel development, the impact of cost-cutting measures, lease expiries, sell options and working standards — were examined and compiled, resulting in significant space being deemed reserve or surplus.

An analysis of operating expenses was also conducted through internal and

external benchmarking, resulting in additional cost savings being identified.

The successful outcome

The KPMG team produced a revealing report that focused on the organization's overall development potential as well as the sale of a sub-portfolio. The advantages of a portfolio sale were comprehensively analyzed and the client successfully carried out a large transaction initiative that included the sale of its headquarters building. A reduction of up to 20 percent in staffing and related payroll costs was identified within the real estate unit thanks to the transaction. KPMG's insights also provided significant findings on streamlining operations and lowering costs in the portfolio, including reduced office space usage of up to 45 percent in some locations and potential cost savings of 15 percent.



German pension association seeks optimization of its real estate portfolio

Provision of an integrated approach to valuation, portfolio management and strategy

The client's challenge

A German pension fund wanted to optimize its real estate portfolio in order to better reflect its investment strategy. The pension association's portfolio consists of diverse properties throughout Germany, mainly, however, comprising commercial, some of which are owner-occupied, and residential properties.

It became evident that the alignment of the portfolio and strategy was a complicated task, which required an oversight of all assets in the portfolio, their value and specialized knowledge of the national real estate market. KPMG's Real Estate practice was asked to provide assistance in a multitude of matters and accompany the process of employing an integrated approach to valuation, portfolio management and strategy.

The client needed to install an overarching strategic framework and processes in order to implement an integrated and holistic approach to the optimization of its real estate portfolio. Key objectives included:

- the ability to adequately record and categorize its assets in a single database;
- tracking and benchmarking of the performance and changes in value of the held assets;
- methodology to evaluate and set out a sound and reliable investment and divestment strategy.

KPMG's strategy

KPMG's experts recognized the need for a multi-pronged procedure in order to move the client toward its desired goal.

The KPMG team undertook a comprehensive review and reorganization of the recording procedure and management of the database, compiling and categorizing the assets according to key locations as well as economic indicators. Moreover, exhaustive research on all relevant markets, in terms of regional factors and asset classes, was conducted and organized to allow for easy benchmarking. On the basis of these newly collated databases, initial or consecutive valuations of the real estate assets were carried out in accordance with national standards. Any changes or developments to the values were analyzed and their provenance pinpointed to ensure a better understanding of the driving forces behind them. In addition, indicative valuations of potential investment opportunities were performed, thus permitting a preliminary assessment and classification.

The information and understanding gained through the conducted research and valuations also improves the derivation of future investment and divestment strategies and their alignment with the real estate portfolio.

The KPMG team also designed and staged comprehensive workshops to educate staff on new processes and then assisted in their implementation.

The successful outcome

With the KPMG Real Estate practice's insights and support throughout the process and its implementation, the client was able to successfully:

- gain an understanding of the value on both an individual asset as well as at portfolio level;
- determine any hidden reserves and liabilities in regard to the year-end financial statement;
- derive a portfolio management strategy on the basis of the research and valuations;
- develop sound recommendations for investment decisions to the board.

Concluding remarks

KPMG's real estate experts are providing informed perspectives and knowledgeable consulting services to clients in every facet of the real estate sector, from organizations whose core focus is real estate, to firms and government agencies managing extensive real estate portfolios. The projects of member firms' clients are continually changing and growing in complexity. The clients are ensuring their success by relying on our professionals for guidance in optimizing operations, addressing regulatory requirements, innovation on sustainability needs and the use of data and analytics.

As noted in the introduction, we have not covered our audit, tax and transaction related advisory services that we are providing to clients around the world. Of course, you are invited to request from us information regarding these services, as well.

KPMG's Global Real Estate practice consists of over 300 partners and 4,200 professionals around the world, servicing the real estate investment, real estate development, real estate financing and investment management industries, in both the private and public sectors.

Our hope is that the success stories featured in this brochure reveal the intelligence, passion and pride our real estate advisory teams bring to every project that they undertake to help provide sustained growth and success.

We look forward to further discussion with you on how our experience and the case studies presented here can help benefit your strategy and growth ambitions.



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