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CBRE releases special report, "Corporate Real Estate Management Outsourcing:  
Leveraging Property Management to Enhance Business Performance"

### **Real estate outsourcing – the key to enhance corporate value**

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CBRE today released "Corporate Real Estate Management Outsourcing: Leveraging Property Management to Enhance Business Performance", a special report examining the status, challenges, and benefits of corporate real estate outsourcing in Japan.

## **THE JAPANESE WORK ENVIRONMENT AND OUTSOURCING**

### **The increasing popularity of outsourcing**

Although outsourcing is practiced in Japan, there are still some fields where it is relatively uncommon, one being Corporate Real Estate (CRE) management. CRE management aims to enhance companies' enterprise value by managing its owned/rented real estate. This management requires a wide range of specialist knowledge and know-how, including on topics such as construction and equipment, environment, leases, finance, accounting, and taxation. For this reason, there are many advantages to outsourcing CRE management. However, in Japan, it is more common for companies to independently manage real estate and this unfortunately can lead to inefficiencies.

### **Japan's shrinking labor force and low labor productivity**

Japan is about to enter an unprecedented period - its population is both shrinking and aging at the same time. According to Japan's National Institute of Population and Social Security Research, the country's total population in 2065 is estimated to be 88 million, around 39 million lower than in 2015. Furthermore, the working age population (age 15 to 64) is forecast to fall to 45 million, around 32 million (42%) lower than in 2015. In terms of the share of the total population, it will decrease from 60.8% to 51.4%.

Meanwhile, Japan's labor productivity has been stuck at or below the median international level. Japan's per capita labor productivity ranks 21<sup>st</sup> among OECD member countries and Japan's GDP has been consistently one of the lowest among the G7 countries over the last 20 years.

Under these conditions, it is becoming increasingly important for companies to make efficient use of management resources. Outsourcing, which encourages companies to be more selective and focused, is likely to be an effective means of doing so.

### **Specialized outsourcing increasing**

While outsourcing takes many forms, Business Process Outsourcing (BPO) can be used for a particularly wide range of tasks and is becoming increasingly common. BPO involves outsourcing the whole process of non-core functions from planning to implementation and control. The objective is to improve management efficiency by streamlining a series of operating processes. The outsourcing of CRE management, which involves the development of and investment in real estate, leasing and property management, falls within the scope of BPO.

### **Outsourcing survey results**

CBRE carried out a questionnaire on the use of BPO, mainly among Japanese companies, to investigate trends in the penetration of BPO and the functions for which it is used. 15% of companies replied that they had been using BPO for five years or more. The percentage of those replying that they had recently started or were planning to start using BPO in the future amounted to just 16%, suggesting there has not been much uptake in recent years.

The main functions for which companies were using or planning to use BPO were IT, HR, in-house services, and employee benefits, all of which accounted for over half of the total. CRE-related functions, such as facilities management, workplace supervision and asset utilization, accounted for just 16%, indicating that BPO still only plays a minor role in CRE-related functions.

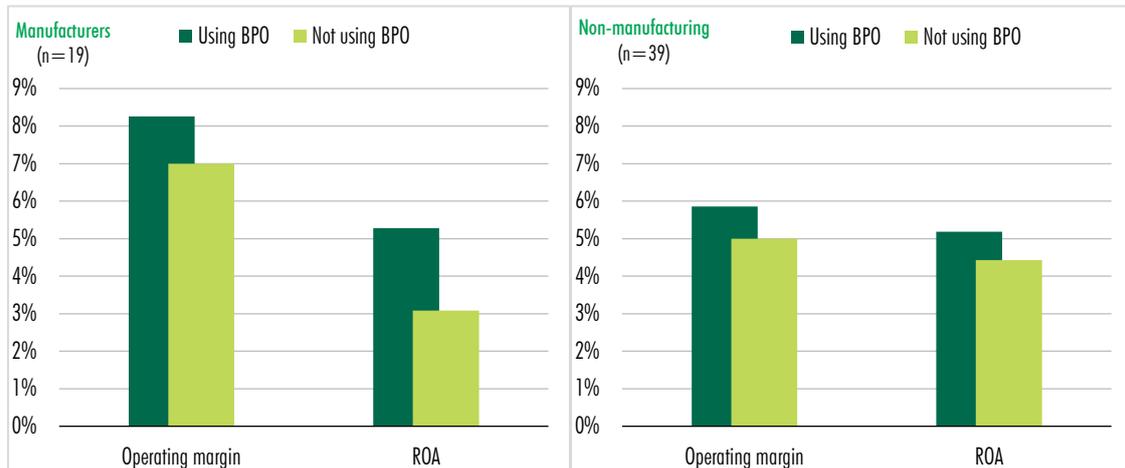
### **Comparison of management indicators between companies using and not using BPO**

The fact that BPO helps to improve companies' profitability and productivity can be shown quantitatively. To this end, CBRE divided the listed companies that responded to the questionnaire into those that were using BPO and those that were not and compared them against three indicators: operating profit margin, return on assets (ROA), and labor productivity.

The comparison showed that companies using BPO outperformed those not using it on all three indicators (Figure 1 and 2). ROA for companies using BPO was over 5% in both manufacturing and non-manufacturing sectors. In addition, manufacturing companies using BPO achieved an ROA of 5.28%, 2.2 percentage points higher than companies not using BPO. In terms of labor productivity, manufacturing companies that use BPO had a labor productivity level 18 points higher, and non-manufacturing companies 38 points higher than those that do not. Because non-manufacturing companies depend more on human

productivity than manufacturing companies, the use of BPO boosts productivity to a greater degree.

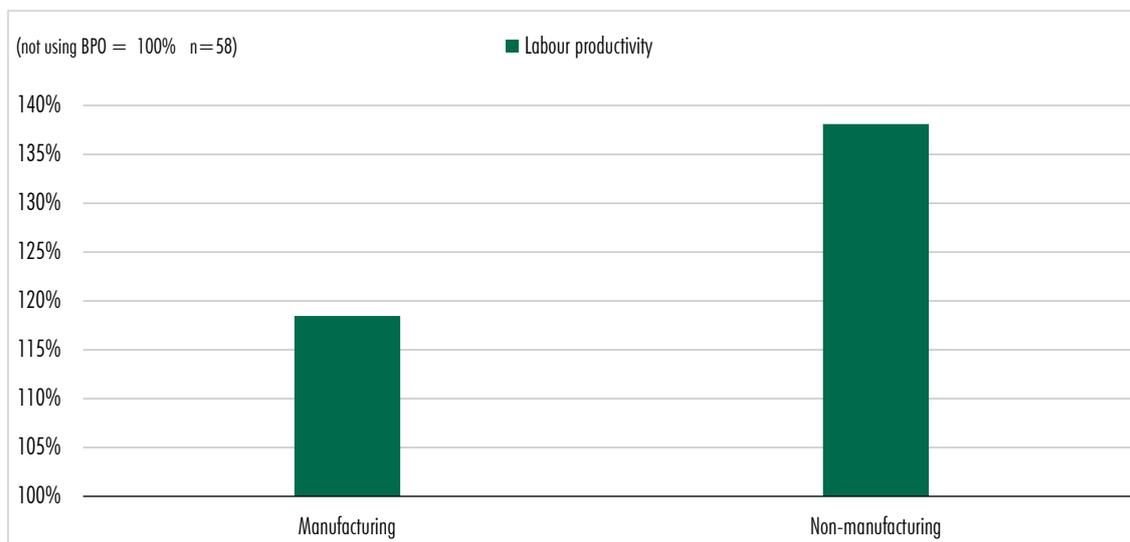
Figure 1: Comparison of operating profit margin and ROA between companies using, and not using, BPO (2017 results)



Source: THOMSON REUTERS; CBRE, May 2019

\*Produced from companies' annual reports; operating profit margin (%) = operating profit / sales; ROA (%) = net profit / (average of total assets at start and end of financial year); all comparisons based on median values

Figure 2: Comparison of labour productivity between companies using, and not using, BPO (2017 results)



Source: CBRE, May 2019

\*Produced from companies' annual reports; labour productivity = gross profit / {(headcount at previous year end + head count at current year end)/2} (calculated using gross profit for the sake of convenience); comparisons based on median values, using 100% for companies not using BPO

## FEATURES OF BPO IN CRE MANAGEMENT

### **Broad range of expertise required for real estate management**

Real estate can be a source of significant business opportunities and earnings, depending on how it is managed. However, managing it requires not only considerable time and effort, but also a broad range of expertise and know-how. Consequently, dealing with CRE management entirely in-house not only absorbs time and cost in training staff and acquiring this knowledge, but also, entails significant practical difficulties. Partnering with an outsourcer that is well-versed in all CRE-related functions can provide companies with instant access to a wide range of expertise, know-how, and resources. In fact, CRE management offers more opportunities to use BPO than other areas of business activity.

CBRE Research Associate Yuji Iwama commented: "The decline in the working age population resulting from the low birth rate and the aging of society, along with the introduction of the Act on Changing Working Patterns, is forcing Japanese companies to increase the quality of labor. Outsourcing is likely to be one effective strategy for them to do so. Real estate outsourcing is particularly effective at improving companies' profitability and productivity, and demand for such services is expected to increase in the future."

For further details, please download "Corporate Real Estate Management Outsourcing: Leveraging Property Management to Enhance Business Performance" from the link below.  
<https://www.cbre.co.jp/en/research-reports/japan-research-archives>

### **About CBRE Group, Inc.**

CBRE Group, Inc. (NYSE:CBRE), a Fortune 500 and S&P 500 company headquartered in Los Angeles, is the world's largest commercial real estate services and investment firm (based on 2018 revenue). The company has more than 90,000 employees (excluding affiliates) and serves real estate investors and occupiers through more than 480 offices (excluding affiliates) worldwide. CBRE offers a broad range of integrated services, including facilities, transaction and project management; property management; investment management; appraisal and valuation; property leasing; strategic consulting; property sales; mortgage services and development services. Please visit our website at [www.cbre.com](http://www.cbre.com).

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