



Inflexion Point: CBRE's Acquisition of JCI's GWS

WHAT DOES THIS MEAN FOR THE CORPORATE PROPERTY SERVICES MARKET? WHERE DO WE GO FROM HERE?

By Rakesh Kishan, Managing Principal, Trascent Management Consulting

The recent announcement of the acquisition of JCI's Global Workplace Solutions division by CBRE is a capstone event for last year's flow of capital into the Real Estate and Facilities Management (property services) industry. While there had been on-going supplier consolidation and organic growth for several years now, the acquisition of DTZ by the private equity firm TPG heralded a new, bolder set of moves by investors and strategic buyers for corporate and institutional property services businesses. We had also stated at our global Trascent Annual Conferences that we see an increasing premium being placed on technical Facilities Management suppliers due to ageing portfolios, heightened operating risk profiles, and greater integration of building technologies.

The DTZ acquisition was accompanied by acquisitions by several other suppliers, such as Bilfinger, ISS, Sodexo, and now CBRE has announced one of the largest acquisitions in the property services industry. The investment bets made in the property services sector are founded on the belief of a rising corporate/institutional outsourcing market and that corporations and institutions will increasingly rely on fewer, but more qualified suppliers that bring unprecedented geographic reach and service breadth for corporate real estate and facilities services. The flow of capital and more attractive valuations is also providing some suppliers with a window for monetizing their equity. Exor, the investment office of the Agnelli family recently retained advisors regarding the sale of Cushman & Wakefield, an Exor company.

What does this mean for clients? Well, this acquisition is important from a number of standpoints. On the one hand, it provides clients with the option of integrating a greater breadth of services with a single supplier and having a strong competitive option versus their incumbent suppliers. On the other hand, it also reduces competition as JCI was a major competitor to CBRE prior to the acquisition. It narrows the field of suppliers that can provide global or multi-regional solutions. Clients will now have to broaden the set of participants in their RFP strategy well beyond the usual suspects of JCI, CBRE, and JLL, to name a few. We suspect suppliers, such as Sodexo, ISS, Bilfinger and others will step into the open seat at the sourcing table left vacant by JCI's consolidation with CBRE. While clients will face reduced competitors, the JCI acquisition will also stir up competition in other ways. We believe suppliers will increasingly strive to differentiate themselves by creating more value and being more innovative. Alternative suppliers will step up and suppliers will start to sharpen their focus on a segment (manufacturing, verticals, or a region, etc.). The market may bifurcate between global, broad reach suppliers and smaller suppliers specializing on specific segments in order to out-compete the larger firms. A clear implication is that clients will need to evaluate their sourcing strategy, market assumptions, and next generation viewpoints, in light of global contract maturations on the horizon. So yes, competitors will be fewer, but competition will be more intense and service solutions and innovation will be more compelling in our view.

In the supplier market, this acquisition of CBRE will, to an extent, change the nature of the game. The CBRE acquisition creates asymmetry in the corporate property services marketplace. The legacy “managing agent”, “self-perform”, “real estate” and “technical capability” monikers that competitors used to differentiate themselves are now up-ended. The supplier industry will seek to redress asymmetry and will likely acquire and form alliances at an increased pace. They will seek new ways to differentiate themselves and win accounts. We expect a wave of vertical and/or lateral acquisitions to add scale as well as greater specialization. We will be watching JLL with interest as it has been a strong competitor to CBRE and JCI and has built a strong technical self-perform business across key regions of the world. We’ll see if ISS, Bilfinger, Sodexo, and others seek to acquire real estate capability through acquisitions (of firms like Cushman & Wakefield, etc.) or enhanced alliances with real estate firms. Given the level of private equity interest in this space, it’s unclear whether strategic or financial buyers will prevail.

The acquisition of JCI’s Global Workplace Solutions division by CBRE may well represent an inflexion point in the development of the corporate property services outsourcing market. Competition for a slice of the corporate and institutional property pie is going to significantly intensify in our view as a direct result of the JCI GWS acquisition. Heightened competition will mean greater supplier differentiation and service innovation. We expect a second wave of market consolidation as the supplier market will seek to address the asymmetry created by the CBRE acquisition. We believe now is the time for clients to re-assess legacy perceptions of the corporate property services market and sourcing strategies and define next generation Real Estate and Facilities Management strategies.

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Mr. Kishan has served as a guest speaker at industry events such as the CoreNet Global Summit, ISPE and IFMA conferences. He has been featured as a keynote speaker at BIFM and his expert insights frequently appear in distinct media outlets across the globe. He has also contributed thought leadership perspectives and articles for top tier and industry trade publications. Mr. Kishan holds a BS in Economics from the University of Wisconsin and an MBA from Columbia University.

ABOUT TRASCENT

Trascent, a premier global management consulting firm, drives measurable performance improvements and generates quantifiable results in Real Estate and Facilities Management (RE/FM). The firm’s clients span biopharmaceuticals, consumer packaged goods, diversified industrials, financial services, high technology, media, oil and gas and other sectors. Trascent’s top-rated industry conferences have been attended by senior RE/FM and business leaders from more than 100 companies in the United States, Europe and Asia. For more information, visit www.trascent.com.