

CASE STUDY

AON Corporation



SERVICES

Global Portfolio Optimization
and Transaction Management
Services

THE CHALLENGE

Following a period of multiple acquisitions, Aon's real estate portfolio consisted of over 50 locations totaling approximately 3 million square feet in New York, and Chicago alone. The portfolio in these markets was characterized by high costs, significant space surplus in some locations and space shortages in others. Business unit financial motivations resulted in resistance to collocation even when resulting total occupancy costs could be lowered to benefit the corporation overall.

On a global basis, Aon was faced with a decentralized corporate real estate function with multiple areas of the globe maintaining high vacancy & inefficient space utilization.

THE SOLUTION

In early 2003, Aon retained CBRE Consulting to develop Portfolio Plans ('City Strategies') for both cities to identify and achieve significant cost savings. Results of the three month effort included significant reduction of surplus space as a result of collocation of business units in fewer facilities. For example, seven locations on CBRE's recommended strategy reduced the total number of locations from 55 to 21 reducing the required space and corresponding occupancy costs by approximately 15 percent.

Not only were real estate costs lowered, human resource and information technology costs were also reduced. Furthermore, CBRE recommended institution of construction and furnishings standards that transcend brands to increase flexibility and further reduce costs through improved purchasing programs.

In October, 2004, CBRE was retained to provide portfolio optimization and tenant management services for the eastern U.S. Our efforts have produced size and cost reductions and cost avoidance savings valued in excess of \$135 million which represents approximately 10 percent of total occupancy costs.

Based on the success of previous efforts, CBRE Consulting was retained in late 2006 to prepare a global portfolio optimization plan. CBRE assisted Aon in the collection of portfolio information for over 300 locations in 91 countries that totaled 5.9 million square feet. By leveraging our consulting capabilities in the US, London, Hong Kong, and Sydney, CBRE compiled relevant information in just over six weeks. Each Aon property was evaluated with regard to workstation vacancy, space efficiency and rental rate arbitrage to uncover consolidation and cost savings opportunities to produce an estimated \$220 million in possible savings. To make this possible a coordination of global resources was required; space utilization metrics (square foot per seat & square foot per person) and current alternative officing trends were collected in each international region to identify varying space efficiencies worldwide.

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Concurrently, market rates for multiple cities in over 25 countries were collected to determine rental arbitrage opportunities. Consulting resources in the United States provided overall project coordination/management and were able to tap into CBRE's extensive client list to provide benchmarking information to assist Aon in creating a globally centralized corporate real estate platform.

In every situation, CBRE undertook extensive financial analysis to estimate cost reduction and cost avoidance as well as to compare alternatives on a cash flow total cost and NPV basis. Cost savings opportunities were then placed in tiered categories based on lease expiration date & overall size enabling Aon CRE to examine the cost savings opportunities with near-term lease expirations allowing the achievement of cost savings without the outlay of major capital to exit leases or reconfigure space.