EXECUTIVE INSIGHTS

Adapting Facilities Management to a Post-COVID-19 World

It's been interesting times for commercial properties these past few years. Shutdowns early in the COVID-19 pandemic were soon followed by a surge in sales. Then, as interest rates rose, demand for commercial real estate began to drop off.

While that industry's tumult was capturing the headlines, however, an adjacent one kept calm and carried on. Facilities services, the business of handling building upkeep, is a strikingly resilient corner of the economy. The pandemic's outbreak emptied buildings, but commercial property owners and managers still needed to maintain them. Public health measures limited occupancy, but cleaning and sanitation became more important than ever.

In this *Executive Insights*, we examine the key priorities for facilities management in a post-COVID-19 world, and we discuss the importance of determining the right operating strategy for building scale within this dynamic market.

The building outsourcing opportunity

Facilities services includes a host of activities and service providers that help manage the construction, operation and maintenance of commercial facilities. (It doesn't include major renovations or the installation of materials in new construction projects.) Services span the full asset life cycle, from commercial development to maintenance services, building operations and management. By 2019, this set of disparate markets added up to a $600 billion industry. Roughly half is in maintenance and repair, with another 35%-40% in operations management (see Figure 1).

It takes specialized labor and equipment to keep a building safe, comfortable and running efficiently. For that reason, companies ordinarily outsource facilities management, although

Figure 1
The landscape of facilities services

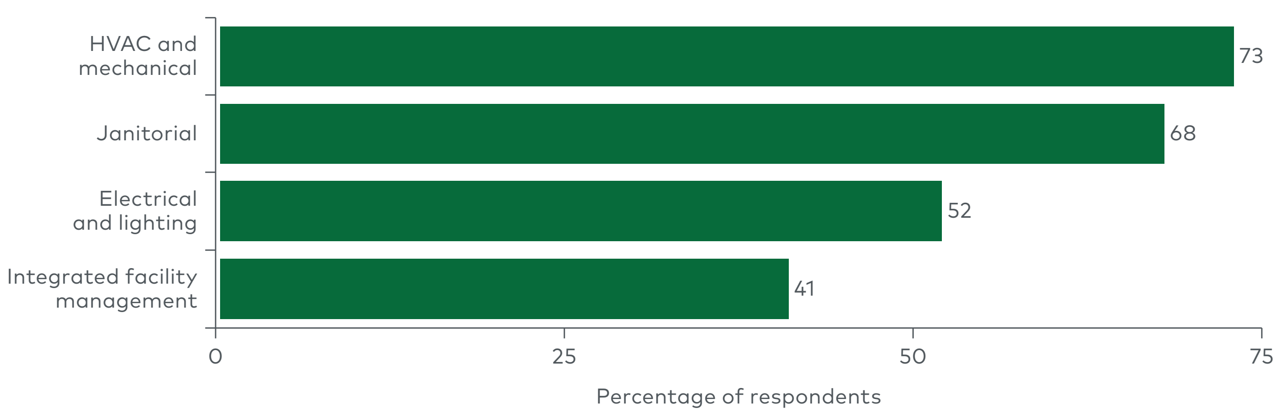
	Construction/development*	Maintenance and repair	Operations and management
Definition	Advisory services that are provided during the building's construction or changes in ownership	Services that focus on maintaining the integrity of the physical fabric of the building	Offerings that are meant to enhance the utilization of the building and occupants' experience
Select facilities services examples	• Architectural testing, inspection and certification • Civil engineering • Construction/project management • Real estate development • Property advisory • Brokerage services • Lease management services (e.g., payments, audits)	• Heating/air conditioning (HVAC) • Lighting/electric • Plumbing • Elevator maintenance • Low-voltage wiring and cabling • Repair of building fabric (e.g., flooring, siding) • Environmental restoration/ remediation	• Janitorial services • Energy/utility management • Catering and linens • Security services (access controls and guard services) • Parking services • Agile (co-working) office • A/V services • Landscaping and snow removal • Waste removal
Percentage of market	15%-20%	45%-50%	35%-40%

*Includes engineering and management services
Source: L.E.K. research and analysis

the rate of outsourcing can vary by service. In addition, about 75% of companies manage their outsourced services internally. These and other services with a relatively low rate of outsourcing have significant upside potential. And any company is likely receptive to outsourcing one or more of its remaining in-house services (see Figure 2).

U.S. commercial office occupancy rates plunged in the pandemic's wake and have inched up only haltingly since then, reaching 44% in June 2022, according to swipe-card data from

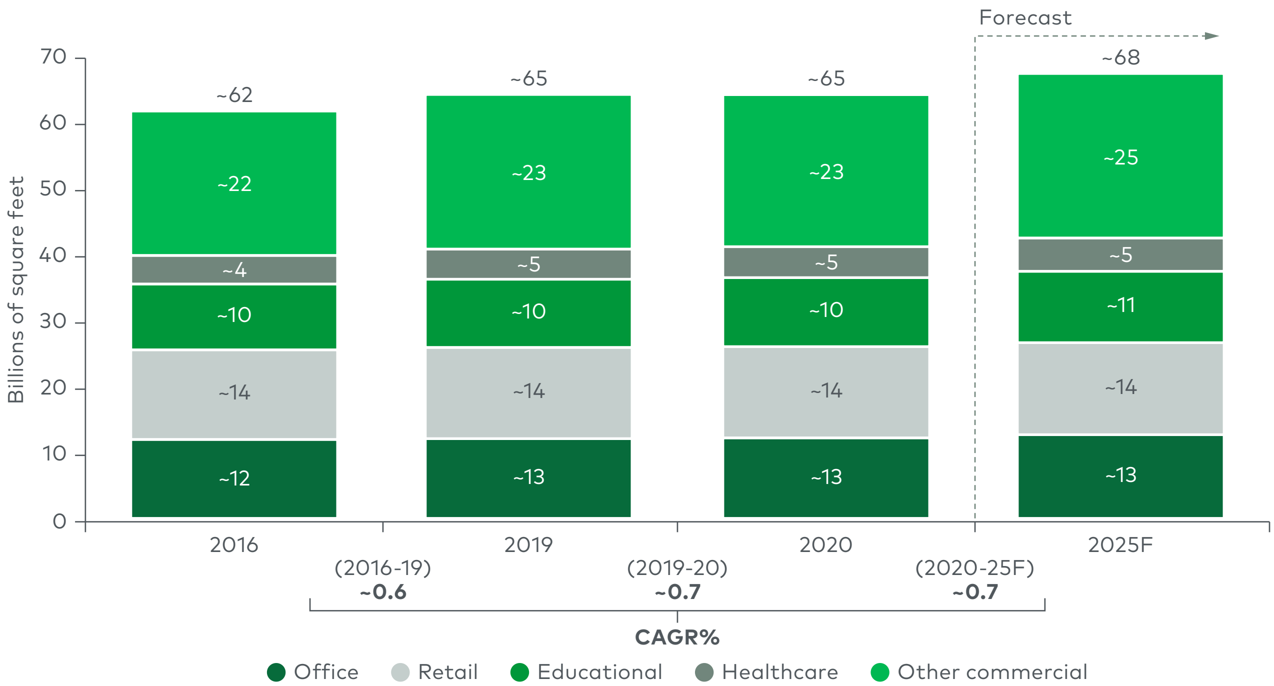
Figure 2
Services that companies would consider outsourcing in the future (2020)



Source: ABM Industries

security company Kastle Systems.[1] At the same time, the population is growing and shifting to the suburbs, bringing commercial activity along with it. As a result, despite the toll that remote and hybrid work are taking on occupancy levels, the overall square footage of commercial facilities will likely continue to expand through 2025 (see Figure 3).

Figure 3
Addressable US commercial facility base (2016, 2019, 2020, 2025F)*



*Excludes government service buildings
Source: Dodge; Kentley Insights; L.E.K. research, interviews and analysis

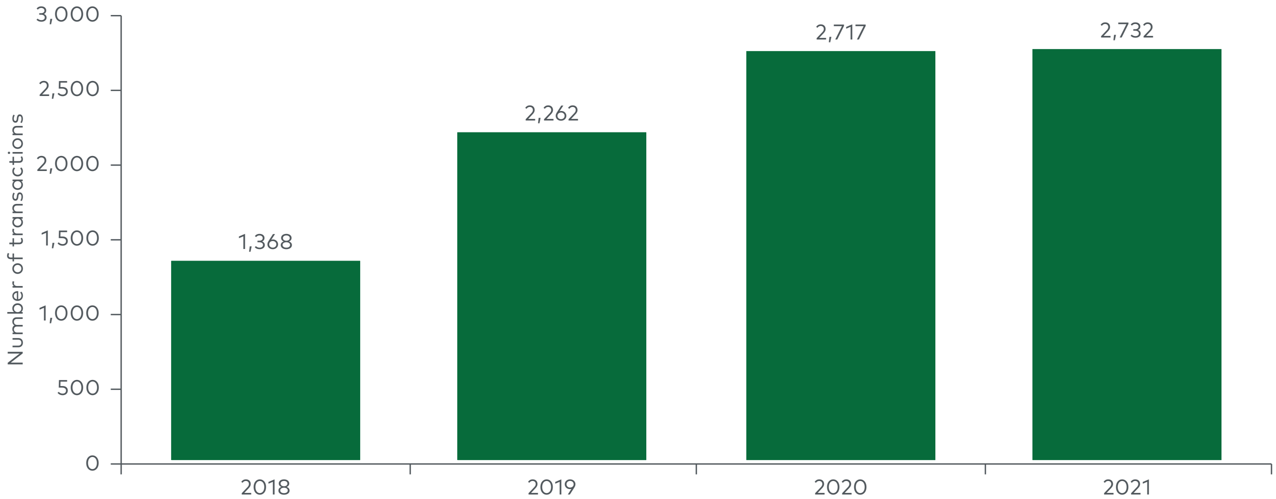
And even properties with reduced occupancy present opportunities to adapt to new service needs. Examples include:

- Responding to enhanced security requirements by providing advanced or cost-effective security services that existing providers and in-house resources may struggle to provide
- Identifying new or right-sized services for spaces that have been reconfigured to accommodate hybrid work
- Highlighting consistency, availability and capacity for in-house services affected by labor and staffing shortages
- Positioning services as supporting employee productivity and well-being
- Showing how services boost office attendance and support back-to-office and hybrid work environments

Scaling up for success

Although fragmented, the facilities services industry is starting to see consolidation in segments like environmental and facilities services (see Figure 4). Common acquisition goals include expanding geographic presence, gaining specific expertise and achieving synergistic benefits from scale.

Figure 4
Announced environmental and facility transactions



Source: S&P Capital IQ

The most successful acquisition models require significant scale, expert capabilities and a strong track record. National customers with numerous facilities of significant square footage (think 100,000-plus square feet) are more likely to favor a one-stop shop that can match their scale and diversity of needs. For instance, large facilities management companies are in a better position to meet demand for technology-driven energy efficiency, preventive maintenance and decision support (see sidebar). They also have the corporate infrastructure and capital to build an ecosystem of technology companies, commercial real estate managers and other partners that can influence customers and bring them added value.

To capture these benefits, though, scaled players need the right operating model. An effective operating model combines local specialized capabilities (developed internally or through a partnership) with shared expertise and an ability to serve larger customers. The question is whether to build scale within one service or within multiple services.

Sole-service providers of facilities services focus on providing one aspect of facilities management, such as HVAC or cleaning. They also tend to focus on one geographic region.

Facility systems are becoming more sophisticated

Customers are looking for facilities management partners that can provide advanced capabilities. Examples include:

Building information modeling (BIM) software. Enables companies to monitor vents, pipes and other parts of a building so they can flag them for repair

Building management solutions (BMS). Detect usage patterns and, based on that data, adjust HVAC, lighting, security and mechanical systems for maximum efficiency

Upgraded mechanical HVAC systems. Improve control and overall energy efficiency of heating, cooling, exhaust and individual mechanical system components (boilers, chillers, etc.)

Modernized lighting. Includes auto-dimming and motion-sensing lighting control

Analytics. Consists of tools from technology companies (e.g., IBM, Cloudfm) that help predict equipment breakdown and repair needs

Multiservice providers may offer different types of services or serve multiple regions. Which way to go may depend on the end market, because each one has a different mix of opportunities. Sole-service franchise models appear likelier to win with customers in healthcare, education and suburban offices, while multiservice models seem best suited to the industrial end market (see Figure 5).

Figure 5
Facilities management services opportunities by end market

ILLUSTRATIVE

End market	Decision-making level	Industry/space interactions	Geographic reach of locations	Frequency of use	Focus on hygienic standards	Breadth of services outsourced
Office	Centralized	Low	Varies	High	Medium	Medium
Healthcare	Centralized	High	Localized	High	High	Medium
Education	Centralized	Medium	Localized	High	High	Medium
Retail	Varies	High	Varies	Medium	Medium	Medium
Industrial	Centralized	Low	Varies	Medium	Low	Low

● Favorable to sole-service providers ● Neutral ● Favorable to multiservice providers

Source: L.E.K. interviews, research and analysis

A resilient industry with positive demand

Regardless of occupancy, commercial property owners and managers have an interest in preventive maintenance and prolonging the useful life of a building. Add the ongoing popularity of outsourcing and the growing number of commercial buildings to take care of, and the result is an attractive environment for ambitious players.

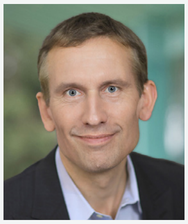
But facilities management companies still need a well-considered strategy to take advantage of these positive demand dynamics. Scaled players can win in the industry but must determine whether to take a sole-service or multiservice approach. And all facilities management providers must be mindful about adapting and positioning their services to meet customer needs as those continue to evolve in a post-COVID-19 world.

For more information, please contact industrials@lek.com.

Endnote

[1]"Getting America Back to Work," Kastle Systems

About the Authors



Paul Bromfield
Paul Bromfield is a Managing Director based in L.E.K. Consulting's New York office. Paul is a member of the firm's Industrials practice, with a specialized focus on the building and construction industry. With more than 20 years of experience, he has a strong record of helping companies accelerate growth and drive major change, including product and service innovation, multichannel strategy, digital acceleration, and diversification through M&A and new ventures.

Gavin McGrath
Gavin McGrath is a Managing Director based in L.E.K. Consulting's Boston office. Gavin focuses on the firm's Building & Construction sector, with particular expertise in building products, residential and commercial construction, and the built environment ecosystem. He also is a leader in L.E.K.'s Industrial Digital practice, focusing on digital products and business models, digital customer experience and ecommerce, and IIoT/Industry 4.0.

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