PRIVATE EQUITY PERFORMANCE IMPROVEMENT

Exploring Corporate Real Estate in M&A and Divestitures

Real estate is one of the largest controllable cost categories for most corporations – often ranking second only to labor, and comprising a significant portion of selling, general, and administrative expenses.

And it is uniquely exposed during transactions, restructurings, and divestitures. Depending on the industry and operating model, rent and indirect facilities costs can represent upward of 13% of revenue, making real estate a material driver of enterprise cost structure and value creation. Corporate Real Estate (CRE) is the enterprise function responsible for aligning an organization's physical footprint with its business strategy, operating model, and capital objectives – serving as a strategic integrator across finance, operations, human capital, and growth to support enterprise goals. Despite the substantial costs involved, the C-suite and integration or separation management offices often consider CRE too late in the acquisition or divestiture transaction lifecycle. This oversight can prove costly. When transactions involve a physical operational footprint, establishing early control of that footprint can have a considerable impact on deal value.

Transaction leadership teams can generate incremental value by involving CRE teams early and strategically throughout the deal lifecycle. This coordinated involvement underpins value creation that directly impacts the bottom line. For instance, companies that are spun-off (SpinCos) often face immediate pressure from activist investors to streamline operations and reduce costs, including rationalizing their real estate footprint immediately after separation. This pressure directly threatens enterprise value if not anticipated early, but when handled proactively, it becomes an opportunity for disciplined optimization that bolsters financial performance and shareholder returns.

This paper explores real estate's role and value during two distinct events: integrations through acquisitions and divestiture driven separations.

Real estate is one of the largest controllable expenses, rivaling advisory, HR, and IT transition spend. It is also a key lever for creating value.

Optimizing Real Estate During Integrations and Acquisitions

Integrations and divestitures are both significant undertakings, but they differ substantially in their respective goals, challenges, and guiding operational principles.

Acquisitions are undertaken to expand markets, acquire new capabilities, or capture economies of scale, while separations are designed to disentangle operations, create independence, and sharpen focus. In either transaction type, CRE should not be regarded as a passive cost but as a necessary functional discipline to ensure the appropriate steps are taken to separate or integrate the footprint and operating model.

Global real estate leaders are often responsible for the company's leased and owned office and commercial properties, with responsibilities outside the yellow lines for manufacturing sites. They often work with R&D teams and specialty asset groups, leveraging their expertise in the company's real estate and operations. Integrating these leaders into the deal team results in faster separations and integrations, increased value creation, improved speed to value, mitigated execution risk, on-time and on-budget construction management, happier and more productive employees, and decreased stranded, one-time, and run-rate costs.

1 The Value Killers

2 Lessons Learned, Best Practices and Frameworks for an M&A Implementation

When companies announce synergies related to their real estate footprint and underlying facilities network, many do not realize these benefits within the intended timeframe. This happens because of reactive planning, issues in execution, and unrealistic expectations that fail to link pre-deal rationale with post-deal execution with post-deal execution.[1] This friction stems from fragmented data and misaligned resourcing requirements between the integration management office (IMO) and functional teams like real estate who are both trying to deliver against multiple competing priorities.[2]

The immediate priority for the new, combined organization is to maintain business continuity. Companies must stabilize operations to ensure customer and stakeholder expectations are met. For real estate, this means:

- Ensuring critical sites can function from an occupancy and operational standpoint
- Maintaining access to utilities, systems, services and security during the transition
- Standardizing and updating branding across the global portfolio

In today's environment, business leaders are asked to achieve more by balancing competing priorities – stabilizing the new organization while simultaneously capitalizing on synergy realization. The same holds true for CRE leaders, who must pursue stabilization and rationalization in parallel to drive successful integrations. This dual focus demands urgency and close collaboration with the integration management office (IMO), alongside functions such as HR, IT, finance, and supply chain, to jointly stabilize the newly acquired business, qualify synergy targets, and align the necessary resources for optimal results.

Qualifying synergy targets requires data visibility down to the lowest level feasible, mining every lease clause, service contract, rent escalator, site utilization, temporary service agreement (TSA), and geographic cluster across the combined organization. Capturing this detail early by developing a singular "source of truth" establishes a reliable baseline for bottom-up synergy identification and the real estate rationalization roadmap. It should encompass all aspects of the acquired real estate – from costs and services to the underlying CRE operating model.
Successful integrations will pursue this level of detail across disparate sources when building the rationalization roadmap.

Using this foundation of data, the integration process should include a thorough evaluation of the acquired business's CRE operating model alongside the acquiring company's structure to design a fit-for-purpose organization capable of supporting the newly combined real estate footprint. Key functional pillars – such as portfolio management, lease administration, facility management, and transaction management – are often reliant on costly TSAs from the seller, which can include price markups and obfuscate operational dependencies, which hinder synergy realization.

To mitigate this, CRE leaders should immediately and rigorously assess all real estate and facilities-related TSAs, determining their explicit terms, exploring options for early termination and associated penalties, and identifying in-house capabilities that can replace these services swiftly. Proactive TSA exit planning not only accelerates operational independence but also unlocks value and shapes the future operating model for the combined portfolio sooner.

Complementing these efforts, corporations should assess CRE processes and technologies for automation opportunities, harnessing the analytic capabilities of existing AI platforms to manage data more effectively, streamline workflows, boost efficiency, minimize tactical tasks, and shift focus toward strategic value-add initiatives across the expanded portfolio. By prioritizing a unified operating model supported by modernized technology, the CRE function positions itself as a proactive driver of long-term value for the combined entity.

For most CRE leaders, large-scale M&A events are often unfamiliar territory, presenting significant challenges that can strain teams and lead to burnout amid the surge in required effort. CRE leaders should take time to understand the level of effort necessary to deliver across integration mandates and business-as-usual activities. Start off on solid ground by determining how to best utilize internal and external resources. It is important to ask for help. Deal teams typically allocate budgets for external advisors, and astute functional leaders act quickly to leverage them. Without adequate resourcing and focus, real estate decisions drift, synergy potential erodes and publicly announced synergy targets are not realized.

In an ideal world, CRE leaders should be involved before a deal is announced. They often are not.

Effectively Executing Separations and Divestitures

Typically, separations are executed to sharpen focus, unlock shareholder value, or enable strategic independence for divergent businesses. In practice, they require the creation of two functioning enterprises from one, necessitating separate legal entities, leases, services, and physical assets.

Independent academic research and capital-market analysis consistently show that carve-outs and tax-free spin-offs involve material one-time separation costs, driven by the need to replicate standalone operations, disentangle shared systems, and physically separate assets. While the magnitude varies by separation complexity and industry, operational separation costs – which implicitly include facilities and real estate separation – are among the largest contributors to separation costs.[3] These costs typically run between 1% – 4% of the divested business's revenue and could be higher depending on the size and complexity of the new entity.[4]

This reflects the operational and physical challenges of achieving independence.

Based on Alvarez & Marsal's internal case experience and industry benchmarks, real estate consistently represents a **disproportionate share of one-time separation costs**, typically accounting for **10%–20% of total separation costs for asset heavy companies**. Given this magnitude, CRE leaders must establish regular cost reporting and secure budget allocations early – before standalone frameworks lock in funding. In practice, separation cost estimates evolve significantly in the early phases of a transaction, often requiring numerous iterations as assumptions are refined. As execution begins months later, these estimates must transition into disciplined tracking of actual costs to maintain control and avoid downstream surprises. This ongoing vigilance is essential, as the complexity and extended timelines inherent in real estate separations can quickly amplify expenses if not managed proactively.

Real estate and facilities indeed have one of the longest paths to independent operation, sometimes taking 18 months or more to complete – a timeframe that underscores the need for early CRE involvement, ideally before a deal's announcement, though this often falls short in reality. The list of tasks during separations is extensive and multifaceted, encompassing the replication of contracts, leases, and services; conducting vendor reviews and selection processes; the physical separation of office spaces, manufacturing and production facilities; and the establishment of new global headquarters. While this array of activities is daunting, the key to execution – and to containing those elevated costs – lies in collaboration. Separation execution requires a CRE organization working in lockstep with cross-functional counterparts. For example, ensuring landlords and facilities service providers are paid on Day 1 demands a joint effort from IT, Sourcing, Finance, and CRE. Without a highly interconnected network of cross-functional partners, pertinent details are overlooked, work plans are executed out of sequence, and separation costs rise, eroding the transaction's overall value and strategic objectives.

Beyond these execution-driven expenses, separations typically introduce stranded costs for both the Parent Company and SpinCo/CarveCo – residual overhead from shared assets that neither entity can immediately use. Historically, the overriding priority in separations has been "speed to separate," with nothing more critical than achieving operational independence within the tight time constraints of a divestiture, often at the expense of deeper value optimization. Drawing from real-world examples, like the tax-free spin-off of an advanced energy equipment manufacturer – where $110 million in property sales proceeds and $147 million in real estate run-rate reductions were delivered during separation – seasoned leaders have demonstrated that cost reduction and separation timelines need not be mutually exclusive. In that case, distinct separation and value creation teams worked in tandem to reshape the future-state footprint.

3 Spin-Off Guide (Wachtell, Lipton, Rosen & Katz)
4 How to Minimize Divestiture Separation Costs

This parallel execution is not just feasible but represents a strategic imperative in today's transaction landscape, capitalizing on the unique environment of a separation where every real estate decision – from disentangling shared sites to establishing standalone operations – can be tightly coupled with future-state utilization modeling. By viewing each impacted location as an opportunity to optimize standalone costs for both entities, CRE teams can transform potential liabilities into drivers of long-term value, balancing speed to independence with disciplined, forward-looking efficiencies that directly offset stranded costs, enhance transaction economics, and position the new organizations for sustained success.

Ultimately, successful separation execution depends on treating real estate not as a downstream implementation detail, but as a **strategic lever embedded in the broader separation strategy**. Real estate decisions influence cost, timing, operational resilience, and the credibility of the divested business from Day 1. Organizations that involve CRE leadership early, integrate real estate planning into cross-functional workstreams, and actively manage both separation costs and value creation levers are far better positioned to achieve the strategic objectives that motivated the separation in the first place.

Conclusion

Real estate sits at the intersection of finance, operations, and transformation, directly influencing both the **cost and timing** of corporate integrations and separations. It serves as a catalyst for synergy realization during integrations and as a nucleus for cross-functional execution during separations – both of which demand early CRE involvement, accurate data, and disciplined governance.

Each scenario requires a distinct operating model, and Corporate Real Estate teams must adapt accordingly. During integrations, success is measured by the speed and sustainability of synergy capture; during separations, by the ability to achieve operational independence without disruption. In both cases, traditional metrics such as cost per square foot give way to outcomes tied to execution quality and enterprise readiness.

The complexity of these events is often underestimated. Separation timelines can extend beyond 18 months and drive significant one-time costs, while integrations require tightly coordinated strategies to meet aggressive timelines, manage cultural risk, and unlock economies of scale. Organizations that fail to elevate CRE to a strategic role can incur unnecessary delays and costs because of decisions made without full visibility into physical and operational implications.

Embedding Corporate Real Estate as a core workstream – with clear authority over portfolio decisions, cost management, and synergy or separation roadmaps – is essential to meeting Day 1 objectives and accelerating value realization. When treated as a strategic function, CRE becomes a critical enabler of cleaner transitions, condensed timelines, and stronger long-term returns.

KEY CONTACTS

Michal Golichowski
Managing Director

mgolichowski@alvarezandmarsal.com

Grant Falconer
Senior Director

gfalconer@alvarezandmarsal.com

Nick Tatro
Senior Director

ntatro@alvarezandmarsal.com

ABOUT ALVAREZ & MARSAL

Founded in 1983, Alvarez & Marsal is a leading global professional services firm. Renowned for its leadership, action and results, Alvarez & Marsal provides advisory, business performance improvement and turnaround management services, delivering practical solutions to address clients' unique challenges. With a world-wide network of experienced operators, world-class consultants, former regulators and industry authorities, Alvarez & Marsal helps corporates, boards, private equity firms, law firms and government agencies drive transformation, mitigate risk and unlock value at every stage of growth.

To learn more, visit: **AlvarezandMarsal.com**

Follow A&M on:

479581-56350/January 26
9930_Stg02

ALVAREZ & MARSAL
LEADERSHIP. ACTION. RESULTS.℠