

"Good to Great?"

First Ensure "Adequate to Good"

By Noah Shlaes

The phrase "good to great" is incorporated in countless presentations at CoreNet Global Discovery Forums and is on the lips of business leaders everywhere. Likewise, Six Sigma, Black Belt and other initiatives are recasting operations in many companies. Yet, they haven't always translated well to corporate real estate.

Great real estate practices exist, and range from dynamic portfolio management and mark-to-market exercises to real-time space planning. In some organizations, such practices are standard operating procedure and they dominate the professional literature. Yet these represent the bleeding edge of the corporate real estate world. In many companies, real estate practices lag other corporate initiatives. However, corporate real estate organizations are increasingly facing mandates for standardized procurement, business case development, accountability, governance and measured results.

Yet in company after company, the same stories emerge – and they don't often depict good moving to great. They reflect, at best, "adequate to good." Often the challenges include:

- Incomplete and inaccurate inventory – major corporations can't answer the question of where they are or what they own
- Missed opportunities – lease options, purchase options, development opportunities and renewals sliding by
- Portfolio mismatches – overstuffed and half-full buildings in the same company and the same market
- Failed coordination – renovation of properties slated for demolition or abandonment
- Imprecision – inaccurate and inadequate capital budgeting
- Failure to pull together – repetitive functions across

multiple facilities, using different systems, different standards and different reporting structures, with no coordination between them

- Customer dissatisfaction – anger and resentment over furniture, views, equipment and location

Why does this situation persist? How did we get here? And what is it that makes real estate so difficult to manage well? Three factors contribute to this problem – time scale, data quality and the evolution of the real estate function.

Time Scale

Compared to most functions of a corporation, real estate moves at a snail's pace. With the exception of heavy manufacturing equipment, few things last longer than a building. It can't be relocated when markets change. It's not modular. It's not nimble. This is in marked contrast to most of the other facets in many companies.

Short-term facilities decisions are essentially chosen from an inflexible menu of existing facilities and current market offerings. The menu is the result of decisions from five years ago, or 50. Meanwhile today's decisions, deliberate or otherwise, are defining the menu for five years down the road.

Data Quality

Real estate is not fungible, and no two markets or companies describe it the same way. A shopper for real estate sees products with a significant "apples and oranges" factor. There is no market impetus to make comparison easy, between sites, lease terms or physical configurations.

So, the information that finds its way into corporate systems is incomplete and inconsistent. Take the example of rent escalations. Few corporate real estate systems incorporate a long-term projection of total occupancy cost. They model base rent, contractual

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increases and termination dates, but make no long-term projection of CPI clauses, property tax and expense reimbursements. Instead, they're calculated annually, often by the landlord, and reviewed. It's sufficient for accounting, but not for decision-making.

Basic property descriptive data is also unwieldy – mostly because of its age. Legal descriptions, site plans, as-built drawings and other information are not used often enough to require a standardized database. In turn, we are supported by a tiny (but growing) real estate software industry.

Evolution of the Real Estate Function

When a business begins, it does so in rented space with a maintenance crew. Over time, this crew becomes a facilities function and may gradually evolve into a real estate department. The underlying emphasis on space quality, industry processes and preventive maintenance dominate its focus. Portfolio questions (which define the real estate menu for years to come) are directed to the department or to senior management, neither of which deals with real estate very often.

So management naturally concludes that real estate is a necessary evil. It responds slowly, doesn't readily

adopt company initiatives and fails to accommodate overall corporate strategy. Despite its importance as the second- or third-largest expense category in many companies, it doesn't get a significant IT budget and an awful lot of information lives in the skulls of the real estate department, rather than in systems. Companies that grow by acquisition have it much worse, growing multiple parallel functions that often do not talk to each other.

Of course some companies – and even some industries – are exceptions. In companies with clear and massive facilities needs, like railroads and utilities, there is an opportunity for good processes and measures to evolve. Rapidly growing technology companies, unfettered by old and inaccurate real estate data, can accomplish great things. But in most industries and in many companies this is not the case.

Interestingly, hope is coming from unlikely places. Sarbanes-Oxley requirements and the general call for corporate accountability may be one source. Not just because of the requirements themselves, but also because of the economic imperative for upper management to devote resources to fixing real estate issues. A business case for good real estate tools has been established. There is finally a market for major software vendors to justify devoting significant



dollars to developing and upgrading real estate tools. General trends in software design are also helping. Corporate real estate is too small a niche to set trends in interface design or core systems, but it benefits from the adoption of data standards, accepted user interfaces and workflow integration.

Promise also lies in improved real estate education. Training from both professional organizations and universities is focused increasingly on data quality, corporate accountability and emerging standards and systems.

Lastly, the “bleeding edge” solutions adopted by large and fast-growing corporations are gradually being refined and reflected in practices at smaller companies. By nature, corporate real estate is a slow-moving, slow-responding behemoth. Its capital structure, its long life and the diversity of its markets make it so. Advances in real estate practice may not seem aggressive when compared to the rapid pace of change elsewhere, but they are significant.

Transcending Mediocrity

So how can a company ensure it has “good” real estate practices in place? Overlapping challenges call for an approach that addresses several issues at the same time. The best reinventions of the real estate function focus on a few key areas:

- Management communication – helping upper management understand the opportunity real estate offers and the resources it requires
- Systems – identifying and upgrading tools for lease administration, project tracking and financial analysis
- People – tapping into pockets of institutional knowledge, and working with these individuals to document and centralize information about processes and properties
- Structure and governance – centralizing, decentralizing and re-connecting real estate reporting to reflect corporate needs
- Portfolio – taking a close look at property and creating current information on both its utility to the company and its value in the market
- Performance measures – identifying and creating measures of real estate performance that affect the entire company, and not just facilities cost

- Data – reviewing, scrubbing and sometimes recreating real estate data in a consistent format

For companies that concentrate on these areas, progress can be rapid, at least in real estate terms. Given the immense amount of capital in corporate real estate, and the significant effect it has on operations, the results can propel the real estate function from adequate to good – and even to great. **LEADER**

About the Author



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The CoreNet Global Knowledge Center (www.corenetglobal.org/knowledge_center) offers a range of sources to help illustrate how to take the management of corporate real estate from the transactional to the strategic level, including these titles from the CoRE 2010 research series on managing the globally networked corporate enterprise:

- Asset Management & Portfolio Optimization
- Technology and the Web
- Integrated Resource and Infrastructure Solutions (IRIS)
- New Models for Solutions Delivery
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