

Corporate Real Estate and Facilities Management: It's all about Value

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A Presentation to the Atlanta Chapter of the International Facilities Management Association



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The views expressed herein are the author's own and not necessarily those of CB Richard Ellis

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CAN WE ALL AGREE?

“Perfect” people are frozen in mediocrity.

Imperfect people are free to grow.

Starting off on the right foot...

Value is:

- **Perceived**
- **Believed**
- **Communicated ***

What Does Value Look Like to you?

Starting off on the right foot...

Pictures of Value: Value Meal in Hong Kong



Photo source: Internet

Starting off on the right foot...

Pictures of Value:



Photo source: Internet

Starting off on the right foot...

Pictures of Value: Bargain Shopping



Photo source: Internet

Starting off on the right foot...

Pictures of Value: Freedom to Move About the Country



Photo source: Internet

Typical Marketing Textbook Definition of Value:

- **Varies depending on the consumer**
- **Is based on perception rather than reality**
- **Is a tradeoff between investment (ie: price and what you get (ie: the benefit)).**

Starting off on the right foot...

Typical Marketing Textbook Definition of Value:

- **An equation: Value = Perceived Benefit/Cost**
- **If Cost goes up and Perceived Benefit stays the same, then the perceived value goes down.**
- **If Perceived Benefit goes up and Cost stays the same then perceived value goes up.**
- **If Perceived Benefit goes up and Cost goes down, perceived value goes WAY up!**

(Ignoring Conspicuous Consumption!)

(By the way, Cost is not perceived – it's real!)

My definition of Value:

The perception that a function, process, business or deliverable is strategically, intrinsically, and dynamically aligned with a stated need.

Starting off on the right foot...

Measured in FM by:

- **The degree to which FM contributes to the company's core business objectives**
- **The degree to which FM and Real Estate integrate their work streams and present themselves as a unified team**
- **The degree to which FM is recognized as a strategic contributor**

Perception = Reality

- **Real Estate = “Professional”**
- **FM = “Maintenance”**

Quotes from:

Wither FM? – A Delphi Study of the FM Profession & the Industry

by Andrew Green and If Price

“FM is a low value, low skill function and thus an anathema to existing property professions.”

“FM is still concentrating on the micro and ignoring the macro.”

“Can FM move from being a support service to being strategic. I believe it cannot.”

**“FM does not present an
consistent image.”**

“75% of the people you talk to in [this company]...think FM is all about running [mail] rooms, [cafeterias], security, etc. and is very low margin work.”

Bottom Line:

If FM is perceived as a low margin, “maintenance” function, then it is seen as:

- **Non-core**
- **Non-central**
- **Un-important**
- **“Outsource-able”**

Perception = Reality!

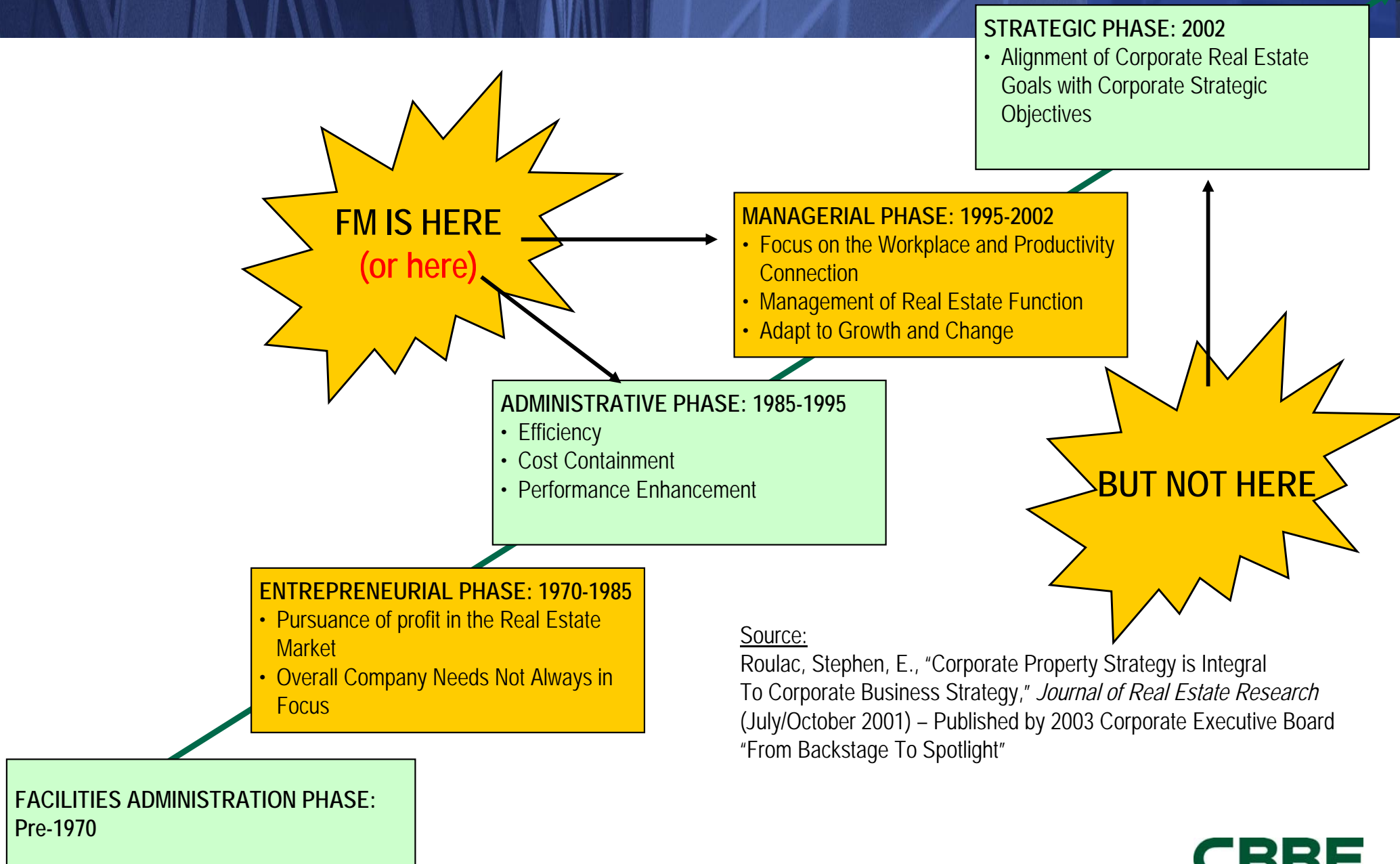
True, but...

Change = Opportunity!

Are you comfortable in an ever-changing environment?

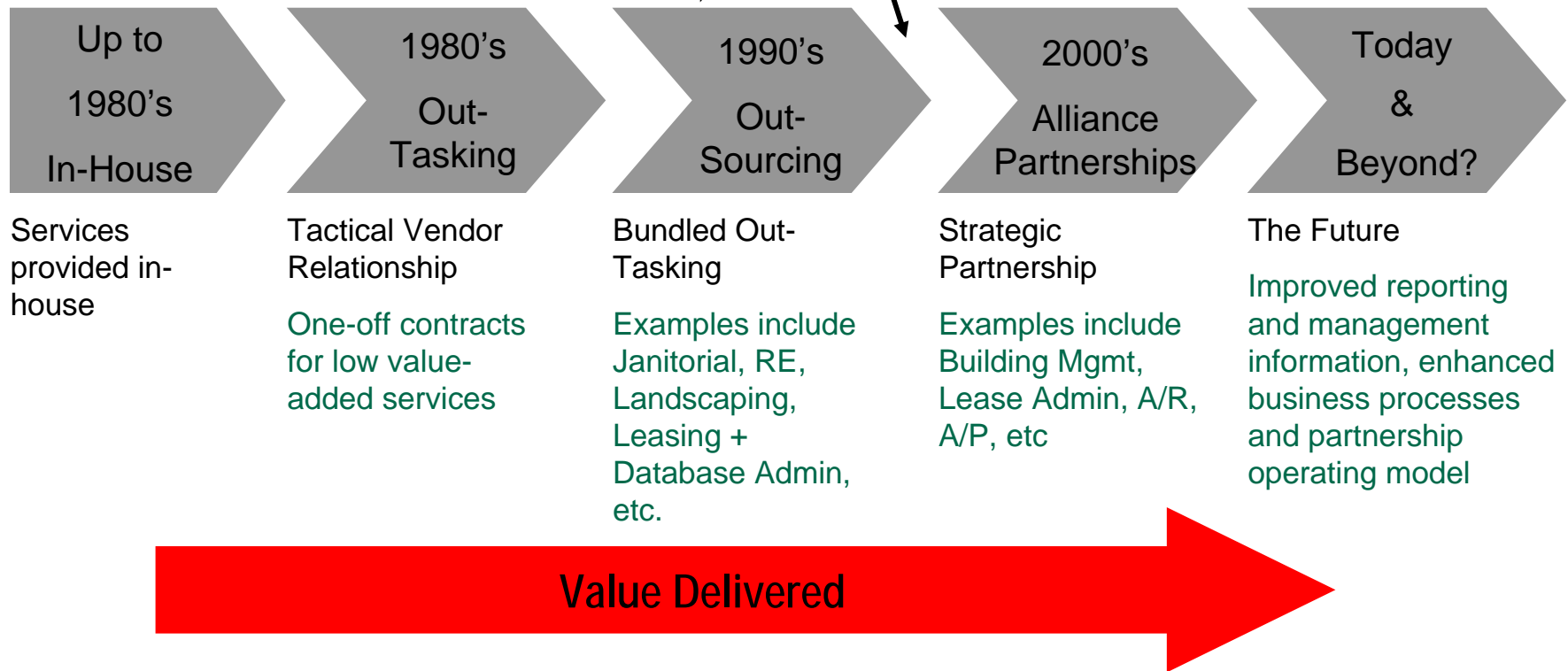
It is changing and has changed over the past 30 years

Evolution of the CRE Function



Evolution of CRE Outsourcing

FM becomes
Strong Candidate
for Outsourcing



Corporate RE is Moving “Upstream” in the Business Planning Process

STRATEGIC POSITION IN THE PLANNING PROCESS

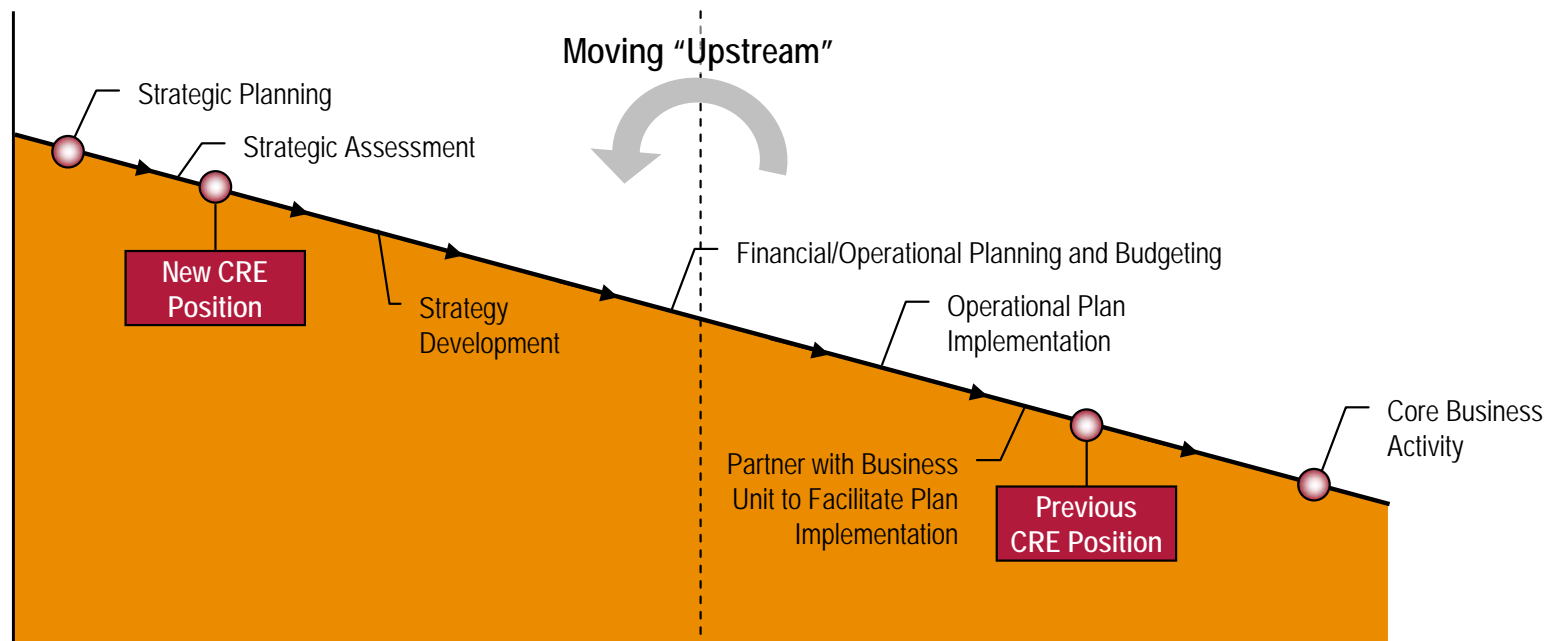
Attributes

- Partnering with Business Unit Demands
- Strategic Occupancy/Facility Decisions
- Effective Portfolio Management and Matching to Business Unit Needs
- Core Strategic Function

“OLD” REACTIVE POSTURE

Attributes

- Reactive to Business Unit Demands
- Habitually Overpaying for Real Estate
- Infrequent Leveraging of Portfolio Assets
- Marginalized Function



Source:
Real Estate Executive
Board Research, 2003

Corporate Real Estate has moved “upstream” in the planning process to take a position of proactivity sensing and meeting business needs.

Previously, Corporate Real Estate functioned in this zone of the business planning process, a position of reacting to business needs.

Who is Outsourcing?

- Fortune 500 - public and private (originally)
- Fortune 2000 (> \$2 billion in Revenues)
- Middle Market Firms
- Restructuring organizations
- Companies with Dynamic Business Needs
- Industries Migrating from Regulated to Deregulated
- Manufacturing & Distribution companies
- Companies Acquiring or Divesting

Yes, **EVERYBODY** is outsourcing!!!

Evolution of CRE Service Delivery

WHAT'S OUTSIDE (Service Provider)

- Consulting advice
- Site selection
- **Transactions and lease administration**
- Design and engineering
- Project management, including move in
- **Facility management, including moves, adds, changes**
- Other real estate activities

WHAT'S INSIDE

- **Strategy and strategic planning**
Global portfolio **strategy** - cost reduction (lower corp. break even)
Strategies to reduce amount and/cost of space needed by company
Work & workplace **strategy** - enable corporate innovation, collaboration
- **Strategic interface with top management and liaison with business units**
(Client Relationship Management – Trusted Advisor)
- **Merger and acquisition analysis related to real estate portfolios**
- **Financial strategy**, models and budgeting related to real estate

Factors Influencing In-house vs. Outsourced

- **Goals & Objectives of Organization**
- **Key Business Risks Managed by the Organization**
- **Goals & Objectives of CRE**
- **Key Business Risks Managed by the CRE**
- **Financial**
- **Geographic dispersion**
- **Corporate Culture**
- **Centralized versus decentralized decision-making**
- **Internal CRE skill-sets**

You can use the word **STRATEGIC** with any of these...

Corporate Real Estate Trends

Real estate is a boardroom issue but is not a core competency for most companies.

Desire to reduce total occupancy costs & improve service levels.

Increased need for RE data and standardized process controls.

86% of finance executives believe real estate/facilities is important to achieve their strategic objectives.¹

60% of COOs and CFOs surveyed believe Real Estate is a boardroom issue.²

60% of finance executives believe that real estate is not well integrated with their company's strategic direction.³

50% of executives believe their real estate/facilities are currently not well managed.¹

As a result, the role of the corporate real estate executive is changing from skillful tactician into a liaison with business units with strong general management skills.

1. EMCOR. 2004. *Managing Facilities for Performance*.

2. E&Y. 2002. *Corporate Real Estate Survey*.

3. CFO Research Services. 2004. *The CFO Perspective on Corporate Real Estate*

Corporate Real Estate Trends

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Increased need for RE data and standardized process controls.

Real Estate/Facilities are among the top four expense categories for two-thirds of companies.¹

80% of companies surveyed wanted to cut costs in 2003.²

76% of companies surveyed are seeking to reduce occupancy costs by outsourcing to third party experts.³

74% of corporate users do not effectively manage energy and 59% are not well positioned to control energy and improve operational efficiency in-house.¹

1. EMCOR. 2004. *Managing Facilities for Performance*.
2. E&Y. 2002. *Corporate Real Estate Survey*.
3. E&Y. 2002. *Corporate Real Estate Outsourcing: 10 Years Later*.

Corporate Real Estate Trends

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Desire to reduce total occupancy costs & improve service levels.

Increased need for RE data and standardized process controls.

Sarbanes-Oxley (SOX) requires CEOs & CFOs to personally certify the accuracy and completeness of real estate information included in financial statements.

Section 404 of SOX requires all "material" data and processes to be standardized, documented and audited.

77% of companies make only moderate or less use of technology¹ and 37% of executives received no real estate management information.²

Only 50% of companies surveyed have a common property information database across all business units.³

58% of CRE executives are planning to centralize their departments in the future; only 17% will implement regional organizations, and 0% are introducing decentralized organizations.⁴

1. CFO Research Services. 2004. *The CFO Perspective on Corporate Real Estate*

2. E&Y. 2002. *Corporate Real Estate Survey*.

3. E&Y. 2002. *Trends in Global Real Estate*

4. Real Estate Executive Board. 2004. *Emerging Imperatives: Key Priorities & Challenges for the Corporate Real Estate Function*

The benefits of an integrated approach...

Facilities Management

Project Management

Lease Administration

Transaction Management

Strategic Consulting

- Greater coordination of projects & ops. to minimize on-going maintenance costs
- Fewer “dropped balls” = less down time
- Scalable resources & on-call expertise
- Single point of accountability

The benefits of an integrated approach...

Facilities Management

Project Management

Lease Administration

Transaction Management

Strategic Consulting

- Integration of property accounting & lease administration
- Differentiate landlord vs. tenant responsibilities
- Standardized processes and financial controls (e.g., for SOX 404 compliance)
- Property knowledge = more effective lease reviews/audits
- Alignment of operating spend with asset hold strategy

The benefits of an integrated approach...

Facilities Management

Project Management

Lease Administration

Transaction Management

Strategic Consulting

- Full understanding of facility condition
- “On-the-ground” knowledge (e.g., headcount, “actual” space requirements)
- Alignment of operating spend with asset hold strategy
- More comprehensive portfolio solutions

Notice that the Facility Manager is the Common Factor in an Integrated Model

What do you need to do survive, excel, evolve, **THRIVE** in this new environment?

- Seeing this with New Eyes & a Fresh Outlook
- Focus on Real Estate and Corporate Strategy not typical FM tasks and the building
- Customer Service vs Shareholder Value
- Review all vendor relationships
- Review organization structures
- Kill the Sacred Cows!!! The sacred processes. The sacred procedures. The sacred Service level agreements.

Can't we all just get along?

- **Mindset issues – Not partners but allies.**
- **Cultural Issues – Compatibility**
- **Lack of boundaries**
 - **Scope**
 - **Improper, Incorrect or competing Metrics**
 - **Items Expected but not communicated**
- **Control Issues**

Key Learning Points

- **Effective delivery of cohesive Corporate Real Estate services, involves a transformation of mindset to achieve success.**
- **There must be a shift from a control-oriented environment towards a collaborative mindset where achieving a common purpose is the overriding goal for both RE and FM.**
- **“If you always do what you've always done, you'll always get what you've always gotten.” – Source Unknown**

Becoming a Cohesive Client-focused Team

CHANGING THE MINDSET

FROM

What is the problem?

Analysis - Paralysis

Follower Role

Classic Terms

Customer Interests

TO

What are the possibilities?

Mobilization & Action

Leadership Role

Non-Classic Terms

Shareholder Interests

Becoming a Cohesive Client-focused Team

- **CLASSIC BUSINESS TERMS:** How does CRE and FM add value?
- **NON-CLASSIC BUSINESS TERMS:** How *valuable* is CRE and FM?
- **CLASSIC MEASURE:** Financial, Operational impact of CRE and FM
- **NON-CLASSIC MEASURE:** How *relevant* is CRE and FM from the Client's Perspective

Becoming a Cohesive Client-focused Team

- **RE: Market Timing, Planning, Negotiations, Transactions, Cycle Time**
- **FM: Operations, Procurement, MAC**
- **Together: Productivity, Strategic Positioning of Assets, Responsiveness, Customer Satisfaction**

Becoming a Cohesive Client-focused Team

Assets are not typically owned for their investment value.

The decision to own vs. lease must be tied to the business mission – criticality/longevity/disposition strategy

- **Under utilization**
- **Capacity Management**
- **De-capitalization**
- **Re-engineering**
- **Cost Savings**
- **Cost Avoidance**
- **Service Quality**

Becoming a Client-focused Team

The intrinsic value of an asset has value along three lines:

- **Value at acquisition (usually RE)**
- **Value during Operation (usually FM)**
- **Value at return on disposition (again RE)**

To 'commit' the teams I use a Balanced Scorecard

- **Ties strategy to operational terms**
- **Aligns RE and FM to strategy**
- **Motivates staff to perform**
- **Allows for a learning environment**
- **Creates a higher level of mobilization**

Becoming a Client-focused Team

Why the Facility professional should care:

- **FM can impact the company's bottom line and the individual's productivity**
- **Influence from multi-million dollar budget to copier paper**
- **Knowledge of lease terms, options, ramifications puts you in good stead with Senior Management**
- **Knowledge of the Local Market broadens your perspective**
- **Every \$\$ Saved Impacts Profit/Stock Price**
- **A Change focus of Communicates VALUE**

Critical Skills we Look For

- **Technical competence with broad industry exposure**
 - experience on both corporate and service provider side
- **Thorough understanding of clients' business and organization's processes**
- **Program and process management skills (managers, not doers)**
- **Superior multi-tasking skills**
- **Strategic focus as well as tactical**
- **Superior communication skills (oral and written)**
 - must be able to speak in Management's language
- **Able to function in highly ambiguous and dynamic situations**
- **Flexible, creative and strategic**

What can I do to improve?

- **Review all vendor relationships over 3 years old**
- **Develop organization charts that show the COMPLETE service organization**
 - Look for redundancies
 - Hold service providers accountable
- **Review SLA's, specifications and service needs – How does each task contribute/detract from the corporate goals**
- **Allow different standards in each building depending on need – Headquarters vs critical vs administrative vs other**
- **Invite another IFMA member to your building – someone who has gone through severe cuts in their organization**

The CRE/FM Divide: What drives RE behavior?

- Doesn't understand your role
- Sees your role as a threat
- Sees your role as limiting to his/hers
- In over his/her head
- Bigger more important priorities

Here's what CBRE is doing (Vik's Perspective)

- **Integrating RE and FM teams to provide a strategic approach to real estate decisions that bring the greatest value/cost savings to our clients**
- **Placing accountability into the hands of empowered account teams to allow integration of services on each account as well as consistency across multiple accounts**
- **Providing leading-edge technology that serves as an integrator of portfolio information across disciplines**
- **A commitment to introducing best practices, measuring results and reporting those results to highlight Client successes and areas for improvement.**

- **Outsourcing is not going away**
- **The time to change perceptions is now**
- **At the highest levels, organizations such as IFMA and CoreNet need to work together**
- **At the ground level RE and FM must work together.**

Any Questions?

Q&A

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