

## Corporate Real Estate Management

## New Vibrations

***"If there is any quick way to describe corporate real estate and what it needs today, it's strategy, direction and problem-solving."***

By Eric C. Peterson  
Editor-at-Large

**T**here's always been a perception that the way a company runs its real estate is reflective of how they run their business overall. We've found that if a company doesn't run its real estate well, it's often symptomatic of something wrong with the company, because real estate is a fairly simple thing."

The speaker is John Maltz, managing director of real estate firm Greiner-Maltz, who adds, "It's not like having to bring out a new product. Real estate is a fairly finite thing that you can wrap your arms around. We've found that for companies that are sharp and handle their real estate well, the stock of those companies does well."

For most of Corporate America, real estate is a non-core business, practically an afterthought. But regardless of a company's product, or services, the facilities it occupies—and how those facilities are managed—do indeed have a bottom-line impact. Collectively, these facilities are the reason the commercial real estate industry even exists in its current form, subject as it is to the whims of the general economy.

What are the key issues in corporate real estate management? Today, the scenario is complicated by a down economy, the after-effects of 9/11 and other macro economic trends. In addition, the lines have been blurred a bit between corporate real estate

portfolio management in a strategic sense and property management on a day-to-day basis. In all cases, outsourcing is arguably the leading issue now.

"Outsourcing is a subject near and dear to my heart," says Gregg Popkin, executive director at Insignia/ESG. "We're seeing a lot of potential growth in that area, especially among financial institutions. They are in one stage or another of evaluating whether they're going to outsource these services."

At Insignia, it starts on the transaction side, according to Popkin. "Our transaction people are supplemented by our property management people, who evaluate the operational issues related to the properties

themselves," he notes. "Site selection, for example, works primarily through the brokerage side—they'll do a lot of the preliminary market assessment, come up with a 'hit list,' and then we'll get involved in the process to do comparisons," he explains.

"We find that the driving force behind outsourcing is controlling expenses," adds David Flynn, regional SVP for management services in the Northeast for Grubb & Ellis. "Controlling expenses, whether property management is outsourced or self-performed, is an especially important issue right now.

"Savings can be realized through everything from the introduction of technology and better work practices and portfolio strategies, to simple preventive maintenance and repairs," he adds.

"The notion that the typical company doesn't manage its real estate very well and doesn't understand what an asset their real estate could be is a proverb of the past," counters John Maltz. "Everybody's aware of the value of real estate. Sharp CEOs and COOs are looking to maximize shareholder value and the value of the corporation."

Where does outsourcing fit in? Generally, the answer lies outside of the corporation itself. "What's happening is that a broad spectrum of companies have decided that it doesn't pay to have in-house real estate experts for asset management and site

selection," Maltz continues. "They'll put an operating officer in charge of the division, and then hire a local, regional or national firm to either do the site selection or acquire facilities for them, or dispose of facilities."

Maltz estimates that upwards of one-third of *Fortune* 500 companies outsource their real estate functions, and many "want to share in the income stream that outside real



**"If a company doesn't run its real estate well, it's often symptomatic of something wrong with the company."**

**JOHN MALTZ**  
*Greiner-Maltz*

estate professionals generate. In the brokerage community, it's very common to share fees with the company in some form."

In terms of site selection, "when a company comes to us needing a location, what we do is assess their needs," Maltz explains.

"One manufacturer we met with wanted to sell his 100,000-sf property and buy a building half the size," Maltz relates. "After we analyzed the economics of the situation, he realized that if he continued his present business model, it didn't make sense. He'd have to change his entire business model."

Corporate real estate is also spawning a new generation of consultants, in an era when many of the pure real estate companies have been absorbing the traditional site consulting firms to bring it all "in-house," such as Grubb & Ellis' acquisition of New Jersey-based Wadley-Donovan Group.

In the case of New York-based Hanley Advisors, former Cushman & Wakefield broker James H. Coleman is going in the other direction. Stepping out of the brokerage world, he founded Hanley, brought in Richard L. Podos from the corporate side as director of strategy, and set up shop as a "boutique" alternative to the old guard.

Specifically, Hanley is targeting "opportunity funds, LBOs and companies or institutions controlling sizable real estate assets, but may not have real estate departments or who desire to reposition their portfolio," Coleman explains. "We're looking to do more than conventional brokerage. We want to provide strategy and direction, as well as problem-solving."

How does outsourcing relate to economic cycles? There isn't necessarily much of a connection, most feel, although Insignia's

Popkin says that "we'll see a burst of activity when the economy goes down. When the economy picks up, you won't typically see companies bring it back in-house. What happens is the next wave of companies will decide to outsource. That's why it's growing."

"Any time a company downsizes its employee base, it has to outsource," Maltz says. "Real estate is an easy choice to outsource because the level of expertise in the outside market is terrific."

"What's happening in corporate real estate is that companies outsourcing for the first time are really feeling their way," says Flynn of Grubb & Ellis. "They have to be fully committed, because if their employees feel any sense of weakness or vulnerability, it won't succeed. To make it work, you need communication, you need to identify objectives and you need clear lines of responsibility. Encouragement to outsource comes from the top—from the CEO and CFO. Others below them might see their jobs in jeopardy, or believe they can do it better."

"Some consider outside real estate companies as 'hired guns,'" he continues. "We've encountered that attitude, but we've been able to win people over."

What are the pros and cons of outsourcing? On the plus side, "it's a clear way for a corporation to reduce its overhead," Popkin asserts. "And from a centralized viewpoint, when you go to a company that does all of these things, there are economies of scale."

On the downside, "unless a corporation is smart enough to put its outsourcing in the hands of an executive committee, or an outside consultant not impacted by the deci-



**"More companies are now focusing on contingency planning and operations, emergencies and life safety."**

**GREGG POPKIN**  
*Insignia/ESG*

sion-making process, you're often dealing with personalities that are going to be impacted," Popkin says. "They envision their jobs being lost, so you're already fighting an uphill battle."

Along the way, companies want a better idea of how they are doing, whether they've outsourced or kept their real estate functions in-house. That leads to another key issue—benchmarking. In other words, benchmarking is the "art and science of improving performance by identifying and replicating

world-class processes or practices within or outside your industry," says corporate real estate exec Beverly Rollin-Hinkle of MCR. "It is a strategy that allows an organization to compare its performance with others."

And it's currently important enough for CoreNet Global and the International Facility Management Association to have collaborated on a recent seminar in Manhattan on the subject. "Increasingly, we're seeing people benchmark to do things like creative problem-solving and analysis of processes," Patricia L. Crowley, managing director at Cushman & Wakefield, told the



**"In the past, as well as in this recession, some property managers got burned by having too much space."**

**JAMES D. BURNHAM**  
*HQ Global Workplaces*

gathering. "The first step is to focus on what your core objectives of your core businesses are. From there, develop real estate goals and objectives linked to core businesses, and translate those into measurable outcomes."

"I can't stress enough," Crowley continued, "the importance of measuring something in such a way that you can actually bring about change. To begin with, design the processes in such a way that you get what you need."

The process, outlined by panelists at the CoreNet/IFMA meeting, begins with quantitative goals like reducing occupancy costs, and qualitative goals like improving processes. The methodology goes from identifying goals and objectives, all the way through institutionalizing the process.

Edward F. Norton, executive director at CIBC World Markets outlined one application. "Facility benchmarking is really understanding how space is used," he explained. "For example, we've found a 5% shift in front-of-house to back-of-house space allocation before and after 9/11. We've also found a shift in the opened-to-closed space ratio from 55%-45% to 70-30%."

Indeed, 9/11 has triggered a number of changes in the corporate real estate world. "More companies are focusing on contingency planning and operations, emergencies and life safety," Popkin shares. "All of this is imperative for corporations, especially in a high-rise CBD environment."

*(Continued on page 48)*

"Corporate campusing vs. diversified locations is a key issue," he says. "We're helping companies with that decision, including identifying critical systems that need redundancy and disaster planning."

Corporate real estate management continues to foster new applications in terms of products and services, starting with technology. Integrated Business Services of Fairfield, NJ, for instance, provides computer management systems, including property management and lease accounting. Users range in size from large firms to pure facility management.

"The efficiency of your operation and maintaining reasonable administrative costs are factors in a company's overall profitability," says Robert Entin, president and founder of IBS.

Tracking everything closely has taken on new meaning in a marketplace where sub-leasing itself has taken on new meaning. "There are two ways our system is being used," Entin maintains. "One is that in a lot of the deals that are struck for subtenants, landlords are sharing in some of the profit. So there is a financial element to track. We've also seen a lot of creativity in how

people set up subtenants, track them and then build the profit.

"The other area," he adds, "is just tracking subtenants—who they are and when they expire."

Property management, for some, begins with project management. For these types of entities, the Phillips Group, an architectural, planning and design firm, has developed



**The operational efficiency and maintaining reasonable administrative costs are factors in a company's overall profitability.**

**ROBERT ENTIN**  
*Integrated Business Services*

ProjectNet. According to founder James G. Phillips, the Web-based system helps people "managing a high volume of facilities projects on a national or international basis."

The components of TPG's system include on-line corporate standards, a Web-based project management module, a lease data management tool and a project archive.

"We're currently developing a software package that could be licensed to corporate users," Phillips shares. "Options would be offered for either limited or extensive customization."

In terms of actual space usage, since 9/11 and in the face of a flat economy, the need for temporary space, often on a very flexible basis, has become an issue. Where there's a need, there's usually a provider, and corporate real estate execs have a number of different options.

"Our typical client comes looking for an average initial term of six to seven months," explains James D. Burnham, president of the New York division of HQ Global Workplaces, which provides temporary office space.

"For facilities managers, we become a single point of contact for them to be able to expand or contract, literally overnight," he con-

tinues. "We can get them what they need—from big spaces to small ones, equipped with technology, furniture in place and we can take care of the labor component."

HQ Global's clients are often *Fortune* 500 or 100 companies, typically in the services sector—finance, sales, tech support, software companies, lawyers, CPAs and even real estate brokers.

"In the past, as well as in this recession, some property managers got burned by having too much space," he notes. "What we try to provide is a flexible solution. Our tenants can contract and relieve themselves of commitments quickly and expand again easily."

Indeed, Burnham judges his company as a leading indicator for real estate, "in the sense that give-backs signal that something's happening. Now, we're starting to see companies expand again," he insists.

As far as costs are concerned, the up-front outlay is substantially less than it is for permanent space—there is no huge security deposit, he explains. In terms of operating costs, it's not unusual for someone to save 40% over the cost of traditional space, Burnham asserts.

On a more permanent basis, Swedish-based OM recently opened its second metro area data center in Berkeley Heights, NJ.



**Our approach is to combine access to senior management with industry knowledge and service delivery.**

**RICHARD PODOS**  
*Hanley Advisors*

The company's operations provide management services and hosting facilities for financial services and energy industries. "Our goal is to be the outsourcing partner of choice for mission-critical services," says Carl-Magnus Hallberg, president of global services for OM.

Ultimately, if there is any quick way to describe corporate real estate and what it needs today, as Hanley Advisors' Jim Coleman put it, it's strategy, direction and problem-solving. Political and economic events have thrown the industry some major curve balls, but nothing it hasn't seen before. And whether it's a renewed interest in outsourcing, finding new ways to cut costs, or creating new ways to gauge performance—internally and externally—most agree that creativity has already kicked into high gear. ♦

## The New York Public Service Commission wants to lighten your load.

**New York State offers a range of programs and financial incentives to help your business reduce electric demand and improve energy efficiency:**

- **Get \$\$ to reduce electrical use** – Large commercial or industrial customers can get paid for curtailing electric load.
- **Bid Your Load for \$\$** – Get paid for the electric load you curtail if your bid is accepted.
- **Meters** – Discounts or incentives are available to install interval meters that measure and store energy usage data.
- **Solutions & Strategies for energy-efficient equipment** – Funds are available to your business to buy and install energy-efficient equipment.

**For more information, call our Business Advocates toll free: 1-877-661-9223, visit [www.AskPSC.com](http://www.AskPSC.com) or email [business\\_advocacy@dps.state.ny.us](mailto:business_advocacy@dps.state.ny.us)**

*New York State Public Service Commission,  
Maureen O. Helmer, Chairman*