



# A Case for Centralization of Corporate Real Estate Services

By Martin Woodrow

For many organizations, centralization means restriction. However, corporate real estate (CRE) executives are proving the opposite by adopting a new centralized real estate model that creates flexibility in how space is procured, used and financed, rather than diminishing it.

Consider the contrast between the old model, in which business units drove the procurement of highly customized spaces requiring long lead times and even longer lease commitments, with today's plug-and-play model. Standardizing space specifications reduces both the time to occupancy and the total cost over the term of a lease, freeing valuable capital for other purposes. The new model creates similar benefits across all aspects of real estate use (see Figure 1).

## Why Centralize?

Even the most simple portfolio questions are difficult to answer when real estate decisions are decentralized. By bringing real estate information into a common platform, data can be analyzed, and opportunities for cost savings unlocked. A few such opportunities for cost savings include:

- **Space reconciliation:** In a large corporation, it is not uncommon for one division to need additional space while another division seeks to dispose of surplus in the same market. A centralized repository for supply and demand ensures these requirements are reconciled.
- **Leveraged negotiations:** Knowing where the corporation leases multiple spaces from a >>

<i>The New Model: Flexibility, Speed and Accountability</i>		
	OLD	NEW
Space	Highly customized design, layout, etc.	Standardized and flexible
Terms	Long-term ownership of key assets/lease valuable assets	Focus on control rather than ownership
Capital	High fixed and working capital	Low or no capital
Demand Management	Forecasted, long lead time, peak planning	Requested, demand pull, minimum requirement focused, flexibility
Supply Management	Static/business unit focused/short term	Functionally focused dynamic/established planning horizons
Internal Client	Business Unit/Corporation	Corporation/Shareholders

Figure 1



common landlord can provide significant leverage in lease negotiations.

- **Aggregating buying power:** Purchasing for an entire portfolio can yield savings in everything from furniture to transaction fees or commissions.

Of course, few organizations make decisions on price alone. Real estate decisions also must support business strategies. In addition, mandates to centralize often clash with corporate culture, particularly when the new process is taking the place of ingrained, independent habits. As Equis has proven in countless collaborations with corporate real estate executives, responsive service and readily apparent value-add are the most effective tools in gaining acceptance of centralization. We have found several benefits of centralization that resonate with business unit leaders.

**Provision of professional resources.** Hiring resources that focus on real estate as their core competency results in improved quality. In addition, professional resources relieve burdensome real estate tasks, which by default would otherwise become the responsibility of a business unit resource. Business unit personnel can concentrate on what they do best, not space issues.

**Communication of portfolio best practices.** When a manager in one location develops an efficient means of utilizing space, a centralized model increases the likelihood that the concept can be applied elsewhere without a steep learning curve.

**Consistent processes for service delivery.** All projects can be documented and presented for approval in a consistent manner, giving each the best chance for quick approval and minimal cycle time.

**Accountability for higher quality service delivery and reduced real estate-related risks:** The buying, selling or leasing of space can be a complex transaction, and typically involves a significant monetary commitment and potential risk. For example, lack of appropriate renewal options can put a tenant at a significant disadvantage during renewal negotiations, particularly when the landlord knows the corporation has invested heavily in its space. Similarly, astute use of termination options can save millions of dollars when a corporation needs flexibility to change its lease requirements.

**Access to critical information.** Decisions that impact capital investment, entering and exiting markets can be made more intelligently with accurate portfolio metric reporting and trending.

**Compliance with rules of corporate governance.** Most large companies have implemented much stricter internal checks and balances relating to how obligations are committed to, and who is authorized to commit. Many regional business leaders who once signed leases and checks can no longer do so. A centralized CRE function eliminates the need for local management to take action themselves.

**Consistent image.** Companies whose strong brands help recruit new employees and customers need space that projects the right corporate image.

### Choosing the Right Centralization Model

The design and implementation of a centralized CRE platform can be a relatively simple project, or a massive undertaking. Factors that impact the decision of how and what to centralize include a company's structure, the scope of services to be centralized, and the organization's entrenched practices.

**Corporate structure.** When a company is organized along business lines, CRE resources should be assigned to each business unit, and tasked with aligning real estate with the business unit's priorities. Geographic organizational models should be matched with regional CRE resources tasked with providing local expertise throughout the area. Many companies are organized via some combination of business line and geography, necessitating a similar response from CRE.



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Martin Woodrow manages Equis' Portfolio Management group, which provides strategic and tactical corporate real estate services to major corporate clients. The 70-person group of account and transaction managers, lease administration professionals and strategic planners coordinates the delivery of comprehensive real estate services including 1,000 transactions totaling 150 million sq. ft. (14 million sq. m.) annually, and proactive management of over \$600 million in annual occupancy expenses.

This structure requires a more robust platform. If internal expense is to be minimized, the CRE department's need to leverage third-party resources will likely increase.

**Scope of services to be provided.**

A centralized CRE department can deliver a broad scope of services ranging from transaction management, to purchasing, to facilities management, to rent payment. Sophisticated technologies bring efficiency to the management of portfolio data, critical dates, and payments. Unconflicted procurement, pristine record-keeping, and detailed reporting abilities are particularly vital to public firms faced with Sarbanes Oxley compliance. For such public firms, selecting third-party providers that do not represent the landlord as well as the tenant is a prudent choice.

**Existing practices.** Companies that are relatively early in their structural evolution may adapt more easily to centralized CRE practices than those that have a long history of decentralized activity. When transitioning a traditionally decentralized organization, consider starting small and developing momentum via "wins" that can be documented via testimonials and case studies. As word spreads that the centralized organization has delivered successful real estate solutions, CRE's credibility and perceived value will rise throughout the organization. Equis clients have also found that introducing CRE centralization along with other major corporate initiatives can greatly improve the odds for success.

**Measures of Success**

While each organization is the best judge of its most valued measures of success, examples of other firms' experience can help set expectations and build support for centralization. The following sample metrics from three corporations demonstrate the value of CRE centralization (see Figure 2).

The trend in CRE, as with any corporate governance segment, is toward more accountability, better reporting, and maximized use of resources delivered at the lowest possible internal costs. CFOs are on the hot seat for accurate expense information; COOs are pressured to reduce SG&A expenses. A decentralized program can impede accurate documentation of occupancy expense. Further, decentralization can potentially promote inconsistent corporate image, distract regional resources from their core business, lead to wasted capital resources, and complicate compliance with corporate governance. Accurate information and capable resources must be available on-demand, and a centralized and intelligently designed CRE department is the most effective way to deliver. **>LEADER<**

Company Type	Key Metric	Baseline (Initiation of Centralization)	Status (Initiation plus 24 mos.)	Results
National Parts Supplier & Distributor	RE occupancy expense as a % of SG&A	5.86%	5.07%	13% reduction (\$20 million in annual occupancy expense eliminated)
Automotive Manufacturer	Real Estate cost per vehicle produced	\$43.04	\$38.65	10.2% reduction
Telecom Provider	Real estate cost per person workstation	\$6,431	\$4,153	35% reduction

Figure 2