A sound strategy

How centralized business decisions can work for you **Interviewed by Chelan David**

In the past, real estate departments were often under-utilized in the corporate hierarchy. Now, however, executives are keenly aware that having a sound corporate real estate strategy in place can pay huge dividends.

In order to operate most efficiently, some companies are outsourcing a portion of their real estate needs.

"Companies are outsourcing to maximize the use of internal resources on the core business functions and leaving noncore business items for outside experts to manage," says Ed Schreyer, senior vice president of CB Richard Ellis.

Smart Business spoke with Schreyer about how corporate real estate is evolving, the impact of Sarbanes Oxley and how changes within the real estate structure are affecting industry players.

Ed Schreyer
Senior vice president
CB Richard Ellis

What has been the greatest change over the past few years in how corporate real estate is being handled?

The traditional corporate real estate department primarily operated in a reactionary role. These departments historically reported through purchasing or supply chain management and the role was simply to execute transactions and preserve physical assets. They were viewed as a necessary evil by senior management and primarily a cost center that demonstrated or created no annual profit to the bottom line.

Magnified by the challenges to drive additional shareholder value and bottom-line revenue, companies are now empowering corporate real estate departments to become proactive and strategic to assist in these new initiatives. In order to effectively achieve this goal, there is a shift for corporate real estate to report directly to a CFO or through finance instead of procurement or purchasing as in the past.

What other internal changes are companies making to achieve these savings?

To facilitate portfolio-wide cost savings, corporate real estate decisions are becoming centralized. The structure is becoming aligned with upper management to drive the process back to the divisions or branches versus the opposite.

Historically, most corporate real estate departments worked within a decentralized decision-making portfolio structure. Many key decisions were left up to divisional or branch managers, and then run through corporate real estate in the latter stages of the project. There was also a disconnect between corporate levels as upper management failed to communicate new corporate objectives to the real estate department. Centralizing the real estate allows companies to implement company standards including space allotment per employee, image of facility, desired lease language clauses and insurance liability issues.

How has Sarbanes-Oxley impacted corporate real estate?

Over the past few years, 'post-Enron,' corporations have been somewhat handcuffed, or, at a minimum, fearful to utilize any creative off-balance sheet or alternative financing vehicles other than the standard. We are seeing a shift as most companies have established their Sarbanes-Oxley compliance processes and are now becoming more comfortable with alternative financing structures.

One of the innovative financial vehicles being used is the Port Authority lease. Once only used for public benefit initiatives, the Port Authority lease has been made more flexible in an effort to trigger corporate growth initiatives. While the Port Authority is just one example of new financing alternatives, it is very attractive to corporations with the ability to provide a very low fixed rental rate and complete financial transparency. These transactions can be much more complex to manage, but with the large financial savings potential, this trend will continue to gain momentum.

Outsourcing of certain real estate functions continues to be a growing trend. Why?

While companies have cut back in personnel to operate in the most efficient manner possible, corporate real estate departments have witnessed significant downsizing. As previously witnessed, companies will rely on more outsourcing to assist in their overall initiative. This outsourcing includes items such as transaction management, project management, facilities management, portfolio administration and a host of other internal functions covered within the corporate real estate department.

What effect, if any, will these changes have on investors and landlords of space?

These changes within the corporate real estate department structure will continue to affect landlords, developers and investors. To improve speed to market, real estate needs will be more clearly communicated upfront. Lease audits to determine the accuracy of operating expenses will be commonplace. The need for flexibility in space will be more important than ever. Quality construction and project management will be a necessity. Companies will look for landlords to provide such services in an effort to maximize their time and efficiency.

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