Strategically Positioning Your Real Estate Portfolio and Organization in Tactically Thinking Times

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The Challenge:

Real estate companies, real estate investment groups and corporate real estate departments know that they have issues they need to solve, performance hurdles they are not achieving and cost reductions they need to initiate. However, they just don't have a systematic framework to deal with the complexity of optimizing their real estate portfolio as well as optimizing their real estate organizations. The task is too daunting, the priorities too numerous and heck they have "day jobs" too. With the right team, the right framework and the right support I think most executives would be surprised that a crisp, clear vision for their portfolio and their organizations can be outlined in only 12 short weeks and can provide ample money saving ideas. Over 75% of real estate organizations do not have a strategic plan, not for their portfolio and not for their organizations. They, like kites, fly in the wind and are taken wherever the wind blows. And in this industry the wind can blow rather hard. When occupancy in office can drop 20% in 18 months, companies need to have a plan. When unemployment increases almost 4 fold in 18 months, companies need to have a plan. When the capital markets are pushing record number of dollars at real estate, companies need to have a plan.

Understanding where you are before going forward:

This is a boring and necessary first step. It is difficult to formulate a plan for the future when most companies do not have a crisp, clear view of the present. Portfolio metrics include: how much, where, how occupied, occupancy cost per square foot (for the user), cost per foot (for the owner), number of people per asset, per portfolio. Is all of that readily available in one report within minutes of your request? Along with the portfolio level metrics you need to get a baseline on your organization; the people, their skills, how they are measured and motivated, how comprehensive are the tools you equip them with, how streamlined is the process. Once you have the portfolio and the organization in its current state and have possibly surveyed some of your talent on the issues and challenges at present you can begin to review what others are doing and examine where you are presently in the real estate cycle.

Leveraging the competition and the trends:

This is always the fun part because it involves learning new things, keeping an open mind and developing the world of possibilities that you may be able to incorporate in your own organization and with your own portfolio. Who are your competitors? Who are the companies you want to emulate more? What do they do well? Keep in mind most companies have both; things they do better than others and things they do not do better than others. So you will want to examine many of them to find the "pearls" among them. You will want to also look at all your product types (office, warehouse, retail, multifamily, call centers etc.) and understand where they are in the "real estate cycle". What have the trends been the last 20 years for occupancy, absorption, supply and demand and what does forecasts look like for the future? What you are doing with this plan is looking at a 3-5 year horizon for your portfolio and your organization that supports your goals.

Reviewing the alternative paths:

There is rarely one path. There are usually many paths that need to then be bounced against your culture to see which one makes sense for you and your organization. There are many best practices to review in developing alternatives for your company.

For the portfolio, you will need to set some standards and objectives that are in alignment with the organization and the benchmarks and develop some hold, sell or acquire strategies around some various product types. On the assets you decide you want to keep you will want to explore the following alternatives: Financial strategies: use of debt, lease structures, and varies entity formats. Occupancy cost management which can save between 20-40% per year. Procurement and outsourcing initiatives, property tax reviews, lease audits, cost segregation reviews, energy management, rent re-negotiation. In addition to these areas for users of space you will want to spend some energy around consolidation opportunities, utilization of options, space standards and disposition of idle operations.

For operations you will need to review options to streamline the process, leverage new tools and link your organization structure to key performance metrics and incentives. You will also need to review options for market monitoring and opportunity identification (acquisitions). Sourcing new deals today have become more complex than ever, thus the need for a more detailed "game plan" to ensure success is required.

All of these strategies can lead to significant savings and better placement of resources (financial and human capital). There are a lot of options to review, thus the next step in prioritizing is best for your company to take on is essential.

Developing and implementing a road map to action:

Once you understand where you are and what the options look like in the context of the current cycle, you are ready to develop the strategic initiatives that will get you where you want to go the next 3 years. The projects need to be prioritized and evaluated based on the cost benefit to your company. Typically factors such as IRR, and payback periods are evaluated along side qualitative improvements to the organization. Taking on more than your company can digest will lead to failed initiatives, thus the prioritization is essential. Once you have prioritized the initiatives and key executives in your organization are bought into the top initiatives you will have the support you need to go forward towards the optimization of your portfolio and the organization that supports it.

It is very difficult to go anywhere without a map, a compass or at the very least a person pointing in the right direction. Strategic positioning is the tactic to take you there.