



ARE YOU OPTIMIZING YOUR REAL ESTATE?

By Lori G. Brown - President, Brown Real Estate Advisors

The energy sector is facing significant challenges. Growth in customer expectations continues. At the same time, customer service expectations continue to rise. And, while rate pressures increase, energy companies must reinvent themselves toward intelligent networks and clean energy solutions. An exhaustive set of challenges, to be sure.

All this adds up to one significant challenge: available capital. Energy companies need available capital, cash, at a time when it seems to be least available. This is evidenced in the growing number of companies looking for rate increases. Most executives have right-sized their departments and winnowed down costs to the point where making forward advances is difficult, if not impossible. And, with the coming retirement of a large portion of experienced service engineers and other critical knowledge workers, a fundamental transformation is coming, but where do the funds come from to pay for all this change?

Enter corporate real estate and facilities. Yes, that's right. Across the industry, billions of dollars in cash are locked up under-valued real estate holdings and leases. Our analysis shows that the average large energy company has \$50 million to \$100 million of capital that could be unlocked in their real estate assets. In a recent engagement with a large Midwestern energy company, we were able to identify and pursue \$70 million of capital and productivity savings that could be achieved in 18 months. Some savings accrued within 6 months.

The opportunities exist in many places. Excess capacity is a recent outgrowth of downsizing, rightsizing and shifting demographics. Our experience with energy companies suggests that as

much as 20% of occupancy costs can be reduced, regardless of existing lease terms. We also find that real estate holdings can be monetized, even in this capital constrained lending market. For example, some organizations are using sale-leasebacks, to unlock cash now without sacrificing the ability to buy back the building in the future. Another interesting possibility exists in moving to a new, more efficient building at lower occupancy costs than continuing to occupy a much older facility that requires capital investments and has high maintenance costs. In this soft tenant favorable market, companies can have their relocation and build-out costs paid for by the new landlord. Price points in the marketplace open up many possibilities.

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The tricky part is finding the right moves and making those moves quickly. For example, could you be storing pipes and repairing meters on a piece of land that would have greater value as a Walmart? If so, this is a highly underutilized site. Is a significant percentage of your work force considering retiring? If so, what about all the costly office space you'll be paying for as the attrition occurs. It's a compounding issue. Further, how much less space will you need when these workers are replaced with employees that expect to work anywhere and at any time?



Brown Real Estate Advisors has a unique approach. We combine depth of expertise in real estate solutions with detailed modeling and analytics to uncover the highest value opportunities, while tuning field and corporate office productivity.

Our analysis begins by looking at the values locked in the real estate portfolio. Three specific areas are analyzed in detail:

- Book to market opportunities - We look at the book value and mark the real estate and facilities to current market conditions and also project the impact of a healthier real estate market on property values
- Excess capacity analysis – We apply best practices in space utilization to determine gaps in current occupancy costs to what’s possible if new workplace strategies were implemented. The reduction in occupancy costs will be dramatic.
- Lease opportunity analysis – Much like a professional athlete who renegotiates his long term contract early, we believe similar opportunities exist in real estate. These are market driven opportunities.

Most real estate advisory firms would stop here and then start executing the transactions, but, in our experience, more analysis is needed to find the top opportunities and establish the right priorities. Further analysis is needed to avoid making costly mistakes, like selling a site that’s essential to your business and is irreplaceable because it has a high market value.

We then conduct in-depth analysis on field operations. While the analysis may vary, we begin by looking at productivity per square foot. Often this

analysis uncovers unknown “internal best practices.” These techniques applied across the board yield changes in space assumptions and unlock productivity at the same time. In some cases, service chain optimization using advanced modeling techniques is required to re-plan optimal locations and configurations to adjust the configuration and location of service inventory and field office locations.

The answer is further refined by analyzing underlying HR assumptions and HR strategies. Have you looked at outsourcing non-union positions? Can select positions be eliminated if you consolidate and no longer need them? Do you have a plan to recruit a new workforce that works differently than we do? All of these affect the space you lease or own which means they affect your operating costs.

Last, we put it all together into a prioritized list where the Net Total Market Value is calculated (net of transition costs).

Our focus is on unlocking capital, so we identify opportunities to generate funds quickly, which fund shorter term transformations...including how quickly you can free up a few million.

While the challenges facing energy companies seem daunting, BRE is ready to help. Through our unique Total Value Assessment, we can unlock 10’s of millions in capital; significantly improve field and office productivity and help companies move forward with their business and workforce transformation.

One simple step – BRE. One simple solution the Total Value Assessment for Energy and a framework for increasing shareholder value.

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