



RETHINKING THE MANAGEMENT OF REAL ESTATE ASSETS TO MAXIMIZE ROI

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

Introduction

The globalization of business and fierce competition is forcing corporations to reevaluate their approach to managing and using their real estate assets. Lowering costs, better utilization of facilities, higher workplace productivity and efficiency have all become critical priorities. Flexibility, of a seemingly illiquid asset, is both a challenge and an imperative. Businesses are pursuing a range of strategies to manage their portfolios so that real estate becomes a value creator rather than a cost center and inhibitor of profitability to the company.

Brown Real Estate Advisors provides companies the disciplined analysis to maximize their real estate portfolio's contribution to its core business and then implements portfolio objectives in the form of real estate transactions—even if the portfolio has already been scrubbed for opportunities. Our highly analytical and process driven approach to uncovering “hidden opportunities”, market expertise, negotiation skills, understanding of operations, customer service and a results driven compensation model are the cornerstones of our business model.

The Shifting Brokerage Paradigm

The relationship between real estate decisions and core business operations is often misunderstood and not well defined by most real estate service providers. Aligning objective real estate models with corporate objectives and the possibilities for adding value are not recognized or thoroughly considered. Typically, brokers focus entirely on transactions because that is how they earn their money. Brokers tend to follow traditional transaction approaches

that have been used for decades and focus on short-term results. Acknowledgement or awareness of their client's long-term strategic vision is rarely considered in their recommendations.

Not only direct but indirect costs and contribution to the short and long term success of the business requires service providers to evaluate and make portfolio recommendations from a broader “lens.” This requires new techniques for measuring performance, productivity, usability, functionality and risk to make informed real estate decisions. A typical measure, such as net present value, is no longer enough and can even elevate risk because the analysis is too narrow and too simplistic. Our clients frequently want to consider EBITDA, WACC, ROI targets and alternative uses of capital when they evaluate opportunities.

Market knowledge is no longer enough. Brokerage grounded in mathematics and aligned with key performance indicators will help companies make more objective, on-target decisions. Consensus for real estate decisions among various stakeholders, such as IT, Finance, HR, Marketing and Sales and Real Estate becomes achievable. The alignment of real estate strategy with the business' strategy creates value for stakeholders.

Shareholder focused companies strive to maximize return to their investors which is determined by several variables such as capital gains, dividends and related risk. This is generally facilitated through a corporate strategy that includes real estate. By definition, a corporate strategy has both short- and long- term impact, is not easily reversed, touches all

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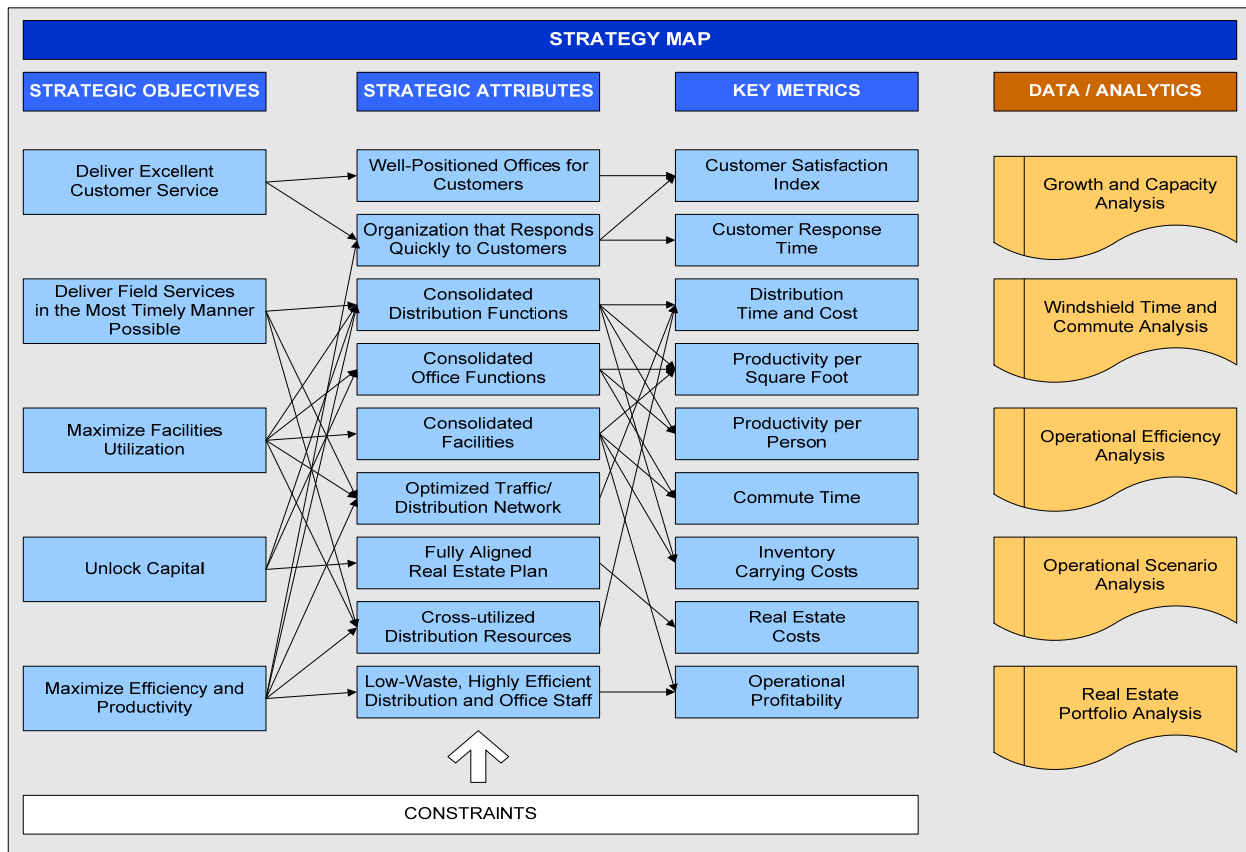
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functional areas of the company and defines the corporation's values. Real estate decisions should become integral to the company's vision and strategy. Quantifying performance measurements for support functions, such as real estate, has been challenging but is possible. It is also necessary to maximize real estate's contribution to shareholder value.

A Portfolio Strategy That Performs

Real estate is often the second largest asset on a company's books. Real estate is often taken for granted or ignored because it is everywhere, considered illiquid and frequently not measured by the same performance metrics as the rest of the company. Performance metrics for real estate

departments are typically cost per square foot or a percent reduction in operating and maintenance costs as well as capital expenditures. But if a company owns land, leases or owns buildings, *it is in the business of real estate*. And importantly, it effects several of the company's stakeholders—employees, customers, investors and regulators. Brown Real Estate Advisors maintains that real estate metrics are rarely aligned with the company's metrics and given the attention it requires by senior management. Thought leaders in the industry are embracing a new way of looking at real estate's value to shareholders. The Strategy Map below includes several ideas for inputs on strategy development, attributes, performance metrics and analysis.



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The sum of a portfolio of real estate should be more valuable to the enterprise than individual sites. Initially, companies need a high-level or holistic view of their total real estate portfolio versus individual asset analysis. Companies should familiarize themselves with total occupancy costs and current trends, which, at a minimum, would include and understanding of:

- Occupancy costs, NPV and WACC
- Operating and maintenance costs
- Annual and projected capital expenditures
- Debt
- Taxes
- Balance sheet impact
- Utilization
- Lease terms
- Flexibility
- Environmental risks
- Energy costs
- State and local economic incentive opportunities

The economy has impacted the space utilization of many companies and resulted in inefficiencies and excess space. Downsizing, outsourcing and reducing the space needed per employee through new workplace strategies have further contributed to space underutilization. Companies must be able to answer the following questions before individual asset strategies are developed and transactions executed:

- How does the portfolio facilitate current company objectives?
- How well will the portfolio support changes in direction of the business?
- How would future goals and objectives be constrained by current real estate commitments?
- What changes to the portfolio need to be made to better support the company's operational objectives?
- What expertise should my real estate partner bring to the proverbial "table" to enhance our internal expertise?
- Does my real estate strategy consider pending FASB regulation changes?

Rationalizing real estate, i.e., aligning supply with demand, can be important to achieving corporate goals and objectives—especially in challenging and unpredictable times. These up-front expenses incurred will likely be low when compared to carrying excess space or poorly located facilities.

Balance sheet impact of all real estate decisions should be considered in advance. Companies that want to remain flexible should own less and lease more. Disposition of excess space must be reported on balance sheets as an expense in year one regardless of lease expiration dates.

Potential changes in FASB regulations should be considered when developing a portfolio strategy. However, we would caution against letting accounting rules dictate a solution that would not make economic sense.



Summary

As the business world becomes increasingly competitive and pressure to reduce costs and run more efficient businesses grows, aggressively managing real estate portfolios will become even more central to corporate business strategy. Real estate is never benign. It either increases shareholder value or decreases it. Forward thinking companies are leveraging their real estate to facilitate their visions, goals and objectives to compete more effectively.

Companies without real estate departments are frequently outsourcing the management of their real estate portfolios to service providers like Brown Real Estate Advisors. We manage the entire value chain from strategy to planning and transaction execution. This results in greater productivity for company executives and allows them to focus on the core business.

Lori Brown is the President and Founder of Brown Real Estate Advisors, a commercial real estate advisory and brokerage firms that specializes in

portfolio strategy, site selection and transaction execution. The company services small- to mid-size corporations, both public and private, globally. It is known for its commitment to excellence in customer service, the integrity of its client relationships, deep analytics and negotiating skills. Our approach is always collaborative. Brown Real Estate Advisors prides itself on becoming a client's trusted advisor

Importantly, Brown Real Estate Advisors, unlike many real estate firms, exclusively represents tenants and will only work with one party in a transaction. We are never on "both sides of the table." Frequently, when the same firm is representing both owner and buyer or lessee, valuable information is exchanged that can compromise the negotiations and results for the client. Maintaining the integrity of our client relationships is paramount to our way of doing business.

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