Corporate Real Estate: An Interview With Experts

Panelists:
***Michele Flynn**, CRE*
President, Expense Management Solutions, Inc., Southborough, Massachusetts
Barbara Hampton
Consultant, Providence, Rhode Island
***Von W. Moody, III**, CRE*
Senior Vice President, Corporate Real Estate, Wachovia Corporation, Denver, North Carolina
***Martha A. O'Mara**, CRE*
Managing Director, Corporate Portfolio Analytics, Boston, Massachusetts

Moderator:
***Peter L. Holland**, CRE*
Partner, Bartram & Cochran, Inc., Hartford, Connecticut

INTRODUCTION

IT'S ALWAYS BEST TO START AT THE BEGINNING. AND BEFORE real estate can be discussed as an asset class or as something to be valued, leveraged, traded or securitized, it must first be seen as a place for the conduct of work. Put simply, the real estate industry begins with a tenant's demand for space to house its products, production or employees. All that follows in the real estate industry is the result of tenant demand. Accordingly, The Counselors of Real Estate does convene a standing committee on corporate real estate, and the topic is featured in a dedicated session on the program at each of our annual and mid-year meetings.

Recently, roundtable moderator **Peter Holland**, **CRE**, had the opportunity to speak with an exceptional group of thought leaders and practitioners in corporate real estate. In a discussion with CREs Martha O'Mara, Michele Flynn, Von W. "Buck" Moody, III, and also with Barbara Hampton, who has served in several corporate positions, most recently as vice president, Workplace Resources at Hartford Financial Services Group. Holland explored current corporate real estate practices and some of the ways in which Counselors could better engage with those charged with the responsibility of managing corporate portfolios.

HOLLAND: Let's talk about the role of the corporate real estate function within an enterprise—what it does and how it fits into the rest of the organization. Where should it report, for example?

HAMPTON: A real estate organization, or as I would prefer to describe it, a workplace organization, is responsible for housing a corporation's most cherished asset, namely its people. Employees are, after all, what creates a company's competitive advantage.

O'MARA: True, and I have observed that notwithstanding this importance of real estate, while it is not necessarily badly managed, real estate may be too often undermanaged. It has less to do with where it reports than with what it does. Clearly, being close to the CFO or close to power is helpful, but that is not the point.

HAMPTON: Correct—real estate needs to reside where it can do its best work, reporting to someone who under-

About the Moderator

Peter Holland, **CRE**, *is a principal with the Hartford, Connecticut-based real estate advisory firm of Bartram & Cochran, Inc. Previously, he served as COO and CFO of CoreNet Global, where he formed part of the thought leadership of the profession and had day-to-day responsibility for the strategic direction, finances and operations of the organization. Before joining CoreNet , Holland served as senior vice president for Hartford Financial Services. He has more than 25 years of consulting Fortune 100 and not-for-profit experience in the field of real estate.*

About the Panelists

Michele Flynn, **CRE**, *is founder and president of Expense Management Solutions, Inc., a Southborough, Massachusetts-based global advisory firm recently recognized as a Top Outsourcing Advisor by* The Black Book of Outsourcing. *Flynn has written and presented extensively on the subjects of procurement and sourcing strategy, supplier relationship management, global sourcing, administrative systems reengineering, real estate finance, shared service organizational issues and corporate real estate management. She holds a master's degree in business administration from Southern Methodist University, and is certified by the Costa Institute of Real Estate Finance.*

Von W. "Buck" Moody, III, **CRE**, *is senior vice president of corporate real estate for Wachovia Bank (now a part of Wells Fargo). In his more than 30 years of real estate experience, Moody has been involved in counseling, valuation, distressed property, due diligence, tax assessments and asset management, among other areas. In addition to the CRE designation, he holds the FRICS, MAI, CCIM, CAE, SRA designations, and a North Carolina broker's license. Moody also is a past regional chair and board member of the Appraisal Institute. His community service has included serving on the boards of various organizations including Rotary, and service with Habitat for Humanity, United Way and Wachovia's Diversity Counsel.*

Barbara Hampton *is a consultant based in Providence, Rhode Island. Previously, she served as vice president of Workplace Resources at the Harford, Hartford, Connecticut. From 2004-2005, she served as program manager for Corporate Real Estate 2010, a research and leadership development initiative for CoreNet Global, the professional association for corporate real estate and infrastructure executives. Prior to CoreNet Global, Hampton served as senior vice president of corporate strategy for Spaulding & Slye Colliers, working on strategy for both internal and external corporate clients. Hampton earned a bachelor's degree in economics and mathematics, magna cum laude, from Vanderbilt University in Nashville, Tennessee.*

Martha O'Mara, **Ph.D.**, **CRE**, *is a leading authority on the integration of corporate real estate planning with business strategic planning. She is co-founder and co-managing director of Corporate Portfolio Analytics, Boston, which applies portfolio planning processes, real estate market intelligence, and forecasting tools to corporate portfolios. O'Mara also lectures in real estate executive development at the Harvard University Graduate School of Design, and serves on the Harvard Alumni Board for Real Estate. She earned a bachelor's degree in social ecology is from the University of California, Irvine; a master's degree in both sociology and business administration from Harvard; and a doctorate degree in organizational behavior, jointly awarded by the Harvard Business School and Harvard's Graduate School of Arts and Sciences.*

stands the imperative of integrating human resources, information technology and real estate. This is no longer about bricks and mortar or even deals. It is about the conduct of work and the ability of a business to recruit and retain first-rate employees and to enable those employees to be as productive as possible.

FLYNN: Real estate may well report to a CFO, or perhaps to a COO in an industrial company—where it reports really depends upon the business of the organization itself. As companies begin to recognize how critical it is to integrate the functions needed to support their employee base, we are seeing the creation of an integrated shared services organization. In fact, the real estate or "box" is key, but so too are technology, human resources, food service, procurement, fleet, travel etc. They all enable work. We ask clients to think, and to think hard about the mechanisms and structures that make integration among these functions as seamless as possible.

MOODY: I, too, see corporate real estate's role as a facilitator of the core business. Real estate directors must ensure that they are fluent in the language of the business and that the real estate strategy is closely aligned with the corporate strategy.

HOLLAND: It strikes me that real estate directors are generally anxious about meeting corporate expectations. In particular, some of this angst would appear to be associated with a changing role for real estate within large organizations.

HAMPTON: Corporate real estate executives may well be nervous, and they are often at risk, but that is primarily in the event that they have failed to think and act strategically. But, directors of real estate really do need to make better decisions about their own roles, particularly considering the responsibilities they may have delegated to their outsourced service providers.

FLYNN: Both internal and external corporate resources must clearly understand what is required of themselves and of each other. The standard of performance is indeed very high, requiring excellent functional skills, an ability to enable technology, and flawless execution. The number of service providers who can manage the complexity—the depth and breadth—of a global real estate portfolio is, in fact, very limited. As more and more companies have outsourced, real estate directors now need to manage those outsourced relationships effectively. Given the tightening of the supplier market, we may see a return to "point" solutions utilizing multiple vendors. This has become more viable for corporations, as collaboration software tools now make it easier for companies to effectively manage multiple vendors.

MOODY: In my view, large-scale M&A activity has created a new set of demands on the corporate real estate executive. Such events generally result in redundancy of facilities and accelerate the functional obsolescence of certain properties within a corporate portfolio.

HOLLAND: Does the current economic recession create an opportunity for corporate real estate professionals to display leadership and to accomplish heretofore unrealized goals?

MOODY: The unprecedented challenges in the financial services industry have elevated the role of the corporate real estate function. Again, the wave of M&A activity is just one example. A lot of strategic thinking and assumptions and policies about matters such as lease versus buy have completely changed. There are still companies that don't maintain an accurate database of their portfolios. I would advise anyone with portfolio-wide responsibility to understand and actively manage that portfolio and to identify consolidation and expense reduction opportunities, not to mention for valuation purposes during the due diligence process. In our M&A experience, integration needs to happen fast for both operational and expense reasons. Integration requires a well-oiled real estate function.

HAMPTON: We have always known that we need to minimize costs and maximize flexibility through strong contract language in lease documents and purchase and sales agreements. This is even truer today.

O'MARA: Just knowing the impact of real estate on financial statements reveals that real estate can influence overall corporate performance. As Buck indicated, real estate needs to revisit how it analyzes alternatives such as lease versus buy decisions. Some answers given in the past are simply wrong. It is possible, for example, for a long-term lease to be less flexible and beneficial to the corporation than an ownership position. To a large extent, these are also decisions that properly reside in treasury or finance and not solely in real estate. Maintaining a predetermined ratio of owned and leased property is not a portfolio strategy.

MOODY: An acquisition, merger or any "life-as-we-know-it" event creates an opportunity to advance alternative office techniques such as hoteling, mobile work force or what we call "touch down" space for employees who no longer have a fixed office. We need to increase the efficiency of our space utilization. We now have 10 percent of our corporate real estate employees working remotely, at least to some degree. Technology will make it possible to work more and more in non-traditional space.

FLYNN: It would be unacceptable for an industrial concern to operate at 50 or 60 percent efficiency in a manufacturing plant, but corporations do this all the time with their office space. There is a trade-off, however. The cost per square foot may increase due to more expensive collaboration space, technology and building systems, but the number of square feet can drop dramatically. I see less space, but better space, and space that is used for longer hours to accommodate businesses that span the globe and every time zone. We find that the math works on this exchange.

O'MARA: The economy, as difficult as it is, does provide a "bully pulpit" for the real estate director. If a company is in survival mode, it will likely be willing to more closely heed a real estate department's advice. Companies are starting to recognize that office space is no longer used in the ways that it once was. Michele and Buck are correct about efficiency levels, but even dramatic changes may not require significant capital. One can, for example, go from assigned space to unassigned space without a lot of expense. It does require attention to thoughtful change management.

MOODY: The economy has provided the incentive, but the availability of technology such as VOIP and the widespread use of PDAs has sure helped to make it possible.

HAMPTON: In addition to the economy, corporations are also now looking to real estate for leadership on sustainability. Who can better calculate an enterprise-wide carbon footprint than corporate real estate? This of course also links to people working at home—it reduces traffic and the need to heat and cool office space. You asked earlier about organization, and in order to do these things, I should add that the real estate function must be centralized. Carbon tracking requires accurate and complete portfolio data.

O'MARA: The public accounting of a company's carbon footprint will drive change, but in order to really accelerate change there has to be some turnover in a portfolio. The default position was always simply to renew. We all know what it is like to try and consolidate space from head count reductions in small increments across departments and across a portfolio. Yesterday's "Swiss cheese" of vacant office space will now likely aggregate into meaningful blocks of space whereby material overall reductions of office space will be possible.

FLYNN: There have been a lot of good comments and observations here, but I want to add that people can no longer protect the old ways of doing business. There need to be some radical decisions to deliver efficiency and effectiveness. Good companies are seeing the human resources and real estate or workplace areas designing and implementing overall corporate workforce strategies. Given this strategic focus, outsourcing of many traditional real estate functions continues as a trend.

HOLLAND: We have touched on outsourcing already, but let's discuss the topic further.

FLYNN: Many functions can clearly be successfully outsourced, and there is a proven track record of corporations and service providers structuring excellent arrangements. In no small measure, successful engagements result from the alignment of objectives by the two parties. Such tasks as project management and lease administration, for example, can work well. In other areas, however, the persistence of a brokerage commission-based compensation structure can be problematic as it can serve to misalign objectives. And commissions simply may not be able to support all of the work. Whereas corporations have expected to receive real estate strategy services for "free" as part of a larger deal, I would suggest that such services might be better delivered with direct compensation. A weak economy will further exacerbate the commission-driven model.

HAMPTON: I agree that the process of developing a meaningful strategy is a great example of something that has value and, as such, merits compensation to a vendor. I want to add that the "whole package" of compensation needs to be fixed.

MOODY: The size of a deal or the rate per square foot may be unrelated to the strategic value of a deal to a business. ATM locations are a good example of something that could have strategic significance to a bank, but that yield very little income to a service provider in a commission-based contract. The working interactions between corporations and service providers need to result in solutions that provide adequate incentives for such non-conventional service.

FLYNN: We are recommending a number of alternative compensation structures, such as a fixed price per square foot per annum, variable unit cost models whether a deal is done or not, or some other fixed or flat rate management fee. In addition, we'd like to see service providers put some of their fees at risk, based on performance.

HOLLAND: You have provided some wonderful observations on the corporate real estate industry today. How can members of The Counselors of Real Estate help?

O'MARA: The visibility of the corporate real estate industry needs to be raised in general, and within The Counselors of Real Estate in particular. It is not a backwater, but as you pointed out, tenant demand drives the entire real estate industry. I also believe that corporate real estate as an industry requires stronger and better thought leadership.

FLYNN: There is a need for more competition among the integrated service provider firms, particularly from firms with true global capability. There are yet unmet opportunities and some of these opportunities can be met by Counselors.

MOODY: There will be opportunities for Counselors from among mid-cap companies, banks, and special asset groups in banks of all sizes. Obviously, the distressed properties work right now is an example of a tremendous opportunity for Counselors to provide guidance for the financial services companies. And, Counselors should think about providing assistance to corporations with a presence in smaller second- or even third-tier cities.

HAMPTON: There are also opportunities to make productive business connections in other organizations, such as IAMC or CoreNet Global. I know that many Counselors also participate fully in those organizations. I agree with Marti that Counselors need to continue and even elevate the presence of corporate real estate on their meeting agendas and within this publication. Counselors who wish to expand their practice areas into corporate real estate may wish to consider the organizations I just mentioned.

Corporate real estate organizations need internal and external talent to undertake their work. They need broad-based business skills, great communicators and people with technical expertise. I submit that The Counselors of Real Estate is a great place for corporate real estate executives to source this talent. ■