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Corporations Rediscovering Real Estate

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Corporations are re-discovering the importance of real estate assets on financial performance. Companies have come to realize that, no matter what their core business might be, they are also in the real estate business. Secondly, companies are engaging professional real estate advisors to assist them in evaluating, reducing costs, and analyzing their real estate assets.

U. S. corporations own or lease more than 15 billion square feet of space and nearly 140 million acres of land, with an estimated asset value of $1.5 trillion. In a typical company, real estate assets, (owned or leased), account for approximately 25 percent of total assets or liabilities on the balance sheet, 54 percent of shareholder equity and 340 percent of the value of cash and equivalence. Corporate real estate expenditures account for as much as 20 percent of the total expenses on the income statement, 8 percent of gross sales and up to 60 percent of gross profit, (ref. Price Waterhouse).

Yet, as Corporate America has come to realize the financial impact of real estate on business results, it has also discovered another phenomenon as well -- by and large, companies do not effectively utilize and manage their real estate because they do not understand how to measure real estate performance.

With these levels of capital being expended on real estate, one can understand why many companies have chosen to engage professional real estate advisors to focus on an area of the corporation's business that has historically been ignored or under-managed. The business maxim, "If you can't measure it, you can't manage it", is particularly true of corporate real estate with the potential to cause major financial consequences for the company.

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Enter the real estate advisor who can provide three measurement processes:

1) Process Measurement;
2) Performance Measurement; and
3) Payoff Measurement.

PROCESS MEASUREMENT is used by the real estate advisor to identify and track those real estate tasks in which quality and service defects can occur. Through the use of measurement criteria and standards, the real estate advisor designs and focuses the work process, thereby anticipating and preventing problems before they occur. The result is an effective tool for communicating a company's real estate performance to management.

The real estate advisor uses **PERFORMANCE MEASUREMENT** to provide a basis for evaluating the efficiency and cost effectiveness of individual properties or groups of properties.

The results are compared against pre-determined standards and/or compared against industry bench marks.

When properly executed, performance measurement will provide the following:

- The corporation is able to understand its performance as managers of their property portfolio through comparison of results with independent market data.

- Management is better able to understand the impact of real estate on their operations and bottom line by comparing real estate utilization and costs from one unit location to another.

- The real estate advisor can make recommendations on how to reduce operating costs and improve performance.

- Management and it's real estate advisor are able to evaluate the impact of proposed real estate transactions against pre-determined norms and standards.

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PAYOFF MEASUREMENT brings together all the real estate actions during a period of time undertaken by the real estate advisor and delineates the financial results of these actions as the payoff, or value created, for the corporation's investment in the real estate advisor. By netting out the periodic cost of the real estate advisor, the dollar payoff of real estate actions can be measured in nominal dollar and net present value terms.

By discounting the pro-forma cash flows by the cost of capital, the present value of real estate decisions and activities can be tracked and compared in real dollar terms. Thus management is able to compare results achieved by the common comparable of created value expressed in net present value terms. The resulting improved income statement serves as a communications tool whereby the corporation and its management become more aware of the importance of real estate decisions on financial results.

Therefore, by engaging a professional real estate advisor to assist management, the corporation can take an investor-portfolio approach to managing their real estate, allocating limited amounts of funds to real estate transactions which can produce verifiable returns on the corporation's investment.

The real estate advisor's connection with the corporation is relationship based over a longer term rather than based on the typical one time only transaction. By better understanding the corporation's business, and by using process, performance and payoff measurement, the real estate advisor can provide essential tools to management for determining the present effectiveness of real estate assets, identifying areas for improvement, and establishing targets for future results.

Editor's Note: James T Saint, Real Estate Advocate™ of Halo Realty & Investments Corporation is a CCIM, (Certified Commercial Investment Member). One of a network of 9,000 professionals across North America and 30 international countries holding one of the most coveted and respected designations in the industry, and one often referred to as the "Ph.D of commercial real estate". Mr. Saint specializes in large industrial and office properties for lease or acquisition, as well as tenant or corporate advisory services for improvement of the corporate bottom line. He may be contacted at Tel: (702) 838 - 4226, or by using our web mail form at: www.halorealty.com/contactus.htm.

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