

# VALUE CREATION AND THE CONTRIBUTION OF CORPORATE REAL ESTATE

Mapping Enterprise Value and Driving Positive Financial Impact

**Corporate real estate (CRE) traditionally has been** positioned as necessary overhead, a cost of conducting business, and has been managed tactically and reactively. CRE executives historically have struggled to provide services in an environment in which cost management was a main focus. While typically the second or third largest expense on the corporate balance sheet, real estate only recently has been receiving the proper attention by members of the C-Suite, and its value as a strategic asset is now well documented. At the same time, CRE executives are challenged with articulating how real estate can have a positive financial impact and contribute measurable value to the organization, beyond the traditional “rear-view mirror” metrics that most CRE executives track, e.g., occupancy cost, vacancy, square footage, etc.

One way to articulate and demonstrate CRE value contribution is to identify the links between real estate activities and specific financial statement drivers. The links can be drawn using Deloitte Consulting LLP’s Enterprise Value Map™ for Corporate Real Estate (EVM). It is a proprietary tool that maps discrete business activities to the drivers that create or enhance an organization’s shareholder value. By figuring out (1) what you can do that will make the most difference, (2) why you’re doing what you’re doing, and (3) how to do the right things better, the EVM helps to identify ways in which the CRE function may contribute to improving financial performance and enhance decision-making.

The EVM is structured around several key components, both financial and non-financial, that impact shareholder value. The value categories are: Revenue

Growth, Operating Margin, Asset Efficiency and Expectations (governance, execution capabilities, and external factors). Within each of these categories, key levers can affect improvements by either modifying current practices or introducing new practices. It provides a framework for identifying specific opportunities and actions that can improve the bottom line.

## CRE VALUE DRIVERS IN THE ENTERPRISE VALUE MAP

CRE plays a significant role in creating value in the Operating Margin and Asset Efficiency categories. In Operating Margin, CRE activities affect the organization’s income statement through its contribution to the category of Selling, General and Administrative costs (SG&A). In addition, CRE influences Asset Efficiency through driving the costs related to Property, Plant and Equipment (PP&E) on the balance sheet. Using the EVM, CRE executives can drill down to discrete real estate and facilities activities, processes, decisions, and behaviors that may be changed to positively impact the company’s bottom line.

These specific, actionable real estate improvement areas either involve modifying current practices (“Do what you do better”) or introducing new practices (“Change what you do”), and generally fall within >>

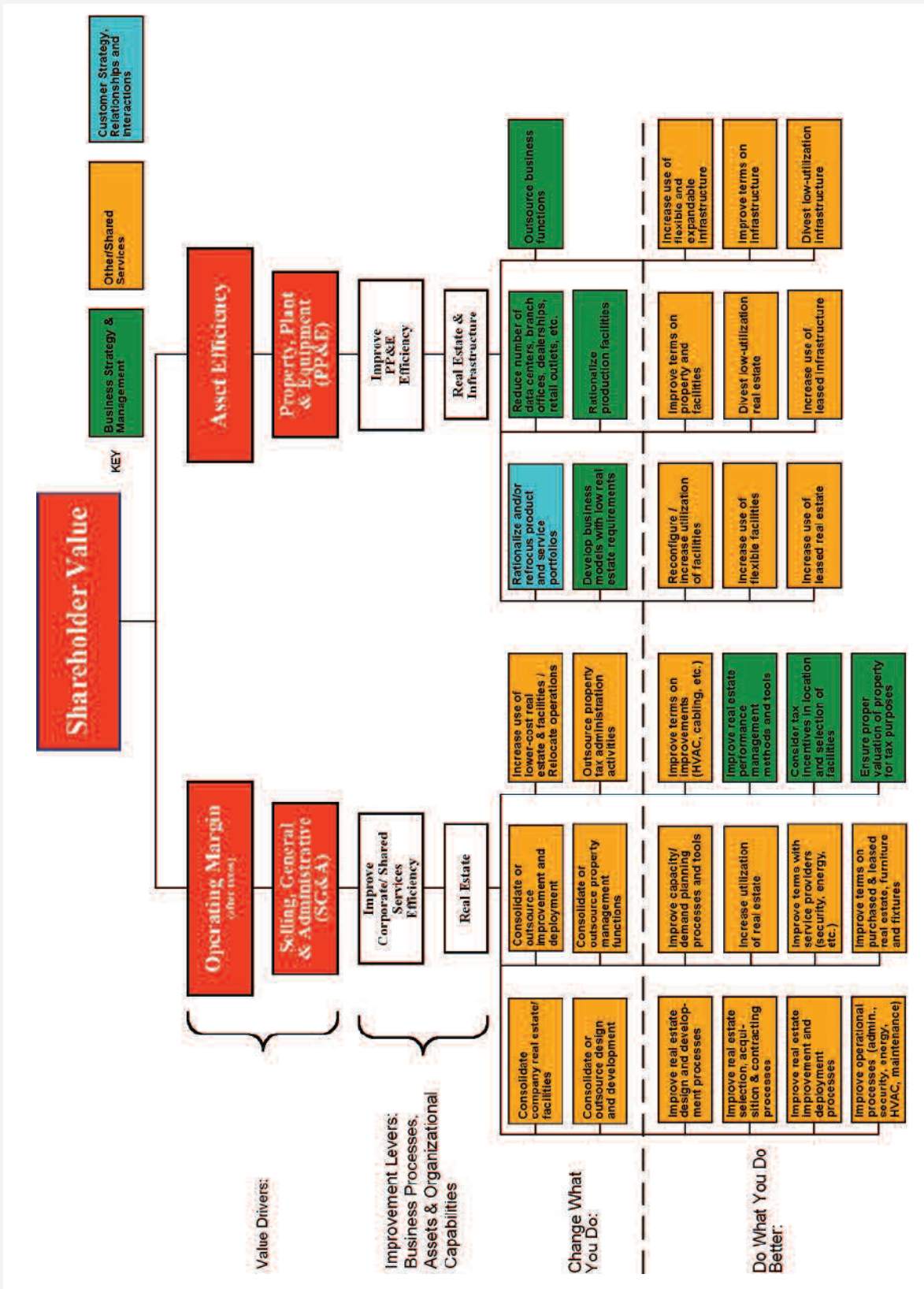


Figure 1.

the following four main areas: CRE Strategy and Portfolio/Asset Optimization; Organizational Design and Functional Alignment; Operational Processes and Performance Measures; and Technology Changes.

### **CRE Strategy and Portfolio/Asset Optimization.**

Each of the activities/opportunities mentioned above may be addressed as a separate improvement initiative or as part of a broader, coordinated workplace, real estate/portfolio, and infrastructure strategy. Leading organizations recognize that traditional methods of evaluating real estate events as one-off analyses limits the ability to capture potential opportunities to provide high quality workplaces that enable the work force and improve productivity, while optimizing asset utilization and leveraging the real estate market (*see Figure 1*).

As part of a coordinated strategy, these EVM improvements will clearly demonstrate to senior leadership how CRE strategy aligns and supports an organization's business strategies and plans. Moreover, it will enable the CRE department to engage management in a strategic dialogue on how the workplace and related strategies impact their business on both short- and long-term bases.

### **Organizational Design and Functional Alignment.**

Following are select examples of EVM components that address CRE organizational and functional changes that may contribute to positive impact to the financial statements of an organization (*see Figure 1*).

As the pace of business strategy change increases, demands are placed on the CRE function to become more agile, address workplace requirements more proactively, and become more strategic in focus. Given limited time and resources, along with a broadening emphasis on performance, governance, transparency and accountability, the role of the CRE function needs to evolve to better support the evolving needs of the organization. The CRE function needs to assess the appropriate capability sourcing models and manage talent effectively. Part of the bigger question is what should remain in-house and which functions should be outsourced. Among the continuing challenges are:

- How to elevate the internal CRE staff to more strategic performance through proper career development, training, and focus

- How to manage suppliers and providers as supplemental resources and effectively measure performance
- How to enable CRE to offer an elevated level of user or customer experience of the workplace

The EVM and a process-driven assessment provide a path to help define and evolve the CRE function to address workplace needs of the future. Ultimately, a more efficient organization reduces duplicative efforts, provides better workplace design and delivery, and enables proper cost management at each level of the CRE function.

### **Operational Processes and Performance Measures.**

The following are specific examples of EVM components that address CRE process changes that may contribute to positive impact to the financial statements of an organization (*see Figure 1*).

End-to-end process improvements represent a proven way to address inefficiencies and reduce cost. The CRE function traditionally is organized around discrete operations (transactions management, portfolio management, design and construction, facilities management, etc.) with little consideration of the coordinated processes and technologies that are shared between these operations throughout the real estate life cycle. As a result of this lack of end-to-end process view, traditional CRE operations struggle with poor process hand-off, lack of responsibility alignment and process accountability, insufficient technology enablement, and a loss in valuable life-cycle knowledge. In addition to the lack of process orientation, cross-functional performance management was non-existent and created silos of operations.

**Technology Changes.** While there are no specific Information Technology (IT) actions in the EVM, IT enablement underlies >>

all of the real estate-specific improvements suggested in the other three categories. The principle CRE IT change described in the EVM is the implementation of integrated applications to support the entire life cycle of real estate activities. The ideal scenario is that a single, Web-based integrated solution supports all of the operational areas within CRE. The solution should be workflow-enabled and should also capture the data required for key performance metrics as a by-product of supporting the execution of day-to-day activities. Optimally, CRE information systems should be seamlessly integrated with enterprise ERP systems, such as SAP and Oracle, and, to the extent possible, should leverage the inherent capabilities of those solutions (see *Figure 1*).

### VALUE-PRODUCING REAL ESTATE IMPROVEMENTS

To gain a better understanding of how the EVM can enhance value creation from CRE, let's look at a couple of specific examples.

The first example is a strategy change to “reconfigure and increase utilization of facilities” as part of the Asset Efficiency category. An organization may choose to rationalize its portfolio of spaces to increase asset efficiency. After making decisions regarding the core portfolio holdings, a restacking process begins. Part of the outcome of the change in strategy is that Business Units can no longer “hoard” space for fear that space may be unavailable in the near term for planned growth. To enable cooperation in giving up space, the following improvement options may be considered:

- Improve demand-forecasting process and provide better scenario planning tools and methodology to balance the uncertainties of the forecasting process
- Increase the use of flexible portfolio of spaces to confirm that spaces are available based on a generic fit-out
- Increase the use of flexible planning modules to reduce space churn
- Improve space allocation and approval processes to reduce cycle time
- Institute a space charge-back process to motivate the release of under-utilized space

As a result, the Business Units are willing to release space with an understanding that space will be available and delivered within an improved process framework. Business Units over time will come to

trust a system that includes the right balance of strategy and process changes.

A second example is a process change to “improve real estate selection, acquisition, and contracting processes” that impacts the SG&A costs within the Operating Margin category. To improve upon this process, the organization looks to centralize disparate efforts by the Business Units to negotiate leases in the marketplace without the involvement of the CRE function. While traditionally the organization has used a decentralized approach to handle real estate requirements, the need for better cost management and an increase in the transparency of obligations and risks drove the centralization of the leasing process. Along with this process change, the following improvement options may be considered:

- Senior leadership commits to the new CRE leasing policy and widely communicates the service availability and value proposition
- Structure centralized leasing services in a value-add menu approach and incrementally deliver value for each real estate deal that Leasing services may be involved in
- Re-organize CRE operations to confirm that end-to-end processes have the capability to deliver the required space in a qualitative, timely, and cost-effective manner
- Provide business case studies that demonstrate the “trophy deals” and internally market the benefits, financial and non-financial, to the Business Units

Potential outcomes of these improvements include the Business Units' willingness to use the services of the central CRE leasing operation and the resulting negotiated leases being the best deals possible in the current market. The organization will incrementally improve the portfolio of lease holdings, and improved leasing rates over the course of the life of the lease will create a positive financial impact. >>



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These are just two examples of a long series of possible value contributions and positive financial impact that can be driven through real estate activities within the EVM framework.

#### VALUE ORIENTATION

The EVM is more than a methodology or tool kit; it is a living framework that may be revisited from time to time and evaluated during real estate and workplace strategy discussions. It is a practical approach that speaks the language of the C-Suite and provides a foundation for ongoing discussions with senior management as well as Business Unit leadership. EVM directly links CRE activities and behaviors to their impact on the organization's financial statements. It provides a spring-board for strategy, portfolio, organizational, process and technology improvements and provides a practical and use-

able framework to help CRE organizations deliver tangible value to the enterprise.

Now is the time to start taking concrete action to create value. You have to insist on change by orienting your organization towards a value mindset. By identifying specific actions that create shareholder value, you can demonstrate the contribution that CRE makes to the organization's bottom line.

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