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Portfolio Management In The New Millennium

By Barry Saywitz

In the new millennium corporations will be looking for innovative ways to increase bottom line profits, control costs, and streamline processes. The continuing evolution of advanced technology, as well as continued corporate growth through expansion and acquisition, require corporations that have significant real estate portfolios to reevaluate how they monitor, maintain, and address their real estate issues. Many corporations have looked to outsource a number of functions related to their real estate portfolios. In addition to brokerage transactions, we may see a trend toward outsourcing lease administration, construction management, and strategic planning.

Brokerage services

With respect to brokerage services, today's commercial real estate brokerage firm is far different from those of the past. In order for a corporation to successfully implement an outsourcing program, it will need to align itself with a brokerage vendor that has the capabilities to identify potential sites for

new leases or relocations. Having a single point of contact is also imperative to create standardization for the corporation's portfolio and its lines of communication to its operating entities and branches throughout the organization.

This process begins with the brokerage vendor's understanding of the client's business plans, its business issues as they relate to the real estate, and its goals and desires in the future. The brokerage vendor should have local market expertise and produce results in a timely fashion. The single point of contact should be the "quarterback," coordinating within its own organization to ensure that the client's goals and objectives are conveyed to each local market. A complete outsourcing of brokerage services should include—but not be limited to—relocations, lease renewals, expansions, disposition, subleasing, and acquisition services. It is imperative that a standardized process be formulated from the onset to ensure that as different requirements occur, the

integrity of the process remains the same.

When in search of a real estate outsourcing vendor, a company should view its vendor as a business partner. The difference between a business partner relationship and that of contractual services varies greatly, not only in each party's interpretation of the relationship but the implementation as well. Those companies that provide real estate services and view their relationship as a means to expand their own business, and those that view their client's real estate as if it was their own, will have a tendency to apply a more thorough and creative approach to addressing real estate issues.

Those vendors who apply a transaction approach will typically be less concerned with the business implications of each transaction and more concerned with the micro issue of closing the transaction and collecting a fee. The relationship between a corporation and its real estate vendor needs to be a "win-win" situation for

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both parties. The vendor must view its role as a cost protection device for the corporation as well as implementing a real estate program consistent with the company's overall business plan.

The outsource vendor's results should be based upon not only the functional benefits to the corporation's internal processes but the bottom line cost savings and client satisfaction received from each individual branch and operating entity. This business partner relationship should also serve as a customer relations function to each branch to ensure that the individual real estate requirements, needs, and desires are addressed.

Lease administration

The ongoing monitoring of lease expirations, operating expense increases, common area expenses, and other ancillary costs can become a cumbersome and people-intensive process. The constant changing and rollover of leases, combined with the relocations and expansions within a given portfolio, must be attended to in order to maintain a firm control over real estate costs and strategically plan for the future.

When evaluating brokerage services, corporations should look to their real estate vendors to address how they may be able to assist in the lease administration aspect of the real estate program as well. Many real estate companies provide their own software programs and have the ability to customize an outsourcing program to address the lease administration portion of the process. Outsourcing this aspect of the process may result in lower real estate costs for the corporation and a greater sense of accountability for controlling the portfolio and its related costs. In some instances corporations

have been able to outsource the payment of rents to their landlords and eliminate the internal costs associated with the maintenance of that aspect of the real estate.

Construction Management

The overall real estate process does not end once a lease is signed or the commitment is made to relocate or expand a facility. Once the contract has been executed, someone must physically improve the property and also coordinate the physical relocation. There are a number of potential pitfalls that occur during the construction process that not only affect the functionality of the real estate process, but also the bottom line. It is imperative that construction schedules are adhered to and that a tight control over the construction costs is maintained. An outsourcing program can be structured to provide the vendor with incentives to ensure that these issues are addressed and that the corporation is not exposed to additional costs or time delays that will ultimately affect their business.

By outsourcing the construction management portion, a corporation will have the ability to employ individuals specifically designed to monitor and control the construction process for each of their locations. The additional sense of accountability and the structure of a results-oriented relationship should provide the corporation with a greater ability to control this aspect of the process and its related costs.

Strategic planning

Corporations should look to their real estate vendor to take a proactive role in providing cutting-edge technology and a creative approach to its own business

plan. The application of demographic information and the analysis of a company's workforce, client base, and growth of specific sectors of the industry should be applied to the real estate decision-making process. This application will help determine where specific sites should be located and how they relate to the company's business plan in the future. Real estate leases are a financial commitment for extended periods of time and, as we all know, corporations' business plans have a tendency to change and those changes ultimately affect how the real estate is utilized.

Conclusion

The value of outsourcing specific real estate functions should provide cost savings, functionality, standardization, access to cutting-edge technology, and increased expertise. Those corporations that are proactive in evaluating the costs and business benefits to creatively analyze how they maintain the real estate portfolios in the future, will be those that are least disrupted in the event of fluctuations in the economy or the real estate markets around the country. These corporations will provide themselves a greater ability to increase their overall profits and effectively manage their real estate portfolios.

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