CB RICHARD ELLIS
GLOBAL RESEARCH AND CONSULTING

SPECIAL REPORT

What is Your CoRE Strength?

What Practices Drive Performance in a Corporate Real Estate Organization?

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It's no secret that having an effective corporate real estate (CRE) organization in any company creates an environment where achieving efficiency is easier. CRE professionals are challenged, however, by the issue of which specific practices create an effective CRE organization. Furthermore, companies have difficulty determining how much difference actually implementing those practices makes.

In a recent global study, CB Richard Ellis examined the operational characteristics and efficiency of large corporations to better understand the correlation between a CRE organization's tactics and strategy, and the resulting efficiency of their portfolio.

STUDY PARTICIPANT AVERAGES	
Revenue (2009)	$52,361,333,333
Market Cap	$78,724,000,000
Employees (2009)	132,852
Portfolio Size	18,308,800
Fortune 500 Rank (2010)	97
Global Fortune 500 Rank (2010)	235

Throughout a series of interviews with CRE executives and business unit leaders worldwide, certain specific practices that drive performance within a CRE group emerged as clear differentiators. When participants were asked what gives their CRE organization the most influence to drive greater efficiency over their real estate portfolio, the following eight factors were identified as the most critical in the current economic environment.

1 BUSINESS UNITS ARE ALLOCATED A COST FOR THEIR OCCUPANCY

Although the methods by which occupancy costs are allocated across business units vary widely across study participants, nearly all participants stated that having a cost allocation system in place is critical to effectively managing their portfolios. Without this system in place CRE serves only as a conduit to execute deals or track occupancy expenses--not as an organization responsible for strategically managing costs and providing space to stimulate productivity. Multiple study participants stated that this is one of the most fundamental steps to gaining control over their portfolio and regulating the amount of space business units occupy.

2 CRE IS INCLUDED PRIOR TO FINALIZATION OF MAJOR ORGANIZATIONAL CHANGE

Most participating companies have been through a major organizational change over the past decade. Whether an acquisition, merger, or organizational restructure, participants stated that their ability to understand and proactively plan for the effects of major organizational and operational changes allowed them to identify strategies to rationalize and optimize the portfolio, and increase overall efficiency.

3 CRE IS CHARGED WITH IMPLEMENTING/ CREATING AN ALTERNATIVE WORKPLACE SOLUTION (AWS) STANDARD

The majority of companies interviewed maintain some type of AWS program, either fully implemented or in early stages (this trend was most evident among European-based companies). These programs varied widely depending on the company, some involving work-from-home or telecommuting options, while others were simply efforts to create a more collaborative and productive work environment. Regardless of the type or depth of the program, study participants revealed that their control over the AWS implementation (rather than IT, HR, or another corporate function) allowed them the ability to create efficiency through an ongoing portfolio optimization process.

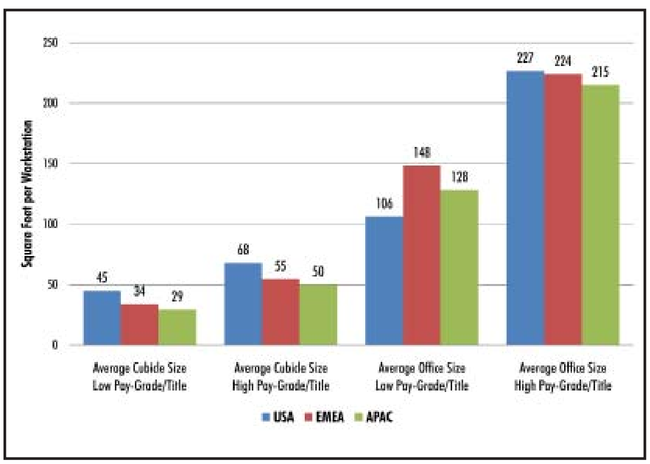
4 CRE IS FULLY INTEGRATED INTO CORPORATE COST-REDUCTION INITIATIVES

Given the current economic environment, many corporations have been forced to drastically cut costs to meet business performance goals. In these circumstances, study participants stated their ability to control the real estate portion of this exercise was fundamental to delivering portfolio efficiency. CRE study participants that were forced to dispose of space quickly in an effort to reduce costs—with little thought to strategy—were more negatively affected by the economic downturn versus those without this issue.

5 CRE OVERSEES AN OFFICIAL SPACE STANDARD

Nearly all participants said the ability to hold business units accountable to a specific space standard (based primarily on pay or title bands) was crucial to their ability to maintain efficiency within the portfolio. Regardless of whether outside consulting firms or architects were engaged to recommend the right size office, cubicle, or conference room, those official standards give CRE the ability to hold business units to an acceptable level of occupancy in most situations.

Drastic Differentials in Space Standards Internationally



6 DEFINED ESCALATION PROCESS WHEN CONTESTING STANDARDS

In many cases a deviation from a corporate-backed space standard may be necessary (e.g. legal offices, client facing facilities, etc.); nonetheless, study participants noted that a clear escalation process for business units contesting space standards was essential. In most organizations, having a well-defined escalation process for business unit requests that do not receive preliminary approval resolves the issue without further C-suite involvement.

7 APPROVAL REQUIRED FOR TRANSACTION EXECUTION

When business units execute real estate transactions without the assistance (or in many cases the knowledge) of CRE, the ability to control the portfolio is tremendously hindered. Executing transactions without requiring approval is akin to driving a bus with no steering wheel — it is nearly impossible to control efficiency and direction. Conversely, when a corporate mandate is in place that gives CRE the authority to approve/disapprove transactions in accordance with overall corporate governance and controls, its ability to increase efficiency improves dramatically. With a corporate mandate in place, business units are essentially forced to self-police their use of square footage, knowing most decisions will face scrutiny.

8 CRE DATA SYSTEMS ARE LINKED TO HUMAN RESOURCES (HR), INFORMATION TECHNOLOGY (IT), FACILITIES MANAGEMENT (FM), AND OTHER RELEVANT CORPORATE FUNCTIONS

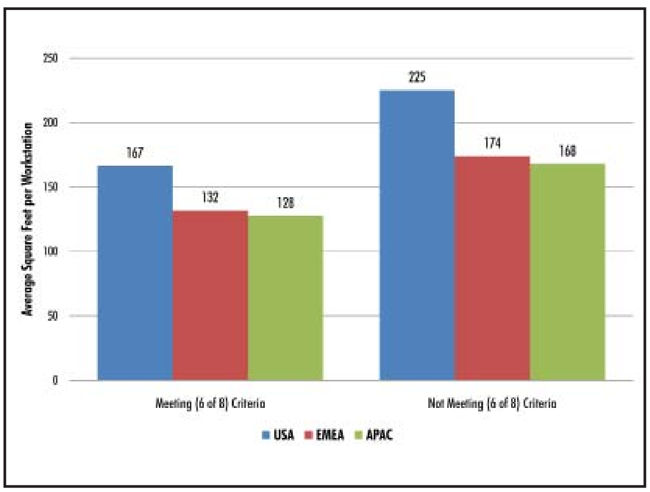
While occupancy expense, power usage, headcounts, vacancies, etc. are all typically tracked by study participants in one way or another, these systems are often not linked. Study participants noted that if their real estate data tracking systems were in synch with those of other corporate functions, their ability to proactively plan for their space increased efficiency substantially.

As these eight primary items were consistently repeated as the most effective practices within a CRE organization to drive efficiency, the study next sought to determine some of the differentials between companies that follow these practices versus those that do not. Given that all study participants vary widely in adherence to these practices, the threshold of implementing at least six of the eight practices was used as the criteria for establishing CRE groups' "effectiveness." Results showed that approximately 53 percent of study participants fell within this grouping.

Efficiency is measured in many ways through various metrics. While vacancy and square footage per person metrics are the typical indicators of a portfolio's efficiency, results are skewed across corporations in certain industries due to the large levels of vacancy created by the current economic climate. Additionally, the usage of AWS varies widely across global participants not allowing for an apples-to-apples comparison of efficiency using these metrics. Given these issues, portfolio efficiency in this study was determined by evaluating square footage per workstation. By doing this, the aforementioned issues are mitigated as much as possible, allowing for a more direct comparison of efficiency. Furthermore, the study analyzed only office space; non-office facilities (call center space, industrial, warehouse, etc.) were removed from all calculations of efficiency.

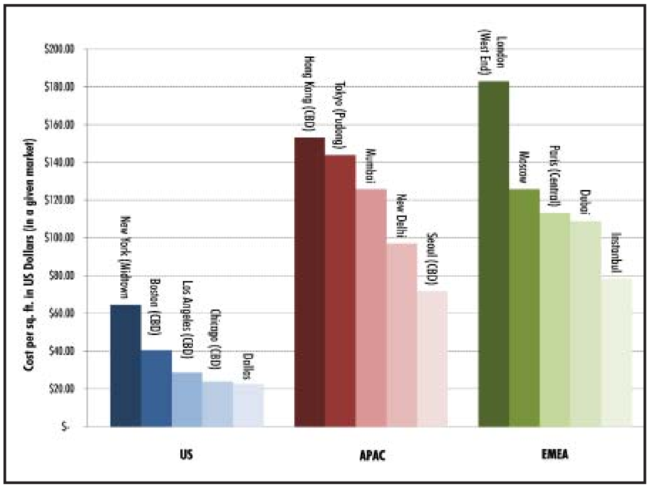
The study results showed that effective CRE organizations have a 24.9 percent lower square footage per workstation measurement globally; as shown below, the differential in efficiency is apparent across major office occupier regions of the globe.

Participants Meeting Study Criteria Maintain Higher Efficiency (SF/Workstation)



While an approximate 25 percent reduction in square footage per workstation ratio does not equate to a proportional decrease in portfolio size or cost, it clearly illustrates a correlation among CRE groups utilizing the tactics and strategies previously outlined, and their ability to effectively manage their portfolios. On the surface this differential may seem insignificant; however, the average portfolio size of study participants was 18.3 million square feet. Conservatively, if only an estimated 10 percent portfolio reduction is possible after the implementation of the tactics and strategies, a CRE organization's (using an average cost of $20.00 per square foot for office space) run rate savings equates to approximately $36.6 million dollars annually. This does not include the additional opportunity associated with the reduction of furniture, fixtures, and equipment (FF&E), facilities management costs, and a host of other areas where reduction may be possible. Nor does is it account for the increase in possible savings outside of the United States, where occupancy costs are significantly higher.

Large Differential in Office Costs Worldwide



The study is only a sample of sizable companies; some operational and economic factors that impact the efficiency of a company simply cannot be mitigated. Some companies provide amenities and spacious workstations to their employees as a perk or see it as a requirement for productivity, thereby lowering their efficiency per the metrics used in this study. However, corporations that utilize the effective CRE tactics and strategies outlined in this study, but have poor efficiency measures, tend to be the exceptions rather than the rule. Additionally, there may be operational and capital costs associated with a CRE organizational change and the reduction of square footage that have not been completely accounted for in the study's run rate savings calculation.

What cannot be ignored is the distinct correlation between the effectiveness of a CRE organization and the ability to create an efficient portfolio. The transition time to become an effective CRE group and upfront costs associated with exiting excess space are not small. However, if CRE's capability to generate savings is anywhere near what has been shown possible in this study, the investment could be one of the most lucrative the corporation ever makes. The return on investment derived from a CRE group gaining the power they require to be effective begs the question for all large-scale corporate office users that are not currently giving CRE the authority and visibility they require: Why not?

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