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## Biz Operations or Investment Strategy? The Corporate RE Dilemma

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Corporate real estate executives are increasingly finding themselves in charge of valuable assets or competing for assets that have risen in value as the economy recovers. The struggle between the imperative to optimize real estate assets while serving the primary corporate business is not new. In 1961, Twentieth Century Fox sold off a major portion of their backlot to real estate investors to cover losses they'd incurred in the making of Cleopatra. The quantity of corner gas stations has declined by about 25 percent in the last 20 years as the cost of operating makes a real estate divestiture look like the smarter move. With mobile banking becoming the norm, banks are conflicted over the value of retail branches. Is it worth it keep them as essentially giant billboards when the transaction volume inside dwindles? Can banks afford to be so cloud-based that no one ever sees their logo here on earth?



Companies considering spinning off real estate assets include Hudson's Bay, McDonald's, and Dillard's. When a corporation's primary business is not real estate and they have to make a strategic move to optimize their assets in the face of operational shifts, the internal discussion can be weighty and difficult. There are many factors to consider.

**Track costs closely:** In this time of a shifting technical landscape, corporations have an imperative – and now the tools – to track the effectiveness of real estate-focused operations to identify trends as quickly as possible. Create an efficient data gathering machine that can produce the kinds of numbers necessary to really understand the complete costs of holding real estate.

**Make it part of a strategy:** Siloing within cooperate ranks can give the illusion that a thorough analysis has been undertaken when, in fact, a collaborative environment might reveal opportunity in unexpected places. Include facilities, human resources, marketing and public relations to get a well-rounded perspective. Sandra Paret, senior vice president, director of strategic accounts for architecture firm HOK describes the scope of issues that the firm takes into account on behalf of their corporate clients, "We have to really understand the business case for what we are proposing. While design is foremost in our minds, business objectives aren't just about the bottom line. Employee attraction and retention, collaboration opportunities, mergers and acquisitions all factor into the right physical solution."

Citibank has undergone a major revisioning of the role of the branch as part of its overarching business plan. In this innovative scenario the branch has become a large extension of the mobile device with the added benefit of face time for the few clients that demand it. The sleek architecture and graphics reflect the new high-tech focus and were clearly designed in conjunction with the roll-out a new website and mobile app. This pioneering solution can easily be adjusted to local markets. **Cont'd** ➤

**Don't make short-term decisions with land:** Remember that once that land is sold (or built on), it's gone. If you are landlocked and growth is limited, future commercial real estate managers will not be happy about the low-rise structure you built to save costs. Today's appraisal cannot take into account the singular value of the parcel you already own.

**If you do sell, be surgical:** Some locations may benefit from adjacency to future development. Today's lonely outpost might be tomorrow's new walkable street. Transactional manoeuvres like sale/lease-back and ground leasing will keep options open.

**Implement decisively:** Once you have made the decision to shift real estate strategy, act decisively and expediently to implement it. Make sure the marketplace is aware of your intentions. The buzz will attract a larger buyer pool and the attention will help build the brand in a positive way. Divestiture will be perceived as bold and deliberate as opposed to a cost-cutting retreat.

At the end of the day and rightly so, the real estate is in service to the primary line of business, but that doesn't mean you are not also in the real estate business.

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