

## Corporate Real Estate Solutions Struggling to unlock value from real estate in today's economy?



**Real Estate is typically the second-highest fixed cost for most organisations, but surprisingly little attention is paid to it by company executives.**

Most organisations treat real estate as an administrative function rather than a strategic one. Frequently it is a significant factor influencing strategic decisions like business structure, strategic locations, mergers and acquisitions, and tax.

Especially in these times of economic turmoil, real estate can support a business by extracting value and cash out of the assets, increasing efficiency in the portfolio and reducing occupancy costs. A range of real estate solutions can be employed to achieve this, but the following key aspects will be discussed briefly:

- The importance of a real estate strategy;
- Creating shareholder value from real estate;
- Unlocking value from real estate; and
- Reduction of real estate costs.

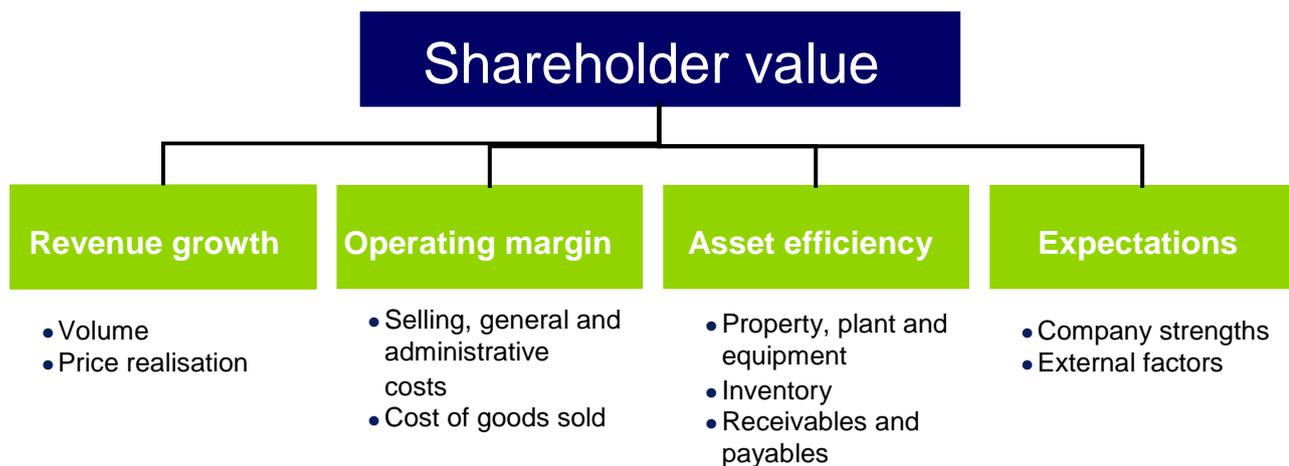
### **A real estate strategy is vital**

For corporate competitiveness, real estate needs to be used efficiently and effectively, and managed competently – the development of a real estate strategy is a vital prerequisite for this. Only a real estate strategy that was designed in consultation with the core business has a chance of delivering the strategic objectives of an organisation. Real estate is therefore a core operational asset and an organisation has to ask itself the following questions when designing its real estate strategy:

- What is required from our real estate to support our strategic objectives, now and in the future?
- Can our real estate support the pace and degree of change in our organisation?
- What does each of our business units ideally require from property to maximise their operational and environmental performance?
- How much space do we really need? Of what type and at what cost?
- Where do we really need space?
- What services are required to support it?
- What is the most cost-effective way of meeting these needs? What is available in the market?
- Does the associated income justify the costs?
- Do we know what risks are associated with our properties?
- Do we have the right mix of internal and outsourced resources to manage our properties?

### Creating shareholder value from real estate

Shareholder value is created from two areas: revenue growth and operating margin represent the income statement of an organisation and asset efficiency and expectations represent the balance sheet of an organisation. An integrated framework is required to link what organisations do in terms of strategies, initiatives and operations in a real estate strategy that will lead to the creation of shareholder value.



It is crucial that organisations identify improvement initiatives that will ensure that shareholder value is created from its real estate assets and management thereof. While broad in their reach, these improvement initiatives revolve around one of three objectives:

- Improve the effectiveness or efficiency of business processes.
- Increase the productivity of capital assets.
- Develop or strengthen company capabilities.

### Unlocking value from real estate

Unlocking hidden value from real estate can be a straightforward way of improving shareholder returns. The right property ownership structure can unlock value and save unnecessary expenditure by delivering the same property solution at much lower cost, or an upgraded solution at the same cost. Real estate owners should review their fixed asset retention policy on a regular basis, asking whether cash locked up in real estate could be better spent on investment in their core business.

Value to a business can come from two main scenarios:

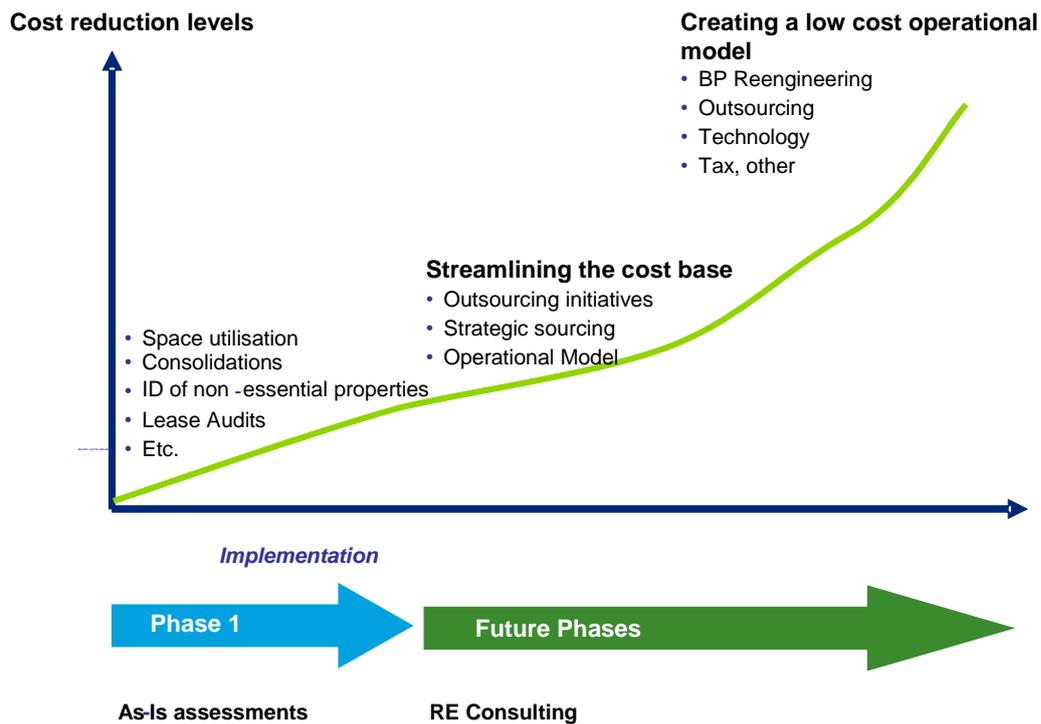
- Alternative use - a property might have a higher alternative use value. This can be much more than the value currently placed on the operation of a core business on the property or the cost of relocating to a suitable lower-value site that is also fit for purpose.
- Property disposal - the need for additional cash, as well as the effects on financial statements and key ratios, may be good enough reasons to consider various sale options such as a traditional sale and leaseback, structured sale and leaseback or debt finance.

### Reducing real estate costs

There are many ways that real estate owners and occupiers can reduce their property-related costs. However, cost reduction at the expense of operational performance is not sustainable and should not be considered. Before embarking on a real estate cost reduction drive, organisations need to:

- Be fully informed of the actual costs of their property and space occupied.
- Know the real cost levers in their business.
- Challenge service levels to ensure that services are rendered at the right level.
- Have an accurate and up-to-date property register that enables the reporting of costs on a site, building or unit level and facilitates bulk buying power when negotiating lease agreements or procuring services and other commodities.





## Deloitte's Corporate Real Estate Solutions can help you to unlock value

Deloitte Consulting SA launched its Corporate Real Estate Solutions business in 2007 and offers fully integrated, multi-disciplinary real estate consulting and professional advisory services to all real estate occupiers and owners of space. Our approach is driven by strategic considerations rather than transactions.

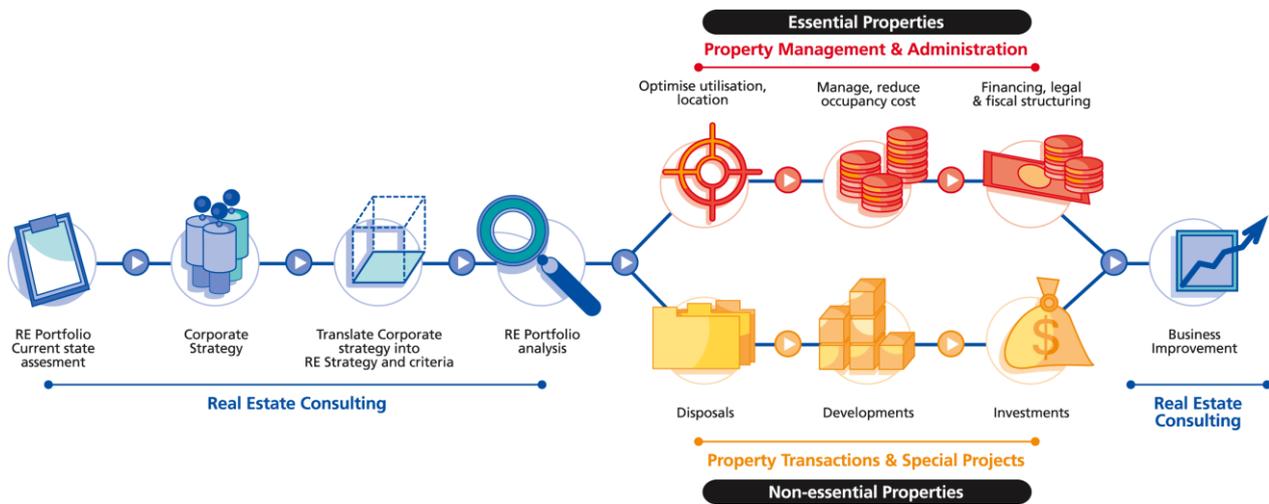
Deloitte has more than 3,500 real estate professionals across the globe. This global real estate network builds consensus on the most appropriate services to bring to our clients, improve our common tools and technologies, and discuss pressing industry issues. Clients across the globe include many of the industry's giant real estate owners, service companies, investment advisors, developers, property management and leasing companies, REITs, mortgage brokers and bankers, pension funds and insurance companies. In addition, a key specialism of many of our teams is advising some of the largest global corporations and governmental occupiers around the optimum performance of their occupied real estate portfolios.

We help our clients to:

- **Save money** – reduce accommodation costs, optimise utilisation etc.
- **Make money** – increase returns from properties and unlock value.
- **Protect their money and assets** – business process and efficiency improvement.

## Our approach

An organisation's corporate strategy should translate into real estate objectives and criteria. The establishment of a crucial link between the corporate strategy, real estate strategy and the portfolio starts with an analysis of a portfolio and applying appropriate criteria derived from the corporate strategy.



We verify and assess a real estate portfolio whereafter we analyse the properties in terms of its relevance and support to its corporate strategic objectives. We then divide the portfolio into properties/space essential and non-essential to the execution of the real estate strategy.

The focus on **essential properties** relates to efficiency improvement and cost reduction strategies such as optimal utilisation, location, occupancy, market conditions, development opportunities, cost reviews, especially in the current economic conditions, are essential. Methods available are benchmarking, lease audits, utility account analysis and strategic outsourcing initiatives.

Reviewing **non-essential properties** within the context of a larger real estate portfolio are done by considering various strategies, for example leasehold, freehold, investments and disposal strategies.

Our team of consultants will also provide insight and advice to enhance and improve the workings of your real estate engine through **real estate management efficiency improvement**. This includes designing operational models, real estate technology, management information systems and business process improvement.



With the future being anything but certain, you know that you have to act now and consider all your options to unlock value from real estate and reduce real estate costs. But how? To find the answer you need a complete overview of all the opportunities that exist within your company. Consequently you want to know what strategy to apply and how to implement it. Deloitte Corporate Real Estate Solutions know how and can help you navigate the downturn.

How healthy is your real estate portfolio? Contact us if you answer **NO** to any of the following questions:

Key question	Yes	No
1. Do you have a property strategy that supports the corporate strategy and shareholder value?		
2. Can your real estate strategy be implemented effectively through policies, plans and processes?		
3. Do you periodically review the real estate criteria, portfolio composition, site utilisation and strategic locations to ensure that it is aligned with, and supports, the corporate strategy?		
4. Do you have key performance indicators for your properties and real estate group?		
5. Do you have measurable Service Level Agreements for your Property/FM service providers, with performance measuring tools?		
6. Do you evaluate the economic, financial statement and tax impact of real estate initiatives on shareholder value?		
7. Do you have fully developed and implemented real estate technology?		
8. Do you have an accurate and verified property data and is the information readily available?		
9. Do you identify and analyse sources of real estate costs?		
10. Do you know how costly and how difficult it would be to reduce your property portfolio?		

For more information contact us at [cres@deloitte.co.za](mailto:cres@deloitte.co.za)

