CORPORATE REAL ESTATE

LEADER

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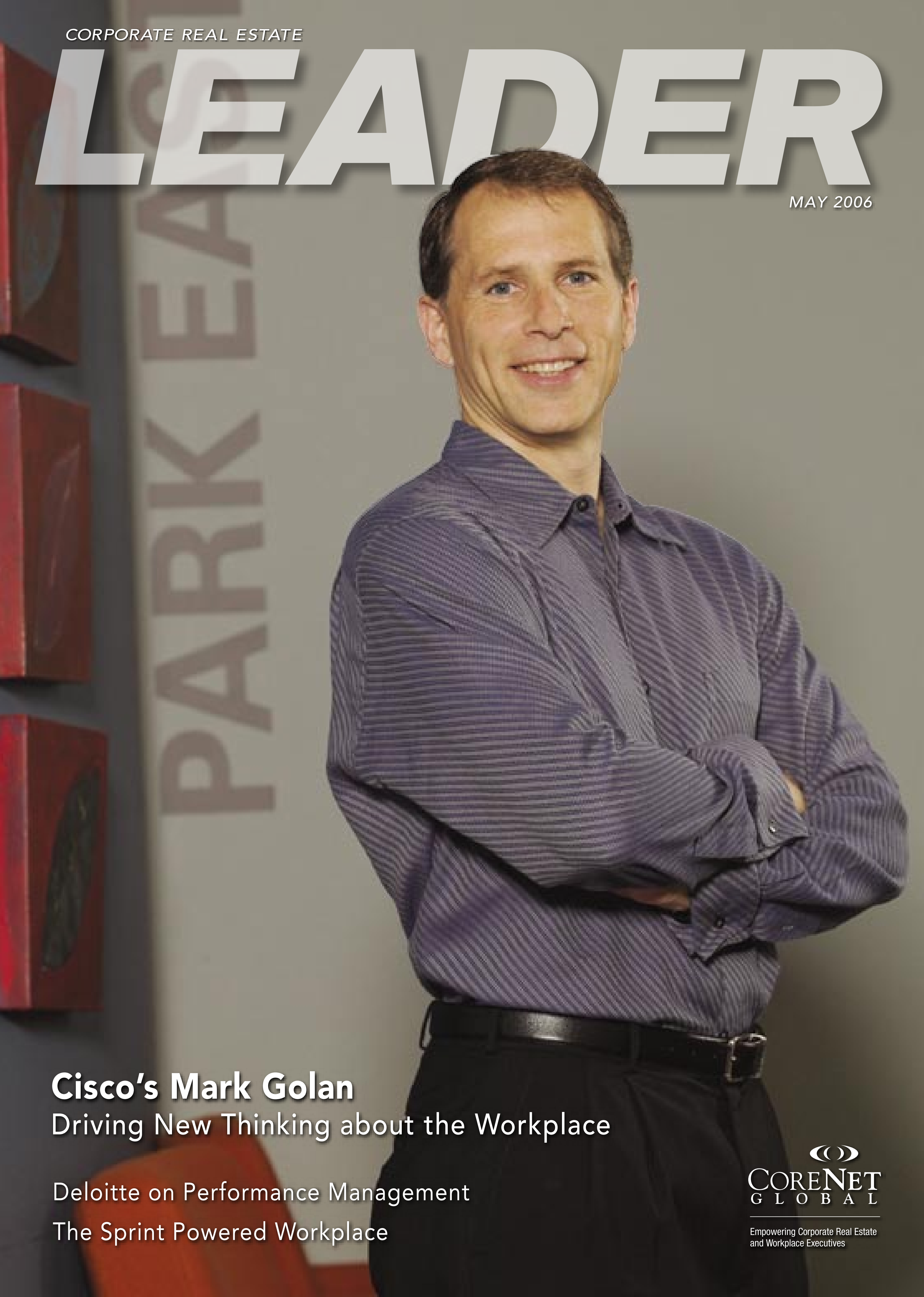

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Improve Your "Disposition"
Transforming Your Real Estate

By Lorraine H. Teel

As CFO of a growth company, you are under pressure to merge another company with the existing platform and realize an extraordinary amount of savings from combining the two companies. Your presentation is next week, and you are short on savings. How and where can you take recurring savings out of the operations?

Of course, you've calculated all standard merger integration techniques: best practices from both companies, a combined IT platform, streamlined organization, consolidating facilities, among others. But then you hear there is another tool that can be leveraged. There may be payback on liquidating some of your smaller buildings—buildings in far away places in which you might have 10 percent occupancy, if that, that your service provider says they can not liquidate. You even hear that, rather than having to spend money on getting rid of these "junk bonds of real estate," there is someone who will help you select an appropriate equity source to fund liquidating small assets and even fund the business case to take the timed write-offs. Whew, what a relief! Those assets have been on the books a while and have cost the company millions a year to maintain. You just didn't have the money to pay the liquidation costs and you were concerned about when the loss on sale would hit the books since so many of the assets are overvalued.

Now, you have a solution to get them off your books, time the sale, provide appropriate oversight, locate seed money fronted by someone else and actually generate money in your pocket for years to come. Now, you have the savings you need to present your plan to the CEO for approval.

CFO's and their teams struggle with the tough charge of overseeing complex assets for a multitude of clients and customers, and are challenged by the need for technology and money to support this huge task. In managing facilities, they face too few resources, too many vendors, under-utilized assets, aging facilities and high customer demand for service.

To create their vision of the future, what companies need in the way of facilities are the right assets in the right location, optimal for the customer and enabling the core competitive advantage of the company.

The first step in achieving this vision is to understand and separate assets into "core" and "non-core." Core assets support the core competency of the enterprise, or have the strong potential to do so. Non-core assets are often acquired as a result of corporate mergers, divestitures or acquisitions, and are generally under-utilized, poorly located, inadequate in size, or scattered geographically. When non-core assets remain on the books, they typically cost companies millions in recurring costs. These include property taxes, insurance, utilities, management fees, maintenance costs and mortgage interest payments.

The next step is to dispose of non-core assets. Identifying and liquidating non-core assets can reduce recurring costs and provide additional funds from the disposition that can be re-invested in increasing both the effectiveness and efficiency of the corporate real estate (CRE) performance and profitability of the remaining core assets.

Identifying and turning all non-core assets into cash is the link to optimizing core assets and/or operations, and a significant step in realizing the overall vision.

A business in this situation faces several challenges preventing it from capitalizing on long-term benefits:

- The entity may not have the in-house real estate expertise to create a plan for rationalizing its portfolio and deciding which assets to divest and what assets to acquire to replace unsuitable assets

- There may be up front asset divestiture costs, such as preparing the assets for sale and finding buyers. Similar costs may also exist in asset acquisition

- The divestiture of assets may affect the entity's financial statements. The Income Statement and Balance Statement may be negatively impacted by the disposition of real property at a loss. However, over the long term, the entity's Income Statement may be impacted positively by reducing the recurring carrying costs of non-producing assets

- Real estate brokers, managers or leasing companies may be willing or qualified to handle only the business' larger real estate assets, usually in primary markets. Furthermore, the business should be concerned whether the outside party is acting in the best interest of itself or of the entity

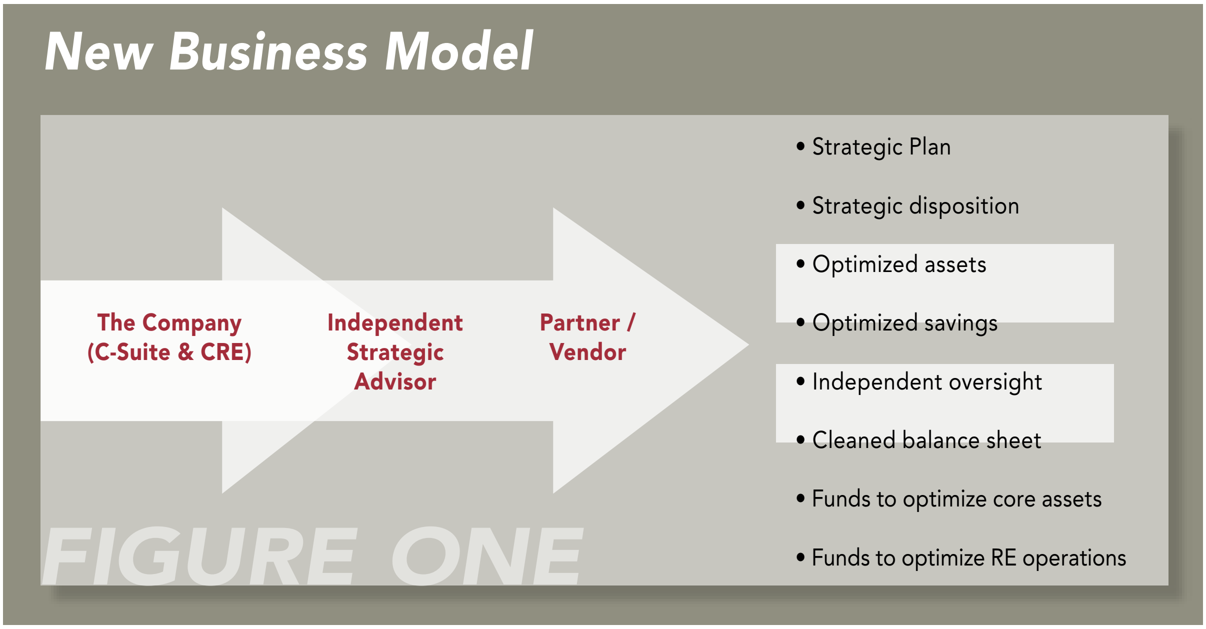
The StratVisor Disposition Model[SM] (SDM[SM]) provides a solution to analyzing and funding the rationalization of a business entity's real estate portfolio and realizing recurring benefits (see Figure 1).

The new model involves partnering with an Independent Strategic Advisor (ISA) to evaluate the disposition opportunity, match a suitable equity source that can fund the business case and provide a "line of credit" for the disposal of all non-core assets (including those in secondary and tertiary markets), and create and oversee customized solutions for implementing disposition and realizing recurring savings (see Figure 2).

In order for the process to be fully successful, an ISA will:

1. Assess the business strategy—Some companies have a strategy for the assets and the portfolio, but most do not. The strategy includes an analysis of the business over the next few years, and what the supply and demand for real estate, labor and other resources are in the markets, both the current in and the projected. The plan also includes the space needs of the company, including new space standards. Also included is a business case for going forward and a prioritized list of initiatives for core and non-core assets that move the company in its chosen direction. Options can be growth, consolidation or even positioning to downsize. The plan should clearly provide a road map for the company's next steps in order to realize savings and position the company for strategic action.

2. Select an equity partner that matches the organization and its portfolio—Most corporate real estate leaders and executives, particularly the CFO, receive calls daily from equity investors. The issue for the company in selecting investors is to find the time and energy required to pick an investor they trust and who will deliver on what they promise. The larger challenge in choosing equity partners is that the investor is interested in what is best for them, not necessarily what is in the best interest of the company. Often the real estate disposition is a partial disposition, and is not strategic and aligned with the company's goals. In leveraging an ISA, a company has help with the selection and negotiation process, insuring a proper fit between parties.



Creating Cash and Reducing Recurring Costs by Strategically Disposing of Non-Core Assets

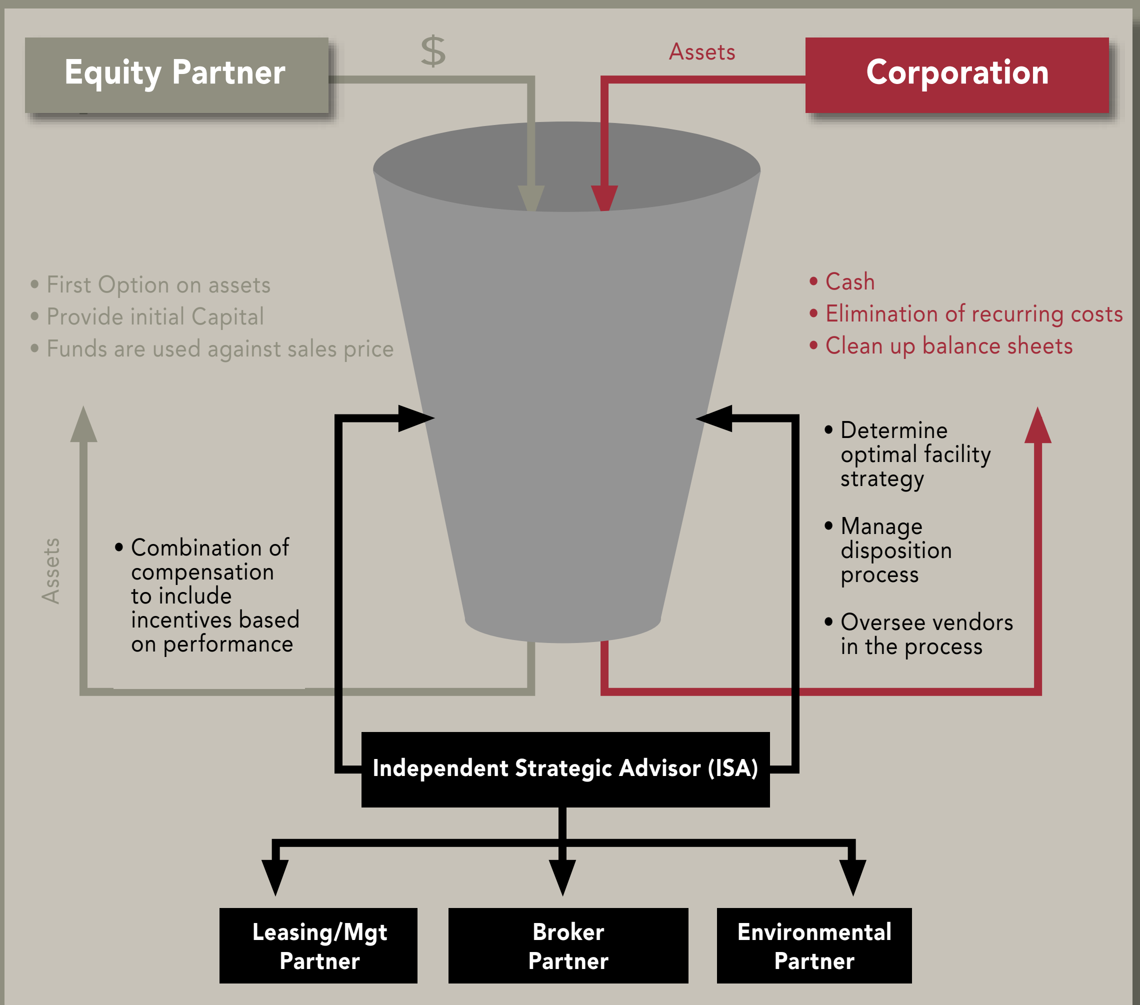


FIGURE TWO

3. Characterize assets of the real estate portfolio—During the planning process, assets will be identified as core and non-core. During the categorization process, non-core assets are placed in different pools that are determined by their optimal buyer. This may be a small investor in the local market, a user, a non-profit or a government entity. Some of the assets may be better served as "land sales." For those assets with environmental issues, a plan can be devised to either dispose of them to investors that buy this type of asset or the company can clean it up themselves and then sell. Each asset will have a strategy and then be coupled with others to create optimal sales portfolios.

4. Oversee the disposition plan and the various vendors —During this process, the ISA can be leveraged to hire, monitor performance and terminate relationships the company needs to fully execute the plan. Services from appraisal firms, environmental firms, lawyers, title companies, construction firms, brokers and various types of buyers, including action firms, will be leveraged. This process can take as little as a few months or as long as a couple of years, depending on the size and complexity of the assets and the strategy agreed upon regarding disposition.

5. Oversee core asset and real estate operations optimization initiatives, as well as the various experts needed to complete these initiatives—The exciting part of this program is freeing up cash to help core operations and to help the real estate group improve operations and the core assets that remain. If the core assets that remain are in better shape and enable the company to be more productive, returns can be substantial.

There are numerous initiatives that can help a company enhance its real estate and real estate operations. A strategic plan that helps a company prioritize the initiatives with business focus is the first place to start on this journey.

In Summary

There is significant value to organizations that improve disposition capabilities. The returns can be in excess of 150 percent and provide a payback in one year. Let's face it, for folks on the front line of savings, there are few strategies left that can produce this substantial payback.

The key components of this program are: reducing recurring cash, increasing one-time cash, increasing earnings per share, cleaning up the balance sheet and providing independent oversight of strategic disposition. The program also re-focuses the company on its core assets and increasing funds to optimize core assets and real estate operations.

This new model provides independent oversight and higher returns, enabling the organization to transform by improving its disposition. ***LEADER***

About the Author

Lorraine H. Teel is President of Teel StratVisor Group, LLC (StratVisor), an affiliate of Teel Enterprises, Inc., which was founded in 1990, in Dallas as independent and objective strategic advisors for owners and users of commercial real estate. StratVisor has consulted with more than 40 real estate organizations, with assets ranging from $50 million to $20 billion. Organizations range from five to 2,000 people providing real estate services, including the largest private and public sector owners in the United States. StratVisor leverages its proprietary StratVisor℠ tools to deliver quality, customized projects rapidly and efficiently. In March 2005, StratVisor applied for a patent on the StratVisor Disposition Model℠ (SDM℠).

Visit the CoreNet Global Knowledge Center at www.corenetglobal.org/knowledge_center for these related resources:

- Summaries of reports from the CoreNet Global Applied Research Center —***Valuing Flexibility in Leasing*** and ***Flexibility and Options***. Both reports, by Eric Bowles, focus on the creation of additional capital and the leveraging of assets for corporations in partnership with their CFO's, advisors and landlords.

- A 2004 H. Bruce Russell Global Innovator's Award Finalist submission — Bank of America's ***Innovative Sale-Partial Leaseback Transaction***. In the search pane under 'Resource Types,' click 'Award Submittals.' For a summary article, visit www.corenetglobal.org/awards and search Global Innovator's Award then '2004 Winners.'