

# Strategic Real Estate Assessment©

*Developing a “Road Map” to optimize your real estate portfolio and operations*



**Optimizing Assets . . . Transforming Organizations**

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## Overview

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## Strategic questions for executives

- Are you satisfied with the returns of your portfolio or the efficiencies of your real estate costs?
- Do you have the real estate reports you need readily available to make strategic decisions?
- Do you measure your teams contribution by key performance indicators (metrics) that are tied to the real estate (RE) asset and company goals?
- Are you comfortable that all decisions to expand or contract space, across all business units, are meeting your 3-5 year strategic goals?

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## Overview

- **What is a strategic assessment?**
  - A strategic review of your RE portfolio and RE operations
- **What is the goal of the assessment?**
  1. To increase shareholder value
  2. To create a plan that moves an organization towards “best in class”
  3. To provide a “Road Map” to guide the team, with tactical level initiatives obtained by leveraging best practices
  4. To help prioritize future initiatives by cost / benefit

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Over 75% of real estate organizations do not have a strategic plan to guide their RE portfolio and operations decisions. Having a plan, enables them to:

## Tech. Comm

- Sprint
- Verizon
- 3Com

## Consumer Business

- 7-Eleven Stores
- Regal Cinemas
- Sonic Restaurants, Inc.

## Financial Services

- American General Corp.
- City National Bank

## Real Estate

- Archon Group, L.P.
- Crescent Real Estate
- Hines Interests L.P.
- JPI

## Energy

- Houston Public Works
- Equiva (Shell / Texaco)
- TU Electric

## Public Sector

- Dept. of Veteran Affairs
- Dallas Museum of Art
- Texas Tech University
- City of Arlington

## Health Care

- First Care HMO

- **Maximize the use of core real estate assets** and dispose of non-core real estate assets
- **Locate facilities in the most strategic place** for driving business revenue up and costs down
- **Optimize processes and technology** to achieve operating effectiveness across planning, constructing, managing and disposing of facilities
- **Squeeze the costs out of operating facilities** while maintaining optimal service levels
- **Leverage best practices/metrics** driven performance and integrating them with the CRE organization

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## Our Approach

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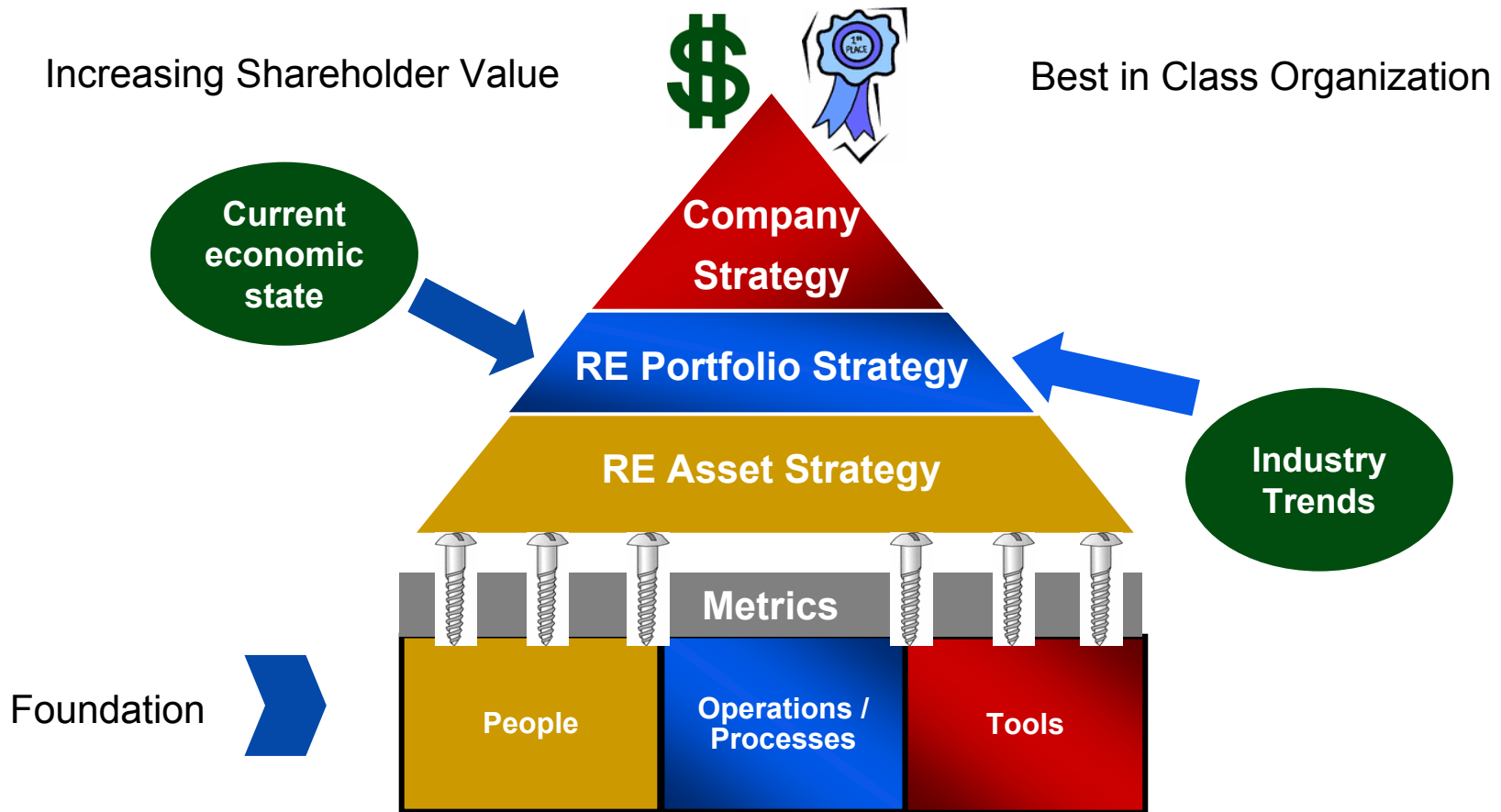
There are 8 steps to create a realistic “Road Map” for the RE portfolio and operations

		Month 1	Month 2	Month 3	Month 4
1	Understand the company's strategic plan and goals				
2	Develop a base-line on RE portfolio and operations (the current state)				
3	Understand current economic conditions (supply/demand/ interest rates)				
4	Understand competition, trends and best practices				
5	Develop a future state for the RE portfolio and the RE operations				
6	Develop initiatives to achieve future state including a cost / benefit analysis				
7	Develop a prioritized list of initiatives and timeline (the “Road Map”)				
8	Implement the “Road Map” in phases (quick hits, medium and long term)				



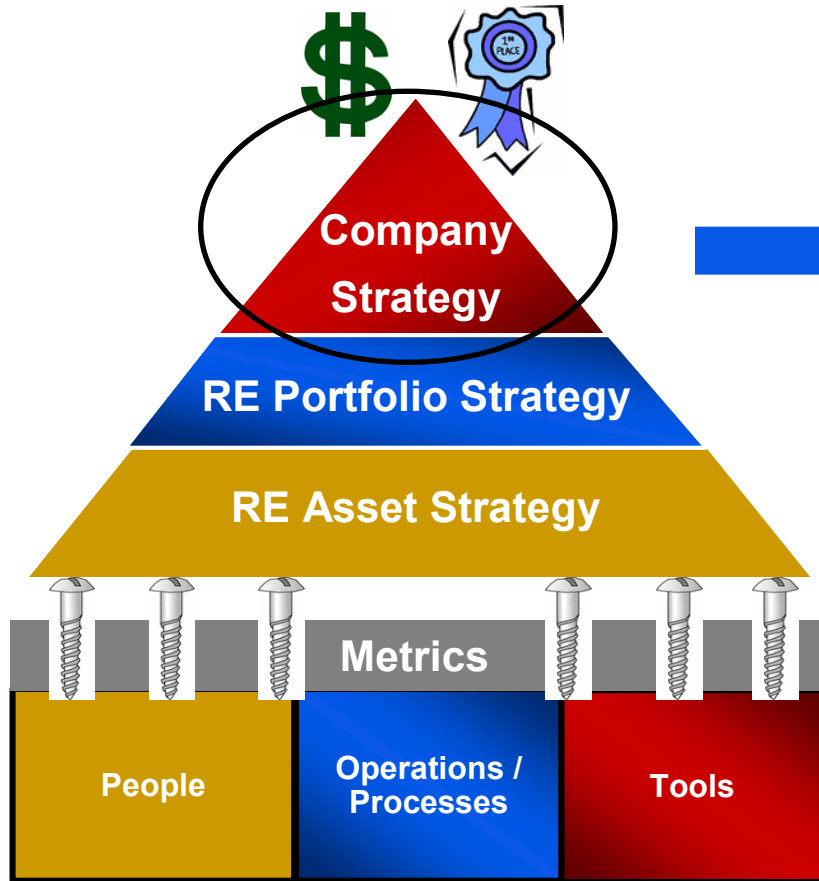
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A strong foundation is needed to implement strategic initiatives that tie to the company's goals



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## Step 1 – Understand the company's strategic goals



- 3-5 year company strategy
- Mission Statement
- Top 5 Initiatives / Goals

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## Step 2 – Develop a base-line on operations (The current state)



Company  
Strategy

RE Portfolio Strategy

RE Asset Strategy

Metrics

People

Operations /  
Processes

Tools

- How people are measured and motivated
- How streamlined are the processes
- What tools/technology supports the operations
- How does the organizational structure support the business goals

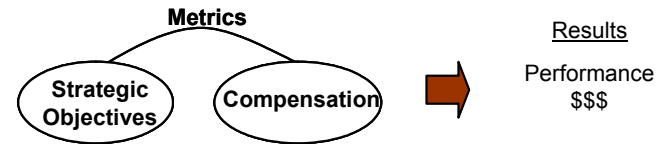
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## Step 2 – Develop a base-line on RE portfolio (The current state)

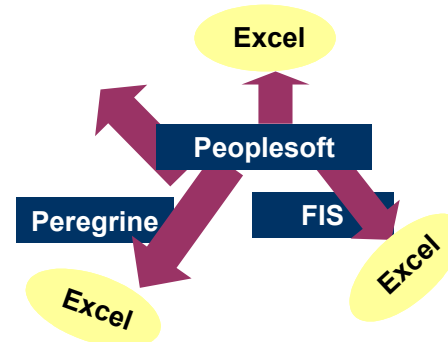
Clear view of the present portfolio metrics



- Sample Metrics Include;**
- Sq ft per employee (per product type)
  - Real estate costs per Sq ft
  - Labor cost per Sq ft
  - Site selection criteria score
  - Capacity / asset optimization
  - CRE employee / Sq ft

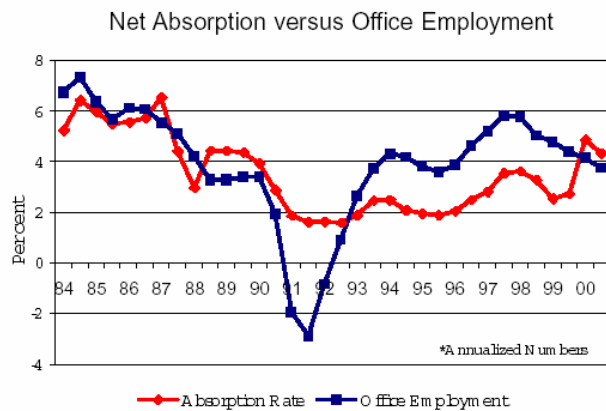
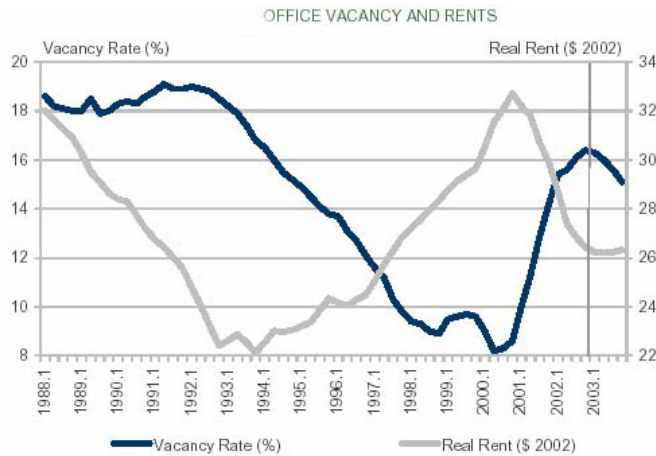


Current systems



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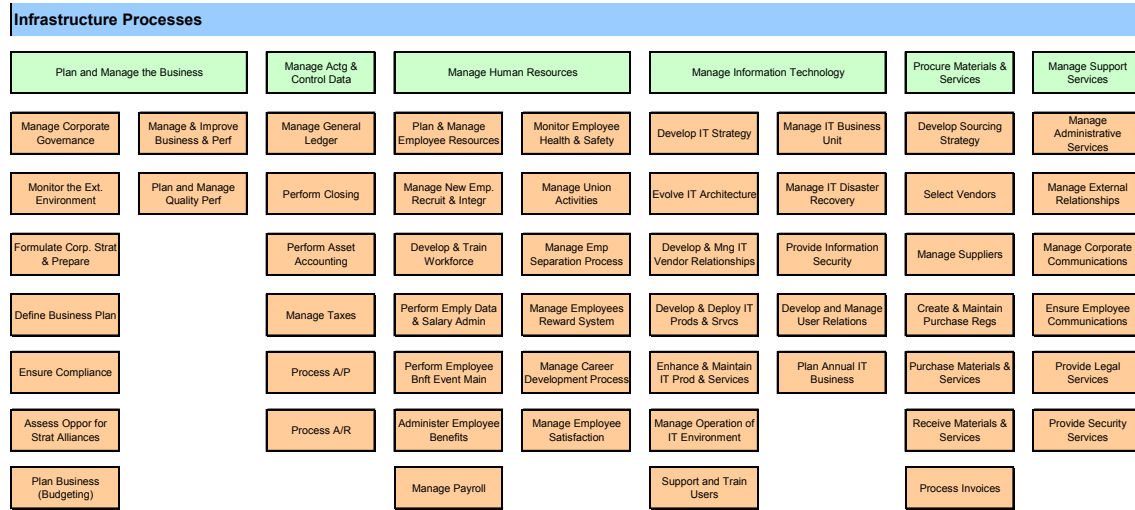
## Step 3 - Understand current economic conditions impacting the portfolio (supply / demand / interest rates)



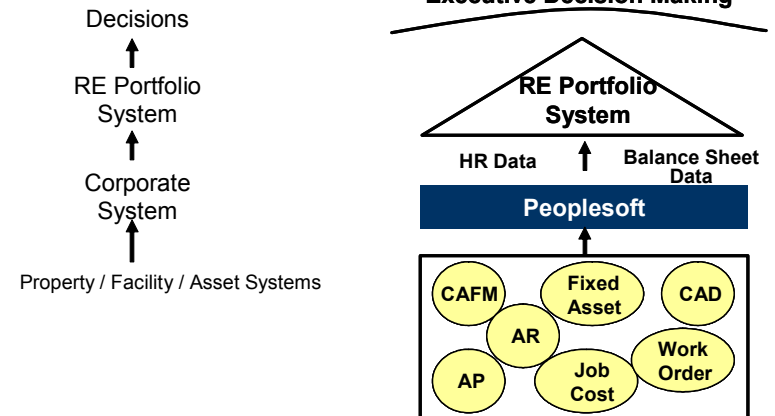
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## Step 4 - Understand the competition, trends and best practices (people, processes and systems)

Process Maps

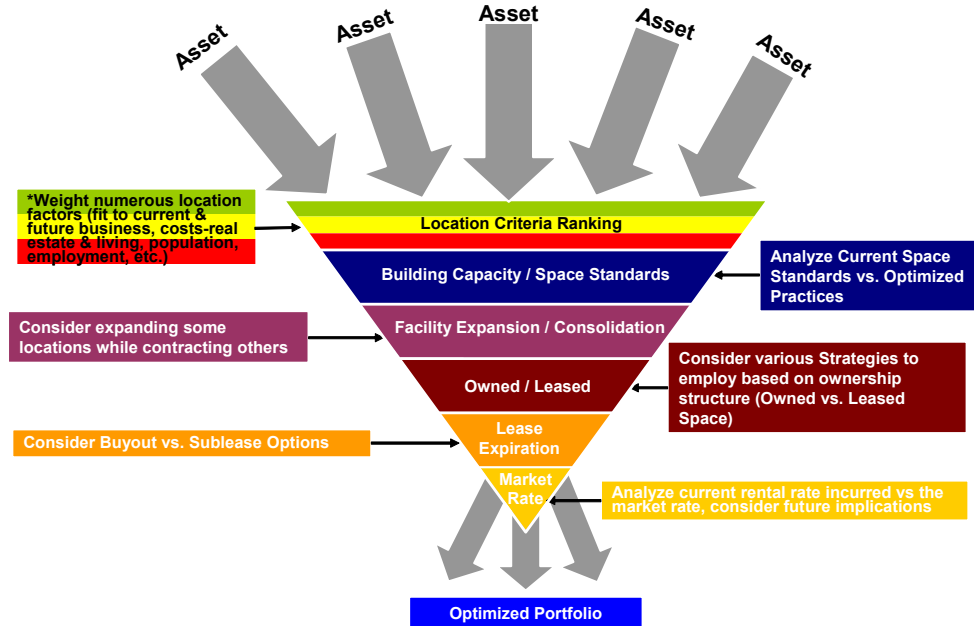
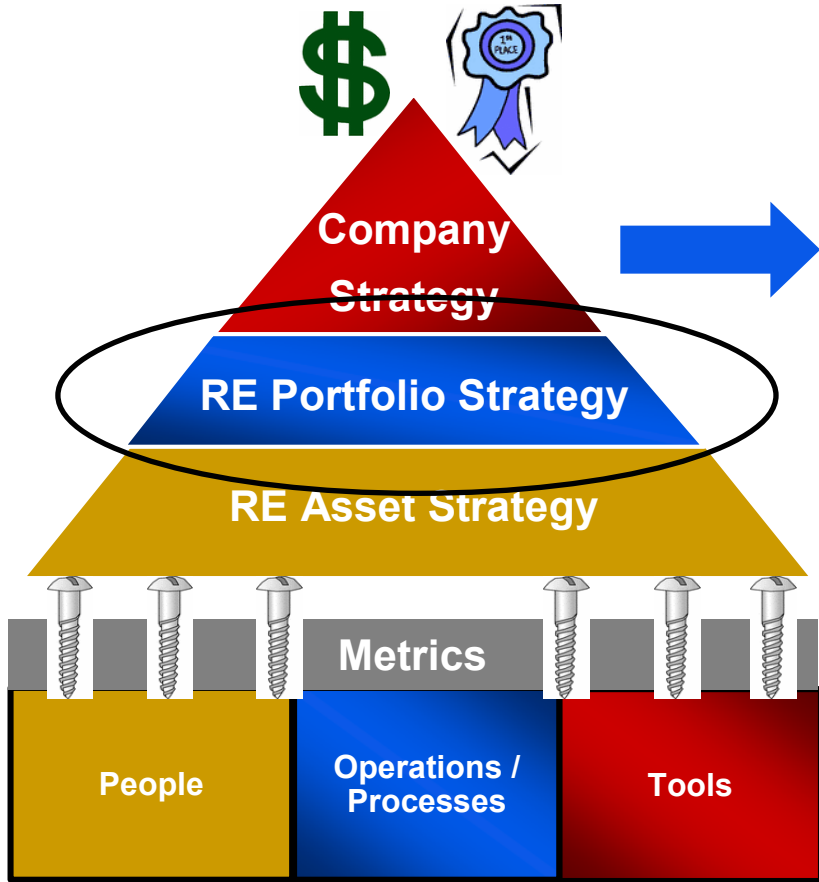


Technology Infrastructure



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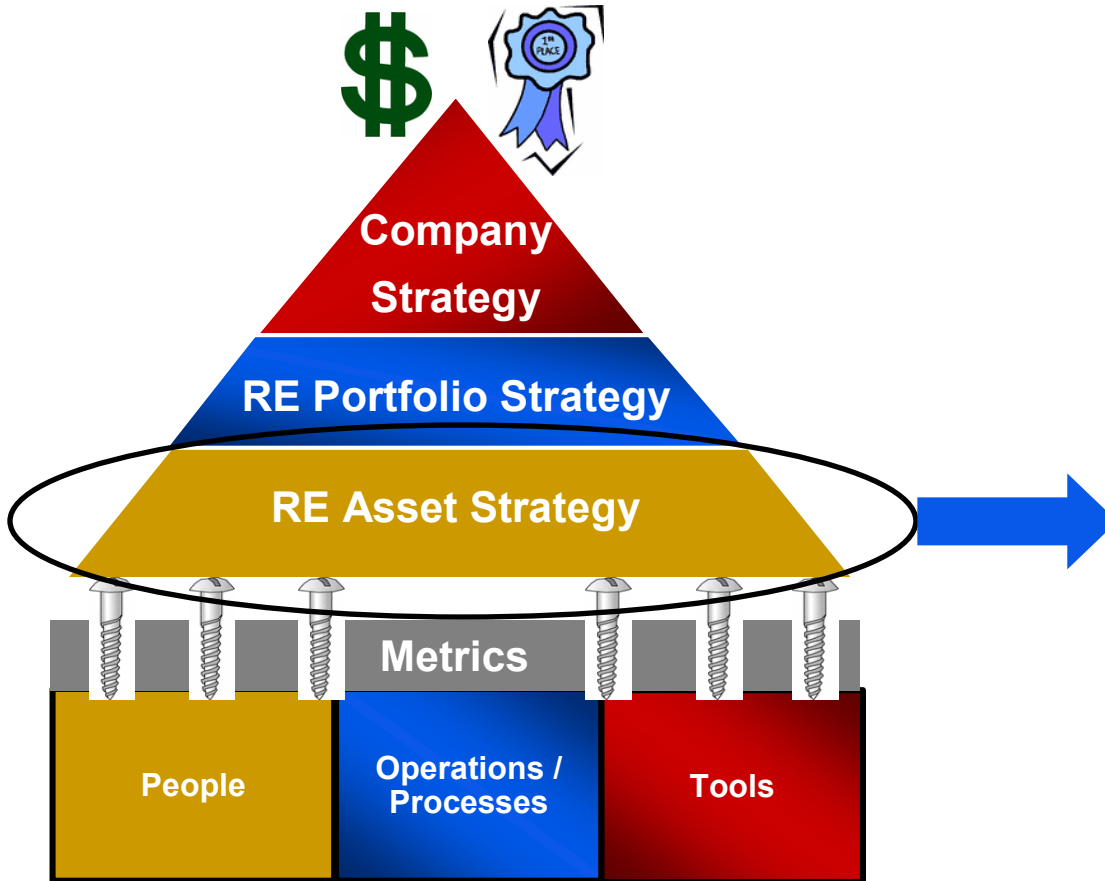
**Step 5 - Develop the future state for the RE Portfolio incorporating multiple variables and leveraging a proprietary location criteria database**



**Maximize the use of core real estate assets and dispose of non-core assets**

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Step 5 - Develop the future state for **RE Asset Strategy** by incorporating numerous best practices / trends



Typically companies can save between 15%-20% by employing asset strategies such as:

### Optimizing Revenue

- Buy out under performing leases
- Optimize expense recoveries

### Financial Structuring Activities

- Balance sheet leverage initiatives
- Internal entity structures

### Opportunity Cost Analysis

- Procurement/outsourcing initiatives
- Cost Segregation
- Lease Audits
- Real estate tax appeals



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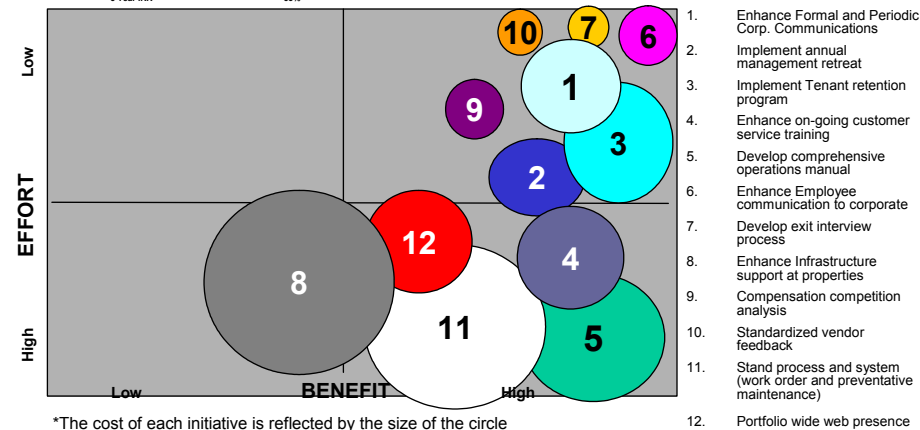
## Step 6 – Develop initiatives to achieve future state including a cost / benefit analysis

Cost / benefit analysis of alternative paths is incorporated into the prioritization matrix



	2004	2005	2006	2007
Initial # of buildings**	28	23	19	15
Eliminate	6	4	4	2
New Centers added	1	0	0	1
<b>Balance of Buildings</b>	<b>23</b>	<b>19</b>	<b>15</b>	<b>14</b>
Square Foot per person	139	130	110	103
Sq ft eliminated	519,272	335,870	352,544	105,829
Sq ft Remains	2,381,376	2,225,506	1,872,062	1,767,132
<b>BENEFITS</b>				
# of employees added back in less expensive locations	1854	710	814	0
HR: Salary Savings (\$5,000 per employee)	9,269,720	3,548,141	4,068,320	-
Rental Savings	14,198,871	6,459,018	9,139,524	6,702,301
<b>Annual Benefits/Savings</b>	<b>23,468,599</b>	<b>10,007,159</b>	<b>13,207,844</b>	<b>6,702,301</b>
<b>COSTS</b>				
Human Resources				
Number of employees effected	3240	2096	2200	660
2% of employees are relocated	65	42	44	13
Employees that get severance	3175	2054	2156	647
Severance @ \$5,000 per employee	19,050,870	12,322,294	12,934,024	3,882,624
Relocation @ \$10,000 per employee	647,989	419,136	439,933	132,062
Total Human Resource Costs	19,698,859	12,741,419	13,373,957	4,014,686
Real Estate Costs				
% of eliminated sq ft requiring buy out	75%	75%	75%	75%
sq ft requiring buy out	389,454	251,903	264,408	79,372
Early Termination Costs - 50% of actual costs remaining	13,860,254	8,359,012	15,610,858	11,815,280
6% commissions	831,615	501,541	936,652	708,917
New space @ 180,000 sq ft per center	180,000	-	-	180,000
Tenant improvements	\$ 20 \$ 3,200,000	\$ - \$ -	\$ - \$ 3,600,000	\$ - \$ 3,600,000
Other start up costs	\$ 70 \$ 11,200,000	\$ - \$ -	\$ - \$ 12,600,000	\$ - \$ 12,600,000
Rent for New Space	\$ 10 \$ 1,600,000	\$ 0 \$ 0	\$ 0 \$ 1,800,000	\$ 0 \$ 1,800,000
<b>One Time Costs</b>	<b>48,790,729</b>	<b>21,601,972</b>	<b>29,921,467</b>	<b>32,738,884</b>
<b>Annual Costs</b>	<b>\$1,600,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$1,800,000</b>

We develop a prioritization matrix of all proposed initiatives

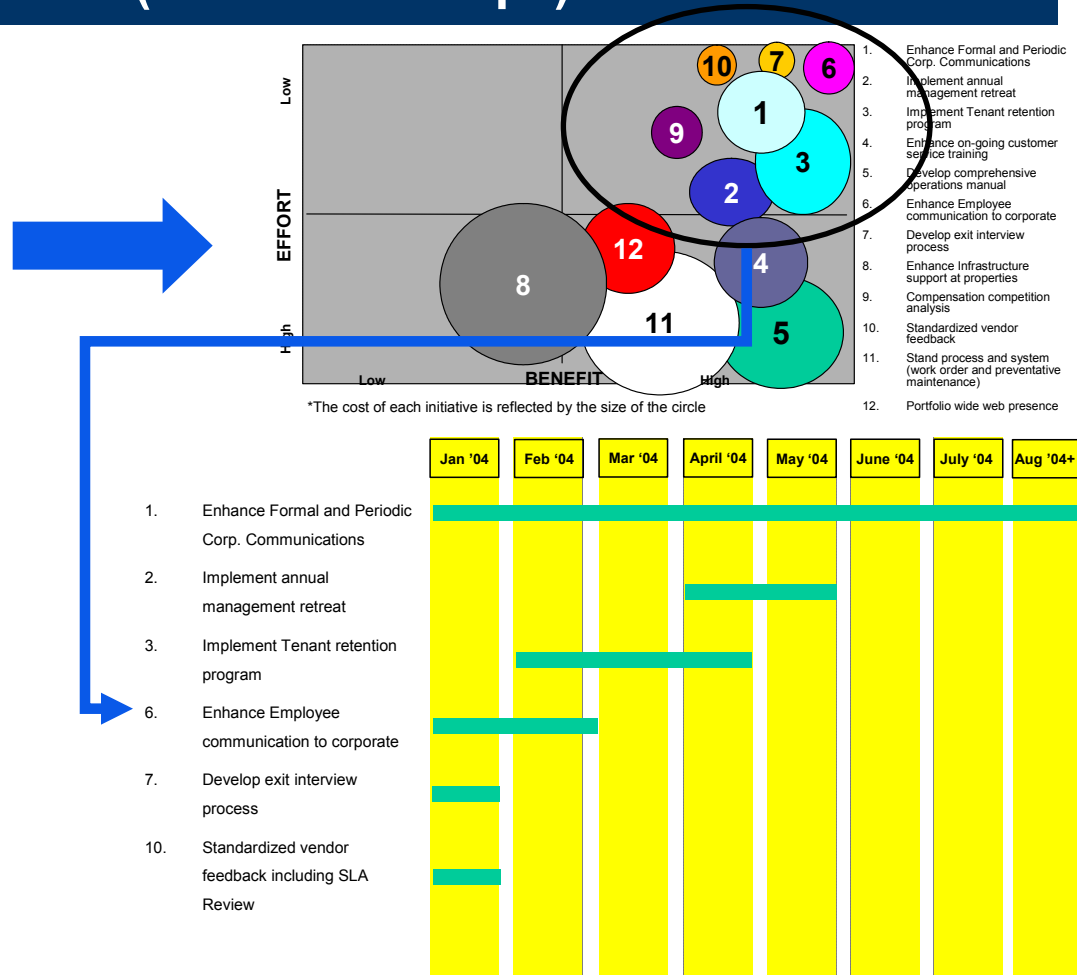


\*The cost of each initiative is reflected by the size of the circle

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## Step 7 - Develop a prioritized list of initiatives and timeline (the "Road Map")

Leveraging the prioritization matrix, we develop a realistic timeline for the 1<sup>st</sup> year initiatives



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## Step 8 – Develop a phased approach of implementation of the “Road Map” over several years

	<u>Phase 1 Initiatives</u> <u>Year 1</u>	<u>Phase 2 Initiatives</u> <u>Year 2</u>	<u>Phase 3 Initiatives</u> <u>Year 3</u>
Enhance Formal Communications			
Implement Tenant Retention Program			
Enhance Employee Communication to Corporate			
Standardized Vendor Feedback			
Implement annual management retreat			
Enhance infrastructure support at properties			
Portfolio wide web presence			
Develop Comprehensive operations manual			
Standard processes and systems (work order and preventative maintenance)			
Follow Up Training			
Enhance on-going customer service program			

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**Teel as your strategic partner**

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## Teel Overview



- Owners, Operators, and Business Advisors
- Teel Enterprises, Inc. (Teel) was founded in 1990 in Dallas, Texas. Over the **past 14 years**, Teel Enterprises and its principals have **acquired, renovated and managed commercial real estate** - including office, warehouse, retail and land.
- Teel has consulted to over **25 real estate organizations** with real estate assets ranging from **\$200 million to \$20 Billion** in assets. Organizations range from 25 to 2,000 people providing real estate services including the largest private and public sector owners in the United States.
- Teel has personally asset managed for other owners almost **1/2 billion of real estate** comprised of retail, office, hotels, retirement centers, mini storage, land and over 10,000 multi-family units.

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## Sample Success Stories

Industry Served	Number of Leases	Background	Strategy Employed	Results
Tech.Comm	148 assets (6,000,000 sq. ft.)	Consolidation	<ul style="list-style-type: none"> <li>• Strategic Facilities Plan</li> <li>• Benchmarking/best practices</li> <li>• Process, organization, technology improvement</li> <li>• Outsourcing opportunities identified</li> </ul>	<ul style="list-style-type: none"> <li>• Identified in excess of \$86 million per annum savings</li> <li>• Identified a one-time cash infusion of \$92mm</li> <li>• Almost a one year payback of the investment</li> </ul>
Energy (Oil & Gas)	6,000+ leases	Merger of two organizations	<ul style="list-style-type: none"> <li>• Benchmarking/best practices</li> <li>• Process, organization, technology improvement</li> <li>• Outsourcing opportunities identified</li> </ul>	<ul style="list-style-type: none"> <li>• Identified in excess of \$6 million per annum of synergy savings</li> </ul>
Financial Services	48 assets (779,000 sq. ft.)	Managing growth	<ul style="list-style-type: none"> <li>• Strategic facilities plan</li> <li>• Optimize occupancy – space utilization standards, consolidation opportunities</li> <li>• Occupancy cost management (R&amp;M, utilities, taxes). Identified three occupancy cost management options that would reduce costs</li> <li>• Process, organization, technology improvement</li> </ul>	<ul style="list-style-type: none"> <li>• Growth-enabled with reduction in cost</li> <li>• Outsource provider for management of facilities recommended</li> </ul>
Consumer Business (Convenience Store)	5,000+ leases	Achieving growth (going from 30 new sites per yr to 350 new sites per yr with minimal increase in staff)	<ul style="list-style-type: none"> <li>• Benchmarking/best practices</li> <li>• Leverage outsourcing/out-tasking</li> <li>• Process, organization, technology improvement</li> </ul>	<ul style="list-style-type: none"> <li>• Recommended outsourcing / out-tasking scenarios with as few as seven new hires</li> <li>• Growth achieved with client implementing recommend Growth level of 150 new sites per yr achieved within 12 mos and adding two additional people</li> </ul>

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## Sample Success Stories

Industry Served	Number of Leases	Background	Strategy Employed	Results
Tech.Comm	20 million square feet	Cost Reduction	<ul style="list-style-type: none"> <li>• Developed Strategic Plan</li> <li>• Developed business case to support initiatives</li> <li>• Designed interim processes</li> <li>• Developed high-level organization structure</li> </ul>	<ul style="list-style-type: none"> <li>• Strategic initiatives identified 5 million + in savings</li> <li>• Interim Process changes resulted in 1 million+ cost reduction before any technology enablers</li> </ul>
Commercial Real Estate	7 million square feet	Managing Growth	<ul style="list-style-type: none"> <li>• Benchmarking/best practices</li> <li>• Interviews/Surveys of more than 150 employees</li> <li>• Development of training materials for 3 audiences</li> </ul>	<ul style="list-style-type: none"> <li>• Training to over 500 employees including internal and vendor staff</li> <li>• Implemented new incentive program</li> <li>• Rolled up and categorized 106 observations to aide in strategic planning</li> </ul>
Health Care	270+ facilities	Managing growth	<ul style="list-style-type: none"> <li>• Review of existing site selection and construction processes</li> <li>• 15 individual interviews</li> <li>• All day workshop</li> </ul>	<ul style="list-style-type: none"> <li>• Rolled up 56 issues in 7 areas to aide in streamlining the site selection and construction processes</li> <li>• Identified additional resources to implement new processes</li> <li>• Provided 1 year road map for improvements</li> </ul>

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## Testimonials by Industry Leaders

"Teel was engaged to assist our organization in developing and rolling out a customer service training program for our managers and staff across a 7 million square foot portfolio. The review of our current incentives and customer service initiatives was thorough and entailed direct interviews with over 90 people and surveys conducted with approximately 150 people. From the information, Teel's team quickly rolled up 106 observations and categorized them into 15 core areas that would assist our company in developing a long term strategic direction for our customer service initiatives and employee retention programs. The training and new incentive programs were rolled out by Teel's team to almost 500 employees/vendors enhancing our culture and positioning us for the future. Teel's team received an overall grade of 4.5/5.0 on the training surveys that were completed by the attendees. We feel the Teel team did an excellent job at both designing the training/incentives and implementing the training program. We were extremely satisfied with their work and professionalism. We would absolutely use them on future projects."

**Jerry D. Hackney, Vice President-Property Management, Thomas Properties Group LLC**

We engaged Teel Enterprises, Inc. (Teel) to review our current site selection and construction processes and identify opportunities to streamline the processes, shorten the cycle time and empower the team. After 15 individual interviews and an all day workshop, Teel quickly rolled up 56 issues and identified 7 core areas that we could focus our improvements on. The comprehensive solution delivered in weeks covered numerous areas including systems, processes and organizational structure. The ideas Teel gave us more than pay for the changes we are going to make and will increase our efficiency and effectiveness and assist us as we continue to grow our business. Teel brought strategic and practical ideas to our team and provided us with a valuable "Road Map" for the next year. We highly recommend Teel for future advisory projects.

**Jerry Cullen, Director of Real Estate, Renal Care Group, Inc**

"Lorraine Teel and her team helped our corporate real estate department review metrics and best practices in the industry and benchmark them against three competitors. We leveraged some 100 metrics and data points to guide our strategic planning process for our portfolio. Her customer focused approach and leadership style resulted in a valuable product for our company. We would highly recommend Lorraine and her services to other Corporate Real Estate organizations."

**Jan Deur, VP Corporate Real Estate, Verizon**

"Teel Enterprises, Inc. was engaged to assist Mohr Partners in the development of a Strategic Facilities Plan for a Top 100 company. Lorraine Teel led the team, supplied and managed team resources, and was able to clearly demonstrate to the client a savings in excess of \$85mm a year, with a payback on their investment in less than one year. Her leadership skills and knowledge of the real estate industry made her a true asset on this important client assignment"

**Daniel Rudd, Vice President, Trammell Crow**



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## Our Experience – Advisory Clients

### Real Estate Companies

- Alliance Residential
- ArCap REIT
- Archon Group, L.P.
- Burnham Pacific Properties, Inc.
- Casey International
- Center America Property Trust
- Cornerstone Real Estate Advisors, Inc.
- Crescent Real Estate Equities
- Hines Interests Limited Partnership
- JPI
- MEPC American Properties
- Thomas Property Group
- TrizecHahn Properties
- Corporate Capital Development

### Corporations

- 3 Com
- 7-Eleven Stores
- American General Corp.
- City National Bank
- Equiva (Shell / Texaco)
- First Care HMO
- Regal Cinemas
- Renal Health Care (RCG)
- Sonic Restaurants, Inc.
- Sprint
- Texas Tech University
- The Department of Veteran Affairs
- Verizon
- Verizon Wireless

### Public Sector

- City of Arlington
- Dallas Museum of Art
- Houston Public Works
- Texas Tech University
- The Department of Veteran Affairs
- TU Electric

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## Our Experience – Third Party Management

### **Booth Warehouse**

1720 Booth Drive  
Carrollton, Texas  
30,500 RSF

### **Woodhaven Shopping Center**

1201 Woodhaven  
Fort Worth, Texas  
22,590 RSF

### **Fin & Feather**

354 E I 30  
Garland, Texas  
10,603 RSF

### **Desoto Business Park**

104 Chowning Drive  
Desoto, Texas  
32,856 RSF

### **Centerville**

1949 E. Centerville Road  
Garland, Texas  
4,850 RSF

### **Watson Business Park**

710-714 N. Watson Rd.  
Arlington, Texas  
41,400 RSF

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## Other Services

### Advisory

Benchmarking  
Business Advisory  
Facilitation / Workshops  
Process Improvement / Organizational Design  
Strategic Real Estate Assessments and Plans  
(portfolio & operations)

### Asset Management

Financial Analysis  
Leasing Strategy Review  
Investment Performance Analysis  
Portfolio Management

### Transaction Management

Acquisitions  
Dispositions  
Financing  
Leasing

### Property Management

Budgeting  
Rent Collections  
Energy Management  
Operating Expense Management  
Preventive Maintenance  
Tenant Relations  
Vendor Management

### Construction Management

Construction Management  
Due Diligence  
Renovation / Rehabilitation Management  
Tenant Improvement Projects

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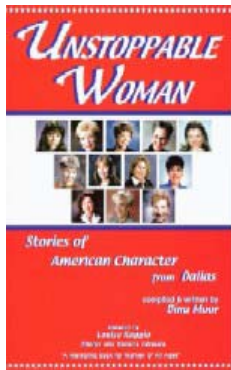


## Teel Enterprises, Inc. Company Role

**Lorraine Teel, CPA, oversees the firm's asset management and advisory services.**

## Career Highlights

- Co-owner of Teel Enterprises.
- Brings over 16 years of Real Estate experience that spans the full real estate life cycle; site acquisition, financing, development, construction and disposition.
- Formally a chief operating officer (COO) for a regional real estate company that had in excess of 5 million square feet of office, retail and warehouse properties.
- Former practice leader for Deloitte & Touche's Regional Real Estate Solutions practice and the National Practice leader for the Corporate Real Estate Operations and Systems Practice
- Consulted to over 25 real estate organizations with real estate assets ranging from 200 million to 20 billion in assets including the largest private and public sector owners of real estate in the United States.
- Asset managed \$420 million of real estate comprising retail, office, hotels, retirement centers, mini-storage, land, and over 10,000 multifamily units.
- Lorraine is an established Public Speaker in the Real Estate Industry on a range of topics impacting real estate and real estate organizations.
- Past President (2003) of Dallas Commercial Real Estate Women (CREW)
- Recently featured in a book by Dina Moor, Unstoppable Women along with 11 other professional women spotlighting her professional career.



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## Teel Enterprises, Inc. Company Role

**Chuck Teel, Principal and Chief Operating Officer, oversees the firm's property management, leasing and construction services.**

- Co-Owner of Teel Enterprises Inc.
- Over the last fourteen (14) years has built a multi-million dollar company that owns and 3<sup>rd</sup> party manages over 400,000 square feet in commercial real estate including office, warehouse and retail in Dallas/Ft. Worth
- Responsible for all management, renovation and acquisitions of the company's portfolio
- Personally supervises the acquisition and renovation of all projects.
- Management, leasing and construction experience spans office, warehouse and retail.
- In excess of 10 years experience in Medical Office buildings.
- Graduate of West Point with a major in Engineering.
- Graduate of Oklahoma City University, MBA.
- Served in the Armed Forces as a Major.

## Timing and Cost

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## Timing & Cost

- The timing and cost depends on the following:
  - Company Size
    - Size of portfolio, size of real estate organization, number of interviews, number of surveys
  - Assessment vs. Full Plan
  - Focus
    - Portfolio strategy, asset strategy, operations strategy or all strategies
- The times is as few as 45 days for a strategic direction and as much as 120 days for a more comprehensive strategic plan for a larger portfolio/operations
- The cost is between \$25,000-\$350,000 depending on the scope and factors listed above