

The importance of CRE

How corporate real estate can earn its place at the table

A common lament for many commercial real estate (CRE) executives is feeling that they are not given equal footing with other executives in an organization.

Organizational structures vary, but often CRE is an ancillary group lumped with other support departments. CRE departments are frequently positioned a number of layers below the key thought leaders and the C-Suite.

“As a result, many feel that CRE is viewed as merely a cog in a larger wheel, rather than one of the key pillars along with people, technology and product,” says A. Dana Garcia, an advisor in the Investment Services department of Grant Street Associates, Inc.

Smart Business spoke with Garcia about the importance of CRE and how to make it a focus of your organization.

How can CRE executives change this negative stigma?

The answer is to create solutions that leverage opportunities against organizational challenges. Then, communicate those solutions in a language that is accessible to those outside of real estate. I have yet to see an organization that lacks opportunities for improvement. The current economic environment certainly affords a surplus of challenges regardless of market or industry. No group is ‘given’ a seat at an organization’s strategic table. Rather, a loud, clear voice in the strategic process is earned through proper contextual communication of innovative solutions that leverage one of an organization’s top three balance sheet items, creating real-world impact on the bottom line.

What’s the first step in getting CRE’s ‘voice’ heard?

The first step for CRE leadership must be to alter their own group’s mindset from a ‘utility’ or ‘support’ department to that of a product management group where the CRE budget is managed with a P&L focus. The language used to convey options and ideas must change from merely downward expense pressure to that of leveraging the corporation’s asset base in a manner that creates value to the overall bottom line. Solutions should be communicated not just as variance to the operating and capital plan of CRE, but also as project impact in terms of profitability of the line of business in question. I have even seen solution impact conveyed in terms of pennies per share to the shareholder base



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for larger, broader reaching strategies.

An example of this is when a business unit has an occupancy cost metric that is driven by its lease and operating costs. It plans for this occupancy level, as it has since move-in, by looking at the lease or depreciation and funding obligations. It adds to this the historic increases it has experienced in the variable cost component and arrives at an operating plan for its occupancy cost line in the overall P&L pro-forma. This typically is done during the annual budget planning season. In a bottom-up/top-down budget planning process, profitability targets are established, operating costs are estimated and then sales targets are generated to achieve the profit levels required by the organization’s investors.

Now, imagine that during the fiscal year, the CRE group identifies a major operating site of the business as being in a market that is experiencing difficulty. Taking advantage of that market opportunity, the CRE executive creates a solution that would reduce the fixed operating costs of the unit by a lease extension and restructure. He or she then writes up a project proposal, attaching all of the real estate financials, and presents these materials to the business line management. After many weeks (or months) of no response from the business unit, either the idea dies on the vine or the market arbitrage opportunity is lost. Does this sound familiar?

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How could have the CRE executive altered the outcome and increased his or her chance of success?

By thinking on a higher, less granular level in strategy formation and presentation. We can equate this to the controller who joins the meeting only to see everyone’s eyes glaze over as he launches into 20 minutes of ‘accounting-speak.’ Business line leaders are the same. The language that CRE executives live and breathe quickly becomes an assumed proficiency. This is the fatal trap.

CRE executives must think instead as product marketers. The product is a strategy affecting one of the corporation’s success-critical assets. If product managers were trying to convince a consumer to buy a clothing product and only used technical design or manufacturing jargon in the marketing, they would have a predictably low chance for success. Conversely, organizations spend large sums and invest many hours crafting the product’s story so as to maximize its chance of success with its target audience.

Returning to our example, what if the CRE executive first went to the head of the line of business and offered to champion a strategic evaluation of the real estate assets? A polished and thorough presentation could then be made to highlight real estate as not a necessary evil, but rather an asset that can be used to create value and that is supportive of the business strategy. A clear visualization is required to illustrate how various strategic real estate recommendations factor into that overall business strategy, while highlighting specific opportunities for arbitrage and their net impact on the bottom line. These solutions must be delivered in a language that is accessible and familiar to the audience.

If you are presenting to a low margin business, speak of the savings generated from those bottom-line P&L savings. A business head speaks everyday of the impact of client contracts. They now view your proposal in terms of tail wind to their current profit margin each year for the remainder of the term.

Give this strategy a try. Not only will it increase your chance of success, but it will also give you an opportunity to elevate CRE from ‘order-taker’ to strategic solution creator and key business partner. Business heads are usually anxious to communicate success to their peers and you may find more C-Suite doors opening than you ever imagined. <<

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