# Real estate strategic planning

Managing your real estate costs to improve your bottom line **Interviewed by Clare DeCapua**

The typical transaction-based approach to real estate planning focuses on a specific property lease; the strategic business approach to real estate planning focuses on how that or any lease impacts the client's bottom line. Greg Fischer, vice president of strategy for CresaPartners in Philadelphia, advises senior business executives on aligning their real estate costs with their business strategy to improve their bottom line.

"A tactical approach may result in an effective property lease, but you need to develop a strategic approach to reduce the client's operating cost as a percent of revenue, and improve their efficiency ratio," Fischer says.

*Smart Business* asked Fischer about applying a strategic business approach to the real estate planning process.

**Greg Fischer**
Vice president of strategy
CresaPartners

**Does a real estate strategy work for every company?**

Yes. Companies usually develop strategic plans that address revenue and profit projections, employee costs, capital spending and R&D expenditures. However, while real estate costs are factored into operating expenses, the impact of these costs on the company business strategy and the value of real estate information on business decisions are often ignored. Real estate costs for most companies are the second largest indirect operating expenditure. The goal for all companies should be creating a consistent real estate process to actively manage this expense.

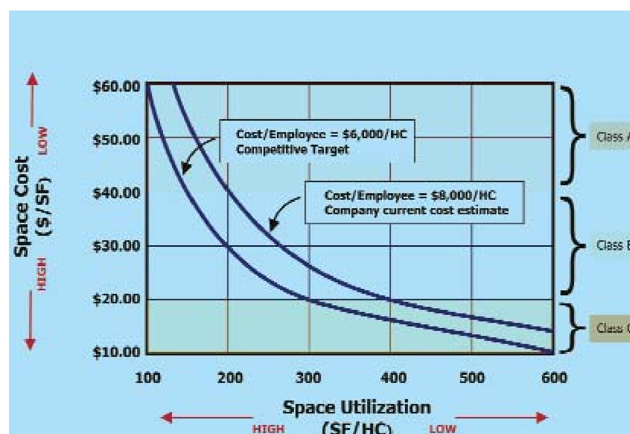
**What is the difference between a tactical and strategic approach to real estate planning?**

There's a saying: 'If you don't know your destination, any road you take will work.' The tactical transaction-based approach to real estate planning focuses on a specific activity, one deal at a time. The strategic approach focuses on the destination — real estate cost as a percent of a company's revenue. You could complete an effective real estate transaction and negatively impact the company's bottom line because your focus is not aligned with the overall company strategy.

For example, a client is looking for a location to operate a call center. The general operating margin on a call center is less than 10 percent. A real estate services firm could identify and fit-out a site for a client that is not the best solution for that business need, and the company will lose money on the call center business.

The ideal approach is to develop a company-specific real estate decision support model, which can be used to identify the appropriate cost/space metric that will positively impact the bottom line.

The starting point in this planning process is occupancy cost as a percent of revenue and cost per employee. This example identifies a company with a current cost curve of $8,000 per employee and an ideal performance target of $6,000 per employee. The difference between these two cost curves is the cost improvement opportunity. Any space cost/utilization option that is on or below the company specific ideal cost curve is an acceptable real estate option.




Returning to our call center example, the ideal performance target for this business is $2,500 per employee. If the occupancy cost is $20 per square foot [rent and operating expense], the space needs to be designed to less than 125 square feet per employee to positively impact the call center operating margin.

**What are the industry benchmark targets?**

Real estate performance targets vary by industry and by competitor within an industry. In general, service industry competitors tend to manage their occupancy cost at approximately 2 percent of revenue, and technology companies tend to manage their occupancy cost at around 4 percent of revenue. However, these general ranges are only useful as sounding boards. The best approach is to understand the company's business strategy and operating model, evaluate the company's current real estate operations, benchmark industry competitors for best practices and develop a company-specific occupancy performance target and a real estate decision support model.

**Does Sarbanes-Oxley have an impact on real estate planning?**

Yes. When the Sarbanes-Oxley Act (SOX) was passed three years ago, it required companies, among other things, to develop a consistent, auditable real estate decision support process. Public corporations were required to document the processes they utilized to initiate, review and approve actions that resulted in a material financial obligation on the corporation. The preceding real estate decision support model was originally developed as an SOX compliance tool; however, it does more than just help with compliance — it also makes good business sense.

GREG FISCHER is vice president of strategy for CresaPartners in Philadelphia. Reach him at (610) 684-1995 or gfischer@cresapartners.com.

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