

Level Two Brokerage: The Strategic Real Estate Planning Model

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Using government grants, the National Council on the Aging (NCOA) signed a 15-year, 45,000 square foot lease in Washington, DC. Five years later, with a number of those grants having expired or not renewed, NCOA's new president, Jim Smith, had to trim \$800,000 from his annual real estate budget. How, he wondered, could a responsibly managed organization make a real estate decision that put the organization in jeopardy?

Four years after opening its successful Washington, DC, office, the world's largest foundation (the Foundation) needed to double its staff. With a block of space available next to their office, the Foundation's director of administration and controller thought the most cost-effective option was expanding into the contiguous space. After careful planning and analysis, however, the Foundation elected to relocate its entire office to a new building, which provided efficient space and increased employee productivity.

The fundamental difference between these real estate decisions? One organization signed a lease that hindered its effectiveness for 15 years, while another's lease enabled it to accomplish long-term real estate needs and focus on its mission. Presumably, both groups procured space similarly – with tenant representation, cost analysis and specialized space design. Why was *one* lease more successful?

One group's transaction was based on a strategic plan; the other on traditional brokerage. NCOA used a traditional broker, focusing on market-centric information to identify opportunities. The broker used leasing information at newly-constructed buildings and compared those costs to the value of the contracts in place. The broker didn't look at the most critical metrics – the real estate cost per employee and space per employee of NCOA versus peer groups – to justify the lease.

Conversely, before moving into a “search and acquire” mode, the Foundation analyzed the way it worked and used space, identified the spectrum of possibilities and compared them against its business plan. By taking time to explore, the Foundation realized their building's floorplan was “U” shaped, and future expansion would eliminate their ability to work collaboratively. By identifying this issue up-front, the Foundation realized it couldn't remain in the building long-term.

With that knowledge, the Foundation saw that the cost of building immediate expansion space was a short-term solution. However, by looking at a 10-year horizon, the cost of building now and then moving and building new space in five years was significantly more expensive and disruptive. As a result of strategic planning, the Foundation understood the associated costs, benefits and detriments of moving to new space and subleasing the existing space. The Foundation secured information upfront, gained top-down approval and completed the transaction in eight weeks.

What is Strategic Real Estate Planning?

Strategic real estate planning is the process that provides a client with detailed information on:

- Leverage of its current space
- Effective space use in the future
- How peers use their space
- State of the real estate market and trend analysis
- Spectrum of potential real estate options, including total project costs
- Benefits and pitfalls of each potential option

With detailed analysis, decision makers have a complete picture of the real estate landscape to focus on specific options that accomplish their business plans.

Why Is It So Critical?

Most tenant representation brokers stress that they do not represent landlords, making them free from conflicts of interest and able to secure better results for their clients. But unless the tenant broker provides strategic real estate planning, there's low probability of a successful transaction. Strategic Planning enables an organization to create accountability, increase project efficiency and benchmark results.

Accountability: For the majority of Washington, DC tenants, decision makers change every few years, which means scrutiny of contracts and business practices. New decision makers have questions, like:

- Why did we lease and not purchase space?
- Why did we lease space in *this* building?
- Why are we leasing so much space?
- Did we consider other options?

Developing a comprehensive strategic plan enables staff to make strategic decisions without second-guessing decisions of the past.

Efficiency: Typically, every five or 10 years, the project team (or individual) creates general parameters and occasionally involves other senior staff. Their broker locates alternative space and negotiates renewal terms. Once recommendations are determined, the project leader presents them to the decision makers for approval – and the process typically breaks down when tough questions are raised. The decision-makers scrutinize the options, costs and process, and the project leader rarely has supporting information for his recommendations.

By completing a strategic plan early, goals are explored, time is saved and decisions are agreed to up-front, creating top-down agreement on the scope of the project. This is important for organizations with multiple partners, such as law firms, or organizations with entrenched staff and nomadic leadership, such as associations.

Benchmarking: Understanding how one organization compares to its peers is key because tenant brokers rationalize transactions on the basis of “market-centric” vs. “client-centric” information. When a tenant considers leasing space, their broker examines rates for that building or a comparable property, which doesn't provide insight on how that lease increases the clients' ability to fulfill its mission or compete against its peers.

Client-centric information provides benchmarks of the client's peer group, such as space per employee ratios, real estate cost per employee, and client-specific ratios. Therefore, a client can justify why certain moves make sense in the context of executing their business plan.

Transparency: Strategic planning helps clients understand all potential project costs. Expenses are provided in terms of total project cost vs. purely rental costs. The financial breakdown includes all design, construction, moving, equipment and associated professional service fees, which are highlighted up-front so budgets are accurately estimated.

While most brokers provide services that solely address short-term space needs from a market-centric cost perspective, this "one size fits all" approach doesn't account for how an organization competes against its peers or benchmarks as measurements of market performance. The Strategic Real Estate Planning model blends the tactical approach of a real estate broker with the strategic approach of a consultant. Following this model, organizations gain clearer understanding of all viable space options, establishing a road map of milestones to reach their goals.