

# Getting real estate on the boardroom agenda

Does real estate get a hearing in the boardroom, or is its status dependent on corporate reporting lines? Rodney Timm reports.

All businesses need real estate to operate from, be it leased or owned, large or small, specialised or generic. In many businesses real estate represents a large, if not the largest, component of assets and one of the longest term liabilities reflected in the company balance sheet.

However, as most landlords and real estate practitioners have come to realise in their negotiations, the real estate decision hierarchy and process in companies varies dramatically. This variation can be across industries, across sectors, and particularly across the sizes and maturity levels of companies. The CRE responsibility reports through various functionalities within different company structures to the boardroom.

Today's business operating environment is ever-changing and common wisdom dictates that businesses need to be agile to avoid risks or to pursue new and emerging opportunities. But this required agility is contrary to the very nature of real estate and the way the real estate markets work. By their nature, real estate assets are long-term and lumpy, whether owned or leased.

It has been suggested that if business leaders approach their real estate requirements and commitments innovatively, they can provide a competitive advantage. This is a different perspective to treating real estate commitments merely as corporate encumbrances and overheads. Whether real estate is viewed as key strategy components, or as corporate overhead costs to be minimised relentlessly, is often dependent on the reporting lines through to the boardroom.

So what is the impact of different CRE reporting lines within a company and, in particular, how does the CRE strategy message get time at boardroom discussions?

## Chief Executive Officer

It is unusual for the CEO to take primary responsibility for real estate strategy and decisions other than in the overall role as the leader of the company.

In small- to medium-size companies, the

CEO (who may also be the founder) usually has a strong affinity for and love of real estate. However in larger companies if the CEO continues to remain too close to real estate decisions while not focusing on the core business needs, issues may emerge.

Some interesting anecdotes exist with the CEO being too involved in the development of a great new corporate head office building while the company itself has continued to spiral downward with dismal performance and eventually heading into administration. In other companies where the CEO is too close to real estate, they are often tempted to start dabbling with real estate developments using the balance sheet and lease covenant of the business – often to the detriment of the company.

## Chief Financial Officer

Probably the most frequent reporting structure is the real estate function reporting to the CFO. Obviously, with this reporting structure the key focus of any real estate decision will be the impact on the company financial statements.

Minimising recurrent real estate costs and also maintaining the optimum company capital structure, particularly with the release of capital tied up in lazy real estate assets, is going to dominate the decision-making process. It is likely that real estate will at times receive the necessary attention in the boardroom but financial considerations such as least cost options or capital-releasing lease-backs will hold sway over strategic considerations. Detailed financial and DCF analysis will form the major decision criteria.

## Real Estate Director

In the recent business cycles, with high growth companies displaying voracious appetites for acquisitions and accommodation for new talent, the need to procure real estate rapidly saw the appointment of real estate executives to the board. Real estate was finally seen as providing a competitive advantage!

Real estate was suddenly a significant board agenda item for all the right reasons.

Unfortunately, after some spectacular crashes, mainly focused in the IT industry, this status changed overnight with companies having to exit significant tranches of leases at enormous cost. Real estate again became a cost-cutting exercise. Although real estate directors are still seen in some industries, they tend to have reduced levels of influence.

## Human Resources Director

The CRE function reports to the HR director in some organisations, although this is a relatively rare company structure. This functional alignment is probably relevant in organisations with large groups of knowledge workers. The focus tends to be the workplace environment, both from a teamwork and productivity perspective, as well as an instrument to attract the best talent. Real estate decision-making is likely to focus on real estate and the workplace as an instrument in the HR armoury with less emphasis on the financial analysis.

## Chief Information Officer

With the increased importance and status of IT in companies, the CIO has become a significant influence in the boardroom. In some organisations, particularly where IT and real estate are seen as interchangeable, the CIO may also have responsibility for real estate. Although this functional alignment is not frequently evident, it is probably more relevant in IT companies with the focus on the workplace as a portal for the IT network.

It is expected that in this alignment, the real estate and workplace systems and databases will form robust platforms for real estate decision-making and performance reporting through to the boardroom.

## Director of Corporate Services

In many companies real estate has found a new home with the emergence of corporate

services, which may also include other corporate services such as information technology, human resources and even finance. This structure can result in all corporate resources being treated equally in support of the corporate strategy and receiving a reasonable level of board attention. However, in reality, there is usually a bias to one of the core disciplines dependent on the background of the person who fills the leadership position.

## Sales and Marketing Director

In many retail businesses with a very strong focus on marketing and sales growth, the real estate function is closely linked to the marketing and sales team. Real estate and location is usually the most significant key to the sales promotion, market share and business growth. This is particularly relevant in high growth retail businesses and specifically for rolling out new retail franchises. Real estate site identification is expected to receive detailed discussions by the directors as a key component of continued company growth.

## Chief Operating Officer

In businesses such as manufacturing and

distribution it is not unusual for the real estate responsibilities to be a direct responsibility of the COO. In these businesses effective real estate location and building design are critical to productivity and profitability. These decisions are usually pivotal to business operations and strategy.


## Procurement Manager

The re-assignment of real estate decision-making and management to the procurement department is becoming more evident. With these functional reporting lines, real estate tends to lose its status as a strategic resource providing a competitive advantage and is treated as a commodity.

The decision-making is focused on cost. The acquisition process of new real estate, whether to be owned or leased, revolves around purchasing probity and set procedures. Although these aspects are critical for corporate governance purposes, the strategic nature of real estate becomes neglected and seldom receives significant debate in the boardroom, with the directors believing that all things real estate are governed within the procurement process.

The decision about whether real estate

can bring strategic advantage to a company or should be treated as a cost to be minimised relentlessly, continues to challenge the minds of company leaders. Recent trends in Australia have seen a number of large companies, particularly in the financial sector, disband real estate groups and re-allocate the real estate function to the procurement department. This is probably a strategy to drive down recurrent costs, ensure procurement probity and reduce internal resources. The longer-term legacies of these decisions are still to be played out into the future.

With a whole range of reporting lines within businesses, the status of real estate in the boardroom decision-making is still varied and uncertain. Similarly, the evolution of corporate real estate as a profession continues to be problematic. In the meantime, the complexities of identifying where the real estate responsibility rests within specific companies and industry sectors continues to be an on-going challenge for prospective landlords, agents and service providers. 

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