

BEST PRACTICE

Extracting value

AS THE GLOBAL ECONOMIC CRISIS CONTINUES, ONE WAY BUSINESSES CAN SAVE MONEY IS THROUGH MAKING THE MOST OF THEIR REAL ESTATE. **MATTHEW STONE**, HEAD OF OCCUPIER STRATEGY FOR EUROPE AT CUSHMAN & WAKEFIELD, OUTLINES 10 WAYS TO GET THE BEST RETURNS

In the current economic downturn there is more pressure than ever on companies to save costs and drive value from their real estate portfolios. Taking time to align a company's real estate platform with its operational business needs will not only save money in the short term but will also ensure that the business has an efficient and cost-effective real estate strategy for the future.

From reducing the amount of space a business occupies, to buying in freeholds from distressed landlords, to extracting value by re-gearing leases, there are a number of ways in which companies can save costs and release value from their real estate in the current economic downturn. Here are ten of them.

Reduce the amount of space occupied

Real estate is generally the second highest cost to a business after staff costs, so all opportunities to reduce the amount of space a business occupies should be looked into thoroughly.

- Space utilisation: with many companies having occupancy levels of less than 50%, a space utilisation study can often identify significant space reduction opportunities.
- Space standards: advances in IT have enabled the size of work stations to be reduced significantly in recent years.
- Flexible working: hot desking and remote working can save significant amounts of space without negatively impacting on business performance.
- Minimise locations: reduce the duplication of shared areas such as receptions and meeting rooms.
- Non-essential uses: consider the removal of cafes, break-out areas and under-utilised meeting

rooms which may not be critical to the business.

Dispose of surplus space and do it quickly

There is a real first-mover advantage in getting surplus space to the market as quickly as possible, so:

- Look at opportunities for contractual exits – break options or lease expiries.
- Identify properties that are easy to dispose of.
- Leave high-cost locations first and retain lower-cost properties.

Extract value by re-gearing leases

If a lease is coming up to a break option or expiry, the tenant currently has a very strong negotiating position. By signing a longer lease or removing break options, a company could potentially achieve lower rental payments or a rent-free period, a share of the increase in the property's value. It could also be an opportunity to offload surplus space or ask the landlord to fund any refurbishment or fit-out works.

Unlock value from owned properties

With equity and corporate debt much more expensive and difficult to raise in the current economic climate, selling property is now a cost-effective and available source of finance, even though property values have fallen significantly over the past 18 months.

Value can be released from real estate in a variety of different ways, the most common being the sale and leaseback. Corporate occupiers have raised billions of euros across Europe from their real estate portfolios in this way since the start of the credit crunch, significantly enhancing their shareholder value by re-allocating capital to where it will earn higher returns.

Buy properties from distressed landlords

Companies with healthy cash reserves can take advantage of their distressed landlords by cheaply purchasing properties they lease, saving significant sums in future rental payments. If they then sell on the properties with new longer-term leasebacks in place, they can potentially generate significant arbitrage profits between the purchase and sale prices.

Reduce occupational costs

Companies can often make significant savings by reducing their facilities management, service charge, insurance and utilities costs.

- Facilities management: all contracts should be examined to see whether their levels are still appropriate, given changing business circumstances.
- Service charges: service charge expenditure should be examined and challenged if any items are not provided for in the lease.
- Insurance: companies can often achieve savings by insuring their properties through a block policy rather than arranging it individually through their landlords.
- Utilities: large companies have considerable bulk purchasing power which they should leverage to buy utilities at the most competitive prices.

Go green

Eco-friendly properties can deliver real future cost savings, so when looking to buy or lease a new building, companies should always consider its energy-efficiency rating.

The day-to-day operations of a building can also present opportunities to cut energy costs by switching off power to unoccupied work stations and implementing weekend shutdowns.

Government legislation will have a significant impact on future property costs. For example, the UK government has set targets to reduce carbon emissions by 80% by 2050 and is introducing a new emissions trading scheme, the

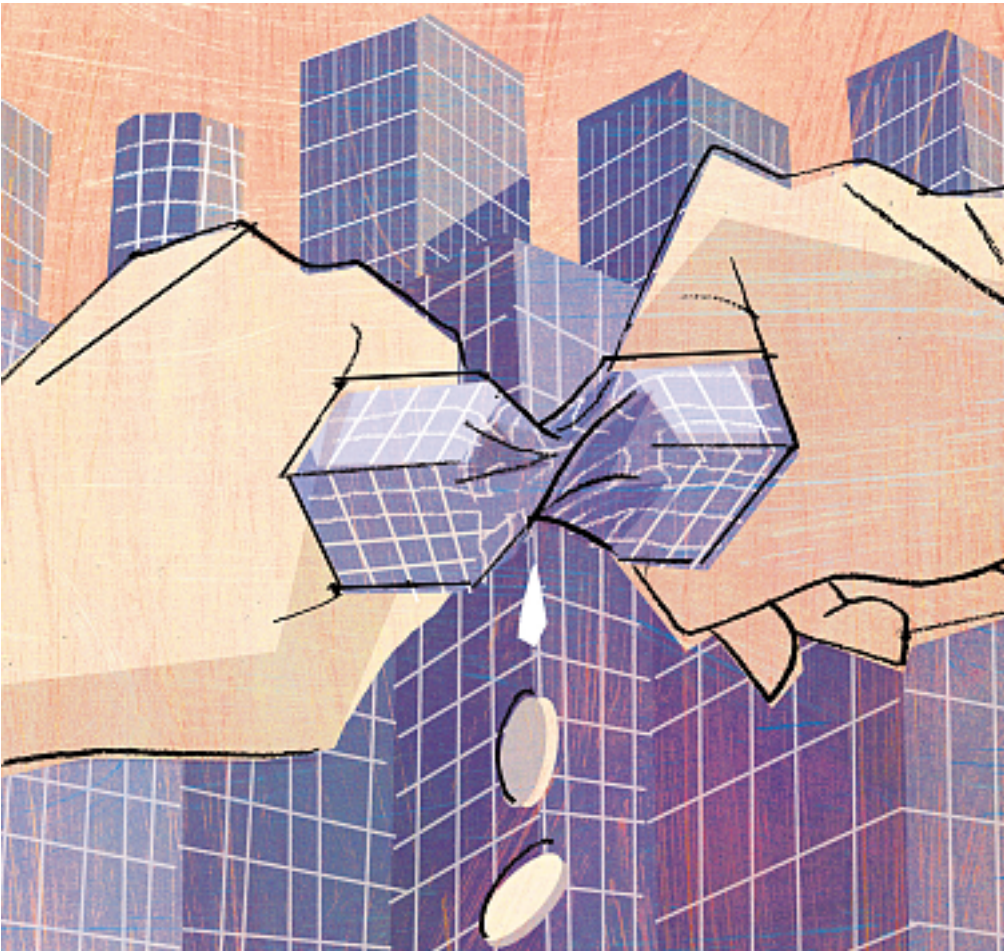


Illustration by Richard Allen

PRACTICAL TIPS HOW TO SAVE COSTS AND RELEASE VALUE

- Reduce the amount of space occupied
- Dispose of surplus space and do it quickly
- Extract value by re-gearing leases
- Unlock value from owned properties
- Buy properties from distressed landlords
- Reduce occupational costs
- Go green
- Consider relocating
- Make sure all real estate is up to date
- Do not sign a deal unless it has been negotiated in the past two weeks

Carbon Reduction Commitment, in 2010.

Consider relocating

Optimising the locations from which a business operates can help drive down costs and create a more efficient long-term business operating platform. If a company decides on relocation, it should consider why it is relocating and how the move will create shareholder value, what parts of the value chain are under consideration as well as carefully selecting the new location.

Make sure all real estate is up to date

Real estate departments need to be able to respond at short notice if the business urgently needs to cut real estate costs or raise capital. It is essential that a firm's real estate data is up to date, especially financial information, which will enable a company to ascertain which companies can be sold at a profit.

A company should ensure title documentation is in order as missing or incomplete documentation will delay a transaction or may lose a potential purchaser or tenant. The company should also have all environmental documentation available. It is important that floor plans are available for every property, including mechanical and electrical installations.

Do not sign a deal unless it has been negotiated in the past two weeks

The property market is changing rapidly, with rents and property prices moving in the occupier's favour. Any acquisition or lease renewal agreed more than two weeks ago should not be completed without first attempting to renegotiate the terms to take advantage of these market movements. ■

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