

5 ways to stay on top in a tough economy

The world of CRE is much different today than it was in the economic downturn of 2001/2002. While CRE executives have been aggressive on delivering cost savings over the years, the unprecedented events in the credit markets make it clear that success goes beyond the ability to reduce costs. CRE teams must be prepared to respond quickly to extraordinary events—everything from overnight acquisitions to divestitures.

Jones Lang LaSalle has identified five critical strategies for managing CRE in times of uncertainty.

1. Do whatever it takes to get your data in order

If you haven't done so already, you must get your data in order—the cost, condition, occupancy, vacancy, exit and expansion options for the owned and leased space in your portfolio. Accurate decision-making information is absolutely critical to identifying and realizing cost savings in the current environment. Ensure that your data are of the highest quality and as current as possible, data you can stand behind and act on with confidence.

2. Target the sacred cows and lead the business

Now is the time to identify the inefficiencies and unnecessary costs that you have known about for years, develop alternatives to them (with estimated savings) and bring them to the table. If your plans to create or expand a workplace program have been met with resistance in the past, reintroduce your proposals. You may never have a better opportunity than now.

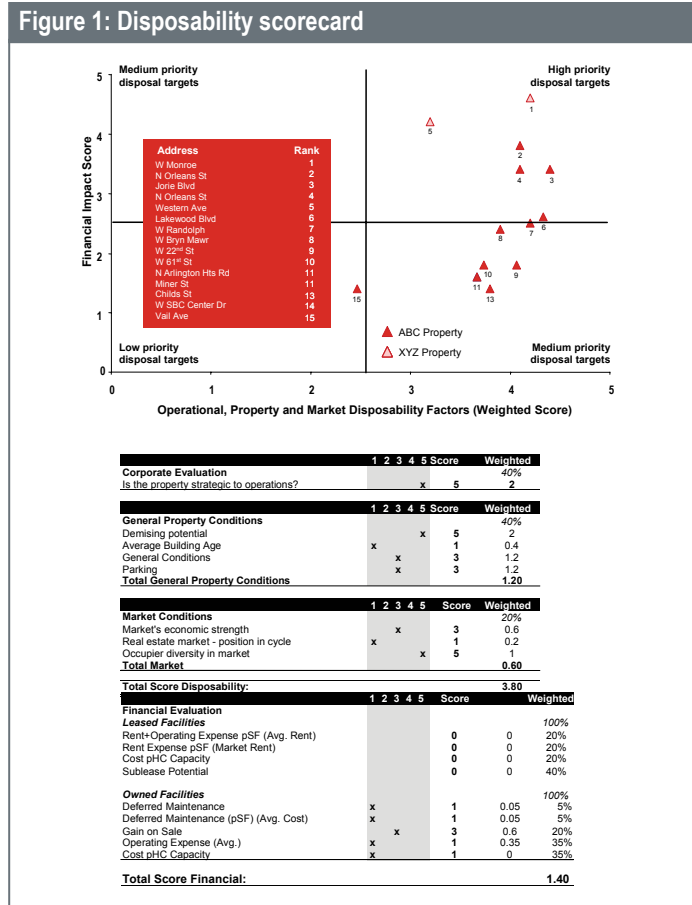
What sacred cows? The dedicated offices for executives at every facility they visit. Cost allocation methodologies that create no incentive to free up vacant space. Decision-making processes that consistently result in your company losing out on prime opportunities. Business units that still find a way to execute their own deals or create their own space standards. Service levels that are far higher than industry standard. None should be sacred in times like these.

3. Engage in scenario planning

A look at newspaper headlines over the past couple of weeks provides plenty of real-life scenarios to consider. Even if you do not have direct access to information about precisely where your business is heading, you can begin to identify likely business scenarios and plan corresponding real estate responses. For example, if downsizing appears likely, anticipate which business units will be affected most and address the relevant portfolios first, screening for opportunities to:

- Dispose of vacant buildings
- Renegotiate and restructure leases, taking advantage of real estate markets to blend and extend
- Consolidate offices and reconfigure space for greater efficiency
- Consolidate vacant space for disposition of the most marketable space
- Consolidate like functions across geographies
- Monetize assets via sale-leasebacks

To find such opportunities, you can adapt or develop screening tools such as the disposability scorecard shown in Figure 1.



This example plots “financial impact” against “operational, property, and market disposability factors” to assign a disposal priority to each property. In this way you can evaluate all your options at the same time and set strategic priorities with greater confidence.

4. Evaluate labor demographics and match them to business needs

Whether you are looking to attract and retain labor in a growth mode or scouting for optimal labor markets in a downsizing mode, evaluating labor demographics and matching them to business needs can create a huge opportunity for cost savings.

Offshoring as a location strategy is an obvious choice, but difficult to execute in the very near term unless your company already has significant offshore operations. However, finding the optimal domestic labor markets for specific functional areas—inbound call center, for example—and then consolidating those functions in the best markets might be realistic for 2008. This is a case where vacant or underutilized space in the portfolio might enable a faster solution. A close relationship with the HR and IT experts can prove especially valuable.

Another opportunity, especially for companies that have grown up in some of the larger Midwestern cities, relates to contractors. Over time, because many such companies have had trouble attracting labor, their number of contractors has grown dramatically compared to their own employees. Assuming contractors cost more—often twice as much in fact—CRE executives who can identify more favorable labor markets may realize big savings by enabling the business to replace contractors with employees.

5. Think of every transaction as eligible for economic incentives

Think of every transaction in an existing or new market as eligible for economic incentives. At Jones Lang LaSalle, we continually surprise—and delight—our clients by unearthing incentives, when none were anticipated. But make sure the incentives are collected. Many companies do not track the economic incentives they previously negotiated and consequently do not file for the benefits. You should partner with the business to track any and all negotiated incentives to ensure that the appropriate documentation is completed and filed.

For more information on how Jones Lang LaSalle can help you respond in today’s challenging business environment, please contact:

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