What Drives Corporate Real Estate Portfolio Productivity?

Leading real estate professionals, site selection consultants, and C-suite executives have begun to focus not just on pure cost, but more on the performance of real estate as a strategic asset. Together, we are looking increasingly at real estate's contribution to overall company results and realizing return on investment (ROI). Yes, return on investment. Now that's a new and welcome conversation on productivity!

Real estate productivity has historically been defined in terms of cost per square foot and the ability to reduce occupancy costs. While managing cost is still important in today's business climate, if companies only view real estate as an expense, they are missing a big opportunity.

Real estate productivity is the contribution an organization's investment in its facilities makes to overall corporate performance. A productive real estate portfolio should drive profitability and contribute value, while also enabling your business plan. Therefore, if the portfolio costs more than it contributes over the long term, it's time to make some changes. The differential can be huge. To determine if a real estate portfolio is productive, we suggest looking at the real estate contribution to ROI and other overarching metrics rather than only at cost per square foot.

Productivity Fundamentals:

Functionally, real estate enables the work of the company by providing shelter and operational spaces. Following on that basic concept, the facilities should help to create value for shareholders, directly and indirectly. Like IT or work force training, real estate is an investment in the platform used to create value for the company – whether that's building products, selling products, or delivering services.

A corporate real estate team should demonstrate the productivity of the corporate portfolio and create value for an organization in four primary ways:

1. Reduce costs to increase profitability
2. Improve return on investment (ROI)
3. Enable top line revenue growth
4. Gain clear understanding of the C-suite goals and objectives for corporate performance and contribute real estate creative solutions that further these plans.

Productivity Driver:

Reduce costs to increase profitability. Historically, the real estate industry has tended to focus on cost reduction as its measure of success. It's understandable. We become so specialized in building, maintaining, and performing real estate transactions that we start to think corporate facilities as costs instead of investments. But that can be a dangerous road to travel, because a singular focus on cost containment can actually hurt the business and deter growth.

We need to bolster overarching C-suite priorities. While there may be bumps in the road, this broader view will create greater alignment for a corporate real estate team with the C-suite perspective. After all, when CEOs look at their businesses, they not only see costs to be managed but also investments to drive growth. Real estate is in fact both, but is regularly mistaken for a pure cost.

Productivity Driver - Improve Return on Investment:

In its purest form, productivity is the efficient creation – the production – of goods and services. Real estate is the space in which those goods and services are produced. So by its very nature, real estate makes all other types of productivity possible. After all, you cannot look at the output of a function without considering the space in which it takes place. The good news for C-Suite is that great opportunity for increasing productivity overall can be achieved by optimizing the location, configuration, and architecture of an organization's physical structures. In this way, the corporate real estate function contributes directly to the productivity of the work conducted within.

Metrics and drivers vary somewhat from industry to industry. For example, in the life sciences industry, the ability to attract and retain top scientists is critical to achieving return on investment from research and development (R&D). New drug discoveries and other scientific advancements are directly tied to the creation of new revenue streams. As a result, biopharmaceutical companies typically rely heavily on labor analytics and invest in well-located and technologically sophisticated laboratories and conference facilities to drive successful research. Additionally, they have begun to invest in sophisticated facility management functionality. Expert integrated facility management teams are able to ensure that system failures do not endanger the validity of highly controlled experiments, and that sensitive equipment is provided a consistent environment to avoid shut downs.

Sales organizations also cite office locations as directly supportive of revenue generation. While this is becoming less essential as the world becomes more digitally connected, many organizations continue to cite opening an office in a new region as a direct driver of new revenues. Many companies today are opening sales offices in the Asia-Pacific region to take advantage of the market growth coming from businesses and consumers throughout Asia, including markets in China and India in particular.

What is Productivity to Your Organization?

Real estate productivity means that facilities make a contribution to the success of the business they support. This contribution is, by nature, very specific to each individual organization, its operations, and its culture. For instance, to a hospital system, productive real estate may mean sophisticated and numerous operating rooms, robotic materials-handling systems, and well-designed emergency departments. Hospitals calculate productivity through a variety of metrics from FTE/B (full-time employee per bed), labor costs per operating revenue, total operating profit margin, or other metrics. The definition is very different for a chain of retail stores that measure in sales-per-square-foot, same store sales, and direct productivity measurements for sales, stock, space, and people. In another highly divergent example, banks tend to measure productivity via efficiency ratios, return on equity (ROE), risk-adjusted return on capital (RAROC), and other statistics. While there are common themes, it is critical to tie real estate to the metrics important to an organization's specific industry, shareholders, and stakeholders.

The common thread that runs through every real estate portfolio is that productivity is defined by the ability to contribute directly to financial and operational success.

So there is really only one question left to ask; how can we drive productivity in your organization?

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