A quality process approach to corporate real estate management

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Ron Zappile is Director of Global Real Estate Operations for United Technologies Corporation and President of United Technologies Realty, Inc. (UTR), a wholly owned subsidiary of UTC. Ron has overall responsibility for managing UTC's global real estate portfolio. His financial and operational experience is extensive, multi-faceted and international. Past positions include Director of Financial Services for UTC Supply Management and Director of Financial Planning and Analysis for the Asia/Pacific Operations of Otis Elevator, a UTC division. At Otis, Ron helped establish manufacturing facilities in Malaysia, India, Korea and China, plus laboratory and testing facilities in Japan. He helped close or relocate numerous manufacturing and engineering operations in Asia/Pacific and in North America. As President of UT Realty, Ron has overseen the establishment of centralised real estate management of UTC’s vast global real estate portfolio, including 5,000 locations and about 100 million square feet of space. He helped design and implement a quality-based real estate management process for UTC and its business units. Since 2001, his organisation has delivered US$70m in net present value savings, reduced the corporation’s square footage in North America alone by 15 per cent and realised US$10m in annualised revenue from leasing and sub-leasing surplus space.

How can you meet the needs of an enterprise’s disparate operating units, each with its own requirements, while reducing costs and bringing maximum value to the parent corporation? How can you convince autonomous business units that centralised real estate management is in their best interest? This paper provides the answers, based on the experience of UT Realty, the real estate management arm of United Technologies Corporation. You will learn how to augment limited in-house resources by engaging multiple real estate service providers and get them to work together on your behalf. You will learn how to overcome internal politics and ensure cooperation and compliance throughout your entire organisation. You will discover the importance of a quality-based real estate management process and what the key elements of such a process are. By applying the principles and concepts described in this paper, you should be able to deliver high quality, value-added real estate management services to your enterprise, saving your business money and satisfying your internal customers with every transaction you conduct on their behalf.

Keywords: centralised CRE management, quality process, scalability, executive sponsorship, strategic alliances, compliance

INTRODUCTION

As professionals charged with managing our employers’ real estate portfolios, we
share similar goals and objectives. We are basically in business to do the following:

- See to it that our companies have the buildings and properties they need to conduct business properly.
- Ensure that our fellow employees have the space they need — properly designed and outfitted — to do their jobs well.
- Maximise the value and efficiency of our companies’ real estate portfolios.
- Minimise our costs.

Ours is a fairly straightforward, easily understood mandate. Yet, meeting these objectives is a remarkably complex task, fraught with challenges whose solutions often appear elusive. The task becomes even more difficult for corporations which operate numerous separate businesses or divisions, whose operations extend around the globe and whose real estate needs constantly change because of business climate fluctuations, acquisitions and divestitures.

This paper is concerned with what it would take to make this task, if not easier, then at least more likely to be successful. In it, you will learn more about the following:

- The importance of having a professional, centralised real estate management organisation that acts on behalf of your entire corporation.
- How to migrate from decentralised CRE (Corporate Real Estate) Management to centralised CRE Management — including how to overcome objections from ‘the field’, ie divisions or departments who have been used to doing their own real estate deals, and how to build confidence in your centralised CRE management organisation.

- How to make best use of multiple outside professional real estate service providers and get them to share your mission and work on your behalf.

- The value of a Quality process for Corporate Real Estate Management and the essential ingredients of such a process.

Offered here is a proven effective approach to corporate real estate management. That approach, which is embraced at UTR, provides a structure, roadmap and methodology that work well. This approach is based on a rigorous and robust process focused on Quality. ‘Quality’ in this context embodies two maxims:

1. We must satisfy our customers — both internal and external — since they define quality.
2. We must be able to satisfy our customers every time — no exceptions.

The paper expands on what ‘satisfying the customer’ means later on, but it is agreed that customer satisfaction is the ultimate measure of quality in the corporate real estate management world, as it is in any other business endeavor.

One critical aspect of UTR’s real estate management process is its ‘scalability’. In other words, UTR’s real estate process has been designed — and the systems associated with it — to be sufficiently robust to handle increased real estate activity in a quality manner, without having to add more tools, systems or resources of any kind — especially, human resources. If you can do that, then you should be able to save your employers more money without costing them more money. Such is the case at UTC.

It is not presumed here that you can solve all problems by simply cutting and pasting UTR’s process, systems and tools into your businesses, however, the prin-
principles involved are applicable to virtually any business enterprise. With that in mind, the following relates to the experiences and solutions at the United Technologies Corporation and points out how you can make use of those solutions in managing your enterprise's real estate portfolio.

In order to assess how the experiences at UTC may be of help, you need first to know what kind of enterprise it is, so it can be determined where the needs of your enterprise and the challenges facing your real estate management endeavours may or may not differ from those at UTC.

**UNITED TECHNOLOGIES CORPORATION: A SNAPSHOT**

UTC (Figure 1) is a US$31bn global corporation employing 200,000 people and operating in more than 180 countries and territories around the world. It is the 49th largest US corporation and 100th largest in the world. UTC is comprised of seven operating units, plus the United Technologies Research Center, which works with them to develop new technologies and systems. Those operating units are:

- Otis Elevator: the world’s largest manufacturer of elevators, escalators, moving walkways and other horizontal transportation systems.
- Pratt & Whitney: a world leader in the design and manufacture of jet engines for commercial and military aircraft as well as gas turbines and space propulsion systems.
- Sikorsky Aircraft: a world leading designer and manufacturer of military and commercial helicopters.
- Carrier Corporation: a world leading producer of heating, ventilation, refrigeration and air conditioning systems for commercial and residential customers.
- Hamilton Sundstrand: a global supplier of technologically advanced aerospace and industrial products.
- UTC Power: a leading developer and producer of fuel cells for commercial, space and transportation applications.
- Chubb: a world leader in the provision of security and fire protection services.

Historically, UTC’s business units have operated as separate entities, each with its own target markets, product lines, strategies, policies and departments that
handle essential functions such as finance, HR, legal and purchasing. Particularly, since the turn of the 21st century, the business units and the corporate office have collaborated to leverage the combined buying power of the entire corporation and the breadth of expertise that resides throughout the business units, in order to purchase more cost effectively and manage more efficiently certain products and services that are of use and important to the business units. Such collaboration has extended to areas such as corporate travel, employee relocation services, telecommunications services and a host of commodities such as office supplies.

Also historically, each UTC business unit tended to its own real estate needs and delegated its own employees, usually finance officers, to see to those needs. This autonomous approach did not provide maximum value to the corporation as a whole nor to the individual business units, however, and thus UT Realty was formed to design and implement a successful way of managing the entirety of UTC’s global real estate portfolio. Among the tasks was the reduction of UTC’s estimated annual real estate spend of US$1bn, without compromising the need for the right space, the right location, the right price and the right outfitting. UTC faced and overcame numerous challenges in the efforts to pursue this task. How this was achieved will hopefully be of use, as you face your own real estate management challenges.

**CHALLENGES FACING CORPORATE REAL ESTATE MANAGEMENT**

**Size and complexity**

As with most large corporations, the major challenge faced was the sheer size of UTC’s global real estate portfolio — some 5,000 locations around the world totalling 100 million square feet of space. Some 55 per cent of that square footage is in North America and the remaining 45 per cent is international. About 70 per cent of our portfolio is comprised of operations-related sites, including manufacturing facilities, warehouses, distribution centers and service centres. The remaining 30 per cent are offices for marketing and sales, corporate administration, R&D and other non-operational functions. What makes the task of real estate management so complex is the fact that every real estate transaction is unique. No two sites are alike. No two negotiations are alike. No two customers are alike. Factor in the number of sites UTC has around the world and the degree of difficulty in managing that real estate portfolio can be appreciated.

**Limited CRE resources**

Imagine trying to manage a portfolio the size of UTC’s with a group of just six people. That is the reality we face.

**Decentralised structure, governance and culture**

As noted earlier, UTC business units operated autonomously in most respects, including the management of real estate. UTC’s history of independent operation by the business units has bred a culture of autonomy. Put simply, each business took care of its own real estate needs without giving a thought to sharing information with other business units and seeing if they had similar needs and whether there was a less costly solution that could satisfy both.

Now ask yourself this question: How, given very limited resources, can you effectively manage a huge, complex, global real estate portfolio in a highly decentralised corporation and do so without sacrificing quality?
What follows are some of the answers, based on the experience at UTC.

**OVERCOMING THE CHALLENGES**

UT Realty's immediate challenge was not only that UTC's business units were accustomed to handling their own real estate transactions. What added to the challenge was that this task fell to in-house people who, in most cases, lacked experience or training as real estate professionals and had other jobs, typically Finance or Human Resources. For example, if a business unit's local sales and marketing group had outgrown its offices and needed new space, the in-house person charged with real estate responsibilities would look for space on the open market, working with limited information, resources and capabilities. It might not occur to this person that another UTC business might have excess space in the same city that could accommodate the sales group, thereby saving money while eliminating excess space. The local person also might be at a disadvantage when trying to negotiate a lease with a savvy landlord. Furthermore, since the person was only negotiating on behalf of a division and not on behalf of UTC, he or she had far less leverage than someone negotiating for the corporation as a whole.

**OVERALL STRATEGY**

Centralise the real estate management function for the entire enterprise and put real estate professionals in charge of every real estate transaction.

The approach at UT Realty helps overcome the challenges noted above by centralising the real estate management function for the entire corporation and putting real estate professionals in charge of every transaction for every business unit of UTC, everywhere in the world. As a result, each business gets the right space at the right cost. In addition, business unit employees no longer have to double as real estate managers. Consequently, the business units can concentrate their resources on their core business and competencies — building, selling and servicing helicopters, aircraft engines, elevators and HVAC or security systems — while leaving the real estate management to the professionals at UT Realty.

The following is how UTR implemented this approach.

**Step 1: Partner with professional real estate service providers**

Real estate service providers who could provide strong coverage and expertise in the regions around the world where we did business were sought. After a rigorous search and bid process, UT Realty contracted with three real estate service providers who brought immense expertise and an ideal combination of global coverage and local market presence and knowledge. Those providers were: United Systems Integrators (USI), servicing North America; Grubb Ellis/Knight Frank (GEFK), servicing Europe, the Middle East, Africa and Russia; and an alliance of USI and Jones Lang LaSalle (JLL), servicing the Asia/Pacific region as well as Central and Latin America. It was emphasised to these firms that they and UT Realty were all part of one team and that all were going to succeed together or not at all.

**Key point**

If you are going to involve multiple outside service providers, you need to make sure they agree to your requirements and specifications and follow the standard processes that you have established for use throughout your enterprise on a worldwide basis. These firms may
work separately, but they must share your mission, goals and objectives, as well as your methodology, if your objectives are going to be met.

In the case of UTR, each of the three providers works independently of one another in their own geographies, but they all work with UTR toward the same goals. To make sure UTR and all the providers are working in concert with one another, weekly conference calls are conducted, in which all the service providers participate and talk to one another as well as to UTR. Also conducted are high level joint conference calls twice a year with the senior management of all three providers. A joint annual meeting is held — a real estate ‘global summit’ — where all factions get together in person, in one location and discuss issues of importance and works in progress. This kind of communication is essential to make sure that the efforts of multiple service providers are on track and in accordance with your enterprise’s needs and objectives.

Step-2: Compile and constantly update a database of the enterprise’s worldwide real estate portfolio

Information is power. Information is also essential to the proper management of a global corporate real estate portfolio. You have to know what locations you have, what use is made of them, what the costs are to own or lease them, what it costs to operate them and a host of other essential details about each site and the transactions or contracts associated with it.

Working with the service providers and business units, UTC began the immense task of compiling current, accurate and detailed information on UTC’s entire global real estate portfolio. UTC uses a real estate database system known as Sequentra — a powerful, easy to use web-based system that gives real estate managers and business unit representatives access to information about their sites, leases and status of transactions affecting their businesses. An informational snapshot of each UTC site is compiled — size, location, population, usage, operating costs, lease terms etc. This enables us to identify quickly and easily opportunities for consolidating space when a particular business group needs to relocate. If appropriate space exists elsewhere within UTC’s portfolio, that space can be offered as a money-saving option, while maximising the value of previously unused space.

Sequentra was selected after an extensive process of reviewing and comparing available alternatives. Because Sequenstra is so important to the company, UTC insisted that any real estate service provider who wanted to do business with them used Sequenstra to enter and update data on sites, transactions and projects. That requirement was spelled out in the RFP (Request For Proposal) that was sent out to the service providers who were interested in working with UTC. Training was given where necessary to bring the service providers up to speed on Sequenstra and their user fees were paid for by UTC.

With the service providers on board and their training on Sequenstra complete, they are then responsible for updating UTC’s data and keeping them current at all times. They have a significant incentive to do so. The better the data, the more strategic analyses they can do on the portfolio, which in turn generates more transactions, and their compensation from UTC depends in part on those transactions.

Step-3: Develop a quality-based real estate process

Successful CRE management is — and must be — process oriented. You have to identify and specify all the steps
What is Quality?
The Four Absolutes

Conformance to Requirements (definition)
Prevention (system)
Zero Defects (performance standard)
Price of Non-conformance (measurement)

necessary to meet a particular business need for a specific kind of space at an agreed-upon level of cost. You need to test and fine-tune those steps until you are confident that the process works. The process must be robust, stable and repeatable. In other words, anyone following the process properly should be able to produce the desired results. At the same time, you must continually work on your process to improve it, as marketplace conditions and business objectives change over time. Continuous improvement is essential to your ability to provide high quality service to your customers.

- The foundation of your CRE management process must be Quality.

UTC has integrated ‘Quality’ principles and practices into their real estate process. Certain concepts and principles were borrowed from colleagues in manufacturing and were applied to the delivery of real estate services. Doing so has enabled UTC to deliver to businesses fully furnished properties, on time, within budget and meeting all the internal customers’ requirements.

- What is ‘Quality’? Quality is what the customer says it is.

That underlying principle is at the foundation of what we call The Four Absolutes of Quality (Figure 2).

(1) **Conformance to Requirements**
What does the customer want? We must be very clear in defining and satisfying those requirements without exception.

(2) **Prevention**
We must have a system in place that prevents mistakes, defects and other barriers to customer satisfaction.

(3) **Zero Defects**
We must satisfy the customer every time, no exceptions.

(4) **Price of Non-conformance**
We must be acutely aware that not adhering to our quality real estate process will result in costly preventable outcomes.

Once you know what ‘Quality’ is, how do you embed quality into your real estate management process? Again, it is helpful to follow the example of manufacturing and that is what UTC did. In designing their real estate process, UTC integrated two ‘Quality programmes’ usually associated with manufacturing: ACE (Achieving Competitive Excellence) and Six Sigma (Figure 3).

ACE is UTC’s Quality System. It
Figure 3  ACE  
(Achieving  
Competitive  
Excellence) and Six Sigma

ACE vs Six Sigma  
A brief comparison

ACE = a process focus
Six Sigma = a series of improvement projects

ACE first began at Pratt some  
10 years ago  
in the manufacturing area

focuses on doing things right the first time, every time and includes a toolkit for continuous process improvement. Using our ACE toolkit, we are able to map our processes and identify and eliminate sources of waste and defects.

Six Sigma is a highly disciplined process that focuses on delivering near-perfect products and services. It is ‘The relentless pursuit of perfection’. Six Sigma is also based on the idea that whatever you do is measurable. In other words, there is accountability so that you know exactly how close you are to delivering a perfect product or service.

Since the customer defines ‘perfection’, you either measure up or you do not. Defects — or ‘turn-backs’ — result in failure to meet customer requirements. Every turn-back has a cost associated with it. For example, if you were to move out of a property and forfeit an option to stay, but did not inform your landlord by the option date, it is possible you would be hit with a financial penalty. The job is to ensure you do not miss that deadline and incur that cost. Or, suppose you needed 5,000 square feet of space to house your newly assembled marketing group. Suppose then that UTR did not perform the necessary due diligence to determine future growth potential. In that case, the marketing group might outgrow that space soon after moving in.

UTR’s goal in real estate management is zero defects. To get there, UT Realty established a process based on certain standard procedures that everyone must follow. They have institutionalised the process so that all associates use consistent, waste-free, best practice methods to do the work.

**UT Realty’s 8-phase real estate process for all projects**

For further details, see Figure 4.

- **Phase-1: Project initiation**
  The first step for any UTC business with a real estate need is to engage UT Realty. The business fills out a standard UTR form and UTR meets with all appropriate parties and defines roles and responsibilities.

- **Phase-2: Project definition**
  Working with the customer at the business unit, UTR defines the scope of work required and the services needed to deliver it.

- **Phase-3: Real estate analysis**
  UTR provides research on local market conditions. UTR reviews the UTC
portfolio and presents options and recommendations. It works with the business unit to select a site that best meets its needs.

- **Phase-4: Space plan**
  UTR works with the business unit to define business requirements for the space in question and then develops architectural and space plans incorporating UTC space standards where applicable.

- **Phase-5: Tenant improvement package**
  UTR works with the business unit to define build-out specifications and develop detailed plans accordingly.

- **Phase-6: Contract negotiation and execution**
  UTR negotiates the business terms, prepares the contracts, facilitates and secures line and/or corporate approvals. The business unit ensures the appropriate capital appropriation request is filed and approved.

- **Phase-7: Implementation**
  UTR conducts document and contract review, performs due diligence and coordinates the project. The business unit assists UTR with the contract review and secures all necessary signatures.

- **Phase-8: Project close-out**
  UTR submits a ‘Savings Scorecard’,
updates the Sequentra database, completes a lease abstract and conducts a project review, soliciting input from our internal client to determine their level of satisfaction with the project. The business unit completes a customer satisfaction survey and provides feedback to UTR about the project.

**Step-4: Ensure corporate-wide buy-in and compliance**

The key to the success of a quality process is obtaining 100 per cent compliance with that process. However, as a real estate manager, you cannot simply tell the rest of your enterprise to do what you say, simply because you know it is right. You have neither the authority nor the stature within your company to command and demand such compliance. You need the backing and endorsement of the most senior management of your business. You also need their active participation.

As noted earlier, centralising the real estate function went against the grain of how business was conducted at United Technologies. Each business unit had its own way of doing things, including managing its own real estate. At UT Realty, we established as a primary tenet that we must be involved in all real estate dealings. Otherwise our real estate process simply would not work. It was also recognised that compliance would depend on the support of senior management. Thus, Executive Sponsors were enlisted, including the presidents or senior vice presidents of each business unit, as well as UTC’s Chief Operating Officer and Chief Financial Officer. These executive sponsors wholeheartedly endorsed UTR’s activities and supported the projects. They promoted to their businesses the gospel of using UT Realty in every real estate transaction. They also became actively involved when and where it was necessary to do so, eg if UTR came up against a bottleneck, the Executive Sponsors took action to pave the way to ensure the cooperation needed.

Senior management support is only part of the story. UTR took the additional step of embedding compliance with the real estate process into UTC’s corporate financial policy manual. In other words, compliance with that process is now the ‘law of the land’ at UTC. Specifically, at UTC, any business in any part of the world that wants to spend any amount of money on a real estate-related investment — for example on leasing or buying a new property, or even renewing a lease — must submit to the corporation a Capital Appropriation Request (CAR) and secure approval not only from business unit operational management but also from the Director of Global Real Estate Operations. The result is that UTC policy dictates that UT Realty be involved in every real estate transaction, or that transaction simply will not happen.

In addition to changing the ground rules and requiring UTR’s participation in all real estate transactions, the mindset of UTC people was changed toward involving UTR in the first place. UTC accomplished this by changing the ‘allocation methodology’. In the past, in North America, UT Realty offered the business units services for design and construction on new projects, relocations and renovations. Fees for the services would be charged back to the business unit on a project-by-project basis with the amounts depending on how much square footage was involved. Unfortunately, this situation was in fact a disincentive. In order to reduce the charges, the businesses tried to minimise the amount of square footage they spoke about and in some cases avoided using UTR altogether in order to reduce the charges. Today, in-
stead, each business is assessed a flat annual charge for UT Realty’s services, computed according to a mutually agreed-upon methodology. Since it is a one-time charge, the business units can call upon and use the services whenever they want for no additional fee. In fact, when they do call, the perception is that these services are free, since they are not paying every time UTR is brought in. So now, even though it is corporate policy that each business must engage UT Realty for each project or transaction, there is no longer in their minds a financial barrier. In essence, a culture change has been achieved resulting in compliance, rather than resistance, based on a perceived lack of value for the money they spend.

You have now seen UTC’s CRE management. The question which needs to be answered before you adopt our approach is: Does it work? Experience says: Yes.

**RESULTS**

Over the last two years, in North America alone, UTR has:

- Eliminated nearly 10 million square feet from the portfolio. That is a reduction of about 15 per cent.
- Focused on leasing surplus owned space and subleasing surplus leased space and has more than doubled the space under sub-tenancy. The result is about US$10m in annualised revenue.
- Actively sought opportunities for consolidations and co-locations and completed some 35 space-reducing projects reducing the square footage by an average of 15 per cent, with numerous additional projects underway.
- Delivered more than US$70m in net present value (NPV) savings since 2001.

These results only scratch the surface of the tremendous opportunities for savings, efficiency and maximisation of value.

**KEY POINTS**

In CRE management — regardless of the size and complexity of the corporation or portfolio — we must endeavour to satisfy the customer — the internal client — every time. Otherwise, we are not doing our jobs properly and we are costing our companies money.

Fortunately, CRE management lends itself to process management and process improvement. The underlying goal of such a process must be quality as defined by the customer.

By applying some of the same quality principles used in manufacturing world class products, we can deliver quality real estate management services that satisfy our customers. In fact, no process will succeed without a dedication to quality.

Information is key. You cannot maxi-
mise value and minimise costs — nor can you make the proper strategic real estate decisions — unless you know exactly what is in your portfolio, including the specific status, usage, population and operating costs of every site.

In order for the process to work, everyone must follow it and leave real estate activities to the real estate professionals — be they in-house, outside contractors, or a combination of both.

Finally, be self-critical at all times — reviewing and improving your process as conditions change. The healthier, more robust and sound your process is at any time, the better chance you have of benefitting your customer.

It cannot be promised that you will be able to duplicate UTR’s process and systems at your company. It can, however, be said with great confidence that if you apply the basic principles and concepts of quality to the management of your corporate real estate portfolio, you will enjoy unprecedented success and your customers will thank you.