



Ron Zappile and the UT Realty Team

Centralizing Real Estate at United Technologies

Under Ron Zappile's leadership, United Technologies has moved from a decentralized, in-sourced approach for corporate real estate to a centralized, highly leveraged model that's paying big dividends.

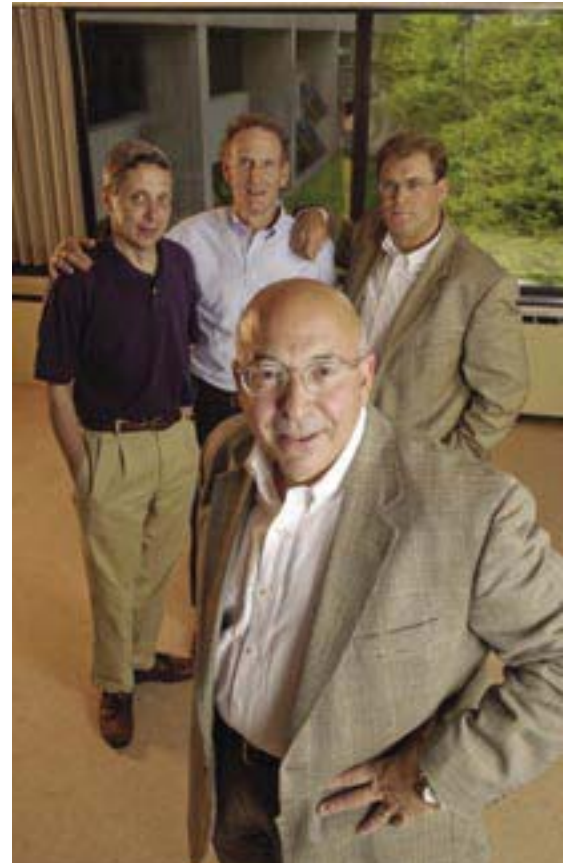
By Tim Venable

Picture this scenario, if you will. You've just taken on the task of managing — and centralizing — real estate for a major industrial company. It's a nice assignment, to be sure, and congratulations are in order.

But there are just a few, well, *small* challenges. First, your company has numerous powerful business units that have been handling their own real estate needs just fine for a long time, thank you very much. In addition, your portfolio is huge — approximately 100 million sq. ft. (9.3 million sq. m.). And it's global, spread out over 63 countries. You don't have a technology platform, so you don't really know precisely what you've got and where it all is. Oh, and by the way, your staff, though seasoned, is very small, and chances are you won't be able to hire many new people to help you.

A tall order, to say the least. But that's precisely the situation Ronald P. (Ron) Zappile, President of United Technologies Realty (UTR), and UTC's Director, Global Real Estate Operations, faced in 2001 when he accepted the leadership of UTR, a newly created, wholly owned subsidiary of United Technologies.

"The challenge I inherited three years ago was a highly decentralized structure around the world," Zappile recalls. "We didn't know in total how much we were





spending. We didn't know exactly all that we had and where it was."

United Technologies Corp. (www.utc.com) generates some US\$31 billion in annual revenues and employs more than 200,000 people in providing high-technology products and support services to the aerospace and building systems industries around the world. Carrier (heating and air conditioning), Pratt & Whitney (aircraft engines), Sikorsky (helicopters) and Otis (elevators and escalators) are some of UTC's leading brands.

Leader met with Zappile on a warm summer morning at UTR's headquarters in Farmington, Conn. Joining him were the other members of UTR's four-person management team: Ron Patterson, Global Manager, International Real Estate; Peter May, Manager, International Real Estate; and Taylor Henderson, Global Finance & Operations Manager.

That's the management group — four people. So how many others are on the UTR in-house team? The answer: *two*. One deals with major development activities, and the other handles lease administration for a portion of the Carrier portfolio in North America.

"Except for those two staff, this is it," Zappile says as he gestures at the small group gathered around a conference room table.

How do you handle a 100 million-sq.-ft. portfolio with just six people? The answer's all too obvious: you don't. You get some help — fast.

That's what Zappile and his team did as they set out on their journey some three years ago. Today they've created a new, highly leveraged,

efficient model for real estate management at UTC that is delivering big value to the company. Here's their story.

Centralizing Real Estate: A Big Change for UTC

Historically, UTC's business units have operated as separate entities — each with its own target markets, product lines, strategies, and policies. Each had departments that handled finance, HR, legal, purchasing and other essential functions, including real estate.

But more recently, particularly over the last five to six years, 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 a variety of non-product commodities — again, including real estate.

"In the past, the business units handled all their own real estate," Zappile says. "But they basically had people who were not trained in real estate, for whom real estate was not their core competency, handling real estate transactions. We thought that autonomous approach did not provide maximum value to the corporation as a whole or to the individual business units. It was leaving money on the table."

Against that backdrop, the decision was made to have a centralized real estate function. "We wanted to have the ability to look across the corporation at what the requirements were," Zappile says. "We felt that by centralizing real estate strategic management, we could allow the business units to focus on what they do best and overall do a better job

for UTC and its shareholders." Thus UTR (which reports up through the UTC Supply Management organization) was formed, charged with designing and implementing a better way of managing the entirety of the company's global real estate portfolio.

"Among the tasks we were charged with was to reduce the company's estimated annual real estate spend of \$1 billion," Zappile says. "We wanted to wring the value out of our owned facilities and rationalize our leased facilities. We knew even small changes would make a huge difference over such a large portfolio. But we knew we had to find savings without compromising anyone's needs for the right space, in the right location, at the right price, and outfitted the right way."

Buy-In and Change Management

Moving to a centralized approach for real estate marked a big change for UTC. And not surprisingly, there was some resistance. "Change management was 85 percent of my job for the first three years," Zappile says.

But Zappile and his team didn't have to break through the line of scrimmage on their own — they had some big blockers up front helping clear the way. "Senior management buy-in was the No. 1 reason I was able to move the elephant," he says. "We have had extreme management support, from the top down to our executive sponsors. I cannot over-emphasize how important this has been."

After the decision was made to centralize the real estate operation, Kent Brittan, UTC's Vice President of Supply Management, launched UTC 500, a supply management initiative targeted to reduce \$500 million in general procurement >>



spending over three years. “The real estate operation came under that umbrella,” Zappile says. “Each commodity team has a UTC business unit senior executive as its sponsor, and the role of these executive sponsors is to remove obstacles, facilitate change and support revisions to corporate policies and procedures proposed by the commodity teams. This structure has been extremely effective, both in North America and internationally.” UTR’s current executive sponsor is Louis Chenevert, President of Pratt & Whitney.

UTR also established a marketing and communications plan to educate employees about the new unit and its role. “We wanted to have people understand how we were now going to look at real state, from a strategic standpoint,” Zappile says. “The intent was to explain to them how to think about it so that they could call us and we could execute whatever was needed.” UTR also developed and published a Strategic Savings Booklet and a Process Checklist, both of which have been distributed worldwide.

Still, Zappile realized that compliance could be a problem. “But I knew if I could somehow get into the company Financial Manual, then every CFO or financial director would be on my team,” he says. “I was able to include a provision in the UTC Financial Manual that no real estate deal could be done without my approval on the capital appropriation request (CAR). So I got finance managers worldwide as compliance officers on my side. Basically, Finance reminded Operations that they can’t do real estate anymore without UTR being involved.”

Early on, the UTR chief recalls,

there were 20 to 30 violations of that policy per month. Those were reported to top management. “Now we have maybe one per month,” he says. “The word has gotten out.”

Centralized Management, Local Deployment

Armed with a corporate-wide charter for real estate and the backing of senior management, UTR then had to decide how best to deliver services to the company’s massive portfolio. “We had determined that real estate was not core to our corporate mission,” Zappile says. “We had to figure out how we would leverage and extend the enterprise beyond the resources and the number of people we would be allowed to have in UTR.”

UTR discussed potential models with leading service provider organizations and looked for a solution to the challenge of managing the portfolio with just a handful of staff. After two thorough, competitive RFP processes, three global alliance providers were selected. United Systems Integrators (USI) was chosen to handle the North American portfolio of some 55 million sq. ft. (5.1 million sq. m.). Grubb & Ellis/Knight Frank was tapped for Europe, Middle East, Africa and Russia (roughly 21 million sq. ft./2 million sq. m.). And

Jones Lang LaSalle and USI were selected to jointly handle 20 million sq. ft. (1.9 million sq. m.) in Asia Pacific and Central and Latin America.

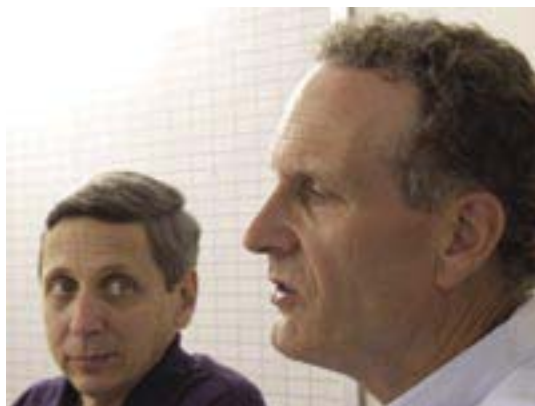
“What that gives us is a network of more than 400 offices and more than 15,000 people working on our account as the need arises,” Zappile says. “There would be no way we could match those resources internally.”

The move wasn’t a true outsourcing, he points out, because UTC didn’t actually have a real estate function that could be outsourced. “Basically, what we have is centralized management with local deployment,” he says.

USI’s dedicated on-site team, based in Farmington, manages all transaction and design/construction activity across UTC’s North American portfolio. The USI partnership is more mature than the international alliances, and its account managers deal directly with the business units.

In Europe, currently Grubb & Ellis/Knight Frank representatives are resident in Otis’ area headquarters in Paris and Berlin as well as in Knight Frank’s London office and work exclusively on the UTC account. Similarly, two USI

representatives, also 100 percent dedicated to the UTC portfolio, sit within Otis’ area headquarters in Hong Kong, while one Jones Lang LaSalle representative works out of the JLL Hong Kong office. In the international arena, two of UTR’s in-house team — Patterson and May — act as customer





relationship managers between the alliance partners and the business units.

“Fundamentally, from a business unit perspective, the support they give us is only as good as the service delivery they get,” Patterson says. “So we rely heavily on the quality process and quality performance of the alliance partners. That’s why that takes an awful lot of work and effort. In North America, we have shared our ACE (Achieving Competitive Excellence) quality process with USI. We are rolling that out internationally to our alliance partners, too. That’s not to say they don’t have their own processes for quality. But the issue of quality performance and professional performance is critical to our success, because if that doesn’t take place the natives get very restless. They don’t hesitate to let you know about it. So on each and every project there is a customer quality review of actual performance and how that performance was perceived. We metric those and keep track of those as an indication of how we’re doing.”

Making It All Work: The Sequentra™ System

When UTR was launched some three years ago, the organization had what Zappile generously calls a “partial” North American database. Yet almost half the portfolio was outside the United States. Having a global, actionable database was a top priority.

Today, thanks to Sequentra™, UTR’s global real estate portfolio data and project management system (and a lot of data gathering and compilation by the entire UTR team, including alliance partners), the database is truly global



in scope. The web-based system, accessible worldwide on a 24/7 basis, now includes almost 4,100 locations and 95 million sq. ft. (8.8 million sq. m.). “We currently have almost 800 transactions in progress around the world,” Zappile says. “Three years ago, I couldn’t quote you those numbers. With one click, I can find out what’s going on with any project around the world.”

Sequentra™ also allows the team to conduct detailed analysis for portfolio planning. “We can do a city study, for example,” May says. “We can take a look at all the leases, look at the expiration dates, rental rates and everything else and start putting together some strategic studies. And the business units, who also have access to Sequentra™, can do that as well. This is an extremely helpful tool to work with business units on strategic business plans and rationalization plans.”

Besides the business units, numerous organizations within UTC are now using Sequentra™, including Business Development, Supply Management, Finance and HR, among others. “We’ve now got

probably in excess of 375 worldwide users of Sequentra™ that go far beyond UTR,” Zappile says. “Not having multiple databases across the corporation to maintain, not to mention reconcile, is priceless. Now you can go to one place and know that the data is accurate as of today because it’s a live, dynamic database. And it gets past the issue of ‘My data doesn’t agree with your data.’ ”

UTR found that 85 percent of its internal information requests could be handled with 10 to 12 pieces of information. So it created standard reports, available instantaneously through Sequentra™, which fulfill most of those needs. “This has really boosted our productivity because we can spend our time doing value-added work vs. generating reports,” Zappile says.

Without Sequentra™, Henderson says, the organization’s lean, leveraged model wouldn’t work. “It forms the backbone of our support structure,” he explains. “But it’s more than just an electronic system. It’s about process and standardization that allows standard delivery of transactions across the globe.” >>



New Initiatives

With those essential elements firmly in place, UTR is now moving ahead with a variety of new initiatives that vary by location. Three relate to domestic, or North American, operations.

First, UTR is now handling all the landlord rental payments across North America for Otis, Sikorsky and a portion of Carrier. “We just started doing that as a pilot,” Zappile reports. “When successfully deployed, the intent is for UTR to pay all landlord lease payments for all the business units. The challenge, and complexity, in extending it across the enterprise comes down to decentralized financial systems, certain operating procedures and multiple trial balances and general ledgers.”

His team is also now in charge of moves, adds and changes. “We’re providing that service now to the business units on an integrated basis,” he says. And within the last year UTR took over management of UTC’s Furniture Procurement Program across all business units in North America.

In the international arena, UTR is adding some services in the U.K. and Ireland to its integrated model. “We are amending our contract with our service provider, Grubb & Ellis/Knight Frank, to allow them to take over responsibility for specific high value-added services,” Patterson says. “This includes looking at tax rates for real estate properties, rental increase reviews — which is a very institutional and complicated pro-

United Technologies at a Glance

Revenues: US\$31 billion

Business Units:

- Carrier heating and air conditioning systems
- Chubb security and fire protection services
- Hamilton Sundstrand aerospace and industrial systems
- Otis elevators and escalators
- Pratt & Whitney aircraft engines
- Sikorsky helicopters
- UTC Power
- United Technologies Research Center

Employees: 205,000

Real Estate Portfolio: More than 4,000 locations, totaling almost 100 million sq. ft. (9.3 million sq. m.)

By square footage: 55% North America/45% International
68% Owned/32% Leased

By number of locations: 26% North America/74% International
14% Owned/86% Leased

In-House Real Estate Staff: 6

cess in the U.K. and Ireland — as well as the dilapidations, which is the reinstatement of the premise to its original condition. This is a big issue, and a big cost, in the U.K. and Ireland.”

Many new initiatives, Zappile says, likely won’t be rolled out across the world all at once. “You have to run pilots in different places to see what works,” he explains. “As we get better experience, we can deploy new programs — perhaps with some country or cultural differences — and then incorporate them into our integrated service worldwide.”

UTR also continues to push for ever-improving performance under its ACE quality initiative. “We’re really working toward a zero-defect type of situation,” Henderson says. “We want all the work that flows through this organization to be standard, seamless and high quality with minimal hiccups in the process. We’re working very hard on that with all our service providers.”

Looking ahead, UTR is studying ways to have a more efficient lease administration process and how to manage it globally.

The Bottom Line: \$85 Million and Rising

Zappile and his team have achieved a lot during the past three years. Easily the biggest accomplishments, he says, are fully implementing the Sequentra™ system across the globe and the international deployment of UTR.

“When you deploy this kind of initiative on a worldwide basis, it’s an overwhelming task,” he says. “But with the hard work of this group and our alliance partners, we’ve been able to do it. I think we execute efficiently and extremely well. We approach everything from a standpoint of quality, standard work and continuous process improvement. This is an everyday challenge, and it’s not very glamorous. It’s hand-to-hand combat. But there are huge returns. And these gentlemen work extremely hard to make this a success.”

To be sure, there are substantial bottom-line financial results. UTR now has more than 1,500 transactions to its credit, including a growing number of co-locations, consolidations and other moves that have resulted in more than \$85 million in



quantifiable savings.

“We’ve now done 37 consolidations, whereas three years ago we hadn’t completed any,” Zappile reports. “We’re averaging about one per month, and we’ve eliminated 11 million square feet (1 million sq. m.) of space in North America alone during the past three years. From that standpoint, I think we’ve added tremendous value to the corporation.”

That record of adding value has caught the attention of others in UTC. “In our Supply Management organization, the success we’ve had is now being looked at by some of our peers,” Henderson says. “It’s not so much about real estate per se — it’s more about service delivery models and how you go about implementing that. I think we’ve become a quality organization.”

In addition, UTR is now being invited to participate early in M&A activity and due diligence on potential acquisition targets. “That was not the case before,” Zappile says. “Now the business units see that there is a benefit to having us in early to review the potential real estate portion of the acquisition and see what we can provide them.”

May, who has worked in several different global corporate real estate departments over the course of his career, says UTR’s progress has been tremendous. “I think it’s quite incredible what we’ve been able to do,” he says. “We’ve come from virtually nothing three years ago to where now we touch almost everything with our process, despite having a huge portfolio and limited resources. A lot of credit goes to our alliance partners, whom we see as an extension of us. It’s a very close-knit, professional group.”

‘The Most Fun Job I’ve Had (But Don’t Tell Anyone)!’

Zappile, married with two grown children, has been with UTC for almost 27 years. The first 21 or so were with the Otis Elevator division, in a variety of financial and operational positions, in both North America and Southeast Asia. Zappile knows Asia particularly well, having helped establish manufacturing facilities in Malaysia, India, Korea and China, plus laboratory and testing facilities in Japan.

The Connecticut native joined CoreNet Global in early 2001 after accepting his current position, and he’s been very active and supportive of the association. He’s currently Chairman of the Connecticut/Westchester Chapter, and he’s presented at both Discovery Forums and Global Summits. “Participation in a number of Discovery Forums was extremely helpful at the beginning in providing information and resources to aid my thinking about how to structure the entire UT Realty model,” he says.

Patterson’s roots in UTC also run deep. He’s been with the company (and in real estate positions for various business units and UTR) for 21 years. “I’ve also been with IDRC and CoreNet Global for about 21 years,” he says. Patterson is married and has a daughter who’s about to get married. “That’s why I have no money,” he jokes.

May has worked in corporate real estate and related real estate fields for almost 20 years, including stints with Combustion Engineering, Mass Mutual and Hartford Financial Services. “I’ve now been at UTC in corporate real estate a little over four years and it’s a great company,” he says. May is also a happy newlywed; he has been active in CoreNet Global

(and predecessor organizations) since the early 1990s.

Henderson has been with UTC for about eight years, largely in finance-related roles. He joined UTR in 2001. “I’m married with three kids, and like Ron have no money because I’m saving for their education,” he laughs. “I haven’t even thought about any of them getting married yet.”

Henderson credits Zappile’s management style with helping UTR develop and move to the next level. “Ron allows us some latitude to work within the system to try new things,” he says. “If it works, we go with it. If it doesn’t, we don’t get our hand slapped. He just pats you on the back and says, ‘OK, you tried; now let’s try something different.’ He’s helped us to not be afraid of making mistakes, but to learn from them so we can move on to something else that might work better.”

Adds Patterson: “The discussion here for some time has been around having a vision of what the company needs to do and being able to persuade and galvanize the resources and people in the organization to share that vision and support it with policies and procedures. Ron’s been able to do that.”

Clearly, the colleagues who know Zappile best are proud to be part of his team. An equally positive impression has been left on CoreNet Global staff, who have found him to be a true gentleman and someone who’s just great to be around.

For his part, Zappile enjoys leading the UTR team and helping UTC business units become more competitive through the strategic management of real estate. “This is the most fun job I’ve had, because you can see things happen,” he concludes. **>LEADER<**