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Smart Companies Include Real Estate in Their Strategic Planning





Segregated or “siloed” real estate strategies in today’s marketplace will ultimately fail because the key issues and concerns in real estate are shared across the organization. Executives need to expand their strategic planning efforts to include real estate and should integrate their future real estate needs with their future business objectives.

Executives must embrace the idea that real estate is a strategic asset, says Don Mills, executive vice president of KDC. “If you’re trying to implement a facility without thinking through how it connects with your overall business objectives, you’re probably going to make bad decisions, because you won’t address the idea that your business can change significantly,” he points out.

Linking Real Estate Initiatives with Business Objectives

In many companies today, a battle rages over real estate’s role within an organization: Is it simply a tool to help the company produce its core products and/or services or does it create value in the larger strategic plan of the organization?



CoreNet Global’s annual 2009 State of the Industry Report finds the commercial real estate (CRE) industry is responding to global economic turbulence by continuing to strategically align the CRE function to the greater, overall corporate business plan.

“CRE is now playing the role of both value protector as well as value creator,” says CoreNet Global CEO Prentice Knight. “It is about delivering solutions for the overall business, directly linking real estate initiatives with the core business strategy and measuring success in terms of organizational outcomes.”

The report also contends that “the next new” for managing corporate real estate is going beyond protecting and managing value by aligning with corporate imperatives and business needs. Any companies thinking about relocating, expanding or building a new facility need to think about the amount of space and the kind of space they’ll need to help the company achieve its business objectives.

“Many people treat real estate as something that they have to have after they’ve already made their business decisions,” says Andrew J. Pini, vice president of corporate real estate and development for Health Care Service Corporation (HCSC). “Also, if you don’t truly understand the core business needs, you can’t really help.”

Pini, who reports to HCSC’s chief financial officer, has been with HCSC for about 32 years. The Chicago-based organization operates the Blue Cross and Blue Shield plans of Illinois, New Mexico, Oklahoma and Texas.



Blue Cross and Blue Shield of Texas (BCBSTX) recently completed a new 1 million-square-foot headquarters campus in the Dallas suburb of Richardson. Developed by KDC, the new facility will consolidate approximately 3,600 employees and accommodate the company's future growth.

"When it comes to real estate, you must be forward-thinking and strategic instead of reactive," Pini says. "As a leader in the build-to-suit industry, the KDC team develops with the future in mind."

Seeing Real Estate as a Strategic Asset

Many companies don't integrate real estate into strategic planning because they see it as a cost and not as a benefit. In fact, for most companies, real estate costs are second only to human resources, according to CoreNet Global.

Some companies, like HCSC, have realized that *where* they do business is an integral determinant of *how* they do business. They view real estate as infrastructure necessary to support a company's business and choose to leverage real estate as a strategic asset.

"Real estate can impact every single part of an organization, from HR issues like recruiting and retention to information technology to finance and accounting," Mills says. "There is no department in an organization that real estate doesn't touch in some way, yet many of these departments have no interaction with the real estate group."

That's certainly not the case at HCSC, Pini notes. "We work hand in hand with all the different areas," he says, adding

that the company brings together business leaders from all parts of the business to discuss their business objectives and what they hope to achieve in both the short and long-term. "Being involved in the early stages and working as a team allows us to create real estate strategies that can support our business objectives."

Pini notes: "It's the burden of a real estate executive to be proactive and push through the various levels of the organization to team up with them. You've got to open doors, invite yourself to participate in meetings, and when you get to those meetings, actually participate and help them think through things and ask questions and get interactive."

This collaboration helps Pini and his group to craft real estate strategies that are flexible and appropriate for the company's business. In Chicago, for example, HCSC recently completed a vertical expansion on its downtown headquarters facility. The company added 24 stories to its existing 33-story building.

"We designed the building to be expanded at a later time," Pini explains. "You could never add stories to a project of this size and scope as an afterthought."

Moreover, HCSC designed the high-rise to be able to accommodate multiple tenants if it needed to lease out any of its space — something the company is doing today. "The key is to try to make real estate as flexible as possible," Pini says. "And another way of making things flexible is to not think about real estate as a cost center but as a revenue-producer." For example, the company is co-generating electricity with its electricity provider for one of its data centers.

Planning for Ultimate Flexibility

The new headquarters for BCBSTX, designed by Dallas-based Corgan Architects, Inc. and Chicago-based zpd+a, also can accommodate future growth while maintaining flexibility.

Situated on 34 acres, the initial facility will be able to house 4,000 employees in two towers — a seven-story building and a 15-story building that share a common lobby, along with a full-service cafeteria, a fitness center and a 400-seat auditorium. The campus also includes a multi-level parking structure.

As BCBSTX grows, KDC has land available and entitlements in place to expand the headquarters to a total of 2.3 million square feet, which would be able to house up to 6,000 employees. The second phase would include another tower and an expansion of the parking garage.

BCBSTX will move into its new headquarters in early 2010. "It's a very flexible real estate solution that can move and change with our needs because you have to be ready for things to go in any direction," Pini says.

Pini concludes: "A lot of times people think of real estate as an indirect partner, but real estate needs to be a direct partner with a key seat at the table."

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