

SOLVING THE PUZZLE OF STRATEGIC REAL ESTATE PLANNING



What's the value of thinking strategically about your company's real estate? For one organization, the answer was a solid \$25 million. For another, looking beyond the obvious answers to space needs translated to almost \$19 million.

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hen it comes to significant real estate decisions, the stakes are high, and the financial and business implications span far beyond the next quarter or the next year. Real estate and facilities often account for 25% of a company's assets, and facilities have become an increasingly valuable tool for attracting and retaining the people companies need to make their business strategies become reality. With so many issues involved, strategic real estate planning can be a puzzle. Investing the time and resources to develop a proactive plan can uncover opportunities to link real estate decisions with business plans and even reveal new ways to save millions in facilities expenses.

"Traditionally, real estate actions are driven by short-term needs," according to Kathy Ehrmann, Senior Vice President for strategic real estate planning with The Keewaydin Group, a Minneapolis-based real estate consulting firm. "A company is going to run out of space in a year or two years and so executives begin making decisions based on those immediate concerns."

“With a strategic real estate plan, we expand that perspective dramatically to take a longer view and to look at much more than just space needs,” said Ehrmann of Keewaydin who in the past year has assembled 10-year strategic real estate plans for such companies as Target Corporation, US Bancorp Piper Jaffray, Lutheran Brotherhood and Medtronic, Inc. “What we do is focus on the compelling business issues facing an organization and determine how real estate can be positioned to provide the flexibility to most effectively support the business.”

It's Not Facilities Planning Anymore

Why take the time and go through the more complicated process needed to do a real estate strategic plan, as opposed to a standard facilities plan? The answer is the quality of the decision-making information that companies gain from a genuine real

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estate strategic plan. Any facilities planner can estimate the changes in square footage needed for workspaces as your workforce grows, but that kind of information does not look beyond the basics.

A strategic real estate plan examines all of the business issues that could effect real estate needs. More importantly, it looks at how real estate could give a company a competitive advantage. This advantage may relate to employee retention, new business opportunities, potential mergers or acquisitions or a host of other significant business issues.

The strategic real estate plan prepared for Lutheran Brotherhood, a \$22 billion financial services company, focused on “our company, our problems and our situation,” according to Rolf Bjelland, Executive Vice President. “It was not a canned program.”

“By the time we have completed the strategic plan, we've weighed all of the factors, run the economic projections, developed tailored models based on a company's individual situation and come up with hard numbers that management can use to implement a strategy,” Ehrmann explained. Developing those hard numbers provides the benchmark to weigh against the equally important soft issues of real estate decisions.

Asking the Tough Questions

An effective strategic real estate planning process, according to Ehrmann, begins with a thorough review of the organization's goals, its



Management participation in the Strategic Real Estate Planning Process includes an interactive Focus Session to build consensus, set objectives and explore creative real estate options.

facilities, and key business issues, such as employee relations, business growth and finances. Then, Keewaydin takes the review process a step further by conducting in-depth interviews with corporate leaders.

“These interviews explore issues far beyond space needs,” described Peter Kitchak, Keewaydin’s founder and president. “We talk about topics like corporate growth and direction, critical success factors, key competitors, culture and image as well as location needs and work environment considerations.” These interviews often reveal underlying issues – and sometimes, conflicts — with a direct or indirect impact on facilities and real estate investment.

Then, executives meet for what Keewaydin calls a “focus” session to discuss preliminary information and brainstorm options. “This was very effective,” Bjelland commented. “Keewaydin talked about the business issues they heard from our senior management and they challenged some of the more obvious conclusions. They were able to get the group talking and considering options.”

Lutheran Brotherhood chose Keewaydin because of the reputation of Peter Kitchak, a nationally recognized real estate consultant with nearly 25 years in the real estate business. “He did an excellent job,” according to Bjelland. “There wasn’t anybody in this company who did not believe he was knowledgeable, experienced and putting the client’s interests first.”

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Cliff Habeck, Lutheran Brotherhood’s Assistant Vice President for real estate assets, also noted “Keewaydin asked some good, hard, tough questions that really needed to be asked. They helped us think things through. What Keewaydin did was tie our real estate into our overall corporate vision so we could see how real estate could help us achieve that vision.”

Putting the Pieces Together

With data and interview information in hand, Keewaydin then begins what Ehrmann calls “solving the puzzle.”

“The goal in gathering all this information is to put the pieces together and to consider real estate from a business strategy point of view. What we’re asking is where is this business going that will make it very different from the past.” That understanding gives Keewaydin and the company a framework for thinking creatively and expansively about what options the company could pursue. For instance, if a company is planning to open a call center to handle customer service, the types of employees that will work in that center are vital pieces of information in the real estate puzzle. Should the center be built near a college, an extended hours day-care? How important is public transportation or secure parking

for these employees?

Solving the puzzle means organizations must think past simply whether to lease or buy space, whether to relocate or expand, whether to locate downtown or in the suburbs. For Medtronic Inc., real estate decisions were complicated by the company’s growth patterns and its desire to maintain a unified corporate identity. The medical device company is known most for its premier product, cardiac pacemakers, which are a profitable, but stable business. The company’s neuro implant business, however, is growing at a breathtaking rate of 30 percent a year.

“Keewaydin had the experience and an understanding of the complexity of all the business elements involved and how they would drive real estate decisions,” according to Rodger McCombs, Vice President of Business Shared Services for Medtronic. “They understood that we were dealing with a changing Medtronic, that we were growing and becoming more diverse as a business.”

While Medtronic had done strategic planning for real estate before, this was a “different process,” McCombs explained. “There was a coming together of the minds about what we need to be thinking about as a

company in the future.”

As a result of the planning process, Medtronic had the basis for making a critical strategic decision about the future direction of the organization. “We were on the verge of running out of space,” McCombs said. “The plan really brought forward an actionable strategy that will give us great flexibility for handling our growing.”

McCombs gives credit for the success of the plan to Ehrmann’s careful and exhaustive analysis of the company’s business and real estate needs. The final strategic plan analyzed key financial issues, such as real estate’s net impact on cash flow and shareholder value, both short and long term.

“She’s a very focused person who really pays attention to the details and does a great job on analysis,” noted McCombs.

He also credits Keewaydin’s ability to work with and challenge the thinking of Medtronic’s top executives, who participated in the four-month process. “Keewaydin has been well accepted by the executive team, which makes my job easier,” McCombs suggested.



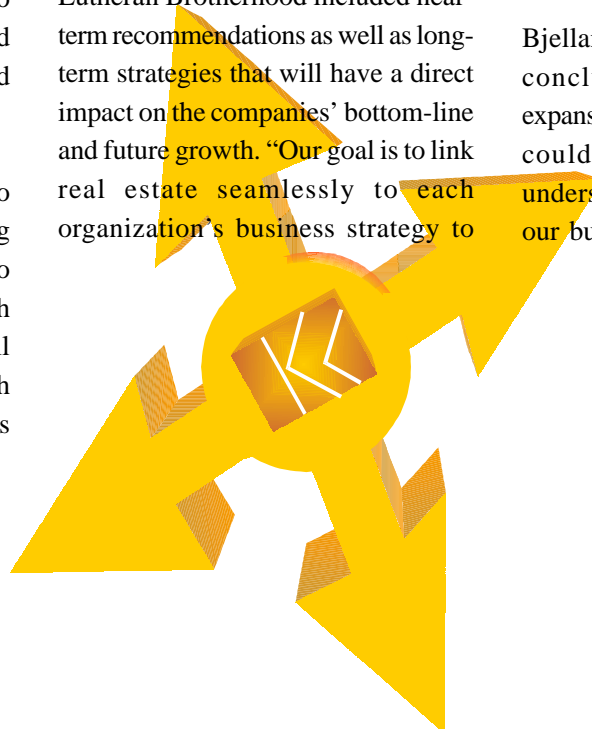
The success of a Strategic Real Estate Plan hinges on building a strong foundation of teamwork between the real estate advisor, the facilities team and corporate management.

Actionable Plans for Bottom Line Results

The plans for both Medtronic and Lutheran Brotherhood included near-term recommendations as well as long-term strategies that will have a direct impact on the companies’ bottom-line and future growth. “Our goal is to link real estate seamlessly to each organization’s business strategy to

make sure that real estate is an asset that delivers value,” Ehrmann emphasized.

Bjelland, of Lutheran Brotherhood, concluded “Keewaydin had an expansive vision of the alternatives that could meet our needs. They understood what was unique about our business.”



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