

# Corporate Real Estate Assets And Leaseholds: A Senior Management Audit

As a service to other corporate executives and as a way of demonstrating its particular philosophy and expertise in the real estate asset management area, Security Pacific Realty Advisory Services is making this material available to enable you to assess your company's present approach to its real estate assets.

In addition, it highlights potentially new approaches—successfully being employed by others—which can be employed to improve the efficiency and effectiveness of the real estate component of a corporate asset management program.

## Organization And Structure

From a historical perspective, the real estate assets of a corporation have been viewed as assets only insofar as the balance sheet was concerned. The primary function of the real estate group was a maintenance one. Real estate managers played a minimal or passive role, simply fulfilling the requests of the operating groups.

Today real estate assets are more and more seen as a source of cash and/or earnings. The effective and efficient management of these assets is considered an integral and important part of an overall asset management program.

The following questions and your answers will indicate rather dramatically how your corporation views its real estate assets and the role of your real estate asset managers.

1. Is the company's investment in real estate within the charter of responsibility of the chief financial officer?  
Yes \_\_\_\_\_ No \_\_\_\_\_
2. If not, is the person responsible for the company's real estate assets an officer of the corporation?  
Yes \_\_\_\_\_ No \_\_\_\_\_  
Position \_\_\_\_\_
3. Does your company have a separate real estate department reporting to this officer?  
Yes \_\_\_\_\_ No \_\_\_\_\_

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Founded in 1963 as Howard P. Hoffman Associates, **Security Pacific's Realty Advisory Services** has helped more than 350 major corporations and financial institutions throughout the U.S. solve problems—or seize opportunities—associated with their investments in land and building assets or leaseholds. The organization strives to produce maximum dollar returns for its clients through the adaptive reuse of its unused or underutilized land and building assets.



4. Are the duties, responsibilities and performance criteria of the real estate department staff defined?  
Yes \_\_\_\_\_ No \_\_\_\_\_
5. Are the individuals who are responsible for real estate:
  - a. Specially trained to evaluate effectively the marketing, financing and development techniques for acquiring and disposing of real estate assets and leaseholds?  
Yes \_\_\_\_\_ No \_\_\_\_\_
  - b. Knowledgeable of current real estate market conditions?  
Yes \_\_\_\_\_ No \_\_\_\_\_
  - c. Aware of the general mark-ups and mark-downs in real estate?  
Yes \_\_\_\_\_ No \_\_\_\_\_
  - d. Aware of the limitations of real estate appraisals?  
Yes \_\_\_\_\_ No \_\_\_\_\_

6. How and when is the real estate function integrated into the strategic and tactical plans of your company?

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\_\_\_\_\_  
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7. Is there continuing, monitored communication and coordination between the financial, marketing, operating, and real estate departments?

Yes \_\_\_\_\_ No \_\_\_\_\_

8. Are real estate personnel evaluated on the basis of their contribution to profit performance, that is, accountable to management on the same basis as personnel managing other company assets? If not, then on what basis are they evaluated?

Yes \_\_\_\_\_ No \_\_\_\_\_

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9. If your company has an asset management component to any of its incentive compensation plans, is real estate included in the formula? If so, what is the criteria for inclusion in the formula?

Yes \_\_\_\_\_ No \_\_\_\_\_

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### Operating Procedures

The view that "real estate is different" and that all "real estate transactions are unique" are probably the primary reasons that senior management has relegated the responsibility for managing the corporation's real estate assets to others.

While there are certain differences, real estate assets can be viewed and managed generally in the same way as other assets—through the establishment and implementation of formalized corporate policies and procedures.

The following questions and your answers will indicate the level of senior management control currently being exercised within your organization.

1. Are acquisitions and disposals of real estate property properly authorized in that formal written requests and authorizations are required?

Yes \_\_\_\_\_ No \_\_\_\_\_

2. Has someone been specifically designated to approve all real estate acquisitions and disposals? If yes, who?

Yes \_\_\_\_\_ No \_\_\_\_\_

Who \_\_\_\_\_

3. Are real estate acquisitions/improvements/modifications covered by the company's capital expenditure policies and procedures?

Yes \_\_\_\_\_ No \_\_\_\_\_

4. Do established policies and procedures exist to cover real estate broker selections, competitive bidding and possible conflicts of interest? If these policies do not exist, what mechanism is in place to assure the best results for the company?

Yes \_\_\_\_\_ No \_\_\_\_\_

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5. Are there standard procedures in place to ensure that real estate transactions have been analyzed professionally before an agreement is signed from a financial, marketing and legal point of view?

Yes \_\_\_\_\_ No \_\_\_\_\_

6. Have predetermined dollar limits been established for approvals by designated responsible officers?

Yes \_\_\_\_\_ No \_\_\_\_\_

7. Are all available real estate facilities examined for reuse, expansion or consolidation before new facilities are purchased or leased? How often?

Yes \_\_\_\_\_ No \_\_\_\_\_

How often? \_\_\_\_\_

8. Are all operating divisions and subsidiaries made aware of surplus and/or underutilized facilities before those assets are sold or subleased?

Yes \_\_\_\_\_ No \_\_\_\_\_

### Safeguarding Real Estate Assets

Can someone steal your vacant, unused or underutilized land assets? Yes, someone can! Not only can these assets be lost, they can be severely reduced in value through actions by others, such as rezoning and condemnation.

In addition, unauthorized use of seemingly fully utilized corporate owned facilities is far more commonplace than generally is believed.

The following questions and your answers will indicate the current level of your corporate real estate asset protection programs.

1. Is a physical inspection of real estate, leased and owned, conducted on a periodic basis?

Yes \_\_\_\_\_ No \_\_\_\_\_

If yes, by whom?

Name/title \_\_\_\_\_

How often? \_\_\_\_\_

Time period \_\_\_\_\_

2. Are the results of these inspections compared to the records maintained by real estate personnel?

Yes \_\_\_\_\_ No \_\_\_\_\_

3. Do you have deeds, updated surveys and title reports for all properties owned by the company?

Yes \_\_\_\_\_ No \_\_\_\_\_

4. What safeguards exist to assure that all company real estate is being used as authorized?

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

5. Are the real estate inventory reports which are maintained by the real estate department compared to the financial records of the company on a periodic basis to ensure that all information is included?

Yes \_\_\_\_\_ No \_\_\_\_\_

If yes, by whom?

Name/title \_\_\_\_\_

How often? \_\_\_\_\_

Time period \_\_\_\_\_

6. How are differences investigated and properly resolved?

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

7. Are all improvements, modifications and alterations to real estate being reported on a timely basis and are records being updated?

Yes \_\_\_\_\_ No \_\_\_\_\_

8. Do the real estate and accounting departments have an opportunity to provide input prior to any improvements, in order to insure that real estate values are being protected and tax benefits and/or earnings are being maximized?

Yes \_\_\_\_\_ No \_\_\_\_\_

9. Are significant changes in real estate values (either effectuated or uncovered) from any of the pre-

ceding activities highlighted in some reporting manner to management?

Yes \_\_\_\_\_ No \_\_\_\_\_

If so, to whom?

Name/title \_\_\_\_\_

For what purpose?

\_\_\_\_\_

### Operating Assets/Leaseholds—Financial Considerations

When looking at their real estate assets as a source of cash and/or earnings, most corporations tend to look first at surplus, unused or underutilized properties.

Operating properties are rarely reviewed and yet they may offer the greatest opportunities. These are opportunities which may be seized while not necessarily disrupting current operations nor diminishing their utilization.

Your review of and answers to the following questions may uncover such possibilities within your corporation.

1. Are older real estate assets—those most affected by higher depreciation charges under price change accounting—regularly reviewed for replacement potential?

Yes \_\_\_\_\_ No \_\_\_\_\_

2. Are real estate assets owned by the company evaluated for potential mortgage or lease financing on a regular basis in conjunction with the organization's overall financing plans?

Yes \_\_\_\_\_ No \_\_\_\_\_

3. Are collateralized real estate assets evaluated for significant value increases to obtain possible release of collateral?

Yes \_\_\_\_\_ No \_\_\_\_\_

4. Have you been able to take advantage of your company's current low-cost leases by subletting at a profit or by selling your leasehold interest?

Yes \_\_\_\_\_ No \_\_\_\_\_

5. Has your company evaluated consolidating operations or moving operations to accomplish the above?

Yes \_\_\_\_\_ No \_\_\_\_\_

6. Are residual values in financing leases evaluated periodically to take advantage of changing market conditions?

Yes \_\_\_\_\_ No \_\_\_\_\_

7. Has your company ever given up its interest in the residual value of a financing lease to capture cash and convert the lease to an operating lease?

Yes \_\_\_\_\_ No \_\_\_\_\_

**Surplus Assets/Leaseholds—  
Value Enhancement Considerations**

Since surplus properties are generally considered to have little, if any, value to the corporation, it is generally assumed that they will have little, if any, value to anyone else. Nothing could be further from the truth.

Seemingly worthless properties have and are being sold to real estate speculators for practically nothing, only to be sold again—in very short periods of time—for millions of dollars.

Sometimes it is just luck; other times the corporation was victimized. The following questions and your answers may reveal your vulnerability.

1. Does your company apply the same value enhancement marketing principles to the selling of real estate assets as it does to the selling of its products?  
Yes \_\_\_\_\_ No \_\_\_\_\_
2. How would you best describe the current marketing policies regarding the sale or (sub)leasing of real estate?  
 \_\_\_\_\_ Sell as quickly as possible to first offer  
 \_\_\_\_\_ Establish current value through appraisal—offer through brokers  
 \_\_\_\_\_ Sell “as is”  
 \_\_\_\_\_ Determine highest/best use and develop value enhancement marketing program—sell to users.
3. Do you monitor the subsequent use of significant real estate sales of the company?  
Yes \_\_\_\_\_ No \_\_\_\_\_  
 If yes, who does it?  
 Name/title \_\_\_\_\_  
 What is the distribution of the results?  
 Executive Committee \_\_\_\_\_  
 Finance Committee \_\_\_\_\_  
 Audit Committee \_\_\_\_\_
4. Are you satisfied that your company receives optimum sales prices? If not, why not?  
Yes \_\_\_\_\_ No \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_
5. What is being done to assure optimal future returns from the disposal of surplus or underutilized real estate?  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

6. Are development plans available for all surplus land parcels to help insure that the land will not lose its future value because of downzoning, rezoning, condemnation or other such events?  
Yes \_\_\_\_\_ No \_\_\_\_\_

**Facility Acquisition—Savings/Opportunities**

In addition to the usual questions that need to be answered by operating departments, several questions relative to the acquisition of a new facility must be addressed by senior management.

If approached from the proper perspective, the question of acquiring a new facility may include the consideration of not only “How do we get the best facility at the lowest possible cost?” but also, “Can we acquire a ‘new’ facility at little or no cost?”

1. Does your company consider the savings that can be realized from the adaptive reuse of available existing facilities before acquiring a site for the construction of a new facility?  
Yes \_\_\_\_\_ No \_\_\_\_\_
2. When acquiring a new facility site, does the company consider the effect of the acquisition on the surrounding real estate market, in order to take advantage of possible opportunities? If so, how?  
Yes \_\_\_\_\_ No \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_
3. When designing a new facility, does the company take into account the local real estate market in order to ensure the facility’s future marketability, in case it eventually becomes surplus?  
Yes \_\_\_\_\_ No \_\_\_\_\_
4. When planning a new office or warehouse facility, does your company consider building more space than present needs dictate in order to capture lease income from other users while controlling the space for future expansion?  
Yes \_\_\_\_\_ No \_\_\_\_\_

**Administration Of Real Estate Data And Information**

The first step in any effective asset management program is to establish the “tools” used by your managers.

It is virtually impossible to try to imagine a “cash” or “credit” manager effectively functioning without reliable data and meaningful information.

The first question that senior management must ask when reviewing an analysis of its real estate assets is: How current and reliable are the data upon which this analysis was based?

The following questions can provide you with the basis for evaluating your corporation's current programs.

1. Does your company have a system of maintaining information relating to leased and owned real estate properties?  
Yes \_\_\_\_\_ No \_\_\_\_\_
2. Is such real estate information current?  
Yes \_\_\_\_\_ No \_\_\_\_\_
3. Is this information analyzed for senior management review?  
Yes \_\_\_\_\_ No \_\_\_\_\_  
If yes, how often?  
Quarterly \_\_\_\_\_ Semiannually \_\_\_\_\_  
Annually \_\_\_\_\_ As requested \_\_\_\_\_
4. Is real estate information maintained on an automated data base?  
Yes \_\_\_\_\_ No \_\_\_\_\_
5. Is the real estate data base available to all appropriate managers in the company?  
Yes \_\_\_\_\_ No \_\_\_\_\_
6. Are reports which delineate the utilization and current capacities of owned or leased properties periodically prepared?  
Yes \_\_\_\_\_ No \_\_\_\_\_  
If yes, how often?  
Quarterly \_\_\_\_\_ Semiannually \_\_\_\_\_  
Annually \_\_\_\_\_  
Who receives them?  
Name/title \_\_\_\_\_  
For what purpose?  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
7. Are lease commitment reports generated in order to provide management with sufficient notice of impending lease terminations so that appropriate action can be taken?  
Yes \_\_\_\_\_ No \_\_\_\_\_
8. If regular reports are prepared in addition to those mentioned previously, list them by name, category and purpose.  
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\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**Real Estate Asset Management Strategic Considerations And Performance Evaluation**

With a current and reliable source of data and information, you are now in a position to ask the strategic

questions that will allow you to evaluate your current performance level.

In addition, you will be able to identify problems and opportunities as well as formulate real estate asset management policies and procedures that will complement your overall corporate strategic plan.

1. Is there a continuing program in effect to identify and review for surplus or underutilized properties, for example, land adjacent to operating facilities?  
Yes \_\_\_\_\_ No \_\_\_\_\_
2. Is your cost-per-square-foot of real estate property in line with current market conditions for each location?  
Yes \_\_\_\_\_ No \_\_\_\_\_  
How is it determined?  
Method \_\_\_\_\_  
How often?  
Annually \_\_\_\_\_ Biannually \_\_\_\_\_  
5 years \_\_\_\_\_ Other \_\_\_\_\_  
By whom?  
Name/title \_\_\_\_\_
3. In valuing properties, are methods other than appraisals utilized, such as net realizable value or use/worth concept? If yes, what methods?  
Yes \_\_\_\_\_ No \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
4. Are you aware of whether your company-owned real estate has significantly increased or decreased in value due to the change or anticipated changes in property surroundings?  
Yes \_\_\_\_\_ No \_\_\_\_\_  
If yes, has the company adequately taken advantage of these changes? If so, how?  
Yes \_\_\_\_\_ No \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
5. Are you satisfied that current procedures exist to ensure that the values of company-owned or leased properties are reviewed for such changes?  
Yes \_\_\_\_\_ No \_\_\_\_\_
6. Are easements and right-of-ways properly evaluated prior to approval? Has the possible impact of changes in property utilization, its surroundings or its future value been considered?  
Yes \_\_\_\_\_ No \_\_\_\_\_

7. In developing "takeover defense strategies," are increased real estate values incorporated into your planning?  
 Yes \_\_\_\_\_ No \_\_\_\_\_
8. Are you satisfied that the optimum level of cash flow and/or earnings is being generated from the company's real estate holdings?  
 Yes \_\_\_\_\_ No \_\_\_\_\_
9. Are you satisfied with the return your company is currently receiving from its real estate asset base?  
 Yes \_\_\_\_\_ No \_\_\_\_\_
10. Are you satisfied that the required amount of time and effort is being spent on the company's real estate assets and leaseholds?  
 Yes \_\_\_\_\_ No \_\_\_\_\_
11. Have you evaluated the total impact of current value accounting on your real estate asset base and its relation to overall corporate return-on-asset (ROA) targets?  
 Yes \_\_\_\_\_ No \_\_\_\_\_
12. Although restatement of land assets to "current value" is not a requirement of FASB-33, has your company done such an analysis?  
 Yes \_\_\_\_\_ No \_\_\_\_\_  
 If so, have these results been incorporated into your evaluation discussed in question 11?  
 Yes \_\_\_\_\_ No \_\_\_\_\_
13. Has the impact of FASB-33 fostered any changes in your company's strategic plans?  
 Yes \_\_\_\_\_ No \_\_\_\_\_  
 If so, how?  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_
14. Has an analysis been made of how policies relating to the acquisition and disposition of real estate assets and leaseholds can support such changes in your company's strategic plans?  
 Yes \_\_\_\_\_ No \_\_\_\_\_

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