Real Estate Industry Consortiums– National or Local– Who Will Succeed?

by Michael Praeger

The commercial real estate market has been revamping the way it does business in the last two years, through the introduction of the Internet and Web-based applications. Increasingly more commercial real estate organizations are realizing the power of streamlining purchasing, asset management, financial management, and other business processes online. Real estate organizations can realize an even bigger benefit by joining together to create one cohesive group, or consortium. Consortiums are relatively new to the real estate industry—but if formed and operated correctly, can provide real estate organizations with a powerful buying and negotiating tool. But the real question that plagues the industry today is which will succeed—national, local, or industry-specific consortiums?

While national consortiums have the operating capital to adopt all the technology available and can guarantee financial stability to its members, the disbursement of members is too large and their scope is very wide. Local consortiums, on the other hand, operate within a smaller geographic area and members are usually focused on achieving one goal at a time. The jury is still out on which consortium type will be more successful. Reports indicate that while industry segment consortiums are providing value to their members within a national framework, local consortiums, in all practicality, have the upper hand to succeed due to the common geographic market its members operate in.

ABOUT THE AUTHOR

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CONSORTIUM BENEFITS

Two key components that provide major benefits to consortium members include the ability to implement affordable technology and collaboration. Through Web-based applications such as e-procurement, these property owners and operators are seeing a massive reduction in paperwork, time, and inventory. In fact, one real estate operator, Levine Properties, based in Charlotte, NC, saw a 15 percent decrease in controllable operating expenses once online purchasing and a bid management application was implemented in its offices.

National, regional, and local consortiums are a means for property owners to increase their competitive advantage through developing relationships with other property owners, creating one large network that can provide financial stability, additional revenue opportunities, and more leverage in negotiating contracts with suppliers. The goal of this new collaboration is the gain of additional resources and purchasing power without surrendering individual purchasing control or flexibility.

Smaller companies who join together in a consortium are able to take advantage of the economies of scale and become more competitive with larger real estate operators. In addition, these companies are realizing the revenue- and cost-focused benefits:

1. With regard to revenue, consortiums allow real estate operators to act as a united group when negotiating profit-sharing deals with third parties such as advertising or telecommunications companies—basically companies that provide services for tenants.

2. On the cost side, consortiums enable operators to act as a cohesive bargaining unit to standardize business practices and purchase software and supplies. Consortiums have more pull with suppliers than independent real estate operators, enabling negotiation for more competitive pricing and terms. The cost side can also be extended to include various costs from service contracts for landscaping or security, to purchasing janitorial supplies for restrooms.

THE DEBATE: NATIONAL VS. LOCAL

National consortiums are formed when large regional companies join together to create a virtual Fortune 500 corporation. National consortiums primarily consist of publicly traded real estate organizations, such as real estate investment trusts (REITs) or large institutional firms. Typically, publicly traded REITs are forming the national consortiums and each group has a different reason for its existence. For example, a national consortium may evolve to provide industry standards that can be used by all real estate organizations, while another may develop as a common ground for similar real estate organizations to share ideas, discuss problems, and find solutions. National consortiums are not always able to offer one product or solution to all its members due to their geographic disbursement. As a result, this may decrease the chance of success or accomplishment of goals. Examples of some successful, national consortiums include Office Technology Consortium (www.officetechconsortium.com), and Constellation Real Technologies (www.constellationrealtechnologies.com).

Local or regional consortiums, on the other hand, are banding together in a single geographic area. This offers them more negotiating and buying power with those common suppliers and contractors they all share, and also gives these small organizations a forum for solving problems, adapting new technology, and discussing business concerns with similar organizations. As we all know, real estate is overwhelmingly a locally focused market. When you are a small operator that has banded together with other small operators to form a virtual mid-sized company, you can become a dominant force in your local marketplace. An example of a local or regional consortium is Preferred Offices, headquartered in Washington, D.C.

In general, the success of national vs. local consortiums is still being decided. National consortiums are only beginning to see the fruits of their labor, and many local consortiums are still in their infancy.

NATIONAL CONSORTIUMS

National consortiums appeared on the scene in early 2000, and at that time expectations for success were high. Many industry analysts and members of the real estate industry saw these national consortiums as a way for a group of companies to dominate the market. They expected consortiums to revolutionize the way vendors conducted business with real estate operators and give independent operators more power through collaboration. Since that time, little had been heard from the national consortiums and many suspect that they have been falling apart. But there are some national consortiums that have weathered the storm and are still operating today.

In a study done by Banc of America Securities in February 2001, Lee Schalop and John Saunders found that speculation of the demise of national consortiums had been greatly exaggerated. After several discussions with multiple consortium participants, they found that consortiums were still meeting regularly and still considered them very much alive.[1] Another finding reported in this study showed that regardless of how many deals are accomplished or not accomplished, consortium members believe they are reaping positive benefits; their participation involves a sharing and flow of ideas that can be very beneficial.[2]

National Consortium Case Study: Office Technology Consortium (OTC)

One of the national consortiums examined in Banc of America Securities' study was Office Technology Consortium (OTC), a national consortium for Class-A office space owners. It formed with a specific focus on two areas—e-procurement and online leasing/listing. One of the main goals of the OTC is to review technology service providers for each of the initial two areas/categories and select a "preferred vendor" or multiple preferred vendors as a recommendation to its members. It would then be up to each member to decide which vendors they wanted to contract with. OTC members view their consortium primarily as a vehicle through which they can further their own technology initiatives, rather than as an investment vehicle (which is a primary function of Constellation, another national consortium).[3]

The Office Technology Consortium (OTC) started out on the right path. With only 13 members and a limited focus, the OTC, established in June 2000, formed an industry group that would be a model for other real estate consortiums. Founding members realized the opportunities created by the new economy for companies to work together to explore and develop efficiency-enhancing Internet enabled technologies and increase access to ideas and initiatives to improve the commercial real estate marketplace.[4] With 13 members, the OTC is the first group of its kind to focus specifically on increasing value for office property tenants. Combined, the member companies of the OTC own or manage over 400 million square feet of premier office space in North America.[5] The OTC has succeeded where other national consortiums have failed—by limiting its focus to one or two key initiatives that all members agree on and limiting the financial stake of its members in the proposed initiatives. What this does is eliminate the "looking out for myself first" mentality that plagues many of the national consortiums and other groups, whether in the real estate industry or not. Looking ahead, the OTC is firmly planted on the road for success, opening its exclusive membership to only major real estate organizations and publicly traded REITs.

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Local Consortium Case Study: Preferred Offices

Preferred Offices is a local consortium whose members are seeing benefits. Preferred Office's objective is to create value for every property participating in the consortium and to build a branded network of high quality office properties that capitalize on the opportunities created through an economy of scale; opportunities such as marketing, buying power, and tenant services. With larger owners and operators of quality office properties increasingly harnessing the benefits of Web-based technology resulting in more efficient operations, Preferred Offices realized the power and value that independent owners can capture by banding together to achieve the same goal.[6]

The Preferred Offices consortium provides its members with several value-added benefits, including:

- A brand name that is supported by consistent standards, both on the Web site, within their listing services, and on the property;
- Power buying through an e-procurement system, which enhances property values by providing the opportunity to improve the quality of services, such as janitorial or landscaping, while reducing expenses;

- Identify opportunities for incremental income, thus providing revenue enhancements and more value to the property owners;
- Tenant services that add an additional layer of services to the building's amenity base; and
- A Web-based listing and reservation system that provides a searchable database for tenants and is supported by focused regional advertising.[7]

Preferred Offices has successfully set up vendor alliances with major suppliers such as AgilQuest, BroadBand Office, Pepco Energy Services, Carr Capital Corporation, and Captivate. These vendors now provide services at better terms for each of the members of the Preferred Offices consortium. For some members, these services are with large, national or regional vendors that would not provide a smaller, local operation with deviated pricing or increased service levels due to their limited buying power. But by leveraging the buying power of a group of independent real estate operators, Preferred Offices has been able to make these national and regional vendors and provide the Preferred members with discounted pricing and elevated service response times.

What Preferred Offices has done and continues to do has placed them on the road to success. Preferred Offices is a prime example that there is strength in numbers, that identifying the right vendor/partner is crucial to successful negotiation and implementation, that the balancing of near-term vs. long-term value creation is important, and that a group of local real estate operators can level the playing field with larger owners.

Today, Preferred Offices has recruited over 14 million square feet of property owned by members and signed six vendor alliances. Overall, Preferred Offices has helped its members reduce operating expenses and provides a Web site with office space search capability and a tenant services menu. Preferred Offices has become a great example of how a local consortium can succeed when it limits its scope and works to achieve common goals. Preferred Offices has created immediate benefits of an average $0.15 SF for its owner-occupied office building through power buying and revenue enhancements. This equates to an approximate $120,000 to $130,000 per year for the average Preferred Office member.[8] And, as Preferred Offices' brand awareness continues to increase, it will be able to generate $75,000 to $150,000 of benefits each year for its members through increased occupancy and rates.[9]

BUILDING A LOCAL CONSORTIUM

Local consortiums will be the success of the future. And while national consortiums require significant funding, local consortiums are relatively easy to form and do not require substantial financial backing. Below are the basic steps to form a local real estate consortium in your area.

1. Find one or two strong, influential real estate companies in your geographic area to act as the founding sponsors for the consortium. This is an imperative part of making sure that your consortium begins on target, because these companies will already know about the marketplace and possess the available technology and vendor relationships. In the Preferred Offices consortium, one of its founding sponsors is CarrCapital—a very strong and influential real estate company in the Washington, DC, area. Its staff knows the industry and the local marketplace well enough to bring big benefits to the table.
2. After the founding sponsors have been located and have agreed to work on forming a consortium, the next step is to identify a slate of objectives that need to be accomplished. Again, a good example is the Preferred Offices consortium, whose goal was to combine resources in order for all members to be able to compete with national companies like CB Richard Ellis and Trammel Crow.
3. Next, the sponsors will need to decide the legal structure of the group. Preferred Offices is set up as a franchise and each of its members are franchisees. Other legal structures are a loose collaborative agreement between various member companies or the establishment of the consortium as a membership-oriented organization. A major part of the legal structure decision will lie in the goals to be accomplished. For example, Preferred Offices wanted to brand each of its member properties as a Preferred Office property to build value in their brand. However, if a consortium's main objective is to have access to consolidated resources such as different technological capabilities, then a membership-type organization is the easier and more efficient legal structure.
4. Once the founding sponsors and the legal structure have been secured, the fourth step is for the founding sponsors to actively recruit other members. Experience has shown that the ideal number of real estate organizations encompassed in one consortium is between five and 15. Less than five and you will not have the buying power to

attract vendors. With more than 15, it will be difficult to conduct meetings, allocate responsibilities, and agree on common objectives for the group—the most common problems of large groups.

5. After the consortium has selected its members, the first order of business is to decide on annual objectives and key areas of immediate focus. The list should tie in to the overall slate of objectives detailed by the founding sponsors, but will narrow down the focus to the most important objectives to be accomplished within the first year.
6. Next, allocate responsibilities among member companies. This means each member company will be assigned one objective or project to research for the group. For example, one member may sponsor an e-procurement initiative. That member company would review procurement vendors and prepare a report to present various options for a technology application that can provide the best value to all members. Another company might be responsible for doing the same process but with telecommunications services. By allocating the responsibilities, no one company has to bear the time and expense of researching and finding all the technology or services available.
7. Finally, consortium members will want to decide and agree upon the frequency of meetings, how information will be shared among members, and when project sponsors should have the reports back to the consortium.

A local real estate consortium can be easy and successful if you have the right partners. The future of real estate shows that local consortiums will succeed because of the value and benefits they provide its members. Local consortiums can be focused on technology initiatives, building a brand, or consolidating resources. Whatever the focus, just be sure that the scope is limited and the objectives are achievable. REI

NOTES

1. *Real Estate & Technology Week*, Banc of America Securities, February 20, 2001.
2. *Ibid.*
3. *Ibid.*
4. Office Technology Consortium Web site, www.officetechconsortium.com
5. *Ibid.*
6. Excerpt from Preferred Offices presentation given by Oliver Carr, III on March 13, 2001.
7. *Ibid.*
8. *Ibid.*
9. *Ibid.*