Who's Running the Show? Implementing Centralized Management of Property Taxes for a Global Portfolio

BY DAVID C. WILKES, CRE, FRICS

MANY PROPERTY TAX AND ASSET MANAGERS who oversee a global portfolio of real estate would be hard pressed to answer the seemingly simple question: "How much does our company pay in annual property taxes?" This reality may come as a surprise to many senior finance and facilities executives. Global property tax managers frequently don't know the answer to this and an array of more particular questions concerning tax liability for the company's overseas facilities, and it's not because they lack intelligence, competence or initiative.

Often, large global portfolios are poorly understood because overseas properties and businesses may have been acquired with existing local managers in place, and sharing data with the home office can be a complicated task. Overseas facilities managers commonly store data in multiple formats, systems, languages and currencies, and those systems usually aren't designed for property tax and valuation analysis. Likewise, if the company has invested in property tax-specific technology at all, management is likely using a system designed for compliance purposes in the U.S., such as the completion and filing of tax forms required by the local jurisdiction—not for global management and valuation.

As a result, the home office may virtually ignore properties in other countries, leaving them to the attention—or lack thereof—of local regional managers over whom the so-called global tax manager may have little control. For example, most large U.S.-based multinational owners will have a fair or solid understanding of U.S.-based facilities and the local tax regimes that apply, even across many states that may include real and personal property taxes. But they will have little hands-on information about properties located outside the U.S., relying almost entirely on local site managers and external tax appeals providers to tell the home office what to do with regard to local taxes.

Data management is a key component in maintaining an effective ongoing strategy for managing taxes for a large, global portfolio of fixed assets. Unfortunately, even when a company uses anything more than a common

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spreadsheet-based program to track global tax data *ad hoc*, these tax-specific database systems typically are the product of consulting firms that specialize in tax-appeal services rather than management services.

Thus, the systems provide little in the way of analytical tools, such as valuation analysis, because those who offer the systems seek to perform the analysis—and consequently drive the determination of which properties to appeal, what the parameters for success are and whether the results are laudable. In short, most technology serving the industry is not created with the interests of the client, the property owner or tenant in mind.

Worse yet, in many instances these database systems are highly labor intensive and cumbersome to use, leaving tax managers to resort to copying the data back into jury-rigged Excel spreadsheets to perform the analyses and benchmarking they require to manage the portfolio rather than simply administer it.

BOTTOM-UP VS. TOP-DOWN

Much of this plays into the common perception that it is easier and more cost effective for a real estate owner to control property tax costs almost entirely through an appeals-based, bottom-up approach instead of a centralized tax management strategy from which the tax manager retains principle decision-making power. The bottom-up approach, which relies on outside providers to highlight and pursue problem areas, is based on the illusory premise that the owner incurs no costs unless he or she realizes a savings, mainly the result of the common contingency fee-based arrangement for services.

This fully decentralized approach delegates far too much decision-making power to external providers and compromises cost transparency and strategy at the home office. It also provides little ability at the top level of management to understand the costs of the portfolio as a whole, consider which and why properties to appeal and how aggressively and efficiently to pursue those appeals, and seek tax relief prospectively instead of retrospectively. Frequently, the interests of client and consultant are at odds, resulting in higher rather than lesser cost.

A common example illustrates the problem. A large proportion of major Global 2000 property owners are those that own a thousand or more relatively small facilities, each of which individually pays a small local tax, though collectively the portfolio may bear a substantial tax burden on its real and personal property. These operators include national coffee shop chains, brand name convenience and drug store owners, rental outlets and fast food franchises.

For a number of reasons, many tax appeal providers are eager to handle these household-name portfolios with a large volume of properties. But, common fee structures in the U.S. for these services often interfere with the goal of providing the most effective management. The so-called costless system of providing tax appeal services based on a percentage of the tax savings is a poor motivator if the taxes levied on each property, and thus the potential fee, are too insignificant to warrant the hours needed to properly value and analyze the property before deciding whether to file an appeal.

Yet, the local provider commonly supplies this part of the service, so management and strategy are effectively bottom-up procedures, and the tax manager becomes more administrator than corporate strategist. Managing the portfolio, and each property, involves far more than just ensuring tax appeals are filed each year. Someone in the home office must have a system they can use to analyze the portfolio *en masse* and make the proper comparisons among properties, then decide appropriate actions in consultation with local talent. This process also prevents the often overlooked, and substantial, costs that go into the pursuit of inefficient appeals—at least in the form of unnecessary valuations, filing fees, and the added burden on home office staff time and resources in monitoring and keeping abreast of these unnecessary efforts.

Moreover, a more centralized approach enables the company to immediately provide the local appeals firm with the data and analysis it needs, so it can invest its time more efficiently and focus purely on the assessment appeal to produce a better result.

GLOBAL MANAGEMENT STRATEGIES

The need to understand and manage local taxation in exotic parts of the globe was of little concern to the vast majority of businesses just a decade ago. But today, the relentless drive toward globalization has spurred U.S. companies to acquire assets ever farther afield, and tax managers are finding the decentralized appeals-based model of tax management an expensive and haphazard means of controlling costs.

Because this article is principally concerned with evaluating the optimal strategy for global tax management, in contrast to tax appeals, it first considers the various management approaches multinational corporations have taken in response to the need to run global businesses. And before that, readers should understand the attraction and motivation to go global.

A simple definition of the term "globalization" is: "localized activity driven by foreign interests." Globalization has never been so prevalent and vibrant among private, corporate interests as it is today; not only among large, familiar multinationals, but also among small and mid-size companies.

Interestingly, real estate, long considered one of the most local of assets in nature—immovable, locally built, locally governed—has proven to be eminently globalizable, and most major real estate owners have either taken the plunge into international ownership or are actively considering outright acquisitions or some form of joint venture that will yield foreign acquisitions.

Companies view globalization as a way of accessing new markets, getting themselves closer to customers, finding new customer bases and identifying cost efficiencies. At the same time, investors and shareholders may be seeking greater upside than they can find in their home countries, which may be more stable and present lower risks, with consequently lesser opportunity. This certainly has been the case with many top-tier U.S. real estate investors, who have grown tired of wading through over-picked deals in which pricing has lost all sense of rhyme and reason. These investors in many cases are looking to emerging markets, where the risks are greater but so are the rewards.

From an investment perspective, no matter the obstacles, globalization is a tonic that remains perennially alluring. Corporations that go global have access to increased deal flow, additional investment choices, access to global capital markets, the opportunity to achieve risk reduction through greater geographic diversification and smoother portfolio returns. At the same time, host countries are eager to see foreign investment because it spells employment opportunities, better access to foreign capital for growth and added technologies.

MANAGING BEYOND THE ACQUISITION

Despite all the lofty talk of global aspirations, companies frequently overlook middle and functional management, and the fundamental mechanics of how things get done—or don't—with regard to managing facilities in far-flung locations and controlling operating costs. Unfortunately, the ongoing asset management function usually faces hurdles that companies don't fully consider at the initial investment stage.

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The ugly truth, in fact, is that much gets done without a plan, a strategy or the information necessary to make informed decisions. Tax managers must figure out a host of seemingly basic questions for themselves: which properties are under their control (a turf war commonly exists between companies' real estate and tax departments); who the local in-country property managers are; what the local assessment regimes are; whether the local tax is significant enough to worry about; and, even if it is, whether there is any meaningful opportunity to challenge it. In addition, valuation and taxation concepts and approaches can differ substantially around the world. Compare, for example, the common application of an asset value standard with the rents-based standard applied in the United Kingdom and other locations.

Managers usually inherit in-house, onsite personnel who are accustomed to the status quo and may have established preferences for using local outside firms to provide appeals services—tax consultants and lawyers, for example—even though that tactic might not be the most effective. Existing systems and relationships require close and periodic examination. Otherwise, central managers may face something even worse than poor results: They may be unable to understand why the results occurred or implement a consistent corporate strategy portfolio-wide. Because these managers struggle day-to-day to put out fires—which frequently relate to more familiar issues and locations, often in the managers' home country—they might fail to adequately address many global issues.

As globalization presses forward and barriers to investment continually dissipate, local taxation continues to vex many owners, investors and tax specialists, even in the world's largest corporations. At a core level, local tax systems are not all that different from one part of the world to another, but every system has its subtle nuances, differing procedures and deadlines, unique standards and the all-important human, personal element required to get things done.

The globalization concept never completely removes the local component of facilities management, nor could it. Reliance on local players and local customs is essential, whether in the U.S. or abroad, even when employing a centralized approach to facilities cost control.

Effective management of local taxes from a central, corporate location requires substantial strategic planning and a commitment from senior management. In many cases, top management is not fully aware of the problem; those on the front line may need to educate them. Developing a command of the process also takes a great investment of time, though it is well worth the effort.

STRIKING THE RIGHT BALANCE

The globalization concept never completely removes the local component of facilities management, nor could it. Reliance on local players and local customs is essential, whether in the U.S. or abroad, even when employing a centralized approach to facilities cost control. And implementing a more centralized level of strategic management is virtually impossible without first investing in the appropriate data collection and global-oriented technology.

Unfortunately, even the brightest executives seem to stumble and fall prey to ambivalence about the best approach to running a global company. At the largest multinational corporations, those at the top of the organization often lack a strong conviction about the right way to manage on a global scale.

Studies show that the directional flow of corporate management—whether predominantly top-down or bottom-up—is often in flux, with one approach dominating for a period of time, then changing to the reverse approach when, for example, new executives come to power or a series of failures occurs that seemingly arises from the reliance of one approach instead of the other.

Consider the case of Coca Cola, which by the 1990s had become the prototype for global business. Coke's chief executive officer in 1996 declared: "The labels 'international' and 'domestic' no longer apply." His program of globalization became referred to as "think global, act global" and involved an unprecedented level of standardization. The company eventually came to generate 67 percent of revenues from outside North America.

But the strategy of complete standardization began to fail within just a few years. By 1999, the company had lost almost a third of stock value—some $70 billion U.S. dollars—so the company went in the opposite direction. The new mantra was "think local, act local," and top management opined that it was local people who got thirsty and bought locally made Coke. But that approach didn't work either. The focus shifted back to Coke's home city, and a more centralized style of management.

Property tax managers should expect that the waffling occurring at the senior-most level of the corporate hierarchy is likely to also prevail in facilities management—and particularly control of the companywide property tax—one of the most locally oriented functions of management. Managers would do well to consider this phenomenon in thinking about the best tactical way to advance the process in the field, and promote company goals and strategy for cost control.

A CENTRALIZED, STRATEGIC APPROACH TO COST SAVINGS

There are many persuasive arguments for keeping the property tax function decentralized and directed by local appeals providers. In a broad sense, when dealing with a highly nuanced local tax imposed by local authorities, municipal officials often resist requests for tax mitigation that come from a corporate home office located thousands of miles away and perhaps in a different country.

Interestingly, this resistance to the corporate trends is emerging because of globalization goes well beyond and much deeper than property tax or even corporate management. Franklin Foer, in his book titled *How Soccer Explains the World* (HarperCollins, 2004), writes of how tightly held local beliefs and culture frequently get in the way of visions of a "global way of doing things." The power of global mega-brands and businesses do not erase local attachments; he cites the intense hold of local football club ties in the face of globalization as an example when he writes:

> "By the logic of both its critics and proponents, the global culture should have wiped away these local institutions. Indeed, traveling the world, it's hard not to be awed by the power of mega-brands like the clubs Manchester United and Real Madrid, backed by Nike and Adidas, who have cultivated support across continents, prying fans away from their old allegiances. But that homogenization turned out to be more of an exception than I anticipated. Wandering among lunatic fans, gangster owners and crazed Bulgarian strikers, I kept noticing the ways that globalization had failed to diminish the game's local cultures, local blood feuds and even local corruption. In fact, I began to suspect that globalization had actually increased the power of these local entities—and not always in such a good way."

This view certainly supports the argument that in a global environment, the property tax function is best approached through a decentralized business strategy. A bottom-up approach that lets the local talent—whether it be local corporate management or local appeals providers—take the reins and simply report back up to the home office periodically.

In fact, property tax decentralization is a well-known concept in many parts of the world where government finance reform efforts are underway. Decentralization of the local tax, from the municipal side, typically occurs to improve local governments' fiscal control and autonomy, and to allow for improved management of local real property assets. Most experts agree that decentralization of the property tax works well in the government context, where the beneficiary of the property tax is the local population. The model calls for revenues collected locally to support local programs, which is starkly different from the way things worked in most former Soviet and command economy environments.

In contrast, the property tax objective in a corporate context is quite different from the government tax administration objective. Though local economic benefits might stem from multinational ownership, cost control is for the benefit of the corporate bottom line and the company's shareholders and investors, who are generally far removed from the assets under management. Therefore, a centralized approach is the best practice.

In property taxation, particularly for large portfolios, there will always be the need to rely on the services of local tax appeal providers, both consultants and lawyers. The often unstudied question, though, is who determines the need for these services and how? Most large companies notionally oversee the portfolio from the home office and seek out local services as needed, but in reality the process is driven by a bottom-up approach and with little true management or strategy. The goal is overly simple: Save money wherever possible. But oversimplification of this goal masks hidden costs and inefficiencies and, above all, a lack of full information at the home office.

Frequently, a non-specialist who relies entirely on the advice and direction of local service providers oversees property tax, and companies have no centralized management or strategy at all. They do little to spot trends in the taxation of the portfolio on a variety of levels that may be relevant: geographic region, property type, value and so on. This practice occurs in many companies' U.S.-based facilities, and to a far greater extent for the non-U.S. portion of their portfolios, where realty taxation remains a murky and poorly understood subject. The larger and more globally diverse the portfolio, the more significant these issues and the need for centralized control becomes.

The provider of tax appeal services is usually local to the individual asset and knows the local players and rules quite well, but has very little perspective on the company's global portfolio and corporationwide mandates. Nonetheless, the local provider has wide latitude to seek cost savings by whatever means he or she feels appropriate.

Likewise, owners of a large number of facilities that individually carry only a modest tax burden are particularly vulnerable to substandard service because there may be little incentive for the local provider to act in the most effective manner possible. Even large facilities may suffer where the incentives are not properly aligned between owner and local provider.

In the long run, it's far more costly to manage global taxes through a decentralized, appeals-based approach that starts and ends with the local provider. Permitting a multitude of third-party service providers in a range of markets to determine tax strategy is very much the tail wagging the dog. Instead, strategy and centralized management should come first, followed by an accounting for the local role and, finally, local players providing the skills, knowledge and relationships that are beyond the reach of the home office.

A BETTER MODEL

The better model—which a number of the world's Global 2000 companies have successfully implemented—puts strategy, direction and better oversight in the hands of the home office, while deferring to local know-how and respecting the talents of those with local expertise and relationships. The model provides far greater transparency in global operations, improves the level and quality of communications with local management and service providers, and permits the tax director to instantly collect performance results for the whole portfolio or any segment of it.

This three-step approach begins with the significant effort of consolidating property data from the full global portfolio into one system accessible by all levels of management in the company (see Figure 1). Managers first must collect data from company and municipal records as well as external sources such as satellite imaging and maps, Internet-based resources and market-based information.

Second, these experts conduct a portfolio-wide review and analysis, and detect anomalies. The analysis relies on principles of mass appraisal along with advanced technology that examines the portfolio more collectively than would be possible through the typical single-asset review process.

Having a portfolio with numerous but similar types of properties allows for the use of technology, automation and the application of mass management principles to more effectively and proactively manage the property tax expense. Achieving this objective requires managers to consolidate all data and information related to the process, then analyze it *en masse*. By applying statistical parameters—for example, average rent per square foot, median tax per square foot, etc.—across the entire portfolio and benchmarking specific values, anomalies will quickly appear. These findings become the basis for managerial decision-making to achieve fair and appropriate property assessment and taxation, wherever in the world facilities are located.

Step three is the tactic that most companies begin and end with, having skipped the first two steps: the pursuit of tax relief on a single-property basis through local providers.

IMPLEMENTATION

Though this process seems straightforward, tax managers at large multinational corporations will instantly recognize the many hurdles to adopting such a plan of action. These obstacles tend to arise from several sources, including:

- Getting high-level management to focus on and commit to finding a solution
- Persuading upper management to free the resources necessary for implementing the approach
- Navigating turf war hazards and local management personnel's resistance to change—and fear of job loss
- Collecting sufficient facility data to make meaningful strategic decisions

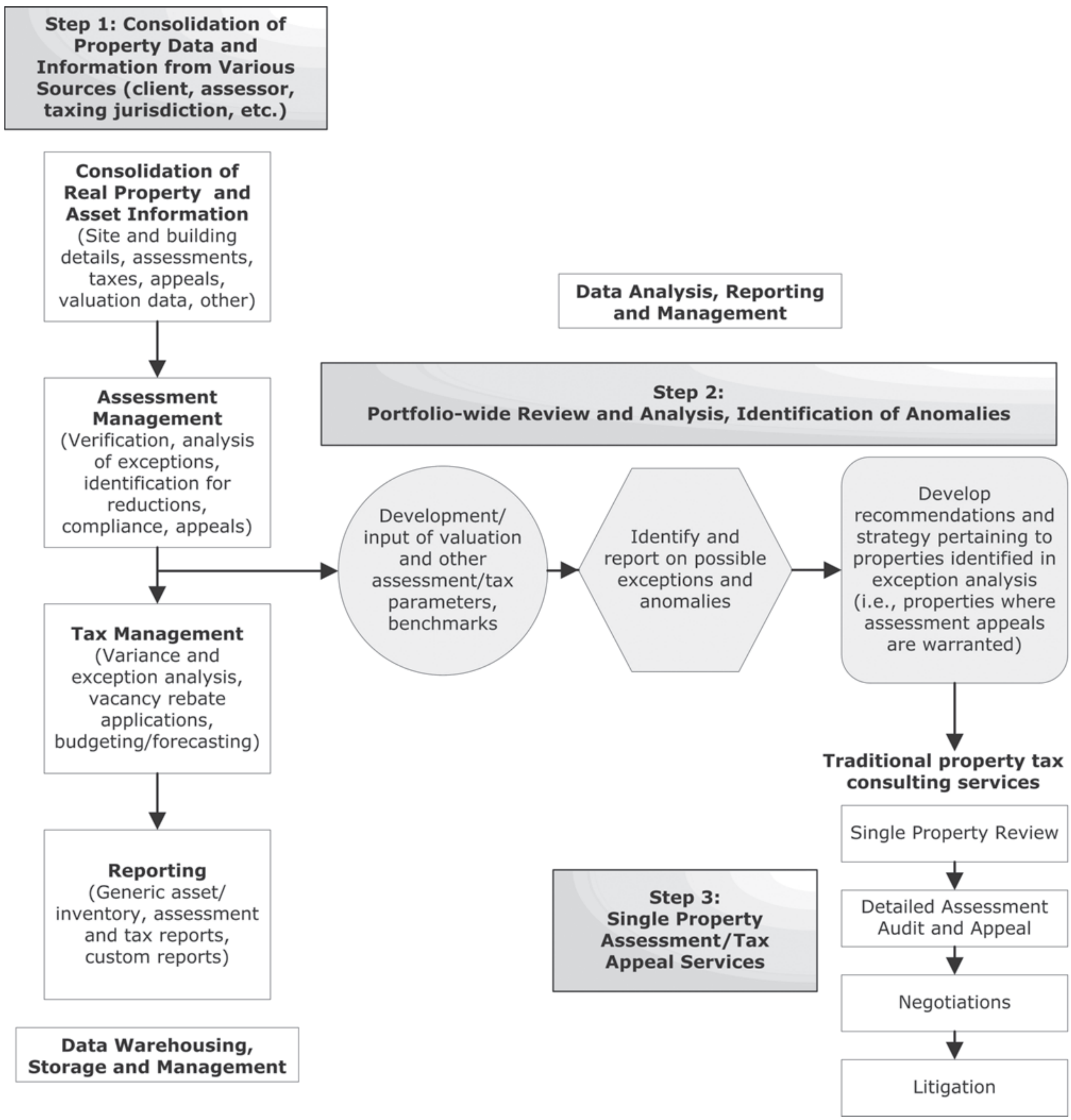
By far, the biggest challenge is the first issue: garnering corporate focus and commitment. Every other factor is far less daunting than it might seem and eminently achievable. But the ability to convince senior management to adopt the plan can be the place where an effective solution succeeds or dies quickly. In the case of real estate investment companies, it probably would be easier to get top management involved in this process. User companies might present more of a challenge because the real property tax is less directly tied to the product or service offered.

In fact, three key levels of management should ideally engage in this process. Top management needs be involved with shaping the process as well as creating channels of engagement and a forum for interaction that facilitates the process. Most important, these individuals must keep the discussion going once a process is in place.

Global business managers, who can integrate worldwide strategy and implement efficiencies into the process, also should be involved. They can most easily see across borders, know where competition is tightest and how profits from one market can cross-subsidize losses in another. They can contend with country managers in the debate about how much localism gets its due in the process.

Figure 1

Tax Management Model



These individuals also can interact with functional managers who have worldwide responsibilities—tax managers in particular—who have the specialization and the expertise to know best practices and what may work in one location but not another. They will have the strongest network in their field and know the best means of achieving their objectives, including:

- The best technology for executing objectives
- Where to obtain the best data
- Industry resources available to solve problems
- The best consultants in a particular areas
- Specific problems that properties suffer related to valuation

First and foremost, the global tax manager needs to be a corporate strategist—someone who works proactively, not reactively. Once company leaders develop the strategy, local country offices must help determine how to best implement that strategy and use local consultants to best advantage. To get started, the manager must first assess the directional flow of decision making and what it really looks like. Next comes evaluation of the current process, ideally in a fairly detailed written paper that upper management reviews.

It's well worth the time and effort to create this working document. Ask questions that will provide better insight into the big picture:

- How do problem assessments on foreign properties come to the tax manager's attention?
- Does the tax manager have relevant data about every property at his or her fingertips, or is it necessary to go through intermediaries to get it?
- Who's really in control of property decisions?
- If certain properties seem high in comparison to others, is it possible to articulate the reasons why?
- If so, are they fixable or related to local factors beyond the company's control?
- How and when was each property acquired? Was it part of a portfolio purchase?
- Were portfolios purchased, then left at the helm of the same people who were making the decisions before?

After answering these questions, the data collection process for the global portfolio can begin. The data must include more than mere valuation and facilities statistics; it also should include qualitative information such as confirming who does what within the organization. This task can be particularly daunting, and require the efforts of a sufficient number of team members who each have a clear set of targets and due dates, along with appropriate follow-up procedures.

Unless the company is already well along the way in its ability to collect and manage facilities data, it may be best to set achievable goals such as the collection of data for certain regions or countries one-by-one. Among other things, tax departments need to:

- Identify key players in the organization—include job descriptions, or write them if necessary, even if only for team members' own purposes
- Determine each person's role in the process
- Identify properties and inventory
- Identify taxation systems and relevant legislation
- Determine the various standards of value that apply
- Identify the relevant assessing and taxation bodies
- Identify compliance and reporting requirements, not only those that are external to the corporation but also reports that may be helpful to management
- Determine relevant appeal procedures and deadlines
- Obtain and develop an efficient database
- Evaluate the role of technology

One of the most productive ways to accomplish these tasks is to look for strategic alliances within the company to get the job done. For example, developing a global tax management strategy goes hand-in-hand with developing broader asset-management strategies for total property management. A full asset management solution enables a global corporation to maximize its portfolio value and minimize costs in a wide range of areas including tax, insurance, tenant management, utilities, maintenance and many other aspects of property management.

And give extensive thought to local-side impacts. Local teams may agree with corporate plans on the surface, then undermine the goals of the plan through noncompliance. Very often the new strategy—because it seeks efficiencies and some level of standardization, and perhaps can result in cutting out or restructuring some long-term relationships—can be a real source of concern to the local team, which previously may have operated somewhat independently.

It's absolutely essential to actively involve local personnel in the new plan and its implementation. Even so, resistance, especially in the initial phases, is likely. Interpersonal skills are of greater value than any other when addressing this issue. It is often helpful to introduce new technology and systems gradually, phasing them in one country at a time and in a manner that suggests it will make it easier to handle local tasks.

If the new technology can consolidate several tasks—such as taxation, lease management and insurance—into one system, local managers may be relieved instead of repelled by the new approach. This approach may also bring managers from a wider range of company functions on board with the plan, and generate greater resources and companywide support.

The most important thing to remember in developing a centralized global tax management plan—so often the stumbling block of any organizational plan—is that it is just that: a plan on paper, no different from a map. It represents something but it is not that something. In a global environment, managers must avoid becoming rigidly tied to an operations plan to the point that they ignore common sense. It's essential that a global manager maintain a high level of sensitivity to cultural differences and local complexities, as well as jurisdictional norms that may at first seem illogical or a waste of time.

Additionally, keep in mind that the best managers continually seek opportunities to make the plan better, and find the corporate opportunities to increase competitive advantages and make a positive contribution to the company's bottom line. With the rise of the multinational corporation and available support systems and resource networks to help them do their job, tax managers have never before had so many opportunities to make a quantifiable impact on their organizations' success and achieve what may still, to some, seem impossible: centralized, strategic management of a global portfolio. ■

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