CoreNet Global

Academic Challenge 2015

The Global Association for Corporate Real Estate

Corporate real estate is the real property used by a company for its own operational purposes. It provides corporations with a productive environment to house employees, manufacture and distribute products and provide services to the market. Corporate real estate touches all classes of property, land and buildings such as office facilities, data centers, manufacturing facilities, logistic centers, corporate headquarters, distribution facilities, retail stores and hotels.

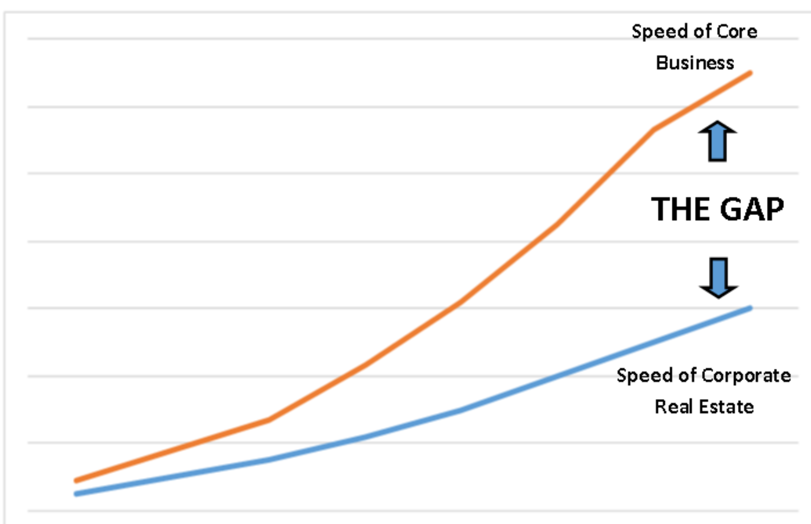
The real estate portfolio needs to align with and support the core business of the enterprise. Corporations need to have the right space, in the right place, at the right time. Enough space to meet business demand – but not too much. ***Herein lies the challenge….***

Real estate assets, whether acquired by lease or purchase, are long term investments that are not easily modified or liquidated. However, business forecasts that drive real estate decisions and strategy often are not accurate beyond a 12 or 18-month time frame. The business needs of the corporation can, and do, change very quickly. Those changes can occur for internal business reasons such as a shift in strategy or business demand. Increasingly, changes can also be imposed on the corporation from exogenous factors such as political instability, terrorism or natural disasters.

There is a classic mismatch between the need of the corporation to be agile (and respond to internal and external factors in a way that optimizes shareholder value) and the ability of the corporate real estate department to respond and reconfigure the real estate portfolio to support the business. The quote below from one corporate real estate executive and the accompanying graph illustrate this point.

"It's the nature of technology that it moves far faster than any real estate cycle could keep up with. Assuming I can get a demand forecast, by the time I can bring the space online, it's already obsolete."

--Corporate Real Estate Executive, High-Tech Industry



The Challenge:

Determine how to close the gap between the speed of real estate and the speed of business -- all within the context of an uncertain global environment. Provide a strategic solution that optimizes a corporate real estate portfolio and positions the corporation for the greatest flexibility and success.

For purpose of this competition you can assume that you are leading the corporate real estate department of a large multinational corporation in either the financial service, high-tech or manufacturing sector. The C-Suite has mandated that the entire enterprise must develop strategic agility as a core competency. Key for the corporate real estate department is that the enterprise must have the ability to reconfigure business systems, redeploy resources rapidly and make fast, effective decisions.

You and your team must develop a new strategy for management of the entire real estate portfolio that provides the enterprise with all of the required space and develops the resource fluidity requested by the CEO. The goal is to create systems, processes and corporate policies that allow the department to increase or decrease space capacity as needed and better plan for internal and external factors.

Note: Your solution can include changes to how real estate is acquired, held, used and liquidated. It can include changes to how employees work and the work environment. It can include, for example, the introduction of novel technologies, corporate policies, and financial structures. It should address how your solution will impact other parts of the business including HR, IT, Finance, Legal and Procurement.

Choose a vertical market (focus on just one for this competition)**:**

- **Manufacturing**. Key real estate drivers include overall production costs, especially labor costs and transportation costs; labor supply, and access to raw materials and consumer markets. Many manufacturing facilities are specialized and capital-intensive, with investment horizons that can stretch 10, 20 or even 30 years. Thus manufacturing facilities often are owned vs. leased. Because manufacturing operations often involve substantial capital investment and job creation, they attract sizable interest from competing locations and the economic development organizations that represent them. They attract significant financial/tax incentive packages. State/local tax structure will influence manufacturing location decisions. Distribution and warehouse spaces are typically leased more often than traditional manufacturing space, which is predominantly owned.

  For the purpose of this challenge, you can assume that the company is in the automotive sector, with approximately $90 billion in annual revenue and 98,000 employees. It is heavily unionized. The real estate portfolio includes 100 million square feet of space (55% manufacturing and 45% sales, R&D, retail and “other”), two-thirds of which is split equally between Europe and North America. Of the company’s 55 million square feet of manufacturing space, 45 million square feet is owned, and 10 million (mostly warehouse/logistics space) is leased. Of the 45 million square feet of office space, 35 million square feet is owned and 10 million square feet is leased. This unusually high percentage of owned office space is due to the fact that the company owns almost all of its retail sites (e.g., automotive dealership and showroom real estate).

  The company’s biggest growth opportunities are found in the emerging markets, particularly in Asia. Like many manufacturing companies, this company has a decentralized model for real estate management, meaning each of several powerful business units essentially make their own decisions about real estate and facilities for the production side of the business – the industrial and warehouse space. There is a small, 4-employee centralized group at headquarters (a "Center of Excellence") which handles the headquarters and all non-production space, and it does its best to present new ideas and opportunities for efficiencies and cost savings to the business units. But its role is advisory only. Outsourcing to external service provider firms has gained little traction for the industrial portion of the portfolio, but the Center of Excellence relies heavily on a single key partner for all tactical delivery for the office portfolio.

- **Financial Services**. Financial Services companies have a wide array of business operations, and the resulting real estate portfolio is equally diverse. A HQ operation in London or on Wall Street with a trading floor would be housed in top-quality, very expensive real estate, and of course located in premium locations in some of the world's most expensive markets. Here "where does the key talent want to live?" is the key question. However, these same companies have substantial back-office operations that must be located in secondary markets (including third-world/emerging markets) to be cost-competitive. At present, the typical office portfolio for a Financial Services company is generally 70% leased and 30% owned.

  For the purpose of this challenge, you can assume that the company is a large, U.S.-based institution with a growing presence in Europe and Asia. Major lines of business include retail, commercial and investment banking. Hit hard by the last recession and economic downturn, the company is under significant pressure to reduce costs. Additionally, the overall level of regulatory/government scrutiny has never been higher. The company has more than 100 million square feet of space around the world (80% typical office space, 15% data centers and "other," and 5% headquarters). Industry benchmarks show that the company has too much space for its housed office population, but the surplus space is located in very weak markets, and thus has been difficult to sell or sub-lease. The centralized CRE organization is adequately staffed (150 people) but a new mandate from the CEO to reduce headcount across the organization means more outsourcing is almost inevitable. A fledgling worker mobility program, previously ignored by most business units, could find fertile new ground under the new CEO who must deliver cost savings to Wall Street and also increase the company's commitment to sustainability.

- **High Technology**. High-tech companies thrive on innovation and new ideas. Their R&D and engineering operations will be located in places that generate large numbers of qualified graduates in the STEM disciplines (Science, Technology, Engineering and Mathematics). Access to talent is the number one driver. The gap between the speed of business and the speed of real estate is probably biggest in this sector, which is subject to the fastest, most dramatic swings in the business cycle. The life cycle of many high-tech products is very short. The typical office portfolio for a High Tech company is generally 75% leased and 25% owned.

  For the purpose of this challenge, you can assume that the company is a market leader in internet-related hardware. Its biggest presence is in the United States, where it is based, but it has significant operations in Europe, Asia and Australia, and a growing presence in key centers in South America and Africa. There are 84,000 employees, 40% of which are in Engineering. Of the total 24 million-sq.-ft. portfolio, 60% is leased and 40% owned. A key strategic challenge is attracting and retaining top talent against a backdrop of continuing cost pressures and competition from other companies. There are relatively aggressive desk-sharing and worker mobility programs, but the big challenge has been figuring out how to get Engineering employees to give up their dedicated, fixed offices to move into more flexible space in order to be more efficient and reduce costs. The centralized CRE organization reports to Finance, so all of its strategies must be thoroughly researched and documented in terms of financial viability. Only 85 people remain in the CRE organization, down from more than 200 just a few years ago.

Almost all tactical delivery and execution are handled by two outsourced real estate partners with a global presence.

Competition criteria and judges' scoring system:

Submissions must include the following (all "page" mentions refer to a standard A4 or equivalent document):

1. A one-page executive summary using 11-point Arial font with one-inch margins
2. A written submission up to five pages using 11-point Arial font with one-inch margins
3. Up to five exhibits (one page per exhibit)
4. One multimedia presentation up to five minutes in length (Slideshare, YouTube, etc.)

Judging Rubric:

Submissions will be judged on the following:

- ✓ Innovation & Creativity (40 points)
  Does the submission present evidence of innovation, creativity, and/or initiative? Was data used effectively to support the recommendation/s?

- ✓ Applicability & Feasibility (30 points)
  Does the response presented appear reasonable and appropriate given typical business constraints? If needed, was financial analysis offered and sufficiently rigorous?

- ✓ Value Creation (20 points)
  Does the submission add value to the organization, its mission and/or enhance shareholder value?

- ✓ Quality & Clarity of Presentation (10 points)
  Was the submission polished, professional, and delivered in a confident and convincing manner?

See full rules, requirements, application forms, etc.

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BACKGROUND INFORMATION

What is CORENET GLOBAL?

CoreNet Global is a nonprofit association, headquartered in Atlanta, Georgia (US), representing more than 9,000 executives in 49 countries with strategic responsibility for the real estate assets of large, multinational corporations. The end user membership base is diverse and spans industries including high-tech, financial services, manufacturing, pharmaceutical, telecommunications, healthcare, insurance and oil and gas. Google, Unilever, International Monetary Fund, Oracle, Coca-Cola, Amazon, AT&T, General Motors, Barclays and Shell are among our many member companies. One third of our membership resides outside North America (primarily Europe, China, India, Singapore, Australia, New Zealand, Brazil and the Middle East) with most members managing portfolios with millions of square feet spanning multiple continents.

Virtually all corporate real estate departments partner with external service provider companies to deliver services needed to acquire, maintain and dispose of real estate. These services include but are not limited to brokerage, site selection, architecture and interior design, lease administration, facilities management, and technology platforms. One of the long-term trends in the CRE profession is toward leaner, smaller internal CRE teams focused primarily on strategy and client relationship management, with growing dependence on external service provider companies for tactical delivery and execution. Those external service providers are also members of the association.

The organization's mission is to advance the practice of corporate real estate through professional development opportunities, publications, research, conferences, designations and networking in 43 local chapters globally.

Why conduct an ACADEMIC CHALLENGE?

A strategic priority for CoreNet Global is to strengthen its relationship with academic institutions around the world and grow the pipeline of talent into the challenging, rewarding -- and often overlooked – career of corporate real estate. Think about it: Real estate, human resources and technology typically rank among the top three expenditures of most corporations. Corporate real estate executives manage millions (and sometimes billions) of dollars of assets across the globe and most stumbled into the career path by happenstance and do not hold a degree in real estate.

The academic challenge is an important step in raising the awareness of the profession and the impact of corporate real estate on the global economy. The competition is designed to attract students from *all* academic disciplines to tackle key challenges facing the profession, and perhaps more importantly, the challenges facing the enterprises our members serve.

What is the role of a CORPORATE REAL ESTATE EXECUTIVE?

Corporate real estate professionals have strategic responsibility for their corporations' total real estate footprint of owned and leased space. They are charged with anticipating and responding to a corporation's property needs as a result of business growth, expansion or contraction.

Corporate real estate executives are generally not REALTORS®, commercial brokers, developers or facility managers though they retain or manage these professionals as well as architects, site selection consultants, economic developers, interior designers and the like to help support their strategy.

Historically, corporate real estate professionals focused on managing the physical property for the business. They were charged with acquiring, maintaining, and disposing of real estate throughout the "lifecycle" or useful life of any property. Certainly, those functions still remain at the core of corporate real estate. However, the business landscape has changed and the role of corporate real estate continues to evolve. Now more than ever, corporate real estate professionals are charged with partnering with the business and adding strategic value.

More corporations are now viewing real estate as a strategic asset and corporate real estate as a strategic function. As a result of that shift, a new skill set is required for today's corporate real estate executives. They are at the forefront of corporate social responsibility and sustainability initiatives and are leaders in the innovative workplace design movement aimed at improving worker productivity and wellness. They also play a vital role in talent recruitment and retention, location strategies and interaction with other internal support functions such as human resources or information technology.