



*Advisors to CFOs,
Management & Boards*

A Thoughtful Real Estate Strategy Can Promote A Successful Corporate Transformation

When businesses go through a transformation – reconfiguring their operations for greater growth and efficiency, for a current or potential M&A, or to drive returns for stakeholders – real estate assets often play a significant role, notes Andrew Zetas, Strategist & CEO of Real Estate Strategies Corporation, a New Jersey-based corporate real estate advisory and transaction services firm. During any transformation effort, companies that are advised by expert real estate strategists can better achieve operating and financial efficiencies, and position themselves for greater growth.

"Your company's opportunities may vary, depending on the status of the assets, so a strategic first step will involve reviewing and categorizing your real estate," he says. "Outside of bankruptcy, an experienced strategic real estate advisor can assist in determining how owned facilities may be refinanced, sold, leased in total or in part to third parties, or positioned to generate revenue. And in the case of a company that is emerging from bankruptcy, a court-appointed trustee will frequently collaborate with transaction experts to position real estate assets to enhance the company's operating efficiencies, so the company will emerge as a stronger entity."

OWNED FACILITIES

According to Zetas, a company that owns its facilities should seek to deploy them in a way that promotes financial efficiency. If your company owns the assets outright, securing corporate financing or commercial mortgage debt may present opportunities to generate cash. However, today's relatively high interest rates, and the foundational reasons for the company's transformation, may reduce the attractiveness of that option. In contrast, a sale-leaseback could represent a better opportunity to monetize the assets."

"Consider though, that such a sale-leaseback will be contingent on securing a purchaser-investor who is comfortable with the cash flow generated by the assets,

and the creditworthiness of the tenant-occupants. In the alternative, your company may wish to consider converting the property to a condominium ownership, and selling portions to one or more third parties."

Some companies may not need to occupy all of their space, and may consider leasing some or all of the vacant portions to third parties. "Once that is accomplished, your company can either capture the rental stream or offer the property for sale to a third party, and then lease back any space that your company may wish to retain," observes Zetas.

Companies that own and occupy real estate may simply wish to drive operating efficiencies and retain the assets. If they need retain occupancy of all of their current space, "the best course may be to review the real estate assets and determine the ROI gained by modifying them to make the facilities more functionally efficient," he advises. "Or, if a review demonstrates that is not needed, consider reducing your footprint and leasing the extra space to one or more third parties."

LEASED FACILITIES

Some corporate executives believe leasing is more flexible than ownership, but Zetas disagrees, "If a company owns real estate, it can modify or sell the real estate," he notes. "If a company leases real estate, it may have to retain the property until lease expiration and may be limited in its ability to perform lease modifications.

Andrew Zezas

Strategist & CEO, Real Estate Strategies Corporation



While subleasing may be an option, market conditions can make such transactions challenging to complete, and substantial recovery of financial obligations is most often quite difficult. A strategic assessment of options — that may be contained in the lease agreement — permitting a company to reduce space or terminate the lease prior to expiration, may prove valuable."

Other options may also be pursued though, depending the terms of the lease, and how the facility is currently being used. "For example, your company could negotiate to modify the terms of the lease or to reduce the amount of occupied space," says Zezas. "If your company has, say, three years left on a lease, you could extend the lease to 10 years in exchange for more favorable operating or financial terms, and/or a reduction of space. Or your company could advise the landlord that you will keep (or expand) the current square footage and extend the lease in return for a reduction in rent; or in return for cash to make leasehold improvements; or perhaps a combination of both."

He goes on to offer another example: a company that currently leases 100,000 square feet of manufacturing space and plans to invest in a significant upgrade of machinery and equipment to improve its competitive advantage for say, the next 25 years. "If your company occupies a facility under a lease that will expire in the near term and is otherwise satisfied with that facility, then your company may wish to consider negotiating for a long-term lease or even a purchase of the building."

Some companies have a portfolio of multiple facilities. Before they make real estate decisions, management should dissect their strategic components on a portfolio-wide, property-by-property basis, assess each one, and then consider portfolio optimization, he says.

"The intricacies of real estate transactions during corporate transformations necessitate expert guidance," Zezas explains. "Trusted advisors with expertise in real estate strategy, portfolio and transaction planning and execution, law, finance, site selection, labor and demographics, workplace solutions, logistics, and in other disciplines, can assist companies in deploying their real estate assets more effectively to achieve their overall objectives. Whether it's restructuring, avoiding bankruptcy, or navigating through bankruptcy proceedings, advanced real estate planning can enhance your company's ability to prepare for negotiations, adhere to legal and other regulations, and achieve greater results."

