

# Strategic Facilities Planning

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### **Preface**

This pamphlet was prepared by Brookwood Group for both senior and middle company managers who have concerns or responsibilities for their company's investments and commitments in corporate real estate and facilities.

More and more companies are seeing Strategic Facilities Planning, also referred to as Strategic Real Estate Planning, as a regular part of their business planning. Regardless of what it is called, it is very important not to leave out thorough consideration and careful planning of either the real estate or facilities aspects. Both real estate and facilities can have a significant effect on a company's operating results and balance sheet.

Carrying out a good strategic planning effort for a company's corporate real estate and facilities is rarely a simple task. It will consume at least several months and will not be of insignificant cost. Yet, the effort will be wasted if there is not a commitment to the process by both senior management and those managers directly responsible for real estate and facilities. Further, a company should not attempt to let outside consultants make the major decisions in this important planning. These decisions are often fundamental to the business, and the internal and marketplace insight needed in this planning is often critical. The appropriate role for a consultant, such as Brookwood Group, is to facilitate the review, analysis and planning process. In most cases, a good approach is to assemble a small analysis and planning team from within the company and from the consultant firm. The team would report to the appropriate level in the company, obtaining senior management input at several points.

The information in this pamphlet is applicable to companies of varying sizes and to companies that use predominantly office and/or operations space as well as those that use predominately industrial space, or for companies that use a mix of types of space, properties, facilities and technologies. It is also quite applicable to a division of a larger company so long as that division has its own business plan.

### Concept

Strategic Facilities Planning (“SFP”) should be a part of and integrated into a company’s business planning. It should be based on an up-to-date and thorough understanding of the company mission. Its role is to support the plans for the core business, and it should contribute to sustained profitability and a better balance sheet.

SFP is not architectural planning, master planning, space planning nor the programming of facility requirements. There are similarities between facility requirements programming and SFP, and there may be architectural and physical planning aspects in some companies’ SFP, but it is essentially economics related business planning.

Every company has some sort of a long-range SFP, whether formalized or not. Some are well done. Many plans have been developed, however, with poor or superficial data. Often, there are widely varying plans carried around inside the heads of different managers within the same company. Often there is little communication, concurrence or coordination. Dreaming and wish lists sometimes replace pragmatic planning based on good and relevant data. In smaller businesses the SFP task is much easier because fewer people possess the data, and consensus is often easier. (It might be said that “Mom and Pop” have an adequate SFP for their small business. They plan to renew their lease next year and add another row of shelves.)

Until recent years, detailed long-term Strategic Facilities Planning was fairly rare, even among some of the larger and otherwise better-managed companies. However, more and more companies are improving both profitability and balance sheets through good Strategic Facilities Planning, through expert implementation of the SFP, and through updating the plan at each round of the company’s core business planning. We’ve all heard it said, “We’re in the widget business, not in the real estate business.” However, real estate occupancy costs are often the second or third largest cost of doing business. Even more important is the critical need for most companies to have the right facilities in place at the right location, cost, and time in order to implement business goals, achieve profits and increase shareholder value. The point is that well-honed and cost-effective supporting infrastructure is critical to most companies. Shortcomings in infrastructure can be fatal in competitive business climates for companies with “time-to-market” sensitive products and services. Additionally, an over supply of infrastructure will unnecessarily depress earnings with consequences on shareholder value. Today, the cost of occupancy and the assets and liabilities represented by real estate cannot prudently be given a back seat, nor does the well run company ignore real estate opportunities or exit strategies.

An SFP isn’t, by any means, always a plan of growth. Pragmatic, bottom-line-oriented Strategic Facilities Planning often yields ways to more efficiently use space, reduce real estate investment and/or liabilities, and dispose of or re-deploy unneeded or under-used real estate assets. In periods of economic downturn and at other points in the life of a company, the SFP process can be very helpful in containing and/or re-checking facility costs for a company.

The Coca-Cola Company engaged Brookwood Group to carry out Strategic Facilities Planning and to develop a new Master Plan for the further expansion of the 33-acre headquarters site in Atlanta



**The Coca-Cola Company**  
Headquarters Campus, Atlanta

### Looking Out 10 Years?

The only thing one knows about a ten-year plan is that it is probably wrong. Almost certainly ten-year planning data will prove to be off the mark. Assumptions about growth, new products, new businesses, new technologies and their effects, along with future acquisitions, mergers and the like are bound to be wrong. Ten years is an eternity for most companies as far as business planning is concerned. Yet, real estate and facility commitments are often for more than three to five years, the typical planning horizons for most businesses. The fact is the real estate and facility planners and managers must prognosticate out farther than three to five years, typically ten years and beyond. However, there is a reasonable way to go about it.

Most business plans consist of a very detailed plan for the coming year and a “rolling” three-to-five-year strategic plan that is pushed out another year at the annual planning time. In real estate planning, senior general managers, business unit managers, and the SFP team often need to construct at least a ten-year crystal ball, as best they can, as a guide for real estate decisions and actions during the coming year. Therefore, like the overall business plan, it is a good idea for the SFP to have a detailed plan for the coming twelve months, a rolling three-to-five-year plan that is in step with the three-to-five-year rolling plan for the core and other aspects of the business, and some prognostications and strategic thinking that look out ten years and beyond. The detailed twelve-month plan, the rolling three-to-five-year plan, and the longer range prognostications should be updated at the next round of business planning, thus giving a “polished” crystal ball for next year’s real estate and facility commitments.

### A Detailed Understanding of the “Driving Factors” of Facility Requirements is the Point of Beginning in Strategic Facilities Planning

Those who come to Strategic Facilities Planning primarily from a background only in real estate often miss the mark. In such cases it is not unusual to find the basis of the planning to be rather superficial data such as overall revenue projections and an assumed direct relationship between revenues, people and space. This is rarely appropriate planning data. So-called strategic planning done on this basis can badly mislead a company, sometimes leading to real debacles or lost opportunities for cost savings.

A good understanding of a company’s mission and businesses comes first in developing a Strategic Facilities Plan. Industry trends, technology and external factors need to be reviewed with the appropriate company managers. After that is accomplished, the major groups, departments and/or divisions of the company should be individually analyzed. Analysis should lead to the identification in each of the company’s major operations of the “driving factor” which both drive and justify facility requirements. The interview process, which is typical to facility programming, is not enough in strategic planning. The Strategic Facilities Planning process should include interviews of department heads, senior corporate management, a cross section of middle managers, support group managers and facility managers. However, interviews are very vulnerable to wish list thinking in some cases and overly conservative estimates to impress upper management in other cases. Often inadequate time is spent on analysis and forecasting by the interviewee. Therefore, interviewing should be combined with the proper use of the driving factors for each major operating group. And, not least, the analysis of a full range of real estate factors and thorough financial analyses should be employed.

Revenues may be the first choice for a particular operation's driving factor because it is easier to identify and quantify than other driving factors. In some cases revenues are, indeed, the driving factor. However, the more appropriate driving factor for some operations often will be factors other than revenues and simple extrapolated staff size projections. Examples of revenues not being the appropriate driving factor include situations in which the numbers of staff in a particular operation and the amount of space per person currently being used will be significantly affected by changing technologies or changing economies of scale on the horizon. Another example would be departments that are major cost centers such as an insurance company's claims department in which the driving factor more likely would be the number of claims rather than the dollar amount of claims or revenues. In an investment banking company's trading operation, the number of transactions might be more pertinent than of dollar volume of trades.

### Process

There is not and should not be a standard form for an SFP. No two companies are alike.

Likewise, there is no standard process for Strategic Facilities Planning. The form that the plan should take and the process used to develop the plan should be individually tailored after the planning team is in place and has gained an up-to-date understanding of the company's mission, most of the operations, and the corporate structure.

As mentioned earlier, it would usually be unwise to delegate such important business strategy as strategic real estate and facilities planning to a consultant. A good approach is to have a small joint team of company managers and a relatively small group from a Strategic Facilities Planning consultant. The team would probably report to someone at a relatively high level in the company, probably the head of Corporate Real Estate (including facilities), CFO, or higher.

The Strategic Facilities Planning process should be tailored to the company's requirements, but typically might include the following steps:

1. Team formation.
2. Review with the Corporate Real Estate or Facilities Manager the company's mission and current real estate issues.
3. Visits and general observations of the larger and more critical operating groups that constitute about 80% of the company.
4. Development of a game plan and model of expected end product.
5. Review of the team's understanding of the company's mission at a very high corporate management level. Also, review with the senior management of the proposed Strategic Facilities Planning process the expected end product. The team should see that it has senior management support, authorizations and any required "path clearing".

Turner Broadcasting System engaged Brookwood Group to carry out Corporate Real Estate Strategic Planning for all of its Atlanta area properties and facilities.



**Turner Broadcasting System**  
CNN Center, Atlanta

### *The Strategic Facilities Planning process steps (continued)*

6. Conduct "Crystal ball" sessions with key strategists and technology leaders as well as core business operations personnel in the company.
7. Data gathering. This may be the most labor-intensive aspect of a company's Strategic Facilities Planning process. This often involves the development or updating of the company's corporate real estate and facilities database.
8. Data analysis and extraction of key indicators.
9. Senior management review of data gathered and the team's analysis of key indicators.
10. Examine financial, human resource, market place, productivity, technology, likely operational changes and other issues affecting driving factors.
11. Develop first draft of the plan.
12. Conduct "think tank" sessions within the Strategic Facilities Planning team.
13. Revise plan as necessary.
14. Review provisional plan in near-final form with senior management. More than one work session may be required. Reviews and sign-offs by other key managers may result.
15. Final pre-publication review with senior management.
16. Publication. (Note: A company's SFP is usually a highly confidential document. Procedures should be established for control of the document on a need-to-know basis as approved by senior management.)

### **There can be Visual Image and Environmental Aspects in the Strategic Facilities Plan**

The primary basis of a SFP is financial. A basic concept of Strategic Facilities Planning is that there be operational requirements and financial justifications for each corporate real estate and facilities commitment, asset and liability. However, some companies have important needs in terms of physical arrangements and visual character. Visual and architectural concepts, marketing or market awareness issues (brand identity), as well as highly visible location(s), or visual aspects of the facilities may be strategic issues in some companies.

Another factor may be that the company's ability to achieve acceptable reductions in space utilization per person or greater productivity. In such cases, some physical planning concepts will need to be a basic part of the SFP. This is particularly true if there are to be widespread concept changes in individual workstations and/or in the work environment. Thus, workstation standards may be an important element of the SFP.

Sometimes other environmental aspects can and should affect the SFP. These might range from issues such as employee amenities, work space conditioning, energy use, business continuity planning, business resumption planning, and any commitment to environmental protection by the company.

In such cases it may be appropriate for there to be physical arrangement, engineering concepts, physical real estate plans, technical standards and/or architectural concepts as parts of the SFP.

# Business Input

**Confirm Business Plan**

- Revenues by Segment/Company
- Cost of Capital
- Networks & Feeds
- Acquisitions, Dispositions
- Technology Strategy

**Data Analysis, Modeling**

- Existing Data
- Processes
- Rev. & Exp. Growth
- Headcount Growth
- Technology Impact
- Subjective Criteria

**Analysis of Business Impact**

- Costs
- Human Resources
- Subjective Considerations
- Business Disruption
- Flexibility
- Marketing & Customer Issues



**Driving Factors**

**Facility Costs Justification**

**Requirements**

**Alternative Scenarios**

**Scenario Plan, Implementation Strategy Chosen**



**Adopt Strategic Plan**

# Real Estate Input

**Existing Facilities Inventory & Evaluation**

- Locations, Uses/ Occupancy Cost
- Building Sq. Ft., Other Attributes
- Gov't. & Reg. Environment
- Lease Terms/ Ownership
- Suitability/ Condition

**Relate Space and Facility Requirements/ Costs To Driving Factors**

**Data Analysis, Modeling**

- Headcount Models
- SF Models
- EVA Models
- Subjective Criteria

**Development of Facility Options, Implementation Strategies**

- Locations: Sites, Buildings
- Square Footage Requirements
- Implementation Schedule
- Contingencies
- Image, Quality

**Analysis, Documentation**

- Scenario Plan Evaluation
- Capital, Operating Costs
- Real Asset Policy
- Procurement Strategies, Policy
- Near Term Action Plan

### **Financial Modeling and Analysis in Strategic Facilities Planning**

More than likely senior management will be focused on financial implications. Financial modeling and analysis is a critical component of communicating and evaluating SFP strategic game plan options with key decision makers.

More companies are using the Economic Value Added method of financial analysis in their evaluations of operations and investments. However, the method favored by senior management should be used in each case. The SFP should include the result of examining each property or category of property as to SFP moves relating to such opportunities as sale/leaseback's, synthetic leases, switching from leasing to owning, and switching from owning to leasing.

### **Gathering and Organizing some of the Information that will be needed in Strategic Facilities Planning**

- Latest business strategy and financial plan
- Monthly GL records for occupancy costs for all facilities for the past three years
- Revenue, expenses, income and FTE head count for past 3 years for each operations group, division or other planning study group
- Verification of the corporate capital structure
- Verification of the "blended" rate for cost of capital
- Lease synopsis documents (If your company doesn't already have an electronic real estate & facilities database for all leased and owned properties, the first step in the SFP may be to create such a resource.)
- Profiles of owned properties
- Appraisals of owned properties
- Book value and tax value of all owned properties
- Tax records for all owned and "triple net" properties
- Listing of gross, rentable, and usable square footage for all owned and leased facilities
- Listing and synopsis of all other controlled property such as options to purchase, "warehoused" land, etc.
- Annual reports for last three years
- 10-K and 10-Q for last three quarters
- Press releases for the last six month

### **Simplified Graphic Outline Summary (See illustration on following page)**

A simplified outline of the adopted plan, such as the one shown in the illustration “Graphic Outline Summary”, can be a particularly helpful reference to senior management. Such an illustration should probably be incorporated into the Executive Summary of the SFP once senior management has approved the plan’s adoption.

The illustration here, though hypothetical, is similar to a number of plans Brookwood Group has been involved in developing. A lot of effort, data gathering, analysis, consensus building and strategizing will have gone into such a disarmingly simple looking plan. It should also be recognized that there is as much planning about the company’s non-real estate operations illustrated as there is about the company’s real estate and facilities.

### **Hypothetical Case Illustrated (Small Company)**

In the case illustrated, the Company’s facilities at mid-2007 included its headquarters office building in Central City, a property consisting of the building it had built in 1992, a surface parking lot and the land. The property is owned by the Company. The facility had 300,000 rentable square feet (“RSF”), space for 1500 employees (“FTEs”), 980 parking spaces and is on 7.8 acres of land. The land area provided space for future expansion.

At mid-2007 the Company also leased a 150,000 RSF Operations Center in Central City, having space for 1000 FTEs with 600 parking spaces, all on 4.3 acres of land which was a cramped site. The Operations Center was a one-story building not suitable for vertical additions. The Company also owned a 35,000 RSF Records Warehouse in Central City, leased a 90,000 RSF Regional Center in Los Angeles having space for 360 FTEs. The Company also owned a small building in Chicago containing 25,000 RSF for its Chicago branch plus some space leased to another tenant.

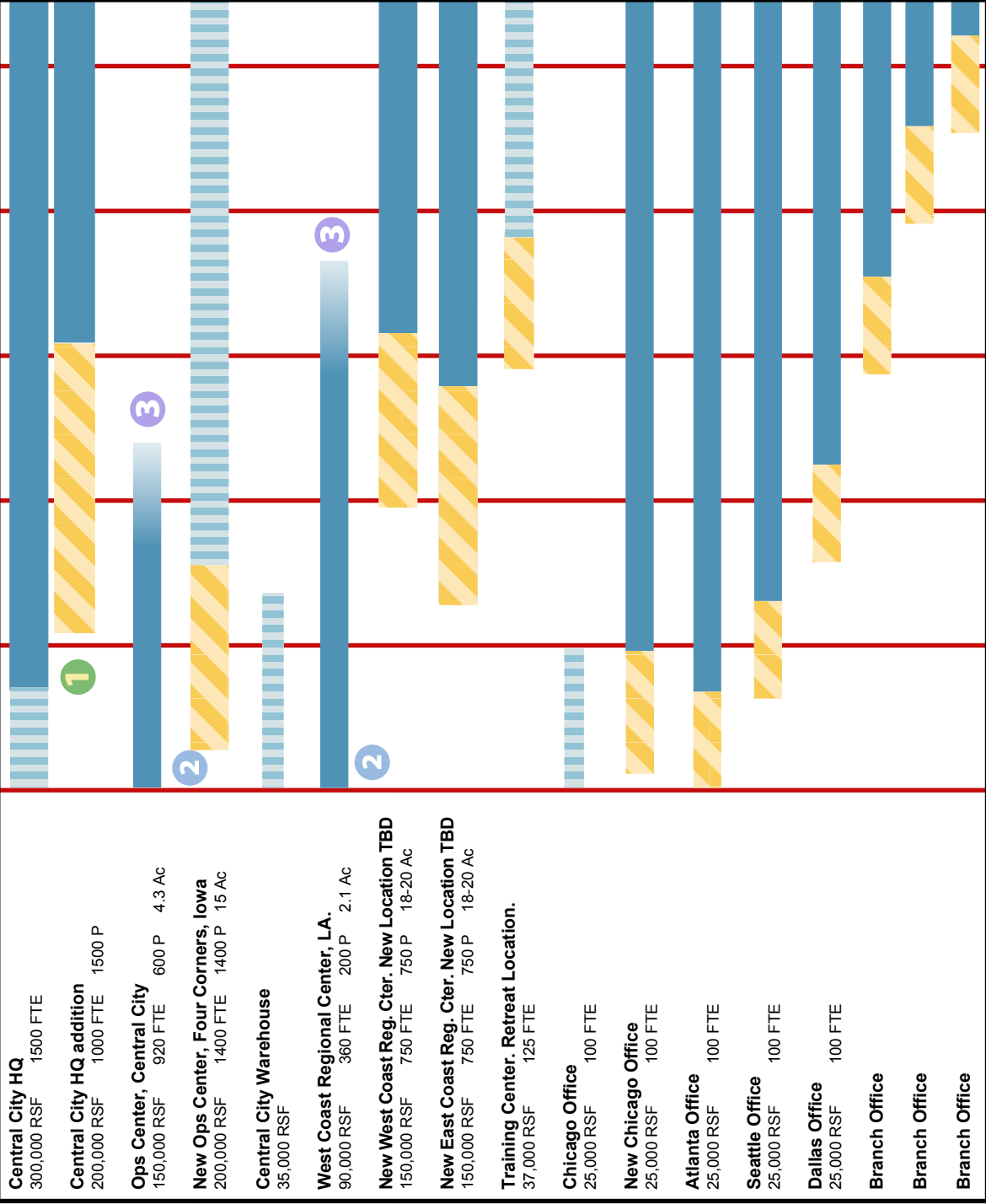
Some basic decisions that came out of the Company’s Strategic Facilities Planning process were as follows:

1. Generally move towards “off balance sheet” facilities and properties for both existing and future facilities, minimizing capital tied up in real estate. However, do so in such a way so as not to be constrained or in a poor negotiating situation when future expansions are needed in major leased facilities. Exceptions to lease-holding properties would be locations in weaker real estate markets where good financing for leaseholds might not be available, at least not at favorable rates, and where local authority revenue bond financing might be available. Extensive financial models were developed and studied. *These included analyses of the effect on the Company’s operating results and balance sheet. Also analyzed were the affect of owned properties versus leased properties as well as the pros and cons of acquiring future space needs in the Central City market with third-party leases, once the financial effect of a sale leaseback, including tax implications, studied in detail.*

# Graphic Outline Summary

2008 2009 2010 2011 2012

# 5-Year Strategic Facilities Plan



## LEGEND



Planning & Procurement



Owned



Leased



1 New lease to allow for additions built by company.



2 Negotiate 6 month lease renewal option.



3 Renewal option.

**RSF** Rentable Square Feet

**FTE** Workstation for Full Time Equivalent Employee

**P** Parking

**AC** Acre(s) of Land

2. Keep the Company's headquarters in Central City at the present location. *To reach this decision, the Company and its Strategic Facilities Planning consultant made a detailed study, department by department, of space needs as the Company was projected to grow, and of the future expansion possibilities and limitations of the existing site. (An earlier study for the Company by another consultant, had simply used projected growth in revenues to predict that the Company would run out of space at its present location in mid-2009 and should soon acquire 600,000 RSF of space to meet future needs, renting out the excess in the meantime under an agreement proposed by the consultant. It was recommended by the consultant that the Company sell the existing property and negotiate with a developer for a new headquarters building of 600,000 RSF on a build-to-suit lease basis. However, the new department-by-department study showed that growth in space needs for all departments would not be in direct relationship to revenue growth. In turn, it was seen that the existing 300,000 RSF would be sufficient through the year 2010 with some redo of workstations and space utilization and that the present site, with an addition by early 2010, would be sufficient for the Company's headquarters for the foreseeable future and beyond.)*
3. With increasingly higher labor costs and constant turnover in trained personnel in the Company's Operations Center in Central City, the decision was made to relocate this operation to another part of the country where there are lower labor costs for more dependable, readily trainable employees and lower cost of land so as to be able to afford enough land for sufficient parking and future expansion. The company would seek a location where low-cost revenue bond financing is available, but only so long as the location meets other criteria.
4. The Company plans to complete its move to redundant electronic records by mid-2009 so as to reduce its cost of accessing records. At that time the warehouse in Central City can be sold.
5. Sell the Chicago Property. *No one can remember why the founder bought it in the first place. It should be highly salable at a good price for up-market multi-family high-rise housing near Lakeshore Drive.*
6. For the Chicago Branch Office, as well as for future branch offices, adopt the policy of relatively short-term leases in multi-tenant buildings located near customers.

Other specifics of the plan, per the above decisions, were as follows and are illustrated in the Graphic Outline Summary.

- A. Immediately start planning the procurement of a leased branch office in Atlanta.
- B. Early 2008: Start planning for the procurement of a new leased branch office in a more appropriate location in Chicago and plan to sell the existing branch office property.

### *Other specifics of the plan (continued)*

- C. Mid-2008: Start the location analysis, site search, planning and procurement for the new Operations Center.
- D. Late 2008: Complete the sale and leaseback of the Company's headquarters building in Central City. The Company should write its own lease, incorporating all details of the lease, including a number of rights regarding future expansion, options to repurchase, options to renew, provisions on casualty insurance, etc. before going to the sale leaseback market. Probably plan on securitizing the lease and inviting proposals from low-cost-of-capital "Wall Street" or foreign investors.
- E. Late 2008: Start the planning and procurement process for a new branch office in Dallas.
- F. Late 2008: Move into the new Chicago branch office and complete the sale of the owned building in Chicago, probably having appointed a local commercial broker for the sale earlier in the year.
- G. Early 2009: Start the planning for an expansion of the Company's headquarters in Central City. The lease in the recently completed sale leaseback would have allowed for the Company to make these additions by its own direct selection of architects, engineers and contractor. The added investment, covering all related costs to the Company, would be funded under the lease package on a formula basis. An option under the lease would be a release of the land for the new building. Under this approach, the expansion would be built by the Company after making a payment to the lessor under an option stipulated in the sale-leaseback. This way, the Company can control the details of planning and construction of the expansion, get competition on the construction and get competition on terms and rates on the new sale-leaseback or build-to-suit lease for the expansion.