

# Getting the Most Out of Your Resources

Actions That Managers Should Take in Turbulent Times

Part 3 of 3



**Building**Engines  
Optimizing Property Performance

# Getting the Most Out of Your Resources

## Actions That Managers Should Take in Turbulent Times

<b>Executive Summary</b>	1
.....	
<b>Introduction</b>	2
.....	
<b>Hard Dollar vs Soft Dollar ROI</b>	3
<b>Benefits</b>	4
<b>Costs</b>	5
.....	
<b>Return on Investment</b>	6
<b>Example #1: Ownership</b>	6-7
<b>Example #2: ROI</b>	7-8
.....	
<b>How You Get There</b>	9
.....	

### About Building Engines

Building Engines is a web-based suite of integrated modules that provides owners and managers of any property type with a comprehensive solution for improving operations and workflow management.

Building Engines helps companies increase occupant satisfaction, manage assets more efficiently, and limit exposure to risk and liability while reducing costs and enhancing management visibility into operations.

**Advanced Technology. Superior Support. A Flexible Fit**



# Executive Summary

This white paper is the last in a three part series that focuses on the conditions created by the current economic crisis and the challenges and opportunities those conditions create for real estate owners & managers. This segment outlines the return on investment likely to result from the actions we suggest that owners & managers take and presents examples of successful programs.

Simply put, the contraction of the U.S. economy heralds a dismal performance for commercial real estate in the coming quarters. The current decline in GDP and plummeting consumer spending, when viewed in context with commercial real estate's traditional lag behind the national economy, will mean rough times for the industry in 2009 and 2010. Fortunately, that same lag provides owners and managers with the time to prepare for and to benefit from the coming industry sea change.

To take advantage of this sea change you first must **CAPTURE** performance data about the building and building management and determine how the current economic environment affects them. Then, you must assess that data, reach actionable conclusions from it, and then you must **ACT**. Without bold and decisive action, you may weaken your property's performance and see its value deteriorate. Finally, you must **MEASURE** the return your actions yield and then re-measure performance over time. The challenging conditions that real estate owners & managers face today require that they question their assumptions and embrace the tools and techniques necessary to stabilize, strengthen, and then grow their businesses.

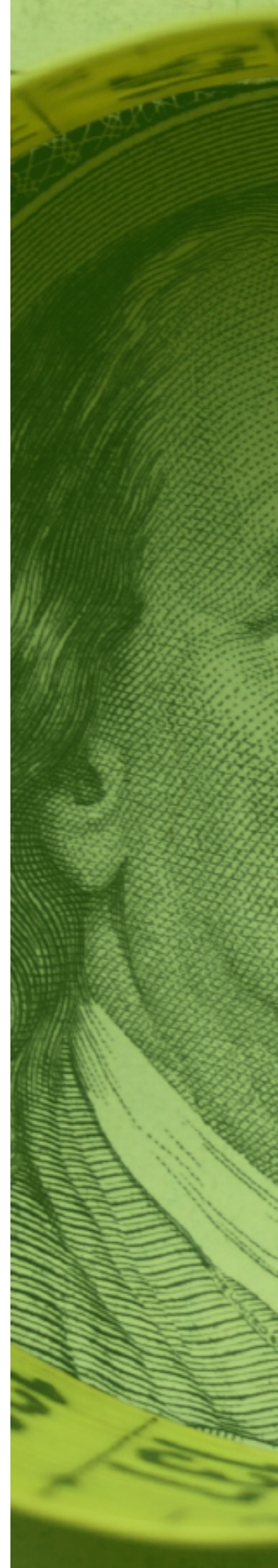
In this final segment, we illustrate how our suggested revenue creation and cost savings activities lead to increased effective rent, increased billable revenues, reduced overhead, fewer equipment repairs, and reduced liability resulting in lower insurance premiums.

Taking advantage of these new revenues and substantial savings opportunities requires that owners and managers to modernize their operations through proactive data collection and communications tools that deliver the visibility and information needed to make data-driven-decisions.

This paper's two real world examples that showcase how **CAPTURE**, **ACT**, & **MEASURE** can result in a tremendous return on investment.

We demonstrate how:

- An owner-manager experienced a **180% Return on Investment** by reducing overhead costs and improving operations.
- An owner-manager was able to achieve a **145% Return on Investment** by implementing a risk management program that dramatically decreased risk and liability insurance costs.



# Introduction

In white papers I and II we have reviewed and dissected the condition of the real estate marketplace and explored a number of near term actions that owners and manager must take to prepare for the challenges to come. You can only understand the effect of these actions if you have good data on how your properties and team are performing – better known as “visibility”.

Capturing accurate, timely data requires a system that is flexible, deep, easy-to-access and to use (by tenants, vendors, and management) and that can be easily configured to map to your workflows. Web Based Operations Management Systems (WBOM), are specifically designed to do this.

In the prior white papers in this series we suggested that owners and managers take the following activities to improve NOI and cash flow from their properties:

1. **Tenant Retention:** Improving tenant service through real time multi channel communication, rapid response to requests, and world class maintenance can have a significant impact on lease renewal rates and tenant churn. Reduced churn increases effective rents by reducing downtime and reduces money spent on tenant improvements and leasing commissions.
2. **Web-Based Marketing:** Giving each of your properties a strong web presence, with detailed information about amenities, location, and available space is essential to ensuring that each property attains maximum exposure in the marketplace. Your broker’s marketing program is not enough – you need to make available as much information as possible about your properties and through as many channels as you can leverage.
3. **Additional Revenue:** Property owners have only just begun to identify and respond to their tenants’ unmet needs. If you think of your tenants as customers and then begin to think of the services they would like, you may uncover additional revenue opportunities for services such as in-building wireless, dry cleaning delivery, and car wash & detailing.
4. **Increased Expense Recoveries:** Capture the billables that you are owed under lease terms through timely and more accurate data capture and real time billing.
5. **Energy Management:** Look hard at your energy usage. Determine if you have enough information about energy use within your portfolio buildings and, if you do not, put a system in place to monitor, measure, and react to out of threshold events and to take advantage of cost saving opportunities.
6. **Preventive Maintenance:** Develop an industry standard preventive maintenance program to extend the usable life of key pieces of equipment, reduce equipment repair costs (partially through capturing warranty obligations that you have paid for), and maintain higher uptimes on your equipment.
7. **Staffing:** Measure and assess your current resources and determine if they match your current portfolio needs. Look hard at all resource areas including personnel, contractors and, tenant/client requirements.
8. **Reduced Risk and Liability:** Put a system in place to help you manage risk-related events (Incident Tracking), to respond more rapidly when they occur (Incident Management), and to spread that risk over a wider set of responsible parties (COI tracking).
9. **Go Green:** Implement a systematic, incremental green program in your building. The costs savings and revenue increases can be significant. Green, after all, is a great marketing tool.

These steps do not advocate simple cost cutting and zero investment alone in order to preserve cash flow. On the contrary, you must invest for the long term health of your assets by prioritizing activities using each program’s return on investment (ROI).

In this, the final white paper – MEASURE – we detail a framework for analyzing the ROI of various programs.

# Hard Dollar vs. Soft Dollar ROI

ROI is typically divided into two categories: Hard Dollar and Soft Dollar.

## ***Hard Dollar:***

A hard-dollar benefit results in tangible dollar benefits to the user either in the form of increased revenues or actual, measurable dollars saved.

### ***Hard-dollar benefits include:***

- New revenue from previously uncollected billable service provision
- Savings resulting from reduced staffing
- Reduced capital expenditures

Strong ROI models typically derive the majority of their benefits from hard dollar savings.

## ***Soft Dollar:***

A soft dollar benefit is one that is less easy to quantify and that cannot be tied to measurable change in one or more of the line items of a property's budget.

### ***Soft dollar benefits include:***

- Increased productivity (without an actual staffing reduction)
- Increased usable asset life
- Increased customer satisfaction

Although they rarely provide an actual dollar benefit, soft-dollar benefits are critical to the ROI analysis because they impact other factors that may be important when evaluating whether to proceed with the investment.



# Hard Dollar vs. Soft Dollar ROI

## Benefits:

The following table details the hard & soft dollar benefits that should be evaluated when measuring the ROI of a new system or process for a property.

Sample Benefits	Type	Value	Benefit Description
Increased Effective Rents	HARD	HIGH	Effective rent can be increased through reduced tenant churn (higher retention). This can be quantified through an analysis of lease renewal rates before and after implementation of a system or process
Additional Revenue From New Sources	HARD	MED	This can be quantified by identifying specific tenant services appropriate for a property (e.g. valet, detailing) and using market rates for owner revenue from these sources that can be offered.
Increased Billables	HARD	HIGH	Improved billable service data capture will reduce lost billable revenue by as much as 10% per year. With an average of \$15 in tenant billable services spending per square foot per year, additional recovered revenue can be as high as \$1.50 per square foot per year, or \$150,000 per year in an average 100,000 square foot building.
Reduced Energy Consumption	HIGH	HIGH	Energy management savings can be easily quantified and therefore estimated for a specific property, using market data available from local utilities.
Reduced Insurance Premiums	HARD	HIGH	Improved data capture and more rapid response are the tenets of an effective risk and liability reduction practice. More data in the hands of the right people at the right time mean a more responsive program that leads to fewer legal or insurance claims. Fewer claims will result in reduced insurance premiums.
Reduced Head Count	HARD	HIGH	Improvements in process efficiencies result in reductions of staff necessary to service the property. Full time employees can be reassignment to understaffed areas within the organization which may be understaffed.
Reduced Errors	SOFT	MED	Fewer defects associated with established processes lead to less time correcting improperly performed work or repairing damage due to mistakes. Mistakes lead to inoperable equipment and more frequent repairs – all out-of-pocket expenses for any owner or manager.
Improved information	SOFT	MED	Improved decision-making that results from having access to timelier and/or more accurate information will lead to improved business results or productivity gains. Recognizing threats and opportunities results in direct dollar savings.
Increased Tenant Satisfaction	SOFT	MED	The direct effect on a property income statement of increased tenant satisfaction cannot be quantified, however it does drive effective rent.
Increased Employee Satisfaction	SOFT	MED	Team morale will improve considerably when the quantities of tedious repetitive tasks they undertake are reduced through a WBOMs platform. However, unless this results in material improvements in productivity, resulting in reduced headcount (above), this benefit cannot be accurately measured.

# Hard Dollar vs. Soft Dollar ROI

## Costs:

The following table details the hard & soft dollar costs that should be evaluated when measuring the ROI of a new system or process for a property.

Sample Costs	Type	Cost Description
Software Costs	HARD	The direct costs of licensing software, whether the software program is purchased from a vendor or developed in-house by using internal or consulting resources. These costs are often the largest expenses incurred for any software investment and can be one time (perpetual license) or ongoing (SaaS).
Deployment	HARD	Implementation service costs include the professional services associated with deploying software. Examples include the costs of consultants, who typically charge for their time on an hourly rate for software implementation. Depending on the complexity of the software, these costs can come near to, or even exceed, the annual cost of the software.
Training	SOFT	These costs include software training for end users, technical administrators, and help desk employees.
Training Time	SOFT	Time spent by staffing being trained on the new system
Hardware	HARD	The direct cost of additional hardware purchased specifically to support the system being evaluated.
Hardware	SOFT	The indirect cost of the burden of the system being evaluated on the user's current hardware set up.

# Return on Investment

Using the data identified in the prior section, the ROI of a system or process is calculated by using the following formula:

$$(Hard-Dollar \& \text{ Soft-Dollar Return} - \text{Total Cost of Ownership}) = \text{Return} \div \text{Cost} = \text{ROI}$$

## Example #1: Ownership

In order to illustrate the application of this formula, we detail two real-world examples (below) wherein the owner-manager employed some or all of the revenue creation and cost reduction steps outlined in the introduction.

This Building Engines client manages a regional commercial real estate portfolio of nine assets within a defined geographic region, with a total of 1.65 MM SF. Two types of employees manage the property. First, there are as many as six “overhead” employees who are employed by the management company with a percentage of their time dedicated to each asset annually. The cost of these employees is factored into the per square management fee charged by the management company to the owner. Second, there are as many as 24 “pass through” employees who work at the direction of the management company, but are paid for entirely through reimbursement by the owner to the management company. The number of required “pass-through” employees is generally set at the beginning of each fiscal year at the direction of the owner.

### Year to Year Change From 2005 to 2006

After deploying Building Engines over the nine asset portfolio, the client experienced a 2006 increase in annual revenues of over \$160,000 which includes increases in service revenue collected, minor increases in rent per square foot in a few tenant spaces, and no changes in occupancy. Over the same period, the management company also reduced its overhead staff by a factor of 0.6 employees and reduced its overall pass-through staff by one full-time employee.

With an average “overhead” employee salaried rate of \$98,000 per year and an average “pass-through” employee salaried rate of \$60,000 per year, the client experienced a total annual “hard-dollar” benefit of approximately \$279,000 over 2006 (\$160,000+\$60,000+\$59,000). Applying a very aggressive 75% reduction to the hard-dollar value of these benefits to account for any increases in rent and any annual variances, we measured the total benefits attributable to the use of Building Engines WBOM.

This calculation resulted in an overall 2006 “hard-dollar” benefit attributable to the Building Engines system of \$69,750.

## Return on Investment

To complete the ROI analysis, we calculated the total cost of ownership of the Building Engines system to the client over 2006. In 2006, the cost to the client for provision of the Building Engines system averaged \$1.5 cents per square foot per year. This number accounts for all licensed access to the system, all training and support provided by Building Engines to the buildings, as well as any and all billable services associated with increased training or functionality.

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Hence the total cost of ownership of the system to the Building Engines client in 2006 was \$24,846 (\$1.5 cents x 1,657,040 square feet). Applying the total benefits provided by the system to the total cost of ownership of the system results in a Total Annual Hard-Dollar Return on Investment in 2006 of 180%.

$$\text{\$69,750 (Benefit) - \$24,846 (Cost) = \$44,904 (Return)} \quad \text{44,904 (Return) } \div \text{ \$24,846 (Cost) = 180\% (ROI)}$$

## Example #2: Return On Investment

This Building Engines client manages a substantial real estate portfolio with over 60 buildings comprising 23 MM SF of commercial office space throughout the United States and abroad. The client is a real estate investment firm with a skilled team of real estate professionals experienced in acquisitions and dispositions, asset management, development, finance and accounting. The portfolio is comprised primarily of Class A metro and downtown office properties, all of which contain high-end tenants with significant exposure to risk and liability. One of their funds is the largest office-focused private equity fund in the world.

The client's buildings experienced a series of incidents and events that resulted in numerous insurance claims (some serious) including elevator entrapments, slips and falls, damage caused by leaks, tenant-related construction, and personal injury claims. The client needed a comprehensive and responsive system for managing risks through controlled visitation, incident tracking, certificate of insurance tracking, coordinated communications and response, emergency planning, fire and life safety planning, and document management.

### Year to Year Changes From 2003 to 2008

After deploying Building Engines' WBOM across its entire portfolio and coordinating the system with its outsourced risk and liability reduction expert and public relations partner (the coordinated Building Engines program is called Vigilance™), the client gained immediate visibility into its everyday building management activities. Data gathering, communications and incident control improved dramatically.

Beginning In 2005, the client implemented the Vigilance program and put in place management controls that integrated the 3-company team's work flows with a proactive communication, documentation, and notification tool. The goal: to rapidly respond, document, and manage any situation that may result in a claim as well enable managers to make proactive decisions to prevent incidents from occurring.

By 2007, slip and fall incidents within one of their largest assets alone experienced a decrease of 98% from the previous year. On a portfolio wide basis, Vigilance helped the client reduce their incident related costs per 1,000 sq/ft from \$30.65 to \$2.42, a reduction of 92%, over a five year period. As a result they experienced a 17% drop in their premium for buildings higher than 25 stories, a 55% reduction for buildings below 25 stories, and a 13% reduction in excess contingent liability.

Insurance costs associated with federally required Terrorist Risk Insurance Act (TRIA) were so low that the insurer eliminated TRIA as a separate line item and included it in the 08-09 premiums. In addition, having already achieved a very strong 92% score from their insurer, our client was able to improve their score to 96% – earning them the prestigious Gold Award.

*(continued)*

# Return on Investment

## Return on Investment

The ROI analysis is equally compelling with a savings of several million dollars in incident-related costs over the life of the asset. The Vigilance system paid for itself very quickly. The total projected incident-related cost for 23 million square feet was nearly \$705,000 annually.

After the application of the Vigilance system, those costs dropped precipitously to approximately \$56,000 annually – a savings of approximately \$650,000 per year. The total cost of ownership for the Vigilance system, including the overall license fee and attendant training and support services was approximately \$264,000. We then subtracted the annual cost of ownership from the total annual savings to arrive at a total return of nearly \$385,000 per year.

Dividing the total annual savings by the total cost of ownership, we arrived at an annual overall per annum return on investment \$145%.

(\$705,950	\$55,660,500)	= (\$649,290	\$264,500)	= \$384,790	>> \$145 %
Total projected insurance cost before Vigilance	Total projected insurance cost after Vigilance	Total Savings	Total Cost of WBOM	Total Return	Total ROI per annum



# How You Get There

Improved communications, more accurate data tracking, and more consistent processes are critical to improving tenant service and building operations. Using a Web Based Operations Management system (WBOM) enables building owners & managers to take advantage of the web and allows tenants, managers and vendors to communicate in real time through a variety of channels. WBOM also enable the management team to set up consistent work flows and procedures, track and store key documents, and standardize request and maintenance procedures – all resulting in greater efficiency.

With a WBOM Solution, an organization will:

- Retain current tenants by providing world class services, increasing customer satisfaction, and making your site “sticky” and more competitive. This will reduce vacancy rates and churn – thus raising effective rents,
- Aggressively market its buildings using the web by making information accessible to potential tenants through a powerful channel – the Internet – that has become indispensable,
- Increase additional revenue by identifying and providing tenants the “extras” that they desire,
- Increase revenue by tracking and collecting on all billable services,
- Lower operating expenses by driving down energy, maintenance and insurance costs,
- Reduce potential loss, risk and actual liability with more responsive data gathering tools coupled with better notification and event management procedures, and
- Reduce capital expenditures by implementing a proven preventive maintenance program.

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