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## THE LOCATION ADVISOR

April 2007

**HOW  
NOT  
TO  
BUY  
HIGH  
AND  
SELL  
LOW**

The CEO and founder of one of the world's most prominent corporate real estate advisory firms gives his advice on how to successfully execute your next move.

William W. Goade, CEO  
CRESA Partners LLC

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- Ask the Expert
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# HOW NOT TO BUY HIGH AND SELL LOW

**The founder and chief executive officer of one of the world's largest corporate real estate advisory firms shares his advice on how to successfully execute your next move.**

Those of you who have undertaken a major relocation or expansion (or are entertaining the thought) are fully aware of the potential trials and tribulations. Perhaps some of you have learned the hard way that working with a series of vendors—managers, architects, constructors, brokers, etc.—can be complicated to orchestrate successfully. Many companies, large and small, are unable to organize and schedule such an undertaking. Frequently, those companies turn to a real estate advisor to

assist with all aspects of relocation and expansion.

For our third annual corporate real estate executive interview, we are pleased to bring you the CEO of one of the largest names in the business. CRESA Partners LLC is an international corporate real estate advisory firm that exclusively represents tenants and end users. CRESA specializes in the delivery of fully integrated real estate services, including strategic planning, site selection and incentives, transaction services, dispositions, project management, relocation planning and management,

portfolio/lease administration, capital market expertise, and facility management. Globally, through an alliance with Atisreal, CRESA Partners is part of the fifth-largest commercial real estate group in the world.

Bill Goade is a founding principle and CEO of CRESA. He has served as chairman and managing partner since the company's inception in 1985. He has more than 25 years of real estate experience, and earned a B.A. from Tufts and an MBA in finance from Wharton School at the University of Pennsylvania.

We spoke with Bill about corporate real estate strategy, global trends, choosing an advisor, and running a successful business.

**Business Facilities:** What do the most successful companies do with regard to their real estate strategy and planning?

**Bill Goade:** Let me tell you what most of them do poorly, and then let me tell you what they should do. Most companies acquire real estate at the height of the market because in the business strategy, if you think about it logically, most companies are successful when the economy is booming, and they are expanding and hiring and making plans to hire people, so they acquire real estate—whether they purchase it or build it or in most cases, lease it. That also happens to be the time when it's most expensive to do so. Then if a recession comes, they try to get rid of the real estate—whether they try to sell it or sub-lease it—because their plans are to cut cost to match it. Now, they're getting rid of real estate at the bottom of the market. Historically, that's been the problem.

What some companies do well—the ones who think about it as a more strategic base—is lock up their core real estate assets, either through long-term leases or through ownership. They will use shorter-term leases on real estate assets that are not strategic assets or long-term commitments.

When the down-turn comes, they only have short-term commitments on some leases, which they can then let terminate. And that is how they can effectively down-size, instead of subleasing and trying to buy out of those. At the same time, through the long-term leases or ownership, they have effectively capped their costs for increases as the market increases

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because they've done this long-term commitment that just stays out of the ebb and flow of real estate. Long-term commitment also allows them to amortize over a longer period the tenant improvements of those kinds of investments that they're making in the space.

The companies that really do well think about it strategically. They realize that real estate is never going to go away. They're always going to need some of it.

They figure out what they need and then they staff that with long-term objectives and long-term leases and ownership. Then they manage the incremental.

**BF:** When choosing location, how important is the tax incentive analysis component?

**Goade:** One of the services that we do is site selection and incentive negotiations, and those are typically for either manufacturing or call-center type operations where the people can be located almost anywhere. Sometimes they will locate worldwide, but typically for our clients it's in North America.

The decision is driven by three main factors: it's labor, first of all; it's incentives, second of all; and real estate third. Real estate is really the least important component of those three because the labor, by a factor of at least 10, is more important than the real estate as far as the cost. If you can cut labor by 10% by moving somewhere else, or get more incentives by moving somewhere else, it overshadows most of the real estate costs. And by the way, where the labor's cheap, the real estate is usually cheap too.

**BF:** In what geographic region, both, nationally and internationally, do you forecast a lot of corporate real estate growth?

**Goade:** The major business centers are still going to continue

to grow and max out. But, what happens is that in places like New York, Boston and the traditional centers, the supply increases are relatively capped—that is, it takes a long time for a tower to get built in New York and almost as long to do it in Boston, so the rents start to escalate. They escalate to the point where people say ‘if I don’t have to be in New York, I’ll do something else.’ And so what happens is, they go to New Jersey or they go to Long Island, the growth spills outward the same way that it always has. It spills out from the finance centers and goes to the suburban centers. Right now we’re seeing that in New York where the rents have really escalated dramatically.

For the back-room offices, they don’t even go to places like Massachusetts or New Jersey or the low-priced suburbs. They go to places like Kalispell, MT. Nova Scotia’s been huge in all the data center and call center operations. It is those kinds of places where the cost of living is low and where you can get a qualified work force. A lot of the Midwest will benefit from that.

Some of the imbalance that has occurred in the cost of living is going to start to cause companies to look at places to grow other than the two coasts. Growth in Silicon Valley, Los Angeles, San Diego, Boston, New York, and Washington DC is somewhat capped by the supply and the cost of living. So, we’ve come back

from the 15% vacancies that we’ve had in almost all those markets, back down to single digits—on its way to 5%. And it pushes the rent so quickly because there is no supply created. Now people are starting to think, ‘well, if I’m going to expand, it’s not going to be in downtown New York, it’s going to be somewhere else.’ Sometimes they’ll come to us and say, “Well you tell me where it should be.” They’ll give us what they’re looking for in terms of job education and training, and we’ll come up with a list of locations that they might want to consider. They want places where the labor is cheaper. Among these locations the incentives are competitive.

**BF:** Do you forecast any changes in the way that growing companies will be looking at their expansion or relocation strategies now and in the future?

**Goade:** More companies will look at headquarter functions going to non-traditional places. I also think there has been a cyclical move towards outsourcing, and in some cases the very big companies are looking at 100% outsourcing. And I think what you’ll see is some of that coming back to the middle. That is, that companies will be more modest in their outsourcing.

When companies try to outsource in the real estate sector, say, on a worldwide basis to one vendor to do facilities real estate construction, and lease adminis-

tration, they lose control of their portfolio and they become captive to the vendor.

The vendor ends up making some mistakes, or churns the account with account managers and the client is the one who ends up paying for it. We see most companies pulling back a little bit and keeping some things in-house. So either they end up paying for it by increased fees or they end up paying for it by mistakes. We are starting to see the pendulum start to come back the other way. We see less outsourcing as opposed to more.

**BF:** What are your customers demanding today that perhaps our readers should be asking themselves? Are the companies looking at real estate in new ways in terms of their balance sheets?

**Goade:** The bigger companies are looking at things like bondable leases—it’s sort of a new synthetic lease. It’s a way to use the company’s credit to do real estate and get the company’s marginal interest rate as an interest rate as opposed to a real estate loan, which is typically at a higher interest rate.

Companies that are being creative are looking at that capital market’s ability to pay rent at, in many cases, 30% and 40% lower than if they did traditional financing, and that is available to all the top-credit and even to the medium-credit public companies.

So, we see some clients taking advantage of that. In some cases that's selling the asset and doing these low long-term lease-backs, and in some cases it is working with a third party to actually do a joint venture where the company actually helps bring in the financing element.

**BF:** What advice would you give an executive undertaking his first relocation or expansion project? In your experience, what precautions and courses of action lead to the best outcome?

**Goade:** First of all, they shouldn't try to do it themselves. Some companies try to figure out the location strategy themselves. They're only doing it once every five, 10, or 20 years.

The biggest mistake is lack of timing. Corporate real estate advisors work on contingency fees for the most part, so hiring one might not actually cost them anything. And they're able to get ahead of the curve, plan it, and then deliver the premises on time and on budget. This is because they've allowed all of the alternatives to be considered.

When companies do not engage the process early, and get to the place where they need to deliver the premises within a few months, then all options are almost eliminated. Therefore they're going to spend the most money rent-wise; they're going to spend the most money tenant-improvement-wise because they're

going to have to pay premiums and overtime to get it built. And their people are going to be disrupted because they're not going to be able to plan a phased move or a phased implementation plans. That is really the biggest mistake.

The most successful companies plan their real estate and integrate that real estate with the business

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plan.

What we often see is the proactive real estate groups get to the business plan leaders and CFOs of the divisions and try to figure out what the business plans are for not only the next 12 months but further, and then they try to match the real estate to hit that, and they do that proactively.

The least successful companies are sitting there as an order-taker waiting for somebody to say 'I need to move' or 'I need space' and 'we're going need to expand by 100,000 square feet in this marketplace and I need it up-and-running in five months to hit this contract.'

**BF:** How should our readers choose which corporate real

estate advisory firm to work with?

**Goade:** I would say that you have to pick somebody with experience and somebody that's been through the ups and downs of getting space delivered, and I think that client testimonials are the best ways to check on somebody. Go ahead and call some of the client references.

Hire somebody who has been there, done that, and hire somebody that you can trust. And if you have any doubt, that's probably not the person you should be hiring.

**BF:** You founded Avalon in 1985 as a one-broker operation, and, with your partners, have transformed it into a global firm. What is the story of your success?

**Goade:** I quickly realized that Avalon as a one-person shop wasn't going to be too successful. I brought five senior partners who started around 1990. We were doing work all over the country at that time. We were approached by a lot of the national firms and a lot of the networks, and I came to the conclusion that we did our work in a little bit of a different fashion. We were a little more corporate-advisory fashion than what I was seeing out there. We already had an affiliation with five or six firms around the country that we liked, so why didn't we just do it? So in 1993 and 1994 we created this affiliation of partners.

In our first year, 1994, we had

six offices and our total revenue between the six offices was \$6 million. By 1998 we had grown to about 40 offices, and that's when we did that actual merger of CRESA Partners and gave up our individual names like Avalon Partners. Today we're still in about the 44 total offices doing about \$150 million. So, we've gone from \$6 million to \$150 million. We have international offices of our own in India and China. The partnership with Atisreal puts us at 125 cities roughly and that's growing, so it's probably about 135. We have about 2600 employees in our company.

It's been a nice ride and has been very gratifying. The thing

that I always leave our partners with—and this was from my Wharton Business School days—one of my professors told me that a good business is one that is ethical, enjoyable, and economical. And that's what I've always kept in mind.

The first thing we try to instill is for everybody to do the right thing. Have some fun doing it, because you spend an awful lot of time working, you don't want to be miserable. We actually try to find clients we like working with as well as people we like working with. And we like to make some money along the way as well. If you do those three things, you'll have a successful business.

When we go and pitch a small or medium sized tenant, we say that we're looking to grow with you. We may take your account now and not make much money, but we hope that you're going to grow, and become one of our loyal clients.

I also want to expand on my indebtedness to all of my partners. In the beginning, I quickly realized that owning 100% of nothing was still nothing.

I sought and found the best partners I could find (first in Boston and then nationally) and we fairly spread the equity around. Our success is entirely due to the input of all of our great partners and I do not want more credit than I deserve. ■