



White Paper

Maximizing Asset Potential through Operational Excellence and Strategic Partnerships

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Commercial real estate is a challenging and competitive industry continuously changing as the economic and political landscape fluctuates. In this complex environment, real estate owners need solutions that provide an edge over their competition. One way to get it is to utilize vendors and suppliers as a resource — and to view what they provide as more than just a commodity.

The key for owners is to understand how appropriately working with vendors and suppliers will positively impact asset potential and ultimately, business outcomes.

While there seems to be a lot of focus solely on increasing the market value of an asset, an equal amount of real focus should be on increasing the potential of the building, which has a positive impact on business outcomes.

What is asset potential?

Improving the operational conditions of a building is the place to start for reaching true potential. The best performing assets are the result of doing common things uncommonly well. Asset potential can take many forms, including:

- First-rate market perception or brand of the asset
- Reliable financial performance
- Improved tenant occupancy
- Enhanced ability to command higher market rental rates
- Significantly increased returns

Asset potential is rarely increased or realized by accident. Positive outcomes are almost always due to a deliberate desire to improve beyond the status quo. Conversely, maintaining the status quo will not always produce desirable results.

Most of the time, simply maintaining a building in its current state will lead to a decrease in asset potential because nothing in commercial real estate is stagnant. The real estate industry — like many things — is dynamic. Simply maintaining the current condition of a property without considering the dynamics of the market will not continue to make it as attractive or competitive as it needs to be.

Who cares?

Maximizing asset potential provides numerous benefits that affect the various parties involved.

Building owners: Properties are investments and owners want values and net operating incomes to increase. Increasing building potential is more than just increasing the cash flow. Operational excellence should have independent positive impacts on the valuation of the property through progressive development and maintenance of the property as an investment engine over the long term.

Tenants: Tenants expect a building to provide an environment that allows them to conduct commerce in the most efficient and effective manner possible. Therefore, it's important to have building operational costs as low as they can be without negatively impacting building services and functions. Even in vacant spaces, it's important to implement solutions that keep operating expenses under control because the owner becomes a tenant when the space is vacant.

Property managers: Property managers should strive to help other stakeholders realize the positive outcomes from their association with the asset. By providing a stable environment with low operating costs, property managers will effectively attract and keep the best tenants. Increasing tenant occupancy should lead to greater profitability and success for the building, demonstrating the value of the property manager.

These three key roles all have a significant impact on asset potential. The pivotal role is the property manager, as they balance the interests of the owner and the tenant. Property managers act as advisors so owners can make good decisions and help tenants see the value the building provides them.

Making it happen

The 2015 Building Owners and Managers Association (BOMA) Office Experience Exchange Report, or Office EER, indicates that while total rental income rose by an average of 5.3 percent per square foot in 2014, total operating expenses outpaced this growth rate, increasing by an average of 6.1 percent per square foot.

If this trend continues, it will become more challenging to increase the asset potential while trying to determine how to create lower operational costs and drive a positive change in the value to the marketplace. There are numerous tactics that can help, and vendors and service providers can be a valuable resource in solving the problem.

The first step is to find vendors and service providers that will participate as strategic partners to help clarify the focus and goals for the process. Building owners and property managers do not have all the answers. Those that think they do are typically relegated to the position of playing catch-up to those who know better. Value is not created entirely with independent knowledge and expertise, making it critical to find a partner or partners that can help find creative data-driven solutions.

When selecting a strategic partner or aligning with vendors, consultants or contractors, it is important to ensure they have the right tools at their disposal — and the right people to implement them. Rarely is it true that the most value in a strategic partnership is determined solely by the partner company. Here are some key concepts to consider in choosing a partner:

- A highly motivated local presence
- Ready to do business
- Solution oriented
- Innovative thinking

- Responsive and collaborative implementation
- Invested in project success
- Long-term project interest
- Fluent in the language of commercial real estate economics and business environment

The right strategic partner not only brings well thought-out solutions to the table, they also help formulate a strategic plan for operational excellence over an extended period of time. The journey is ongoing and constantly evolving, so the plan to maximize asset potential must be living and dynamic.

A successful strategy is based on data. The right strategic partner can help identify and capture the data needed to make decisions. Data is fundamental in identifying areas of performance that can be improved and is crucial in verifying the progress made after implementation. Data sources are many and varied, and can come from building systems and equipment or simple observation. Better data plus the intelligence of the people in the partnership will equal better analysis.

Analysis helps identify how well the building is currently performing, where it should be performing, the “low hanging fruit” that can be easily addressed to improve performance and additional steps and solutions that will enhance performance beyond expectations over time. The right mix of motivated operational staff and vendor or contractor partnerships combined with the right operating procedures can help make the “low hanging fruit” hang even lower, making operational fixes easier to spot so more can be found. Once these deficiencies are fixed it may be a matter of investing in capital improvements.

When considering an operational process, capital investment or initiative, it’s important to consider the benefits it will create. Benefits from strategic partnerships can be financial or non-financial in nature. For example, earning Leadership in Energy & Environmental Design (LEED) certification for a building doesn’t always directly impact the financial performance of a building, but it can lead to better market perception of the property and subsequently lower vacancy rates. Another example is an energy-related investment. Such an investment can reduce the asset’s operating expenditures. Depending on the tenant leasing structure and current operating conditions, the building owner may not directly reap all of the financial benefits.

Another practical benefit is that the partners who are truly engaged with the objectives of the business will help prioritize the low- and not-so-low hanging fruit. Instead of the property manager developing a common solution internally and asking a vendor for a price, consider asking a partner to provide information on which improvements will create the most potential and work to develop a long-range plan that is inclusive of their expertise.

Understanding where the benefits of a project will fall around the “benefit line” — who will reap the rewards from the improvements — can help to prioritize different initiatives and re-frame how to approach implementation or gaining approval. Based on the goals and business needs of the initiative, a strategic partner can help identify where the benefit line is located. Who will benefit the most can be an unbalanced mix between owner, tenant and property manager. Knowing what the balance is helps determine how to prioritize and sell the improvements to internal and external stakeholders.

These steps lead to implementation of the strategic plan. If the plan is like the recipe and data analysis is like the ingredients, then implementation is like the cooking process. Successful implementation requires patience and a willingness to give the solutions time to work. It takes intentional review and constant analysis to ensure the improvements are achieving the desired impact on the asset value.

Outcomes that impact the bottom line

Once the data-driven solutions for building improvements are fully implemented and measured against

operational expectations over time, positive impacts to operational business outcomes should be realized. Some of the expected results from these actions include:

- A potential for improved asset value
- Lower overall operating costs
- Higher tenant satisfaction and increased tenant demand
- The potential for higher market rent rates
- Operational economic stability, due to the ability to better project future economic performance for steady growth
- Higher performing assets

These results can provide greater efficiency, reduced operational costs and better comfort and productivity for tenants. They also make it easier for property managers to lease, maintain and potentially increase demand for the space. Lastly, the results allow a property to be more valuable when it's time to lease or sell — increasing the asset potential, which is important to building owners. All of these business outcomes are easier to achieve when a knowledgeable, motivated vendor or service provider is involved.

A real-world example

Using these tactics, Cushman Wakefield Commercial Advisors, a real estate management firm in Memphis, increased operational productivity and discovered building efficiencies in a commercial office building in downtown Memphis.

Working with Trane, a leading global provider of indoor comfort solutions and services and a brand of Ingersoll Rand, as a strategic partner, Commercial Advisors reduced utility costs in the building by nearly 45 percent as compared to the budgeted expenses for the current increased occupant levels. In addition, the management firm saw:

- Time spent on tasks such as scheduling and troubleshooting occupant calls were reduced by over 80 percent, compared with the previous building automation system and operational procedures in place.
- The management staff saw a 66 percent reduction in hot and cold complaints from building occupants — despite an increase in the building occupancy.
- Time spent remediating each hot and cold complaint (measured by minutes spent on the building automation system) was reduced by 83 percent.
- Through proper data analysis and procedural discipline, automation of the heating, ventilation and air conditioning (HVAC) system was allowed to stabilize, reducing the need to manually override the building automation system for comfort reasons.

Because of the partnership with Trane, Commercial Advisors building management staff has more time to focus on the tenants. Creating a better tenant experience paid off. Within one year of implementing the partnership, the occupancy rate increased from 30 percent full to 70 percent full. The partnership also helped management complete the building commissioning requirement for LEED certification, resulting in the property receiving LEED Gold status. The 43-year-old building is the largest single LEED-certified office building in the Memphis area.

Commercial Advisors and Trane also worked together on an analysis of the building's HVAC systems. The analysis found that the previous configuration was sometimes discharging more than 150 tons of cool conditioned air outside of the building during summer months. Resolving this problem helped improve building efficiency and reduce operational costs.

In addition, updated building controls provide better system visibility. Commercial Advisors has mobile access to real-time data and receives alerts of abnormal building conditions, which results in faster response times to system failures. The enhanced visibility and monitoring allows for better analysis and application of the data, leading to better decisions that improve asset potential.

The progressive approach to managing the property also provided Commercial Advisors with the ability to rebuild an existing chiller in the facility and extend the factory-backed equipment warranty as part of a normal operational maintenance contract. Commercial Advisors was able to take a building asset that is more than 40 years old and provide assurance that the chiller will continue to be reliable for years to come. Reducing the risk of unplanned failures and repairs further stabilized the operating expenses, since unplanned equipment failures can adversely affect tenants and add unexpected operational costs.

Consider asset potential in a different way

Every building has potential to be better. The question that should be constantly asked is, “what is being done to maximize it?”

Day-to-day building management tasks can have a significant impact on the larger equation of asset potential. One task is to constantly look for ways to improve the asset’s potential. It’s important to recognize that while the lowest priced solution is a fine option for some situations, there are times that call for an alternative. Considering a strategic partner relationship to help develop longer-term options can yield positive results.

The process for improving asset potential is not a destination, but rather an ongoing journey that requires planning and validation. A sign of good management is a willingness to look to vendors who are subject experts to be potential strategic partners. Rather than viewing them as a supplier of just another commoditized service, go beyond what is expected to engage with them as a strategic partner to find better solutions to operational improvement problems.

Asset potential is never guaranteed — it must be sought. Taking the time to think about asset potential in this way can result in solutions and actions that maximize a building’s value.

About the Authors

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Chancey attended Bob Jones University, holds the Real Property Administrator designation from BOMI, and attended The Harvard School of Design's Emerging Leaders in Real Estate Program in 2006.

Jason Kiper, is the leader of Trane Building Advantage at Trane and has more than 10 years of experience in the HVAC industry, where he has focused on energy conservation and energy management systems. He started with Trane in Kentucky and has served numerous rolls within the organization. He previously worked in St. Paul, Minnesota for the Trane Automation & Controls Expert Services (ACES) group, where he supported the contracting controls businesses for all Trane commercial offices in North America.



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