

# Research paper on how proper management of real estate can lead to improved produ...

[Business](#), [Management](#)



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## **Executive Summary**

Real estate management has traditionally played a major, albeit little appreciated, role in all organisations. With escalating real estate prices in most world economies, the role played by this department should be even more pronounced. This should be especially so in light of the fact that but for personnel, no other factor is costlier than real estate. From the aforesaid, it is a cinch that proper management of real estate with a view to reducing costs can and should lead to significant reduction of operating costs of a firm.

Non-profit organisations are especially under pressure owing to their unique sources of revenue. Donors in particular want to see their money directed to such causes as defined by the non-profit's mission and objectives and would immediately withdraw their funding should it emerge that much of the company's funds are channeled towards such operating costs as real estate

costs. There is therefore the need to lower costs by reducing vacancy ratios and planning well to avoid unnecessarily costly projects. There is need to hire real estate professionals to guide the non-profits in this regard.

This paper attempts to explain the cost benefits that would accrue should a non-profit embrace proactive real estate management. The paper claims that the benefits would not only be in the obvious front of reducing costs but also indirectly in form of streamlining personnel and boosting donor confidence with the end result that more funds will be available to help the organisation meet its targets. As a result of this, the much needed public goodwill will be won making the non-profit realize its mission much easily.

## **Introduction**

Whatever the nature of their business and wherever they are located, two competing interests face organisations the world over. The one is the need to acquire assets while the other is the need to lower costs. Acquisition of proper assets facilitates proper execution of business while also improving comfort in the workplace. However, extra costs have to be incurred in this acquisition. This is clearly an anathema as it negates the need to lower costs (Roper, 2001). As I have already mentioned, this challenge affects all organisations – whether profit or not-for-profit oriented. “ It is especially pronounced in such high spending departments as real estate management” (Radido, 2005).

Real estate forms a large proportion of a business unit’s assets. Whether leased or owned by the organization, real estate forms the second largest cost for any business establishment, surpassed only by personnel costs. It

follows that shrewd real estate management can be a boon for any firm (Gary et al., 2004). Properly managed, a firm can easily meet the often elusive goal of minimizing costs thus making a major impact on its revenue. This is especially true for non-profit organisations (referred to herein as NPOs) whose board of directors is often under pressure to effect policies that realize lower costs. Thus “ real estate management should be a key agenda in NPO’s decision making” (Josh, 2011). Since NPOs often face the unique issues as regards decision-making, space configuration, funding and budgets, it is imperative that real estate professionals take approaches that are tailored to meeting these unique challenges. Their decisions must be made with the aim of increasing productivity and adding value to the firm. To be successful in this regard, proper planning is paramount.

## **Revenue Collection by Non-Profits**

Non-profits are formed with certain social objectives and vision in mind. Most offer social services with a view to empowering the vulnerable. They work with minorities, the disabled, offer educational opportunities to the young and offer healthcare services and facilities for the vulnerable groups.

Achieving the social mission is ever the sole objective as opposed to making profits. In order to effectively discuss the role of real estate management in reducing and improving the effectiveness of non-profits, it is important that we first understand the sources of revenue for non-profits and their attendant constraints on spending. Non-profits have numerous sources of funding, some of which are enumerated hereunder. They include (Eliza,

1997):

i. Grants

ii. Donations

iii. Providing volunteers

iv. Selling products

v. Rendering Services

vi. Training on such areas as effective leadership skills

For these reasons, non-profit corporation ought to manage spending in such revenue guzzlers as personnel and real estate management departments.

## **Non-Profits and Real Estate Management**

Just like for-profit organisations, non-profit corporations inevitably have real estate requirements. They need to house their staff and equipment and to carry out their operations. However, by the very nature of their operations, NPOs usually have unique real estate needs as their space configuration requirements are usually vast and sometimes bizarre. NPOs may need conference halls and large meeting rooms which are expensive. They may also, out of necessity, require numerous branches in remote locations which, again, present major challenges as regards cost. For reasons already advanced elsewhere in this report, it is imperative that real estate be prudently managed by these NPOs. As with all areas of operations, effective management of real estate demands the services of a professional with

proper understanding of the unique needs of NPOs. It needs planning so that the current and future needs of the NPO are anticipated and proper measures put in place to alleviate or mitigate any adverse effects.

To effectively manage real estate, NPO's management ought to make certain decisions to that end. The management ought to (Frank, 2008):

- i. Make a decision on whether possession of real estate should be by leasehold or rental. This decision should be informed by proper analysis of the needs of the organization. For example, if an organization requires special facilities, such as wheelchair ramps, leasing a premise may not be practical since installing such facilities may be costly and unacceptable to other tenants. On the other hand, where the cost of renting a premise is low or where the NPO needs a very large space, owning a premise may be the most beneficial.
- ii. Do early planning. This is particularly important for NPOs operating in leased premises where leasehold contracts expire. It also applies to own premises where consideration for space requirements must be professionally determined to avoid buying or building unnecessarily big buildings whose maintenance costs are high but which provide minimum returns.
- iii. Seek professional help. In today's world, no single individual can be a jack of all trades. For this reason, the executive director must always seek professional guidance on issues of real estate before doing any real estate project. The professional will cost the company some money, yes. But, in a larger sense, it is substantially cheaper than having to contend with risks attendant to real estate contracts gone haywire.
- iv. Seriously weigh the reasons in favour of owning a premise. Though the

initial cost of buying or building a premise is substantially higher than that of leasing one, it is much easier for an NPO to raise the requisite capital this option than raising funds to meet skyrocketing annual rents in neighbourhoods where such is the norm.

v. Encourage swift decision making. Most NPOs are steeped in the bureaucratic model of management where decisions have to be vetted by an army of managers. This is disadvantageous in real estate transactions where market dynamics can be unpredictable. Thus delay in making certain decisions may result in higher than initially planned for costs.

Moreover, advantages of ownership against leasehold ought to be weighed and decisions made accordingly.

## **Benefits of Proactive Real Estate Management**

As with all organisations, sound management of NPOs is accompanied by better returns. This is important for NPOs which are under an ever increasing pressure to minimize operating costs and deliver more on their various missions. As already said, real estate, whether owned or leased, contribute a significantly large proportion of the operating costs of any organisations. In many instances, real estate ranks second or third in terms of revenue consumption. This then implies that significant reduction in real estate costs can have a noticeably large effect on reduction of overall operating costs of an NPO.

With more funds in its account, the NPO can then channel these funds to its chief mission and objectives. This has the net effect that the social objectives of the NPO are met and that its image is enhanced in its area of operation.

Moreover, a successful NPO easily attracts funds from governments, philanthropists and foundations resulting to even more success - nothing succeeds like success, you may summarise it thus.

Proactive real estate management demands that corporate real estate professionals have the ability to link their skills with the objectives of the organization (Georg, 2010). They ought to add value or be seen to do so. When they do so, they can add value by advising organisation on the need to eliminate vacancy and also of the need to move backroom operations to cheaper neighbourhoods thus contributing even more to the ultimate goal of reducing operating costs and directing to areas that matter, namely meeting the corporate social objectives. The issue of vacancies is one that is of special note. Research done on nine global companies found a vacancy rate of 26 percent on average (Helmut, 2000). This implies that an equal percentage of the funds used in meeting real estate funds are actually being wasted. This is striking bearing in mind the vacant space was a result of poor planning. The vacant spaces had not been used for long periods of time and had been reserved for such things as storage, anticipated hires and duplicate offices. This wastrel-like way of managing real estate is much more expensive than it seems on the surface. When one considers the fact that this extra space has be lit, air-conditioned and cleaned, one arrives at the conclusion that if real estate is well managed, then operating, including personnel, costs of the NPO can be considerably reduced.



## **Conclusion**

World economy, as it is, demands that individuals, governments and corporations practice frugality. This is true for all entities, non-profit organisations included. They must especially streamline spending in those areas that cost considerably higher amounts. Real estate is one such area and, as we have seen, good planning and best practice can is almost all that is required to reach that end. Non-profit organisations need to seek the help of professionals in determining required space and optimizing occupancy in their premises. They ought to know when to rent and when to lease.

As they are constantly under both moral and donor pressure to deliver on their objectives, non profit organisations must engage direct more of their funds in such social causes as providing healthcare, human rights advocacy and helping governments in developing world fight crises. Only then will they be seen to be returning value for the billions of dollars they receive from donors. And only then will they win the confidence of the donors and the earn public goodwill that they so seriously need to deliver on their mandates.

As this paper has tried to explain, sound real estate management benefits NPOs in more ways than the one of minimizing costs.

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