

Core Concepts

For Portfolio Management

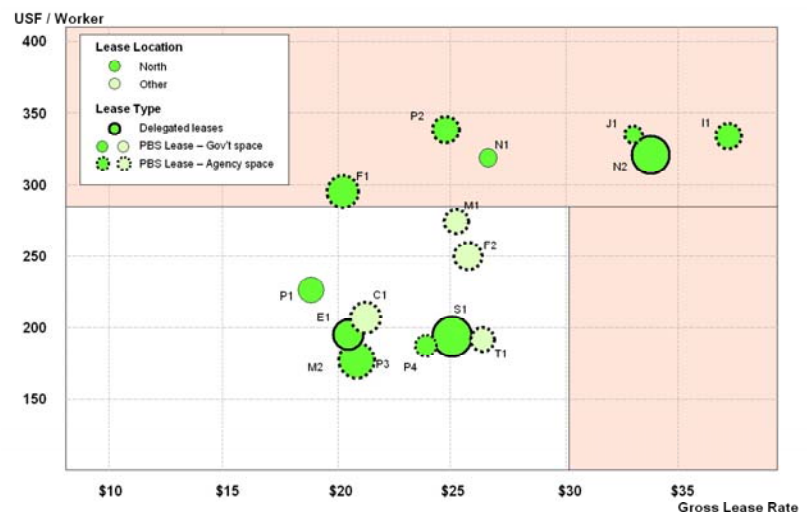
A picture worth a thousand numbers

Finding cost-cutting opportunities with portfolio visualization

For portfolio managers, finding cost-cutting opportunities often means sorting through long lists of data. Portfolio managers that track the progress of new product development use portfolio visualization, especially "bubble charts," to summarize portfolio data. Recently, CRE portfolio managers have started using similar charts to plot location characteristics so that they can quickly and easily identify opportunities.

Here's a chart to identify cost-cutting opportunities in corporate real estate. Each circle, or "bubble," is a location. The most likely opportunities for cost reductions are in the red-shaded areas, especially in the upper right corner. The circle size represents the location's total cost, greater total costs mean more opportunity. The location on the chart represents two other characteristics -- the space density (usable square foot per worker) is the value on the vertical axis, the cost per square foot is on the horizontal axis. The color and outline summarize other location characteristics.

Total Cost, Space Density and Lease Rate



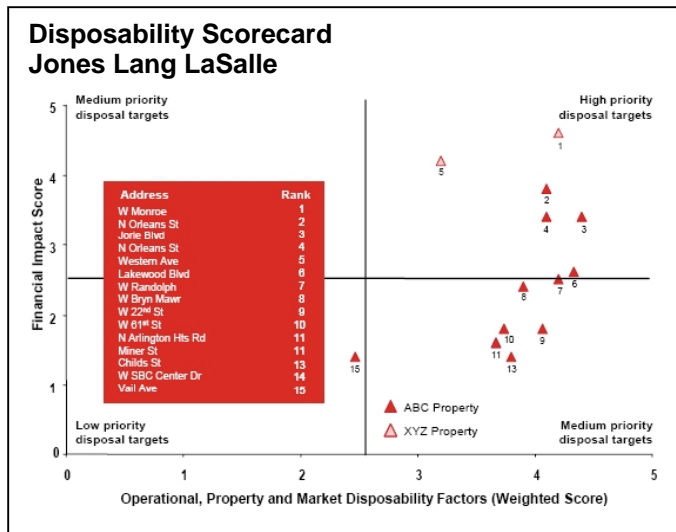
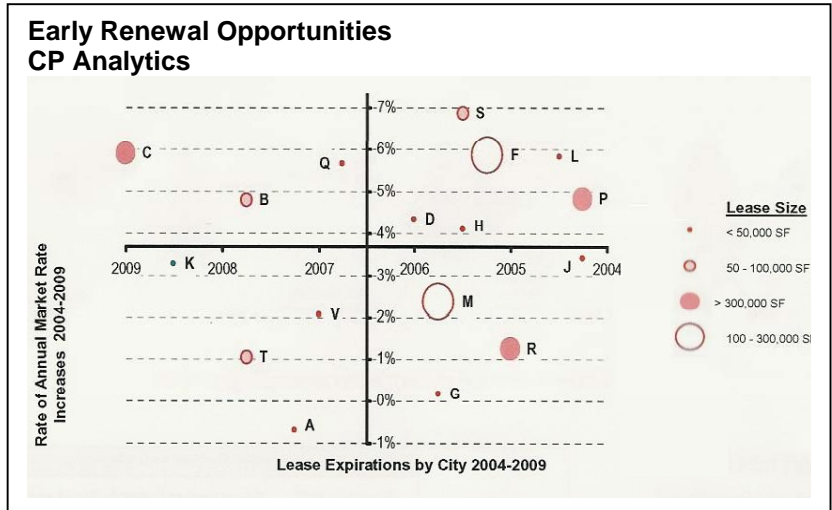
The locations in the red-shaded areas are opportunities because the location characteristics are greater than desired for this portfolio. Not all of these locations will lead to cost savings but they provide good places to start.

In this case, there was a reasonable explanation for one of the locations; it housed the organization's lawyers, who needed to be close to downtown (high rents) and who needed space comparable to their peers (generous density) so that the organization could attract and retain lawyers on the staff.

The location on the far right was an opportunity. It housed a group of managers who had successfully argued that they needed to be in this space for years. The portfolio manager knew otherwise. These managers were no different than those in other facilities. With this chart, she confirmed her intuition that this location was an outlier and she could easily show senior executives how out of line they were.

These charts can be used to show many different types of opportunities.

Looking for opportunities for early renewals? Martha O'Mara of CP Analytics plots lease expirations for the locations on the horizontal axis and the forecasted increase in rental rates for the market in which the facility is located on the vertical axis. The size of the bubble reflects the size of the location. In this chart, the locations that portfolio planners should consider for early renewals are the larger bubbles in the upper right-hand quadrant.



Want to identify disposition opportunities? Jones Lang LaSalle uses a "Disposability Scorecard." A weighted financial impact score for a disposition is on the vertical axis and a weighted score for operational, property and market disposability factors is on the horizontal axis. The best opportunities are in the upper right. (For another approach to identifying the right

disposition opportunities, check out the article "Hidden Savings" in this newsletter.)

You can create similar charts with versions of Excel since 2002. If you want to capture even more location characteristics, you can use specialized software, such as PortView from Adept Group, that enables you to show slices in circles, which is great for showing vacancy rates.

If you would like help finding the best way to visualize your portfolio, contact Dr. Mather at 970.726.9500 or jmather@criticalcore.com.

