

CBRE Project Management presents

PJM PERSPECTIVES

Reduce Risk with Effective Capital Planning

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Capital planning within the corporate real estate world is known by many different names, all meaning something slightly different to each organization: capital budgeting, portfolio forecasting, annual spend, etc.

The capital planning process consists of understanding the inventory of assets and their valuation within a company's portfolio, and then developing an investment plan for that inventory of assets tied to the organization's objectives.

Companies lean on capital planning to support their decision-making at an enterprise level, often assessing the impact on their profit and loss (P&L) and run-rate forecasts. In regard to capital planning, several aspects are important at an enterprise level: capital expenditure (CapEx) for corporate real estate and IT, operational expenditure (OpEx), rent, and any one-off costs not directly tied to an asset. All of these components contribute to the capital planning process, with the associated run-rate analysis often playing a major factor in the ultimate approval of any capital plan. Understanding how companies balance their operational impacts associated with these investment decisions can position capital planning as the bridge to finance.

Figure 1: Ways Companies Structure their Objectives Around Capital Planning



For owners and occupiers, developing a long-term capital plan poses a significant challenge as corporate objectives and investment strategies are constantly shifting on a short-term basis.

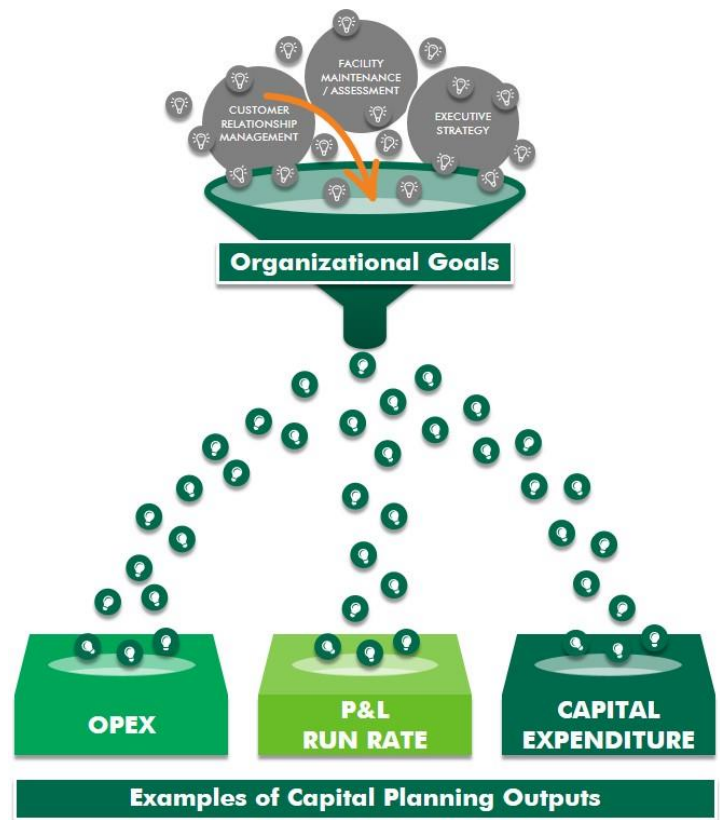
Who Benefits?

Any organization with a real estate portfolio can benefit from a sound capital plan. Whether you're a small regional campus owner or a corporation with tens of millions of square feet across the globe and billions in assets, developing a capital plan can be extremely favorable and financially beneficial.

Core Components

Capital planning is simply defined as a structured process of assessment, evaluation, and prioritization of re-investment needs in a given portfolio, ultimately leading to an actionable plan that addresses an organization’s objectives. This is achieved through collaboration with business leadership, internal occupancy planners, financial analysts, asset managers, operations teams, cost consultants, and other internal stakeholders (IT, security, etc.) contributing to a prioritization process that assesses the individual components of the portfolio, analyzes the assets, and produces a hierarchy of necessary projects to ensure the portfolio is aligned with the overall corporate strategy. Projects can consist of asset maintenance, disposition of unneeded holdings, or the purchase and/or construction of new facilities. A properly implemented and attentively maintained capital plan reduces asset exposure and maximizes efficiency of the annual spend. Figure 3 depicts the process of successfully establishing organizational goals early on to support the capital plan. There are a number of outputs that come from the capital plan; OPEX, P&L run rate, and capital expenditure. There can be other outputs such as cash flow, one-off projects, etc.

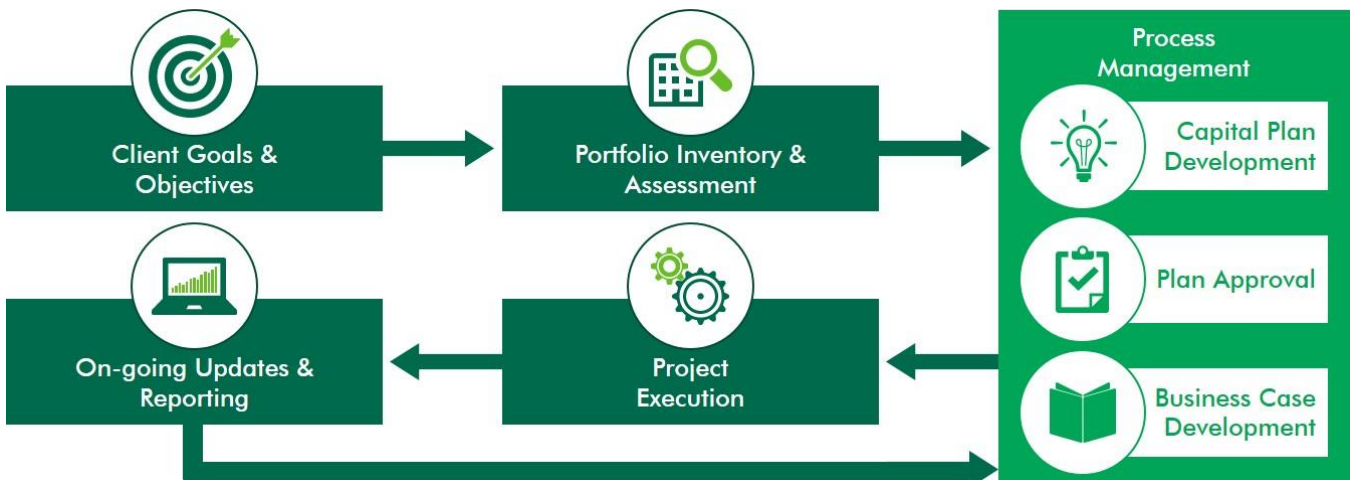
Figure 3: Examples of Capital Planning Outputs



Implementing Capital Planning

Once established, the capital plan is a recurring and continuous process. Figure 4 represents a typical approach to capital planning that has proven effective over a diverse group of organizations and real estate sectors.

Figure 4: Typical Capital Planning Approach



The Process, Defined



Goals: Establishing clearly defined goals prior to beginning the process ensures positive outcomes based on specific organizational objectives. A lack of concise and measurable goals leaves the capital plan at risk of being ineffective for long-term capital management and expense control. As corporate initiatives continue to fluctuate, it's important to establish a plan with adequate agility to absorb near-term changes without resulting in long-term impacts. Factors that cause planned projects to be reconsidered and unplanned projects to be initiated:

- **Lease activity** – renewals, expansions and relocations
- **Business units** – growth, innovation and contraction
- **Corporate** – infrastructure, workplace environment and strategic initiatives
- **Lifecycle** – maintenance repair and replacement and cosmetic improvements
- **Regulatory** – remediation, business unit segregation and environmental
- **Mergers and acquisitions** and other unplanned events



Assessments: Portfolio inventory assessments occur in both owned and leased locations via building engineers, facility managers, or a dedicated team of assessors. Establishing an accurate assessment of all building components, including interior finishes and furniture, is critical for determining project scope, cost estimates, and project prioritization. Inventory assessment can also include measuring whether there is an abundance—or lack of—adequate space to meet a company's needs. If the current real estate portfolio doesn't meet future company objectives then the addition or disposition of facilities (leased or owned) would be incorporated into strategic planning.

For existing facilities, with the advancement in mobile technologies, field staff can accurately collect, sort, and catalog facility assessment data in real time.



Process Management: Process management encompasses capital plan development, business case development, and plan approval. Consolidating raw data into a capital planning tool, such as Kahua, supports easy tracking and updating. Rough Order of Magnitude (ROM) or "high level" cost estimates are then generated for potential projects.

The gathered information is then vetted for accuracy, and critical dates or timelines are established. This data helps determine which projects are priority, how long they will take, and which projects can wait.

- a. **Capital Plan Development:** During capital plan development, the plan structure begins to take shape through data input summaries. Companies can then begin a high-level review of the proposed projects to verify that they are in-line with their organization's previously defined goals.

This part of the process involves project prioritization and scoring, which is crucial to determining the best path for risk reduction based on an organization's goals. Facility, compliance, infrastructure, consolidation, and capital improvement projects are prioritized based on liability or company exposure that a breakdown could create. Interior renovations, building amenities, furniture programs, and leased fit-outs are generally tied to the corporate strategy, capital management, and run rates.

- b. **Business Case Development:** The business case or needs statement for each project is used to generate the support and approvals needed to turn project requirements

into reality. The capital plan leader can explain risks or opportunities and the impact of proceeding or not proceeding with the project. Recommendations are made, along with providing compelling evidence that the proposed action is the optimal solution under the circumstances for CapEx, P&L, etc.

- c. **Plan Approval:** During the plan approval process, the company will need to sign off on the proposed capital strategy. Once the information has been approved and validated with the project teams, the capital plan is established within a technology platform, such as Kahua, for execution and tracking.



Project Execution: Projects are assigned to project managers and implemented with the assistance of the facility management team and other key stakeholders. As the plan is implemented, project performance and corporate strategy need to be closely monitored to ensure that the objectives are being met.



Ongoing Reforecasting and Reporting: Managing reports and properly tracking projects help to maintain financial stability for unplanned projects and ensure future plan accuracy. Monthly forecasting of active projects is crucial to provide and track against the plan. The monthly forecast should include (but is not limited to):

- Actual spend aligning to projections
- Stalled planned projects
- New or unplanned projects generated

Outcomes

Organizations may have different primary goals, but the benefits of capital planning are universal:

1. Improved facility management
2. Run rate savings/stability
3. Accurate staffing and resource projections
4. Economy of scale purchasing for program initiatives
5. Effective capital spend management
6. Cost and risk reduction
7. Focused cash flow and depreciation forecasting
8. Greater employee satisfaction
9. Improved safety
10. Year-to-year business optimization through analytics

An effectively structured and properly implemented capital planning strategy is invaluable to an organization's real estate portfolio. Identifying key stakeholders and primary outcomes early on is crucial to building a proper foundation for the plan. Following that structure, practicing consistency in data collection and ROM costing, and adjusting as outside factors intervene is critical to overall success.

Achieving organizational goals can be accomplished through collaboration, reliance on resources, and engaging with those who have the experience to maintain the capital plan.

About the Author

As Cost Consultancy Director for CBRE, Dan Richardson supports a dedicated Financial Services client. He implements preconstruction oversight consisting of high-level cost estimating for capital planning purposes, contractor bidding analysis, industry benchmarking, and development of conceptual estimates and schedules. Prior to his role at CBRE, Dan was the Director of Construction and Preconstruction Manager for a commercial developer. He has worked in the construction and real estate industry on projects across the nation for almost 20 years. Dan holds a Bachelor's of Science degree in Civil Engineering from Johns Hopkins University and received his EIT from the State of Maryland.

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About Kahua

Kahua is changing the way that capital assets are delivered and managed. The Kahua Network is the world's leading collaborative network for real estate and construction project management. Delivered as a secure, scalable Application Platform-as-a-Service (aPaaS), The Kahua Network enables users to easily share data, documents and workflows across all applications and projects, and among all authorized network participants. Kahua supports leading mobile devices and tablets, integrates with third party applications and numerous accounting systems, and enables customers and certified development partners to quickly modify existing applications or build custom applications that operate on The Kahua Network. [Click here](#) to learn more about Kahua and CBRE's partnership.