

## Mergers and their real estate issues

This '20 Thoughts' paper is based on a variety of situations, from internal consolidation of business units to mergers at a corporate level. It is closely related to the '20 Thoughts on Cost Reduction'.

### 1: Playing catch-up

Work on the basis that a lot of assumptions (blind spots?) have been made on accommodation. M&A teams don't always spend a lot of time sweating the real estate issues on the way into a deal. Find the person(s) on the merger team who reviewed this area and begin where they left off. What promises have been made to shareholders?

### 2: Two approaches

Proactive – anticipate and stay ahead of the issues (you are connected to the 'A Team', you understand their priorities); or

Reactive – let the process guide you and keep adequate time aside to deal promptly to issues as they emerge (you model the real estate function as a service provider).

### 3: My champion

Find the champion of the real estate in senior management. They may well not be who you suspect, as recent management/ ownership changes may have introduced new leadership. Forge new alliances, etc.

### 4: The unknowns

How 'unknowns' get made known to you can be an important issue; the source of information can be as significant as the information itself (e.g. the landlord's agent).

### 5: Project brief

Mergers are best approached as projects. As such, you need to find the project sponsor, the instructing client and so on, and operate under a written brief.

### 6: Defensive positioning

Consider modelling the real estate function as a service provider who is simply responding to customer requirements for change. This way, you can stand outside the inevitable politics and turf wars as merger plans become reality.

### 7: Managing interfaces

There will be numerous interfaces with other parts of the business, e.g. key business units, regional operational directorships, HR, legal, engineering. These interfaces need to be mapped out, made part of the brief and a key real estate team member appointed to look after them.

### 8: Risk register

Look at the project from a risk management perspective, where those outside real estate engage on the basis of mitigating risk issues. All the activities are scheduled on a risk register and discussed openly and objectively, however unedifying!

### 9: User groups

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groups and then ask them to define their accommodation requirements over the next few years...or longer if it is that sort of organization. Then match them with those they have synergies with and facilitate the merger process.

### 10: Carrot and stick

You will need the co-operation of accommodation users to drive through the planned changes. You need a good understanding of accommodation users' WIFM ('What's In it For Me?') to build that consensus. Typically, the board leaves the real estate function to work on a 'carrot' basis, while holding the 'stick' in the background. How much power do you have to do this?

### 11: Cultural differences

Be sensitive to cultural issues, especially loss of face or appearance of status. Those affected may not be able (in public) to say what they want and feel. Some issues can only be worked out in private. Allocate time (and cost) to have such meetings to gauge likelihood of lack of co-operation at later stages.

### 12: DNA

Which business is going to prevail in terms of corporate environment? How do you bring this DNA into the other business' workplaces? Develop a change plan based on migration to best practice.

### 13: Cost saving

This should be your (unpublished?) agenda. Whatever the objectives (such as increase market share), sooner or later there will be the Jerry Maguire moment, "Show me the money", such as cost savings / financial benefits (delete as appropriate).

## Mergers and their real estate issues **continued**

### 14: Phantom synergies

Not all the proposed synergies identified at due diligence will materialize. Typical reasons are: lease breaks are not bilateral; upgrades to accommodation make moves uneconomical in the short term; changes in use are not allowed by landlord (e.g. using the warehouse for retail purposes).

### 15: Team changes

Put some time aside to develop the merged team. Their performance metrics will have changed and they need reassurance that their jobs will change in a meaningful (value adding) way, too.

### 16: Merging contractors

Are there really economies of scale? There is really only one way to find out – go back into the market and re-tender for all the non-critical services, followed by those other functional groups that risk management and operations deem okay to market test (e.g. energy, health and safety audit, security).

### 17: Balance sheet management

Work with the CFO to agree how the balance sheet is to look at quarterly positions. Agree on the extraordinary costs necessary to execute some of the changes (e.g. bringing forward dilapidations, sub-letting vacant space for short-term under market positions, move management and re-configuration costs).

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### 18: Debt refinancing

A second wave of activity is to look at refinancing the portfolio, based on the new covenant strength. Some landlords may be open to longer, higher yield deals on revised lease terms.

### 19: External advisers

Professional advisers will be concerned with losing business or, worse still, losing the relationship altogether. Some reassurance is required. Keeping suppliers and key advisers 'on side' is a critical issue.

### 20: Expectation control

Third parties, such as purchasers lawyers, landlords, engineers can create remarkably long hold ups to otherwise straightforward processes. Internal clients remain stuck to their original expectations. No one is happy! Part of the solution is the risk register approach noted earlier. Beware of announcements concerning savings and changes by certain dates (end of year sound familiar?) as this is then used as a hostage to a worse outcome.

This document is part of the "20 Thoughts on..." series, available at [www.casp-r.com](http://www.casp-r.com)

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