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By Steve Lewis

If the recent economic downturn has taught real estate professionals one lasting lesson, it's that 'doing more with less' is more than just a cliché. In perfecting 'The art of the cut,' SIORS say they have found new ways to curtail expenses without sacrificing the level of performance they provide their clients.

The key, they agree, is to examine all areas of their budgets. "We look at every business unit and review both income and expense," says **David J. Zimmer, SIOR, FRICS,** of Zimmer Real Estate Services L.C. | ONCOR International, in Kansas City, MO. "We ask the manager for his business plan and how he plans to make his unit profitable. There is a certain amount of corporate expenses that are allocated to each division under a preset formula. We will not accept (with few exceptions) a budget that projects a loss. So if that is the case, we look at the top line to see if it is realistic and if so, we then look at expenses to see what has to be cut to get to a balanced budget."

"We took a systematic approach," adds **Geoffrey Kasselman, SIOR, LEED AP,** with Op2mize, LLC, in Des Plaines, IL. "We addressed everything; that doesn't mean we cut everything, but we challenged every single expense we had." He says many opportunities for savings were uncovered in this manner. "Some were obvious, and some were not; so some were big and some were small; but in aggregate we were able to cut 20-25 percent from the year before -- and that surprised us," he shares.

Kevin C. Geenty, SIOR, vice-president of The Geenty Group in Branford, CT, says his cuts were also achieved "through an in-depth analysis of all line items in the budget. When you do that type of evaluation, you are able to identify line items that readily appear to be too large, or items which are not providing value in return for the dollars spent."

In terms of specific cuts, he continues, the ultimate decision is based on "best guess and trial and error. If we cut too much from an expense, it will become evident in a few months, and we will refund that item to some degree."

"As a really broad statement, one thing I've found myself continually learning over the last several years is how many different ways and different line items you can look at and break the mold on what you think you have to do," says **Gabriel Silverstein, SIOR**, president of Angelic Real Estate, LLC, in New York City. "For us it's been very helpful to figure out how to throw out the old playbook and re-think what you really need. So, for example, do you have to print 'X'-hundred copies of things to send out to people when marketing a building for sale -- does it really help you, or do they end up in the waste basket anyway?"

Walk the Walk

Kasselman says that one of the biggest "surprises" he experienced during this process falls under the category of practicing what you preach – which, he notes, is helping clients understand how to make informed decisions on the total cost of occupancy -- not just rent. "We're all pretty good at that -- especially SIORs -- in guiding clients through that process, but we do not necessarily always use that for ourselves," he says. "In our case, we approached our landlord about rent reductions, as we might have done for a customer. We were very pleased to find they were open-minded, and we saved money on rent and got 1.5 months' free rent; all in all that worked out to thousands of dollars to us. All we had to do was ask."

Kasselman says he also went to his insurance company, State Farm, and reviewed coverage. "We found all sorts of opportunities to reduce premiums

Contributing SIORS

John Barker Jr., SIOR

Kevin C. Geenty, SIOR

Geoffrey Kasselman, SIOR, LEED AP

Nicholas J. Malagisi, SIOR

Gabriel Silverstein, SIOR

Angela West, SIOR, MCR

David J. Zimmer, SIOR, FRICS

without sacrificing coverage, including business interruption and liability," he shares. "We got a 'combined policies' deduction as we acquired more computers and other equipment, and we did not have to increase our deductibles."

"Small" Cuts Can Be Significant

In some cases, SIORs found they could realize significant savings in what may have been considered relatively insignificant areas of their budgets. "We have not sacrificed on human capital, but we looked at all the service contracts we had – like copiers, for example," says **John Barker, Jr., SIOR**, senior vice president of development at Red Rock Developments in Charlotte, NC. "It's unbelievable what you pay in printing and computer costs," he observes. "We also re-negotiated our telephone contract and saw tremendous savings." In many cases, he says, black and white printing was used instead of color. "You can even realize savings in ordering office supplies," he adds. "In the past, we would order pens, papers, etc., in bulk, but it would take a month and a half to go through them; now we just order two packs at a time."

"We found that an amazingly low cost went with a color laser printer, where five-plus years ago everyone knew you either spent a fortune on monthly rent on a printer or bought one for $10,000," notes Silverstein. "It's amazing now how cheap it is; you can get publication level output from a $600-$700 color laser printer."

"We did the Triple Play business class internet with Comcast, and now get unlimited phone calls and base level TV; we can now watch something on the big screen if we need to," says Kasselman. "It costs $179 a month, and the T line alone from AT&T was $450. We also put motion sensors in our office, which cut electricity costs in half; it really does add up."

"We have eliminated most all of our print advertising, corporate sponsored memberships in various organizations, and entertainment," says Zimmer. "You tend to get a little sloppy when there is a lot of revenue, so when revenue is down, you don't like to cut, but more often than not, there is 'fat' that can be eliminated. Senior officers took pay cuts, administration had salaries frozen, and we tinkered with our 401K match. The results were a success; everyone that had a job at the beginning of the recession has one today."

"It was time for a change with our administrative person, who had been on salary with benefits (health insurance, paid vacation) that included a pension contribution," adds Geenty. "We now have two part-time people with none of the above benefits, giving us 55 hours per week of coverage versus the previous 37 hours. We are providing superior service to our agents and clients, and yet have achieved a fantastic savings."

Geenty says he also met with two other SIORs in similar size firms in the market to compare operational procedures. As a result of those meetings, his firm no longer supplies computers and computer repairs to the sales force. "That represents a savings of $20,000 per year," he reports.

Barker also benefitted from the sharing of experiences. "We had a symposium in Charlotte that we hosted, and had all the brokers in charge from all the major shops just share ideas on ways to survive," he recalls. One of the key learnings, he says, had to do with the major multiple listing services. "Most brokers use them in some way, but 10-person shops can spend as much as $3,500 a month," he notes. "It's nice to have quick and easy, makes you look more professional, but a lot of the brokers said that at their local boards they had their own commercial property exchange. They have all the listings, and it was included as part of their subscription to the board. That was very helpful."

"The biggest thing we did was to sell our office condo and downsize into leased space," says **Nicholas J. Malagisi, SIOR,** managing director/national director of Self Storage for Sperry Van Ness Commercial Realty in Buffalo, NY. "I know they say don't cut back on advertising, but a lot of ours was transaction oriented, so it was easy to cut that. We kept in place what promoted our company."

Breaking the Mold

While many of the solutions SIORs have employed were the result of careful analysis and common sense, other approaches have required more out-of-the-box thinking. For example, **Angela West, SIOR, MCR,** vice president and partner in CB Richard Ellis/Oklahoma, has employed a new strategy called "cost segregation" to save client ONEOK about $10 million for its Tulsa project ONEOK Plaza.

"Cost segregation breaks down the components of a building into different asset classes," she explains. "Normally everything gets deprecated over the entire tax life, but this approach breaks down the windows, blinds, carpeting, electrical equipment, and so on."

Certain components, if properly identified, may qualify for a shorter federal tax life of 5, 7, or 15 years, West notes.

As compared to leaving the entire building cost in a 22-year life, notes West, this strategy provided a current year federal tax deduction of $5,511,727; reduced the tax obligations over the first six years of ownership by $10,367,261 (deferred to future years). The net result was a present value benefit of approximately $3,788,789 (100% realized within the first nine years of ownership). The return on the fee paid to CBRE was 163 percent.

"This strategy is available to any landlord in any market," says West. "It's the first time we used it with a client, and they were just thrilled."

Silverstein says he has accessed the worldwide market of freelancers to realize significant savings. "We've used them for corporate logo designs and putting together presentations," he shares. "You can hire someone in India for a PowerPoint presentation, and they can do it really fast for 50 dollars. As a company, if you keep someone on staff to do this, you not only have to hire the person, but constantly re-invest in his or her new training whenever new programs come out." He says he finds these individuals through the site Elance.com.

"To me, it breaks the paradigm -- re-thinking what you thought was necessary," he says. "For SIORs specifically, for the half or so of the membership that is not affiliated with one of the big firms, if you want to compete with a Cushman & Wakefield on a deal, this is another way to do it. I can hire someone from Pakistan to do a better presentation for 50 dollars than perhaps his or her internal market guy can do -- and maybe look better. Nobody has to know your size; this levels the playing field. Now clients know who has the most creative ideas."

Silverstein says he has also addressed the desire of younger brokers for virtual office space, and at the same time saved a good deal of money. "For the younger brokers, at some point in their careers it becomes a big perk to have the ability do work without the pressure from above to spend 'X' hours a week in the office," he says. "We found out everyone likes to have a virtual office, so we've made that the corporate mantra." This approach, he says, has cut his costs of occupancy for the past few years by 90 percent.