New Paradigm for Corporate Real Estate Units in the Commercial Banking Industry

by

Sandra Lee Wolf Palefsky

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Signature of Author...
Department of Urban Studies and Planning
August 5, 1994

Certified by...
Sandra Lambert
Lecturer, Department of Urban Studies and Planning
Thesis Supervisor

Accepted by...
Professor William Wheaton
Chairman
Interdepartmental Degree Program in Real Estate Development

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ABSTRACT

The case study research method in addition to informational interviewing and literature reviews were used to document how the role and responsibilities of corporate real estate executives in the commercial banking industry have evolved given the unprecedented change in the banking industry in the last several years. Specifically, this thesis documents the emergence of centralized corporate real estate units, which now have a new "corporate focus." Commercial banking corporate real estate executives are focusing most of their time on strategic planning in an effort to align the real estate strategies with the overall business strategies for the corporation. As a result, corporate real estate executives in commercial banking appear to be outsourcing many jobs once performed in-house. These executives are now challenged with designing and managing service teams as a means of fulfilling the needs of the business units as well as adding value to the corporation.

Thesis Supervisor: Sandra Lambert
Title: Lecturer, Department of Urban Studies and Planning

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This Thesis is dedicated in loving memory of my father, Harold Palefsky. Not only was he an astute businessman, but also a wonderful, loving, and caring father and husband. I am the person I am today because of him.

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Introduction

The purpose of this paper is to examine the changing role and business contributions of Corporate Real Estate (CRE) executives within the commercial banking industry. Specifically, this paper will examine the emergence of centralized corporate real estate units within the banking industry and their new "corporate focus." CRE executives, as a result of this focus, are concentrating their efforts on strategic planning activities and outsourcing many services once exclusively performed in-house to third party vendors. Real estate executives are now presented with the challenge of designing and managing teams consisting of both internal and external service providers as a means of achieving the specific needs of the business units as well as a means of adding value to the corporation.

The role of the CRE executive continues to evolve within Corporate America as senior management realizes the substantial impact real estate can have on bottomline profitability and on the value of the corporation itself. During the inflationary period of the 1970s and the generous tax-environment of the 1980s, market values of corporate real estate increased substantially.[1] Some corporations cashed-in on this untapped wealth by mortgaging or selling assets while unobserving corporations become acquisition targets due to their substantial real estate holdings.[2] By the end of

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[1] Robert Kevin Brown and Alvin L. Arnold, *Managing Corporate Real Estate*, (New York: John Wiley & Sons Inc, 1993), p 83.

[2] Ibid, p. 83.

the 1980s, however, the tide had turned and commercial real estate market values plummeted.

As a result of these events, many senior managers are now relying on their corporate real estate unit to provide information about how real estate market changes will impact the corporation as well as challenging them to provide strategic real estate solutions.[3] Many of the corporate real estate units interviewed for this paper have created a strategic planning department within their real estate unit within the past several years or have plans to do so within the near future.

In recognition of the changes in the corporate real estate arena, the Industrial Development Research Foundation (IDRF) in 1991 sponsored the multi-phase CRE 2000™ research project to explore how corporate real estate professionals can have a greater impact on a corporation's success in the future. The Center For Real Estate at Massachusetts Institute of Technology is one of the main research groups working on this project and, in May of 1993, Sandra Lambert contributed to the Phase One Report by identifying five evolutionary stages of the CRE unit development:[4]
The first stage is Taskmaster in which the unit simply supplies the physical space required by the corporation. The second stage is Controller in which the CRE unit takes the responsibility for minimizing real estate costs. The third phase is Dealmaker.

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[3] Ibid, p. 83.

[4] Michael Joroff, Marc Lourargand, Sandra Lambert, and Franklin Becker, "Strategic Management Of The Fifth Resource: Corporate Real Estate," *IDRF* (May, 1993) p. 21.

In this stage the CRE unit solves real estate problems in ways that add financial value to the corporation. The fourth stage is Intrapreneur in which the CRE unit acts more like an independent real estate company and proposes alternatives to the business units that will help them increase productivity as well as reduce costs. In this phase, the unit provides services at costs that are competitive with the prices of an outside service provider. The final and most advanced stage is that of the Business Strategist. In this stage, the CRE executive anticipates business trends and aligns the real estate strategies of the corporation with future business strategies. The CRE executive contributes to the value of the corporation by focusing on the business vision as compared to solely focusing on the real estate as many CRE executives have done in the past.

CRE executives in the commercial banking industry strive to be in a position in which they have the opportunity to understand the business lines' goals in order to help them strategize as it pertains to real estate. Most of the executives interviewed for this paper stated that after salary and benefits, occupancy costs (net of equipment) are the second largest expense of their banks. As reduction of expenses directly increases profits (a $1 expense reduction increase net income by $1), real estate executives can greatly impact the bottomline of the corporation. Besides renegotiating leases, pursuing real estate tax and utility abatements, and disposing of vacant space, real estate executives can add value to the corporation and the individual business units by pursuing more proactive and innovative real estate strategies. Such strategies may

include relocating business units to green-field sites, implementing space saving techniques such as hoteling or virtual offices, readapting existing space instead of purchasing or leasing new space, and performing portfolio and asset management functions.

Given the new demands and responsibilities of their jobs, CRE executives in the commercial banking industry are likely to progress to either the "Intrapreneur" or "Business Strategist" evolutionary stage. Which stage the CRE executive ultimately attains, however, will greatly depend on the extent to which senior management believes that well-managed real assets can help the corporation better compete in this new era of commercial banking. As Chapter One outlines in much greater detail, commercial banking is an extremely competitive business today due to unprecedented change in the last few years in the commercial banking industry. In order to survive the on-going wave of mergers as well as competition from non-bank financial service providers, a bank must be able to gain a competitive advantage and the strategic use of the corporation's real estate assets can help it attain its goals.

To illustrate how corporate real estate units within the commercial banking industry can enhance a bank's profitability and competitive advantage, this thesis presents two case studies. Chapter Two provides background information regarding the two banks selected for case study work and explains the research methodology employed by the author. Chapters Three and Four present the individual corporate real estate unit case

studies and Chapter Five concludes with an individual and comparative analysis of the two cases in relation to the author's propositions regarding corporate real estate in the commercial banking industry.

Chapter 1 - Industry Context

OVERVIEW

Commercial banking is a dynamic industry currently experiencing evolutionary change due to tremendous competition from nonbanks, overcapacity within the industry, deregulation, and stock market scrutiny. In response to these challenges, commercial banks are changing the way they do business, striving to be more innovative, customer-oriented, and cost-efficient. In fact, the efficiency ratio which measures a bank's noninterest expense as a percentage of its net-revenue is the new standard tool used by bank analysts and shareholders to assess the effectiveness of bank management.[5]

Given that industry experts predict a significant consolidation within the industry in the next five years, many bankers feel the key to survival is becoming more efficient.[6] Many chief executive officers realize that high overhead expense is a serious competitive disadvantage that will be exploited by other banks and nonbank competitors.[7] Consequently, many commercial banks are reengineering their business processes as well as implementing new technology in an effort to achieve greater

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[5] Wanda Cantrell,"Reinventing the Bank," *Bank Management*, (August 1993) p. 27.

[6] Ibid p. 27.

[7] Ibid, p. 27.

efficiency.[8] Those banks that excel at increasing efficiency as well as growing revenues will most likely be the survivors of the future.[9]

To fully appreciate why the banking industry is experiencing a metamorphosis at this time, it is helpful to understand the evolution of the U.S. banking industry.

BRIEF HISTORY OF THE UNITED STATES BANKING INDUSTRY

Prior to the depression in the early 1930s, the banking system for the most part enjoyed a laissez faire, competitive environment.[10] The onset of the depression, however, significantly impacted the government's view of the banking industry resulting in a blatant shift from laissez faire to regulatory control and protectionism.[11] In an effort to prevent financial collapse, the government restricted new entrants, limited the expansion of existing institutions, and imposed stringent asset and liability ratio requirements.

Such strict and overbearing regulation continued until the early 1950s when the government relaxed regulations in order to promote new entry into the industry as a means of protecting depositors. The economic post-war boom had brought great

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[8] Ibid.

[9] John B, McCoy, Larry A. Frieder, Robert B. Hedges, *BottomLine Banking: Meeting the Challenges for Survival and Success*, (Chicago, Il: Probus Publishing Co, 1994) foreword p. 21.

[10] Lewis J. Spellman, *The Depository Firm and Industry: Theory, History and Regulation*(New York: Academic Press, 1982), p. 7.

[11] Ibid, p. 8.

prosperity to the existing institutions and the regulators did not want this finite set of banks to earn excessive profits at the expense of the consumer. Relaxed regulation did lead to an increased number of banks and within fifteen years the number of commercial bank branches and savings and loan branches doubled.[12]

In 1966, the regulators once again intervened by imposing an interest rate ceiling (Regulation Q) to reduce rate competition among the institutions. The result of this regulation was higher business costs to banks as they had to find other ways to compete besides interest rates. The interest rate ceiling also hurt depositors especially in the inflationary 1970s as they often earned negative real returns. Consequently, there was a demand from both consumers and bankers to review the regulatory requirements once again.[13]

This reexamination culminated with the Depository Institutions Deregulation and Monetary Control Act of 1980 and the Depository Institutions Act of 1982 (Garn-St. Germain) which essentially deregulated price and product constraints by phasing out interest rate ceilings and relaxing the portfolio restrictions imposed on savings and loans, thrifts, and federal credit unions. Although the 1933 Glass-Steagle Act which prohibits banks from engaging in both commercial and investment banking activities was not amended by these two Acts and is still in effect today, commercial banks have

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[12] Ibid p. 10.

[13] Ibid, p. 11.

found ways to circumvent this regulation and currently engage in many investment banking activities including underwriting securities.[14]

The most significant result of price deregulation was the realization by the banking industry that the traditional profit margin equation no longer worked.[15] Traditionally, banks had made most of their profits on the spread between the interest rates charged to customers on loans and the interest rates paid to depositors. After deregulation in the early 1980s, banks' profit margins were squeezed due to their increased costs of funds as they now had to compete for deposits with money market funds and other nonbank competitors who paid high interest rates to their depositors. Some banks did increase their loan-to-asset ratios in hope of increasing profit margins but the result was increased loan losses and poorer earnings.[16] As a result, the banking industry came to the realization that it had two options if it was to preserve profits: introduce new products to increase revenue or aggressively reduce costs.[17]

In the 1980s, banks solely pursued new products as a means of generating more revenue rather than address the more complex task of reducing costs as they are doing today.[18] As a result, many of today's commercial banks offer a variety of non-

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[14] McCoy, *Bottomline Banking*, p. 42.

[15] Ibid. p.40.

[16] Ibid, p. 41.

[17] Ibid, p. 41

[18] Ibid, p. 41.

traditional banking products such as mutual funds, investment banking services, derivatives, and insurance.[19] The 1982 Garn St. Germain Act was also instrumental in helping banks increase revenues through increased market share. This Act amended the Bank Holding Company Act of 1956, allowing for interstate acquisition of large failed banks, regardless of state laws. According to the authors of *BottomLine Banking*, notable acquisitions attributed to this act include BankAmerica's 1983 purchase of Seafirst; Chase Manhattan's 1985 purchase of several privately owned Ohio Savings and Loans; Citicorp's 1986 purchase of several failed S&L's in California, Illinois, Florida, Maryland and Nevada; and the purchase of two large Texas banks, First Republic and MCorp respectively, by NationsBank and BANC ONE. [20]

The most recent bank legislation pending in the House and Senate is the Interstate Branching Act. If passed, this legislation will completely eliminate all geographic constraints imposed on banks. Currently banks circumvent the interstate banking laws by forming Bank Holding Companies and operating separate banks in each state, each with its own president and board of directors. Proponents of the Interstate Branching Act contend that the safety and soundness of the banking system would be improved by increasing the geographic diversification of banks' portfolios and that consumer convenience would be enhanced because those consumers that move to another state

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[19] Ibid, p. 41.

[20] Ibid, p. 52.

would be able to retain their same bank accounts.[21]

As a result of the changing regulatory environment and the competitiveness of the financial services industry which banks now consider themselves a part of, a new flexible business paradigm is beginning to emerge in which the primary focus is customer satisfaction. Banks are developing new products and services specifically designed to meet their customers' needs and are extremely focused on providing convenient and efficient service through multiple distribution methods (branches, ATM, video kiosks, and home banking). Many banks are rethinking their competitive positions in the industry and appear to be concentrating their efforts on either a differentiation or focus strategy in order to achieve a sustainable competitive advantage.

PORTER'S MODEL

In Michael Porter's book *Competitive Advantage: Creating and Sustaining Superior Performance*, he explains that competitive advantage grows out of the firm's ability to create value for the customer that exceeds the firm's cost of creating that value.[22] Such value can be created by the firm either by taking a cost leadership approach (offering the lowest price in the industry/or applicable market), differentiating its

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[21] Stephen A. Rhodes and Donald T Savage, "Interstate Branching: A Cost Saving Alternative?," *The Bankers Magazine*, July/August 1993, p. 35.

[22] Michael Porter, *Competitive Advantage: Creating and Sustaining Superior Performance,*) New York: The Free Press, 1985), p. 3.

products and/or services, or focusing its efforts on a particular area of the industry. Which method a firm chooses greatly depends on the industry structure itself.

Porter has identified five competitive forces that shape an industry's structure: the ability of new competitors to enter the market, the threat of substitution, the bargaining power of buyers, the bargaining powers of suppliers, and the rivalry among competitors.[23] It is the collective strength of these five factors that determine a firm's ability to earn above average rates of return in the industry in excess of the cost of capital. If pressure from one or more of these factors exist, than the likelihood of earning such above average profits is minimal. Today all five factors are tremendously impacting the banking industry. If it were not for the current interest rate environment that is providing wide net interest margins, most banks would be far less profitable given the existing competitive forces.[24] In the last ten years, most commercial banks' rate of return on equity (ROE) and rate of return on assets (ROA) have fallen due to the increased competition from nonbanks and deregulation in the industry.[25] Moreover, according to research from the Federal Reserve Bank in New York, nonbanks grew faster than commercial banks during the 1980s with loans from finance companies growing at 11.4% per year whereas commercial bank loans only

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[23] Ibid, p. 4.

[24] Cantrell, "Reinventing the Bank," p. 32.

[25] "How Banks Can Prosper in a Climate of Adversity: Interview with James McCormick," *The Bankers Magazine* (July/August 1992) p. 5.

grew at 8.4%.[26]

Banks' primary competition comes from nonbanks which can essentially be divided into three categories: Auto Finance Companies such as General Motors Acceptance Corporation (GMAC) and Chrysler Credit; Consumer Finance Companies such as American Express, Avco Financial and Beneficial Corporation; and Commercial Finance Companies such as General Electric Capital Corporation, Westinghouse Credit, and I.B.M. Credit.[27] As a result of both pricing and product advantages, nonbanks have become the dominant provider of traditional banking credit products such as automobile loans, installment credit, consumer credit cards and commercial and business leases.[28] One explanation for the nonbanks success is that these companies are highly selective about the markets they enter and the product lines in which they choose to compete. They research their markets, target the individual or corporate customers, and selectively sell their products.[29] Unlike most banks, these nonbanks do not try to be all things to all people and often pursue a cost focus or differentiation focus strategy. For example, General Electric Capital Corporation concentrates on the credit card and mortgage markets on the retail side and on highly

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[26] "A Midwest Superregional Creates A Nonbank - an Interview with Paul Walsh," *The Bankers Magazine* (March/April 1993), p. 5.

[27] Ibid. p 5.

[28] McCoy, *BottomLine Banking*, p. 33.

[29] Charles B. Wendel, "Meeting The Nonbank Challenge," *The Bankers Magazine* (March/April 1993), p. 13.

specialized transactions on the corporate side.[30] Nonbanks have also used technology to its fullest capacity, for example, offering 24 hour account information, and have been very innovative in their marketing efforts.

The other major competitive force shaping the industry is the bargaining power of the buyers and the suppliers - in this case the customer. On the retail side, the aging of the baby boom generation is of concern due to the fact that most industry experts predict that there will no longer be the same demand for financing products but a growing demand for sophisticated investment products.[31] Given the number of financial services firms to choose from, banks will have a hard time retaining their traditional customer base unless they change their competitive strategy to accommodate their customers' changing needs. On the corporate side, globalization as well as easy access to the capital markets has squeezed profit margins as well as eroded the commercial bank's position as the major lender to Corporate America. Accordingly, banks need to provide other valued services and products to corporate customers such as cash management services, risk management products such as foreign exchange and derivatives trading, and investment banking services to maintain their customer base.

Given the competitive forces, commercial banks like their nonbank competitors are

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[30] Ibid.

[31] McCoy, *BottomLine Banking*, P. 226.

starting to evaluate who their most profitable customers are as well as which products and services are most lucrative. If certain product lines are deemed unprofitable or not essential to the core business, many banks are discontinuing or selling these lines. For example, when Banker's Trust decided that investment banking was to be its core business, it discontinued its retail banking operations and sold its New York branch network.[32] Central Fidelity Banks, a $9 Billion Virginia based bank, discarded its merchant card processing business because margins were too thin to justify the expense and now is concentrating its efforts on expanding its Trust and Mortgage businesses.[33] Similarly, in 1991, PNC Bank Corp. in Pittsburgh sold four Ohio banks, a substantial portion of its Merchant Processing business in Louisville, and its Stock Transfer business in Pittsburgh while investing in high-potential businesses such as Mortgage Banking, Corporate Services, Mutual Funds, and PNC Securities Corp.[34]

Today's business environment requires banks to have a clear, well-defined strategic vision to achieve a sustainable competitive advantage. According to Porter, there are three generic strategies that will lead to banks achieving their goals: they generally minimize overhead expenses and seek economies of scale to become the low cost producer; they differentiate by offering unique services to a large market sometimes at a premium price; they focus on cost focus or product differentiation in narrow

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[32] Ibid, p. 4.

[33] Cantrell, "Reinventing the Bank," p. 27.

[34] 1991 PNC Annual Report, p. 5.

markets.[35] From my research, the trend in the commercial banking industry appears to be either that of differentiation, focus differentiation, or cost focus.

For example, State Street Bank in Boston has achieved a competitive advantage in the industry by implementing a differentiation focus strategy which concentrates on securities processing and asset management. State Street's strategy de-emphasizes traditional lending and the bank has sold its profitable credit card portfolio. The funds from the sale of the credit card business were invested in new technology that would advance its chosen core business. Banker's Trust in New York decided to concentrate on investment banking rather than traditional commercial banking. This differentiation focus strategy has proven to be very successful for Banker's Trust, especially in the areas of corporate advisory services, securities underwriting, and proprietary investing.[36]

BANC ONE and BankAmerica are prime examples of banking institutions that have achieved success through differentiation strategies. These banks realize that superior knowledge of customers' needs and competitive offerings is one of the best ways to gain a competitive advantage and strive to maintain a perception of value in the services they deliver. According to the authors of *BottomLine Banking: Meeting The Challenges for Survival and Success*, "a bank measures the success of its efforts to

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[35] Porter, *Competitive Advantage*, p.11.

[36] Ibid p. 100.

build a differentiated market franchise by tracking their own customer retention, depth of relationships, and levels of customer satisfaction. These three measures are the means of judging effective quality throughout the organization."[37]

An example of BANC ONE's commitment to customer satisfaction is the fact that it solicits feedback from its more than 200,000 customers every year asking them to comment on what they like and dislike about the bank's services. In addition, John McCoy, BANC ONE's chief executive officer, visits companies known for offering excellent service and selects some of their best procedures for implementation by the bank [38] Likewise, Bank of America's CEO, who views the bank's customers as long term relationships not transactions, strives to provide its customers with the highest quality service available in the industry.[39]

PNC Bank Corp.'s competitive strategy is that of a cost focuser. PNC believes that being a low cost provider of goods and services in carefully selected geographic markets presents more profitable growth opportunities; consequently, PNC works hard at managing the revenue/expense relationship.[40] Historically, PNC has had one of the lowest efficiency ratios in the commercial banking industry and intends to continue its

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[37] McCoy, *BottomLine Banking*, p. 323.

[38] Ibid.

[39] Richard M. Rosenberg, "Success Components For the 21st Century," *Bank Management*, (January/February 1994), p. 36.

[40] PNC Bank 1993 Annual Report, p. 7.

legacy. PNC, however, also emphasizes customer satisfaction and has segmented the services and products it delivers into four core business areas to better serve its customers: Corporate Banking, Retail Banking, Investment Management and Trust, and Investment Banking.

In this new era of banking, there appears to be a shift from commoditization to branding and differentiation. Banks are either creating market niches by focusing on a specialized market segment or trying to achieve national name recognition that is synonymous with quality and excellent service. No matter which competitive strategy a bank decides to implement, it is very likely that a bank will also undergo some sort of organizational change in an effort to achieve greater efficiency under the new banking paradigm. Successful implementation of such a change requires the strong leadership of the organization's CEO. Not only must the CEO possess strategic vision but he or she must also have the ability to manage change.

REENGINEERING

In order to succeed in today's new customer/market-driven banking paradigm, it is often necessary for banks to change how they operate internally in order to achieve the desired results. The hierarchal, departmentalized organizational system of banks is not compatible with the new era of banking in which communication, flexibility, and innovation are necessities. Consequently, many banks are undergoing a "reengineering process." According to Cass Bettinger in his book *High Performance in the 90s,*

Leading the Strategic and Cultural Revolution in Banking, the commercial banking organization must liberate itself from an obsolete and destructive paradigm and master the process of strategic change:[41]

> "To survive and prosper in the 1990s, bankers at every level of the organization must be motivated somehow to challenge the rules inherent in the traditional paradigm, explore a wide range of strategic alternatives, tap the initiative and creative energies of the entire organization and conceptualize a vision which is much more than a logical extension of today's reality. That vision must not be the result of 'digging the same hole deeper', but rather the product of digging in another place altogether."[42]

Michael Hammer, the "guru of reengineering," defines reengineering as "fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical measures of performance like cost, quality, capital, service, and speed."[43] Hammer does not believe in tinkering with the existing organizational structure as he believes that the present structure is not part of the solution but is at the core of the problem. Accordingly, Hammer is an advocate of systemic change - a changing of roles, accountability, performance measurements, and processes.

Before reengineering, Chino Valley Bank in California was microfilming documents four times before filing them.[44] Other reengineering changes at Chino Valley Bank

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[41] Cass Bettinger, *High Performance in the 90's - Leading the Strategic and Cultural Revolution in Banking* (Illinois: Business One Irwin, 1991), p. 27.

[42] Ibid, p. 47.

[43] Jack Lyne,"Michael Hammer - The High Priest of Corporate Reengineering," *Site Selection* (February 1993), p. 54.

[44] Cantrell, "Reinventing the Bank," p. 31.

have resulted in two-thirds of their walk-in customers no longer having to stand in line and branch transaction times that do not exceed four minutes.[45] By reengineering processes to achieve greater efficiency and customer satisfaction, Chino Valley Bank has been able to reduce its staff resulting in a savings of $2 million per year. NationsBank recently revamped its trust service process to change the entire way it provides service to its customers and expects that this one change will save the bank $10 million per year.[46] As these examples demonstrate, reengineering can not only reduce costs through greater efficiency but will also provide a better delivery system that should result in more customers.

Reengineering not only addresses the technical structures of workflows but also addresses other key areas such as employee training and performance measurements. Since reengineering often results in employees taking on additional responsibilities as well as being directly accountable for their actions, management should invest accordingly in human resources, giving employees the support and tools needed to do their jobs.[47] Performance measurements are another component that make a reengineering program successful. According to Bob Zizka of The First Manhattan Consulting Group, "you have to provide an environment where meeting goals and

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[45] Ibid., p. 32.

[46] Cantrell, "Reinventing the Bank," p. 32.

[47] Rosenberg, "Success for the 21st Century," p. 37.

targets is meritorious".[48] Key performance measurements should not just be tied to financial targets but also should incorporate the creation of shareholder and customer value. Examples of such performance measurements may be achieving a certain number of transactions per teller or a more complex financial calculation to ascertain the value-added of a business line.[49]

Reengineering is a process that will allow banks to quickly respond to changes in the market. It is not a one time event but a process that needs continuous improvement as markets evolve and change. If banks want to remain competitive they must constantly evaluate the needs of their customers and adapt their products and style of doing business to meet those needs. Banks must also fully take advantage of technology to help them reengineer their processes as efficiently as possibly. Although technology is only one part of the solution it is an important piece that should be implemented strategically.

TECHNOLOGY

Experts estimate that banks spend between $15 and $20 billion per year on information technology.[50] But purchasing expensive technology alone will not ensure success as technology is only a tool. To succeed, banks must review their information

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[48] Katherine Morrall, "Re-engineering: Buzzword or Strategy," *Bank Marketing*, (January 1994), p. 25.

[49] Ibid.

[50] McCoy,*BottomLine Banking*, P. 117.

technology systems and evaluate whether their current systems are capable of supporting their current business and organizational strategies. Systems designed under the old paradigm in banking may no longer be suitable to advance the bank in this new customer-oriented environment. Technology systems must now not only increase productivity and reduce processing costs but also aid bankers in developing creative products, enhancing product delivery, and offering customers flexibility through multiple distribution networks such as ATMs, home banking, and video kiosks.

BANC ONE has the reputation of being the most technologically innovative bank in the industry.[51] BANC ONE was one of the first banks in the U.S. to install automated teller machines in 1970 and also one of the first to install such machines in supermarkets as a way to better serve its customers.[52] BANC ONE's emphasis on retail banking and its use of information technology to improve customer service has helped it become one of the most profitable banks in the U.S; BANC ONE's current return on assets (ROA) is 1.53% which leads all banks (the industry benchmark for ROA is 1%).[53] BANC ONE will be the first bank to introduce a retail banking system that links all of a customer's account information in order to facilitate opportunities for

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[51] Sharen Kindel,"Information Technology: Banc One," *Financial World* (September 28, 1993), p. 50.

[52] Ibid.

[53] Ibid.

cross-selling additional products and services to its customers.[54] However, other banks such as Citibank are not far behind and will most likely have this technology implemented by year-end.

BankAmerica is also one of the leaders in the retail banking technological forefront. In the 1950s, Bank of America and Stanford Research Institute revolutionized check processing by developing the first computer system to process checks by reading the magnetic ink on the check (the system is called ERMA).[55] BankAmerica's CEO, Richard Rosenberg, strongly believes in applying technology that adds value to the business. He is a firm supporter of banks developing technology that can analyze information contained in customers' transactions (such as a customer's net worth or liquid cash holdings) in the same way that bar code scanners capture and track information on the purchase of products. He also believes that banks should widen the use of ATM. He foresees ATM machines in the very near future being able to handle a multitude of transactions besides banking. Such transactions could be making airline and auto reservations, obtaining stock quotes, electronic mail and real estate offerings.[56] Video kiosks in which consumers can speak directly with a bank representative over the video screen are also coming in the very near future.

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[54] Ibid.

[55] Rosenberg,"Success Components For the 21st Century," p. 37.

[56] Ibid, p. 38.

Another growing area in technological advancement being implemented by some of the nations largest banks is image processing. Besides processing checks, deposits, and credit card receipts, image processing can also process loan applications, prepare due diligence reports for securities underwriting, and process documentation for mortgage backed securities. Due to the current expense of the required systems, it will not be feasible for every bank to purchase this technology. Those banks that do make the investment will most likely be the leaders of tomorrow as many experts feel that this technology will change the way the banks do business in the future.[57]

Other technological trends that are impacting how institutions serve their customers as well as increase communication and efficiency are client/server applications, open systems, portable computers, and groupware.[58] Systems using client/server applications have more flexibility in choosing and consolidating information than the old mainframe systems. Since client/server applications are performed using desktop computers, the user can manipulate information more easily and efficiently instead of having to log on and off multiple systems as in the past. The second noted trend is open systems, a term used to describe software products that can run on different kinds of hardware platforms. With the number of bank consolidations occurring or likely to occur in the future, compatibility of hardware and software is critical to integrating multiple banks' computer systems into a single cohesive network. Also,

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[57] Lee Keough, "The End of the Paper Chase," *Institutional Investor* (July 1989), p. 204.

[58] Craig Plotkin, "Technology Trends That Count," *The Bankers Magazine* (September/October 1993), P. 4.

open systems allow banks to purchase hardware based on such criteria as price, performance and support instead of software compatibility criteria.[59]

Portable computers are having a huge impact on how both corporate and consumer bankers service their customers. Portable computers can help small business and private-banking officers make persuasive presentations at their clients' offices and also allow them to access information immediately when out of the office. On the consumer side, portable computers have revolutionized the mortgage origination process. The more sophisticated banks and mortgage companies have changed the entire application process. Sales people equipped with portable computers meet with their customers (day or night) and log all the necessary application information directly into the portable computer, relieving the customer from filling out mounds of paperwork.[60]

Finally, groupware, a software that electronically connects groups of people, can help banks achieve productivity gains. By using groupware, bankers in many different locations can share information instantaneously. With the superregional bank being the trend of the future in commercial banking, banks will need to develop sophisticated communication channels. Groupware can also be integrated with the restructuring of business processes to electronically track the workflow process, further

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[59] Ibid, p. 7.

[60] Ibid, p. 8.

reducing manual processes.

Reengineering and technology are greatly impacting the real estate locations, types of assets, and the amount of space needed by commercial banks. The streamlining of processes and the consolidation and centralization of back-office operations as a result of reengineering and technological advances have resulted in excess space that the CRE unit is now responsible for disposing of cost-effectively. Due to technological advances, CRE executives are also rethinking the optimal locations for data centers, telephone banking centers, or other back-office operation facilities.

Technology will also continue to have a huge impact on retail banking. Many banks are continuing to expand their self-banking operations through increased technological innovations. Banks are moving away from the traditional branch bank on every corner to strategically located banking centers. Real estate executives must be able to identify these strategic locations as well as cost efficiently design and build these centers throughout the banks' market areas.

TRENDS IN CORPORATE REAL ESTATE

It is clear that in order for banks to prosper in this highly competitive environment that every segment of the corporation must add value - real estate is no exception. Given the organizational and technological changes resulting from implementation of reengineering and new advanced technology, there are likely to be opportunities in

which the strategic management of the bank's real estate assets can positively impact the bank's bottomline.

Historically, banks have placed their offices and backroom operations in prime real estate locations resulting in very high occupancy costs. In the late 1980s and early 1990s, a few financial competitors used business mobility as an element of strategy just as many of the car manufacturers have done recently. In an effort to reduce overall costs, Saturn chose to locate its manufacturing plant in Tennessee as did BMW and Mercedes. Similarly, Banker's Trust relocated substantial operating businesses to New Jersey and Chase Manhattan relocated many of its operations located in expensive Manhattan locations to Brooklyn, New York.[61] Citibank has also adopted this strategy for many of its business units. In 1989, it built a 44 story office tower in Long Island City, New York which houses many of its executives. Citibank has also relocated many of its local market back-office operations to centralized locations in such places as San Antonio, Texas; St. Louis, Missouri; Tampa, Florida; and Sioux Falls, South Dakota.

Charles H. Nob, the former managing director of corporate operating services at Banker's Trust Company in New York, has outlined the logic behind relocating operations:[62]

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[61] Charles H. Nobs, "New Set Of "Power Tools Needed For Cost Cutting Efficiency," *The Bankers Magazine* (May/June 1993), P. 7.

[62] Ibid, P. 7.

- Need to achieve a profitability hedge against labor, tax, utility, and contract service costs in the headquarters city.
- Recognition of the attractiveness of green-field locations.
- Awareness that mobility can directly influence a bank's profitability, productivity and operating risk profile.
- Understanding that current and future developments in telecommunications create new ways of doing business with less concern for distance.

Just as banks evaluate the profitability of their various products and services, many banks are starting to assess which operations can be relocated to green-field sites or less expensive locations than currently exist. In this new paradigm, innovation, flexibility, and commitment are the keys to success. Banks cannot afford to just apply the old cost-cutting techniques pertaining to real estate such as reducing the amount of square feet per person or solely relying on tax and utility abatements. Banks must be innovative in thinking about their real estate needs including their branch systems.

In the past, many branches existed mainly as deposit takers to fund earning assets. In today's environment, however, only $11 billion out of a total $200 billion in household discretionary income is deposited in banks. The other $179 billion is channeled to mutual funds.[63] When branch overhead expense is converted to a noninterest funding rate, it has been frequently found that this noninterest rate exceeds the rate that can be

[63] Interview with Paul Walsh, p. 8.

earned by the bank on the deposits.[64] Consequently, operating costs must be aligned with the new mission of branching system. From a real estate viewpoint, consolidation of unprofitable branches is a key ingredient to reducing retail costs. Other distribution methods such as convenience outlets in supermarkets and department stores, ATMs's, ATM drive-up windows, and mini-branches at corporate customer's office locations have been shown to outperform the full service branch on both efficiency and productivity measures and are in wide use by most banks.[65] However, full service banks have been shown to demonstrate higher earnings due to the type of transactions typically performed at a branch as compared to at an ATM. Accordingly, many experts in the industry feel that the full service branch of the future will act as a sales center for both traditional and nontraditional banking products and that the physical layout of the branch should enhance the marketing efforts.

For example, Citibank recently embarked on a worldwide model branch program. The reasoning behind this strategy is that Citibank wants its customers to feel at home at anyone of its branches located in 93 countries. The model branch is striving to create the optimal in-branch environment for sales, coupling state-of-the-art technology with personnel who are trained, motivated, and rewarded to serve and service their entire customer relationship.[66] To achieve greater operating efficiencies, Citibank, in

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[64] Bettinger, *High Performance in the 90's*, p. 116.

[65] Ibid, P. 26.

[66] Citicorp Annual Report 1993, p. 6.

1993, reorganized its North America branch system to create a single organization with a single management structure, operating system, set of products, and back-office operations. To add value from a real estate standpoint, the CRE unit helps identify strategic locations for new branches and is in the process of standardizing space requirements and materials in an effort to reduce construction costs which ultimately affect the retail bank's bottomline profitability.

REAL ESTATE PROPOSITIONS

It is my belief that the banking industry's solutions to the challenges impacting the commercial banking industry will affect the real assets of the corporation and the role of the CRE executive. It is my hypothesis that the new role of the banking CRE executive will most likely be that of a master coordinator; interfacing with the various business units, comprehending their business strategies, and working with them to achieve their goals. The impacts on the real estate assets and the service delivery process are as follows:

Mergers and Acquisitions:

The consolidation of the banking industry will result in CRE executives doing more due diligence work to ascertain which real estate assets of the acquired bank are strategically important and which assets should be sold. This evaluation will require the CRE executives to have an adequate understanding of the business goals of the various business lines in order to make the correct recommendations. Teamwork

between the CRE unit and the business lines, senior management, and future tenants will be very important to the overall real estate success of the merger or acquisition.

Reengineering:

Reengineering of the corporation, including the Corporate Real Estate unit, will result in a consolidation of the bank's real estate assets in the short-term. Given the new efficiency focus, the CRE unit will be responsible for optimizing the use of the bank's real estate assets by cost-effectively disposing of vacant or underutilized space. CRE executives will also be challenged to develop new ways to make more affective use of the bank's real estate assets such as exploring the possibilities of telecommuting or virtual offices.

In the long-term, new real estate locations will be acquired for the strategic benefit of the entire corporation as compared to just the individual business unit in the past. This focus does not mean that the individual business unit's financial well-being will be sacrificed in any way. On the contrary, this new focus will require more financial analysis regarding both the impact a new real estate site will have on corporate earnings as well as the financial impact to the business units after all associated costs are taken into account. The goal will be to select the real estate solution that has the best implications for the corporation but that also satisfies the needs of the business units and the bank's customers.

Reengineering will also affect the way the CRE unit delivers its services to the business units. Real estate executives will now focus most of their time on strategic planning issues and therefore will need to increase the number of services they outsource. CRE executives, however, will need to ensure that these outsourced services can be performed at a lower cost than performing such service in-house and that the quality of the service and results is equal or better than what could be attained in-house. In addition, the CRE unit will now be more focused on delivering quality service to the internal business customer, just as the business units will be more focused on better serving the needs of their external customers.

Technology:

The consolidation and conversion of multiple information systems into one corporate information system will impact the location of many operational units. Due to economies of scale as well as synergistic effects achieved, the local market operational divisions of the business lines will relocate to centralized locations. Green-field sites for such operational centers will become more commonplace in an effort to lower costs related to salaries and benefits as well as real estate operational costs.

Technology will also greatly impact the future number, location, and design of branches. More emphasis will be on electronic banking such as more sophisticated ATM machines that can cash checks to the penny, telephone banking, and interactive video banking either at home or at a video kiosk. The branch distribution system will

still remain a very important asset to commercial banks but the number of locations will shrink in an effort to ensure that each branch location is profitable given the occupancy costs of maintaining a branch. Banks will also operate their branches with a new retail approach in mind. As a result, the design and location of the branches must enhance the new multi-product (both traditional and nontraditional) sales concept.

Chapter Two- Research Methodology

The research methodology applied for this thesis work was a combination of the case study method, background interviewing, and literature review. After reviewing many articles and books about the challenges facing the banking industry, twelve corporate real estate executives from some of the nations largest and most well-known banks in the U.S. were asked to participate in an informational interview.

Each answered questions about his/her corporate real estate unit based on a standard interview protocol which was designed to help identify which stage the CRE unit was at: Stage 1 - Taskmaster; Stage 2 - Controller; Stage 3 - Dealmaker; Stage 4 - Intrapreneur; or, Stage 5 - Business Strategist. Based on the answers to the interview protocol and the willingness of the executive to host a case study in the early summer of 1994, two very different banks were selected for case study work to illustrate the similarities as well as the differences of the two corporate real estate units given the classification of each bank. These two banks were Citibank based in New York and PNC Bank Corp. based in Pittsburgh.

For the case studies presented in the next two chapters, the author traveled to each unit's principle corporate real estate office and privately interviewed 3 to 4 members of the corporate real estate unit, several business unit representatives, and one of the unit's third party vendors. The author also reviewed reports, documents, memos, and

letters pertinent to the case research. The information gathered on-site as well as through follow-up phone calls is presented in each case study.

Citibank:

Due to its size and presence domestically as well as internationally, Citibank is classified within the banking industry as a money-center bank along with Banker's Trust, Chemical Bank, and Chase Manhattan Bank. Citibank is the largest bank in the U.S. in terms of assets and the largest non-Swiss bank in the world. It considers itself to be the only truly global institution as it operates in 93 countries in the world and feels its ability to deliver services globally is an important competitive advantage. Domestically, Citibank has a banking relationship with 1 in 4 families in the U.S. and serves 39% of the households in the New York City market. [67]

The principal offices for Citicorp and Citibank are located at 399 Park Av., New York, New York which is a 39 story building, two-thirds owned by Citibank. Citibank also owns one-third of Citicorp Center, a 59 story building located at 153 East 53rd St, New York, New York. Citibank owns Citicorp at Court Square in Long Island City, New York, a 44 story building, and 111 Wall St. in New York City. Both buildings are fully occupied by Citicorp. In addition, Citicorp has major domestic real estate holdings in San Francisco, California; Chicago, Illinois; St. Louis, Missouri; Tampa, Florida; Sioux Falls, South Dakota; Hagerstown and Silver Spring, Maryland; New

[67] Citicorp Annual Report 1991, p. 7.

Castle, Delaware; and The Lakes, Nevada. Internationally, Citicorp owns buildings in many cities throughout the world including Paris, London, Milan, Buenos Aires, Mexico City, Hong Kong, Seoul, Taipei, Tokyo, and Madrid. Citicorp occupies 32 million square feet world wide of which one-third are in the New York area, one-third in the balance of the U.S. and Canada, and the other one-third overseas. Of this space, approximately 48% is owned and the remainder is leased.

PNC Bank Corp.:

PNC Bank represents the emerging "superregional" bank. In 1983, Pittsburgh National Corp. merged with Provident National Corp., at that time the largest merger in the history of U.S. banking, resulting in PNC being the 27th largest holding company in the U.S with $12 billion in assets. Today, PNC is the tenth largest banking institution in the U.S. with $62.1 billion in assets as of December 31, 1993 and if all proceeds as expected, intends to double in size within the next few years. Since 1991, PNC Bank Corp. has added over $18 billion in assets through acquisitions including last November's purchase of Sears Mortgage Corp. which merged PNC Mortgage Corp's $9 billion mortgage portfolio with Sears' $27 billion servicing portfolio.[68]

The superregional bank has become a powerful presence in the commercial banking industry and experts predict that the superregional banks may soon surpass the traditional money-center banks in terms of market value and domestic market

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[68] Edward Kulkosky, "Mountain of Task: Merging Sears, PNC Units," *American Banker* (November 19, 1993), p. 10-11.

presence.[69] Other superregional banks are BankAmerica, BANC ONE, NationsBank, Norwest and First Union.

The principal offices of PNC Bank Corp. are located at One PNC Plaza, Pittsburgh, Pennsylvania, a 30 story building fully owned by PNC Bank. PNC Bank recently acquired Two PNC Plaza, Pittsburgh, Pennsylvania, a 34 story building, but at this time only occupies approximately 50%. PNC also owns a 95,000 s.f. data center located near the Pittsburgh airport. In addition, the Bank leases approximately 300,000 s.f. at One Oliver Plaza, Pittsburgh, Pennsylvania and 55,000 s.f. at 300 6th Av, Pittsburgh, Pennsylvania. The bank also owns and leases many properties in the following cities: Philadelphia, Scranton, Erie, Harrisburg, Wilmington, Cincinnati, and Louisville. With the acquisition of Sear's Mortgage, the bank also leases space for 117 retail offices in 33 states.

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[69] McCoy, *BottomLine Banking*, p. 125.

Chapter Three - Citibank Case Study

BACKGROUND INFORMATION

Like every other bank in the late 1980s and early 1990s, Citibank experienced huge losses due to the collapse of the U.S. commercial real estate market as well as the slowdown in business due to the recession. To make matters worse, Citibank also had to contend with the billions of dollars in losses to other countries such as Brazil and Argentina. In an effort to restore the corporation's earnings momentum and increase its capital strength within two years, Citicorp's Chairman, John Reed, implemented The Five Point Plan in January of 1991.

The first point focused on 1991 and 1992 being the turnaround years for the bank. During this period, every aspect of Citibank's worldwide operations was examined in order to identify and implement actions that would position the company strongly within the industry for the remainder of the 1990s. Senior management established task forces to work across business and geographic lines to seek out opportunities that may have previously been lost due to the decentralized structure and autonomous culture of the corporation.[70] Senior management also consolidated management of the lines of business from 50 managers to 15 managers and made each responsible and accountable for the day-to-day operations of his/her line of business as well as its profitability.

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[70] Citicorp Annual Report 1991, p. 4.

The second point of the plan focused on the corporation as a whole managing differently to reduce the cost base and improve the revenue/expense relationship. Nonessential activities were eliminated, support functions consolidated, and management structures flattened to eliminate bureaucracy and needless expenses. Each business was also analyzed to determine how its customers could be served more efficiently at lower costs while seeking to improve revenue.

The third point of the plan concentrated on strengthening the bank's capital position. Due to stricter government regulations concerning risked based capitalization ratios, all banks were required to increase their capital reserves. Citibank accomplished this goal by suspending the common stock dividend in 1991 which amounted to a savings of $350 million, selling non-strategic assets which amounted to $1.2 billion, and raising external capital by issuing $1.25 billion new preferred stock. By the end of 1991, total Tier 1 and Tier 2 capital reserves increased to $17.1 billion.[71]

The fourth point focused on building on the strengths of the core businesses: Global Consumer which included branch banking, mortgage banking, card products, and private banking; and Global Finance which covered wholesale financial services for corporations, financial institutions, governments,and participants in capital markets throughout the world. Unlike other institutions that pulled out of markets during these tough years, Citibank prided itself on having unique, global, consumer, corporate, and

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[71] Ibid, p .5.

institutional banking franchises with more than 3,500 offices in 93 countries.

The final point of the plan dealt with maintaining a strong customer focus throughout the execution of this plan. A great deal of emphasis was placed on each business unit better understanding its customers and their needs. Under this plan, each unit now asked itself, "What do our customers need and how can we provide it profitably?" rather than, "What can we sell?"[72] As a result, a new array of products and services were introduced to better serve the customer and banking at Citibank has been coined "Citibanking". Citibanking was slated to present customers with consistent brand identity and product offerings with high level of services no matter where they were in the world.

To accomplish these objectives and ensure that Citibank remained a leader in the 1990s and beyond, Citibank continued to develop innovative technology such as Citiphone to provide customers access to account information seven days a week, 24 hours a day, throughout the U.S., Europe, Asia and Latin America; a single customer account information system for its branch network; a multi-country interconnected retail bank in Europe; ATM's that operate with multiple currencies and multiple languages; and high-volume trade processing centers in the U.S. and Hong Kong that operate across geographic boundaries.

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[72] Citicorp Annual Report 1991, p. 5.

THE EVOLUTION OF THE CORPORATE REAL ESTATE UNIT

Prior to 1991, corporate real estate activities were highly decentralized at Citibank and, for the most part, left up to the individual business units. The culture of the bank at that time promoted each line of business to act autonomously on decisions including any regarding space. Although Real Property Services (RPS) handled design, project management, leasing, acquisitions/dispositions, and construction, business units had the option of using this in-house group or going outside the corporation for its real estate services. Even when the RPS group was asked to be involved in a real estate project, the business solely made the real estate decision and RPS 's role was to implement it. For example, if a business decided to expand its operations to a new city and contacted RPS to help them locate a site, RPS looked for suitable site based on the specifications given to them by the business unit which included the city, the type of tenure, and the amount of space needed. Due to this policy, the RPS group never serviced some business units until the corporate policy regarding real estate changed in 1991.

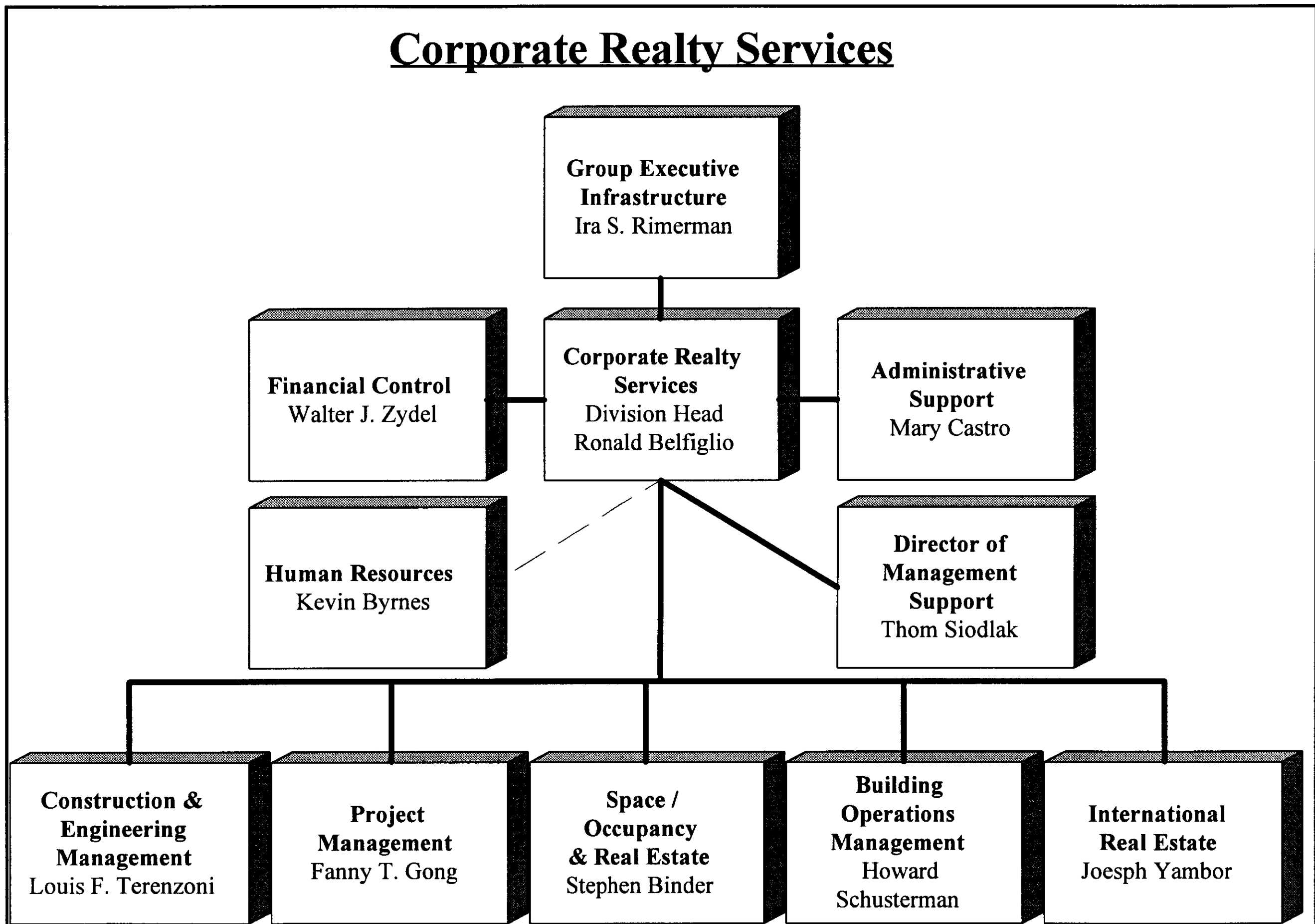
Even before The Five Point Plan was officially announced in January 1991, senior management realized the need to reduce occupancy expenses. As Stephen Binder, then in charge of Project Management, explained the situation: "during the early and mid 1980's, the rule of thumb was that for every $2 of revenue earned, the bank could afford to spend $1 in expenses. In the early 1990s, the bank was still spending the $1 but revenues were only 50 cents." Although a task force had been established to

examine and recommend improvements for every aspect of the bank including corporate real estate, senior management felt it couldn't wait for the results of the task force and needed to take action regarding occupancy expenses immediately.
Senior management decided to centralize the real estate function bankwide to accomplish its corporate objectives and changed the name of Real Property Services to Corporate Realty Services (CRS) in January of 1991, as a symbol of the unit's new role within the corporation. Senior management also brought in Ronald Belfiglio from one of it European operations to manage the entire group and promoted Stephen Binder to Director of Space/Occupancy and Real Estate. The overall task of the CRS unit was to establish and manage the strategic direction and costs of the bank's real estate assets in the U.S. and Canada. Although international real estate was part of CRS, for the most part, real estate decisions were made by the overseas business units with the help of in-house real estate advisors. The organizational structure for Corporate Realty Services in 1991 moved from a decentralized structure to a centralized corporate structure with the group reporting to Ira S. Rimerman, Group Executive of Infrastructure (see figure 1).

CRS'S NEW PLANNING ROLE

Since Binder was in charge of all the space needs and real estate for the bank, it was imperative for him to know exactly what real estate the bank owned and leased. At that time there was no property database and, as a consequence, no one person knew exactly what the bank owned and leased worldwide. After a great deal of research

Figure 1



and many phone calls, Binder put together a computer database that listed the location of every Citibank property in the world as well as its property type (office, retail branch, warehouse, or data center) as a first step in the planning process.

The breakdown of property per region showed that one-third of all of Citibank's space was in the New York area, one-third was in the balance of the U.S. and Canada, and the other one-third was overseas. Some of the major properties in the New York area included the principal offices for Citicorp and Citibank at 399 Park Av., a 39 story building which was two-thirds owned by Citibank, Citicorp Center, a 59 story building located at 153 East 53rd St which was one-third owned by Citibank, Citicorp at Court Square in Long Island City, New York, a 50 story building wholly owned by Citibank, and 111 Wall St. in New York City. For the balance of the U.S and Canada, Citicorp had real estate holdings in San Francisco, Chicago, St. Louis, Tampa, Sioux Falls, South Dakota, Hagerstown and Silver Spring, Maryland, New Castle, Delaware, The Lakes, Nevada, and Toronto. Internationally, Citicorp's real estate holdings included buildings in many cities throughout the world including Paris, London, Milan, Buenos Aires, Mexico City, Hong Kong, Seoul, Taipei, Tokyo, and Madrid. Overall, in 1991, Citicorp occupied thirty-six million square feet world wide of which approximately 48% was owned and the remainder was leased.

After reviewing the entire portfolio, it was apparent that there was a considerable amount of vacant or underutilized space that needed to be consolidated or disposed of

in order to reduce the bank's occupancy expenses. CRS also saw the need to implement space standards as a means of consolidating space and further reducing occupancy costs. These issues were all addressed in a 1991 strategic plan, prepared by Binder, which outlined how CRS intended to consolidate domestic space and reduce occupancy expenses for the period of 1991- 1995.

Binder also created and implemented what CRS called the Citiplan Program in 1991. The purpose of the Citiplan was to align the business goals and life cycle of the various units with the real estate plans of the corporation. A typical Citiplan included the following sections: Executive Summary of the buildings in the city; Real Estate Analysis which described the length and terms of the leases as well as included recommendations and evaluations; Space Requirements based on the business unit's projections; Space/Real Estate Plan which described actions to be taken and the rational for these actions; Programming Summary Sheets; and, Floor Plans of each space occupied by a business unit in that city. Initially Citiplans were completed for only the thirteen largest cities in the U.S and Canada. To complete the plans, Binder met with the executives from each major line of business to determine their business plans and real estate needs for the next several years. Citiplans were market specific and their length of time varied accordingly. For example, when the Citiplan for Chicago was developed in 1991, space needs and relocations were planned through 1998 (7 year plan).

In August of 1991, Binder implemented the Citilandlord Policy which was a space occupancy and rental policy for the Metro New York area. CRS's strategy was to coordinate business needs with available space to maximize the occupancy in core facilities, which were primarily owned. The Citilandlord policy allowed the business unit to functionally transfer vacant space and associated expenses to CRS. CRS then took the appropriate action to dispose of or backfill the space in the most cost effective manner for the corporation. The Citilandlord Policy also allowed CRS to establish the annual rental charges to be incorporated into the business units' annual budgets. These charges were not solely based on the market rent for the building but also included other overhead expenses such as taxes, operating expenses, cost of funds, and other related expenses incurred by the corporation pertaining to the space.

1991 - 1993 RESULTS

By all accounts, CRS considered the Citilandlord Policy a success. After one year, CRS extended the policy throughout the U.S. and Canada in 1992 and as of 1993, Citiplans had been completed for every major domestic market. By the end of 1993, CRS had disposed of approximately 4 million square feet through its combined efforts.

In December of 1993, built on its success to date by establishing leverage programs in concert with the rest of the bank which provided a unified approach to corporate purchasing of goods and services, CRS had reduced expenses by $137 million (from $844 million in 1991 to $707 million at the end of 1993). In order to classify how

CRS achieved these savings, CRS established specific "save" categories which were presented to senior management on an annual basis.

LEVERAGE INITIATIVES

Part of the Corporation's Five Point Plan specifically focused on managing differently to reduce the cost base of the bank. As a result, programs such as the Spend Smart Expense Management Program, a national buying program that consolidated the bank's purchasing policies, ordering, and payment services, were implemented bankwide. Each unit was also challenged to find new ways of achieving cost savings by implementing its own programs. In 1993 and 1994, CRS approached this initiative in two different ways: (1) It recruited a small number of preferred brokers to work with its internal staff. As part of this initiative, CRS negotiated a 30% commission rebate on every deal to be paid to Citicorp's brokerage business; (2) It decided to handle some transactions solely in-house in situations where the in-house transactor had a previous relationship with a landlord and could use this relationship to leverage a better opportunity for the bank and the business unit customer.

Initiative 1 - The Preferred Broker Program:

To better serve the local markets, CRS created five regions in 1993: New York/ NY Metropolitan Area, Mid-Atlantic, Southern, Mid-West, and Western. Each region had a local manager and staff to implement the strategic plans, policies, and procedures established by CRS in New York. At that time, each region hired its own third party

brokers to assist the internal staff with transactions. Binder realized that hiring multiple third party brokers was often inefficient because each time a broker was hired he/she had to be educated about the Citibank way of doing things. Since new brokers were being hired all the time, this education process became extremely time consuming in addition to the fact that the real estate results were not consistent.

Binder decided that it would be more beneficial to select a finite number of preferred brokers. For the privilege of being one of the few selected to work with CRS, he required a 30% commission rebate on every deal. He also felt there was a tremendous time savings to training these brokers to perform spreadsheet and other financial analysis according to the bank's GAAP (Generally Accepted Accounting Principles) standards, an accounting standard required of all banks, so that the final numbers on every deal were presented in terms of its net present value and bottom line impact to the bank's earnings. In addition, CRS set out to achieve, by having preferred broker relationships, consistency, commitment of each firm to dedicate the same team of senior level brokers to work on every deal (big or small), single point of contact per firm, and the ability for CRS to handle more transactions.

Consequently, Binder and his team implemented the Preferred Broker Program in January of 1994. Since Binder felt that the bank's commercial real estate needs were different than the bank's retail branch needs, the selection of the preferred brokers was divided according to these two areas. Each brokerage firm was selected based on its

reputation in a particular region as well as its past experience with Citibank and then assigned to work with a particular region or sub-region.

On the commercial side, five national real estate companies (Galbreath Riverbank, Cushman & Wakefield, CB Commercial, Julien J. Studley, and Maurice Gelina & Associates) were selected as preferred brokers. According to the agreement, all real estate transactions were to go through the preferred broker in that region, unless Citibank decided to use solely in-house staff for a particular transaction.

For the NY Marketplace retail bank's real estate needs, a more formal process was undertaken to select the preferred brokers. An RFP was sent out to both regional and national brokerage firms and then each respondent presented its proposal to Ken O'Connor, a member of Binder's group who was in charge of the retail bank needs, and others in the CRS unit who frequently worked with the retail bank. That group as a whole then voted on which brokerage firms to select. Due to the specialized geographic real estate needs of retail banking, the same brokerage firms were not necessarily selected to handle both the commercial and retail needs of the bank in the same region. Figure 2 summarizes the preferred brokers, selected by region, for both the commercial and retail bank needs.

<u>Results of the Preferred Broker Program:</u>

An important aspect of the preferred broker arrangement was that each firm was included in the weekly and monthly strategy meetings for its particular region.

Figure 2

LOCATION	COMMERCIAL	RETAIL
NewYork/ Metro		
•Brooklyn	**Galbreath Riverbank**	**Fillmore**
•Queens,Brooklyn,S.I.	**Galbreath Riverbank**	**Perigrime**
•Westchester	**Galbreath Riverbank**	**CB Commercial**
• S. Manhattan	**Galbreath Riverbank**	**CB Commercial**
•N.Manhattan	**Galbreath Riverbank**	**Galbreath Riverbank**
•Long Island	**Galbreath Riverbank**	**Wilrock**
Mid-Atlantic		
•Baltimore	**Julien J. Studley Inc.**	**Julien J.Studley, Inc.**
•Washington,D.C	**Julien J. Studley Inc.**	**Julien J. Studley, Inc.**
• Virginia	**Julien J. Studley, Inc.**	**Julien J. Studley, Inc.**
• Atlanta	**CB Commercial**	**Julien J. Studley, Inc.**
Southern		
•S. Florida	**Maurice Gelina & Assocs.**	**Maurice Gelina & Assocs.**
Mid-West		
• Chicago	**Galbreath Riverbank**	**To Be Determined**
• Kansas City	**Galbreath Riverbank**	**To Be Determined**
• Cincinnati	**Galbreath Riverbank**	**To Be Determined**
Western		
• Los Angeles	**CB Commercial**	**CB Commercial**
• San Francisco	**Cushman & Wakefield**	**Cushman & Wakefield**
• Oakland	**Cushman & Wakefield**	**Cushman & Wakefield**
• Dallas	**CB Commercial**	**CB Commercial**
• Houston	**CB Commercial**	**CB Commercial**

According to Galbreath, participating in these strategy meetings provided them a much better appreciation of the needs of the CRS unit and the ability to respond proactively to real estate issues or see new opportunities.

For example, Galbreath's staff learned of a new initiative called the Over/Under Effort in which the CRS unit wanted to identify buildings in midtown Manhattan that had leases that were either over or under the current market rents. The goal of this

initiative was to renegotiate the leases at the current lower market rent (as CRS felt rents were at the bottom of the cycle) for those sites that would be strategically valuable to the corporation in the future. Working as part of the team with the CRS staff, Galbreath reviewed all of Citibank's leases and helped identify four potential leases to renegotiate with the landlords based on the longevity of the business units at these locations and these buildings' proximity to Citibank's headquarters: 425 Park Av, 666 5th Av, 111 Eighth St, and 909 Third Av.

As a result of this initiative, Galbreath negotiated a 15 year extension on the lease at 425 Park Av. resulting in an upfront savings of $5.2 million and a $500,000 brokerage rebate to Citicorp. Galbreath was also able to restructure the current lease at 909 Third Av. for an upfront savings of $1 million due to the fact that the lease had a Right of Cancellation clause. The potential of the business unit vacating this location and exercising this clause was enough incentive for the landlord to reduce the rent and extend the lease. Due to the success of this initiative for the Midtown buildings, a similar initiative was implemented for the bank's retail locations in greater New York during the summer of 1994.

In another situation, Galbreath was given the responsibility of disposing of a 72,000 s.f. building in Brooklyn that Citibank owned and fully occupied. Citibank, however, planned to vacate the building and therefore was unwilling to commit to a lease with a potential new owner. The senior brokers at Galbreath advised Citibank that the

building would have much more value to a potential buyer if a major tenant were in place. Accordingly, Citibank agreed to let Galbreath find a quality tenant to replace them and today the building is being marketed at a substantially higher price with Health Insurance Plan of Greater New York having signed a long-term lease for 43,000 s.f.

This pursuit to add value was consistent with Galbreath Riverbank's Vice Chairman, Bruce Mosler's point of view, that the brokerage business was much more about developing long-term relationships. According to Mosler, a brokerage firm's standard services must include consulting, demographic studies, and financial analyses in addition to its traditional service. Brokerage firms such as Galbreath had realized that they must be able to add value for the customer; otherwise, there was no need for Galbreath to be involved in the deal.

Initiative 2 - Meeting the R.E. Needs Of The NY Market Consumer Bank

Citibank divided its core businesses into two major areas: Global Consumer and Global Finance which then were segmented into specific markets such as the New York Market. The Consumer Division included branch banking, credit card services, small business lending, residential mortgage and consumer lending, and private banking. The Global Division included wholesale financial services, such as traditional commercial lending activities, as well as investment banking, foreign exchange, and derivatives trading.

Relocating The Boat Division of Deal Finance:

In the spring of 1992, Asmita Bhatia, the unit head of Space Occupancy, met with a representative from the New York Consumer Bank to assess the space needs of this division. The representative expressed concern over the number of scattered vacancies that had resulted from consolidations within the New York Market of the Consumer Bank due to the streamlining of processes and the consolidation of operational units throughout the entire Consumer Bank and sought recommendations for reducing its overall occupancy expenses. After reviewing the business locations of the units within the consumer division, one of the recommendations CRS presented pertained to consolidating two locations into one location.

The Boat Division of Dealer Finance, located at 88 Duryea Road on Long Island, occupied 15,500 s.f. at a rent well above current market rents and was in the sixth year of a ten year lease. This unit was part of small business lending and originated and serviced boat loans to consumers as well as financed boat dealers' inventories. Since this division had shrunk from 65 people to 20 people due to the economy and other consolidations, it was apparent that this space was being underutilized. CRS felt it would be more cost effective to relocate this unit to another building that was occupied by other units of the Consumer Bank since CRS realized that vacant space was much less expensive to operate than partially occupied space.

100 Baylis Road, located across the street from 88 Duryea, was occupied by five other

units of the Consumer Bank: The Car Division of Dealer Finance, which originated and serviced car loans to consumers and financed dealers's inventories; Direct Access, which was an operations unit that handled the New York Citiphone telephone calls; Mortgage Sales for Long Island, which provided mortgage origination services for Long Island; EPS, which was an operational unit that processed forms for the Consumer Bank; and, Human Resources Training, which trained tellers and other branch personnel for the Long Island area. Although Citibank leased the entire building consisting of 98,340 r.s.f. , 10,000 r.s.f. were vacant at that time. Accordingly, the Boat Division of Dealer Finance relocated to absorb this vacant space at a savings to the Consumer Bank of $436,538 annually.

CRS's responsibility did not stop with the relocation of this unit. In accordance with the Citilandlord Policy, CRS was now responsible for the vacant space at 88 Duryea Rd. CRS attempted to resolve the vacancy problem in two ways. First it tried to negotiate a buy-out of the lease with the landlord but was unsuccessful due to his unwillingness to renegotiate the high rental rates. Then it attempted to find a third party tenant to sublease the space for the remainder of the lease. Although CRS did find such a tenant, the deal was never consummated due to the fact that the landlord was unwilling to extend the lease according to the terms of the sub-tenant. During 1993, however, the space was utilized on and off by Human Resources as a Career Center for employees whose jobs had been discontinued.

Lease Expiration At 100 Baylis Road:

In the summer of 1993, Bhatia met with the representative from the Consumer Bank once again to discuss the lease at 100 Baylis Rd which was to expire in December of 1994. At that time, she quickly learned that the various business units occupying the premises had different space requirements that would need to be phased out over time due to changes in each unit's business plans:

• Direct Access was to be phased out of New York by the end of 1994 and relocated to the new corporate communication hub in San Antonio,Texas which was an owned facility. As a result of The Five Point Plan, Citiphone, the bank's 7 day a week, 24 hour phone service, would be consolidated to one location. The move to San Antonio would allow the consumer bank division to take advantage of economies of scale as well as a lower salary and benefit scale, as well as less expensive space.

• Mortgage Sales, currently located on the third floor of 100 Baylis Road, wanted to move to a new street level location that would give them greater accessibility to the public. They also needed a location that would be accessible on nights and weekends for appointments with their customers.

• EPS's future business plans were still undecided. There was a possibility that this group would be consolidated and relocated out of New York by the end of 1995. Therefore, this unit only wanted to rent space through 1995.

• Dealer Finance's business plans were also incomplete. It had been decided that the Queens sales force and Long Island sales force would merge and that there was a possibility that the operations and collection areas of Dealer Finance would relocate out of New York to either the San Antonio or St. Louis data center by the end of 1995. Just as Citiphone was consolidating its operations, so were the loan operation areas. Instead of having a loan information systems in each market, the Consumer Bank was converting these individual systems to one central loan system for the entire bank. Due to the undecided situation, the operations areas of Dealer Finance only wanted to commit to leasing space through 1995.

At the same time Bhatia was addressing these concerns, the Queens Sales Manager slated to manage the merged Queens and Long Island sales forces wanted to relocate from Court Square in Queens to a more central and accessible location on the border of Long Island and Queens. He recommended the Lake Success area due to its easy highway accessibility from both Queens and Long Island.

• Human Resources Training still had plans to stay in Long Island, New York and would need space for at least the next five years. Their only request was to be located in a building that was convenient for both their Queens and Long Island Employees.

<u>CRS Response:</u>

Given the situation, CRS felt it was not in the best interest of the corporation to

exercise the five year renewal option for the entire building. CRS knew that it would be very difficult to backfill this space with other Citibank units, should the occupying units vacate as anticipated, since space needs on Long Island were very location oriented. After evaluating the space needs of the various business units with Bhatia, Sal Milazzo, a member of Binder's staff who handled all commercial lease negotiations for the NY metropolitan area, negotiated a one year extension on the same terms and conditions for just the first floor of 100 Baylis Rd. (38,000 s.f.). This extension allowed the applications processing area of both the Car and Boat Divisions of Dealer Finance and EPS to remain on the first floor through 1995; however, the car and boat sales staff of Dealer Finance, who occupied 16,000 s.f. on the second floor of Baylis Rd, was relocated across the street to 88 Duryea Rd in order to backfill the 15,500 s.f. of vacant space.

Milazzo also located a more appropriate site for Mortgage Sales and took advantage of the opportunity to relocate both Human Resources Training and the sales people of Dealer Finance in the same building in Lake Success, New York as this location met both of their needs in that it was conveniently located on the border of Queens and Long Island. The building in Lake Success had the same landlord as 100 Baylis Rd., a strategy that enabled CRS to leverage more desirable five year lease terms in this location.

Service Strategy Results:

Overall, the Duryea Road backfill/Baylis Road lease extension resulted in a corporate savings of $1.8 million. The backfill allowed CRS to recapture the sublease rent loss reserve for this building (a reserve that had been established to cover the rent) as well as avoid a writeoff of this asset which would have been required under the Federal Reserve regulations if it had not been rerented. In addition, the lease extension bought the two business units the time they needed to finalize their business plans and backfilling 88 Duryea Rd. merited that the corporation utilized its assets effectively.

An additional $2 million was saved through the consolidation of units to Lake Success and by the Queens' sales unit of Dealer Finance vacating highly desired bank owned space in Court Square in Queens which was rented to another business unit at the direct charge rate of $27 per s.f. compared to that unit's previous rental rate of $47 per s.f. To the business unit, this amounted to a savings of $20 per s.f., but to the corporation it amounted to a 100% savings since the rent the business unit now paid for its space stayed within the corporation instead of going to a third party landlord.

CRS and the business units also felt that the move to Lake Success would benefit the individual units by enhancing Dealer Finance's accessibility to the local markets and updating Human Resources training center to include the advanced technology systems now used by tellers in the branches. Similarly, the new location for Mortgage Sales was likely to improve its visibility and accessibility to the customers they served on

Long Island.

GOING FORWARD

When the CRS group was reorganized in 1991, it was intended to streamline staff roles and expertise. In 1994, Stephen Binder looked back over the last three years and realized that this specialization had helped them accomplish what they had done to date; going forward, however, he envisioned the CRS staff being involved more strategically with the business units, which would require more customer interface. To accomplish this goal, both Binder and Belfiglio saw the need to reengineer the current way the entire CRS unit (Space Occupancy, Real Estate, Project Management, Engineering, and Architecture) delivered its services to present a more unified approach and better respond to customer needs. In addition, Binder planned on adding a strategic planning position to the unit as well as foresaw the need to investigate space saving concepts such as hoteling and the virtual office in the near future.

Binder acknowledged that he had not yet considered all the questions CRS should be asking while planning the new process, but says he had an answer: "One person should act as the quarterback...be a single point of contact and be accountable for the results of the entire process." Given the new strategic direction of the unit, the future goal was to communicate to the business units that the location of a business was not based on just a real estate or business decision but a combination of the two and should be a combined effort.

Chapter Four - PNC Bank Corp. Case Study

BACKGROUND INFORMATION

During the 1980s, PNC Financial Corp. experienced tremendous growth by acquiring numerous affiliate banks in the following markets: Pittsburgh, Philadelphia, Scranton, Erie, Harrisburg , Wilmington, Cincinnati, and Louisville. Each affiliate bank continued to operate fairly autonomously under its original name and reported to its market's CEO and President. There was one division, however, that the holding company decided to centralize - Data Processing.

The Data Processing division of each market designed, serviced, and maintained all of the computer systems for the affiliate banks in its market. Senior management, guided by the Pittsburgh market's Data Processing division, realized it was inefficient and costly to have multiple, inconsistent computer systems operating in the eight markets. Since Pittsburgh was the headquarters for the holding company, it was selected as the home for the new centralized division. Accordingly, Pittsburgh's Data Processing division planned the consolidation and conversions of the multiple systems over to one system. In total, this consolidation took over five years to complete.

The decentralized structure for the affiliate banks worked well during the booming mid-1980s but by the end of the 1980s the lack of standard policies, procedures, and products among the affiliate banks proved to be a weakness. 1990 turned out to be

the most difficult and challenging year PNC Financial Corp. had encountered since its founding in 1983 due to the U.S. recession and significant loan losses as a result of the disintegration of the commercial real estate market.[73] As a result of the bank's poor financial performance in 1990, corporate senior management accelerated the centralization and consolidation of all credit policy, loan review, and audit functions started in the late 1980s in an effort to improve credit quality bankwide. By standardizing the credit policy for new loans as well as standardizing the classification of existing loans in terms of overall credit risk to the bank, senior management felt it would be able to deal more affectively with troubled loans and better predict future writeoffs and writedowns against loan loss reserves. In the 1990 PNC Annual Report, Chairman, President, and CEO, Thomas O'Brien, described the situation:

> "Clearly over the past 18 months the balance has shifted toward centralization. We're becoming more like one bank, and the environment demands it. The increasing complexity of our business requires more centralized control, more economies of scale, and more consistency of product. We're trying to capture all those benefits without diluting the marketplace autonomy of our banks. We're constantly assessing this balance - not in terms of right or wrong - but in terms of what's best for our customers and our shareholders."[74]

Senior management, however, recognized that remaining singly focused on improving credit quality was not going to help the bank continue to grow and prosper in the future. The banking industry had entered a period of unprecedented change and senior management realized that PNC had to be prepared to compete against not only non-

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[73] PNC Financial Corp. Annual Report 1991, p. 2.

[74]Ibid.

bank financial service providers but also fewer, stronger banking companies.[75] To survive into the next century, senior management identified three key areas to ensure PNC's survival: (1) Offer quality and diversity of products to meet their customers demands; (2) Maintain financial strength - high core earnings and strong capital ratios to allow for investment in new businesses and acquisition opportunities. One of PNC's main growth strategy was to continue to acquire other financial institutions as the banking industry consolidated; (3) Operate at a level of efficiency never before thought possible. PNC prided itself on having one of the lowest efficiency ratios (55.1%) among the top fifty banking companies. Its long-term goal, however, was to achieve a ratio below 50%.[76]

THE PENNSYLVANIA PROJECT

This survival focus culminated in senior management initiating a six month study known as the Pennsylvania Project on May 29, 1991, with two specific objectives in mind: (1) To identify opportunities for enhanced operational efficiencies under the present multi-charter structure that would allow PNC to reduce its efficiency ratio while at the same time maintaining and strengthening its market position and, (2) to identify additional benefits that would result from the adoption of a single charter for the six Pennsylvania banks. New state banking laws allowed for such a consolidation.

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[75]PNC Financial Corp. 1991 Annual Report, p. 4

[76] Ibid.

To carry out the objectives, 19 teams were formed representing each business area of the bank. The task of each team was to make specific recommendations as to how its business area would improve efficiency and relate the increased efficiency to an estimated dollar amount. Ten of the teams represented the revenue side of the bank (Retail Banking, Corporate Banking, Cash Management, Mortgage, International Banking, Investment Management and Trust, Securities Corp, and Asset and Liability Management) and nine teams represented the operational and expense side of the bank (Credit Policy and Administration, Administration, Data Processing, Human Resources, Marketing, Communications, Economics, Legal Services, and Control). The four constant considerations across all teams were to maximize sales/service performance, to enhance efficiency, to minimize risk, and maximize the use of technology.

THE ADMINISTRATIVE TASK TEAM

The Administrative task team consisted of representatives from Facilities, Purchasing, and Security in PNC's eight decentralized markets in Pennsylvania, Ohio, Delaware, and Kentucky: Pittsburgh, Philadelphia, Scranton, Harrisburg, Erie, Cincinnati, Wilmington, and Louisville. The overall objective of the team was to improve the level of service throughout the corporation as well as increase efficiency/reduce costs in each particular area. The Administrative Services mission statement for this project stated that Administrative Services was to be designed and administered in a manner that provided world-class, professional operations that supported and promoted the Corporation's image and performance.

For security, this translated into providing the safest possible work environment with the primary focus being on prevention of criminal acts or a disaster resulting from a fire. The team recommended the adoption of common security policies and reporting systems to effectively achieve this goal. Purchasing's objectives were to ensure the lowest cost and best value to the Corporation by identifying the products and services best suited to corporate contracts and leverage PNC's purchasing power with preferred suppliers. In addition the task team recommended that Purchasing implement state-of-the-art technology into its purchasing process.

The goal of the team in relation to Real Estate and Facilities management was to enhance the quality, value, and cost effectiveness of Real Estate/Facilities Management. The team looked at the Facilities' policies and procedures across the eight markets and recommended that the "best practices" from each market be applied to achieve consistency and efficiency in every market. As a result, the following recommendations were formulated: (1) Adoption of common policies, procedures, and practices through the development of standards to be used across all the markets and through centralized operations; (2) Centralization of strategic planning and financial planning which included a shared database to improve response times, coordination of major expenditures, and coordination of short-term activities with long-term needs; (3) Adoption of Common lease documents to minimize contractual liabilities and provide consistency in lease terms; (4) Adoption of Corporate Facility Standards such as furniture to leverage purchasing power as well as minimize project design, reduce

warehouse requirements, and enhance the effectiveness of existing space; (5) Adoption of standards for design and construction to improve efficiencies and reduce project cycle time. These standards were to be applied to corporate buildings, data centers, and branches; (6) Adoption of common policies, procedures, and standards for property operations to provide an improved level of control, scheduling, and effective monitoring.

REAL ESTATE IMPACT OF THE PENNSYLVANIA PLAN AND DATA PROCESSING'S CONSOLIDATION

Soon after the Pennsylvania Project was launched, John Rapp, the Pittsburgh Facilities Manager, and Edward Fechter, the Strategic Planner for Pittsburgh Facilities, produced a Pittsburgh Market Facilities Strategic Plan for senior management to review. The report gave an overview of the bank's current office space inventory and future space requirements in Pittsburgh for the period of 1991-2001. In the short-term (1991-1993), Facilities had planned space requirements for 237,277s.f. in Pittsburgh which included the relocation of the newly consolidated Data Processing Division to one location. At that time, Data Processing was in three separate locations in Pittsburgh (the Fort Dusquene Building, the White Westinghouse Building, and the Systems Development Center known as SDC) and needed to be in one location to maximize efficiency as well as create synergies among the eight departments that made up the Data Processing Division. Pittsburgh Facilities planned to acquire additional space, since PNC's major facilities were saturated, and sell the owned SDC building once the

occupants from Data Processing were relocated to a new building.

The long-range forecast, based on an examination of historical, current, and future office requirements, assumed an average of 2% growth in office square footage yearly from 1994-2001, which amounted to 220,798 s.f. This estimate did not include the impact of any major acquisitions or business initiatives but did take into account the impact the Pennsylvania Project was likely to have had on space needs in Pittsburgh.

As a result of this report, both senior management and Rapp agreed it made strategic and economic sense to secure approximately 550,000 s.f. in one building to accommodate current and future space needs rather than continue to lease space at scattered sites which proved inefficient. Since one criteria for the new building was convenience to other PNC offices, the preference was for the new building to be located as close to PNC's headquarters as possible. Whether the building was ultimately leased or purchased depended on the deal that could be struck.

1992 - AN EVENTFUL YEAR

Results of the Pennsylvania Project:

In January of 1992, senior management was presented with 500 business specific recommendations from the task teams, including those from the Administrative task team. Due to the proposed gains in efficiency and consistency which amounted to savings of approximately $47 million over a two and one-half year period, senior

management decided to execute these recommendations over a three year period. To ensure a smooth transition, senior management devised a quarterly schedule in which each line of business was assigned a particular quarter to reorganize. The most crucial business units such as Retail Banking, Economics, Corporate Banking, Cash Management, and Mortgage Services were scheduled to reorganize in 1992. The other business units like Facilities were not scheduled to reorganize until 1993.

In addition, the Pennsylvania Project proved that there was a tremendous cost savings to implementing these recommendations under a single charter bank as compared to a multi-charter bank (a difference of $3,611,000 annually). Consequently, senior management reorganized under one charter and going forward managed the company as one bank, on a line-of-business basis.

Search For A New Building:

Now that the Pennsylvania Project had been approved, the search for a new building became even more paramount. Rapp and his staff expeditiously conducted the search for a new building during the first half of 1992 and determined that there were only two buildings in Pittsburgh that met the corporation's needs based on total square footage requirements, quality of construction, and proximity to PNC's corporate headquarters. These two buildings, both fully occupied, were One Oliver Plaza and Two Oliver Plaza which were adjacent to PNC's headquarter's building at One PNC Plaza. Although PNC currently occupied 248,000 s.f. out of a total of

610,000 s.f. at the 37 story One Oliver Plaza, it was not the prime candidate since the building was older than Two Oliver Plaza, contained asbestos, and did not allow for the immediate relocation of Data Processing due to the lack of available space.

Two Oliver Plaza , however, besides being newer and in better physical condition, had the potential of enough available vacant space to allow for the relocation of Data Processing. A financially distressed bank (Equibank) occupied approximately 275,000 rentable s.f. out of a total of 536,368 rentable s.f. at Two Oliver Plaza. Rapp knew that Equibank's lease did not expire until 2001 and that given the bank's financial condition, it could not afford to continue paying its above market rent. Consequently, Rapp and senior management were fairly confident that a lease buy-out proposal from Equibank was very likely if PNC purchased the building. Even if the lease buy-out didn't occur, the building made strategic sense for future space needs.

The completed comprehensive lease/buy analysis took into account three factors: the likely lease buy-out settlement from Equibank, the likely proceeds from the sale of the SDC building (appraised at $1,750,000) once vacated by Data Processing, and the rents from the existing third party tenants at Two Oliver Plaza. It became clear that it was in the bank's financial best interest to own Two Oliver Plaza and, in the late fall of 1992, PNC entered into final negotiations with Grubb and Ellis as agent for the owner, Pennsylvania Public School Employee's Retirement System. On February 3, 1993, PNC closed on the building, having simultaneously negotiated a favorable lease

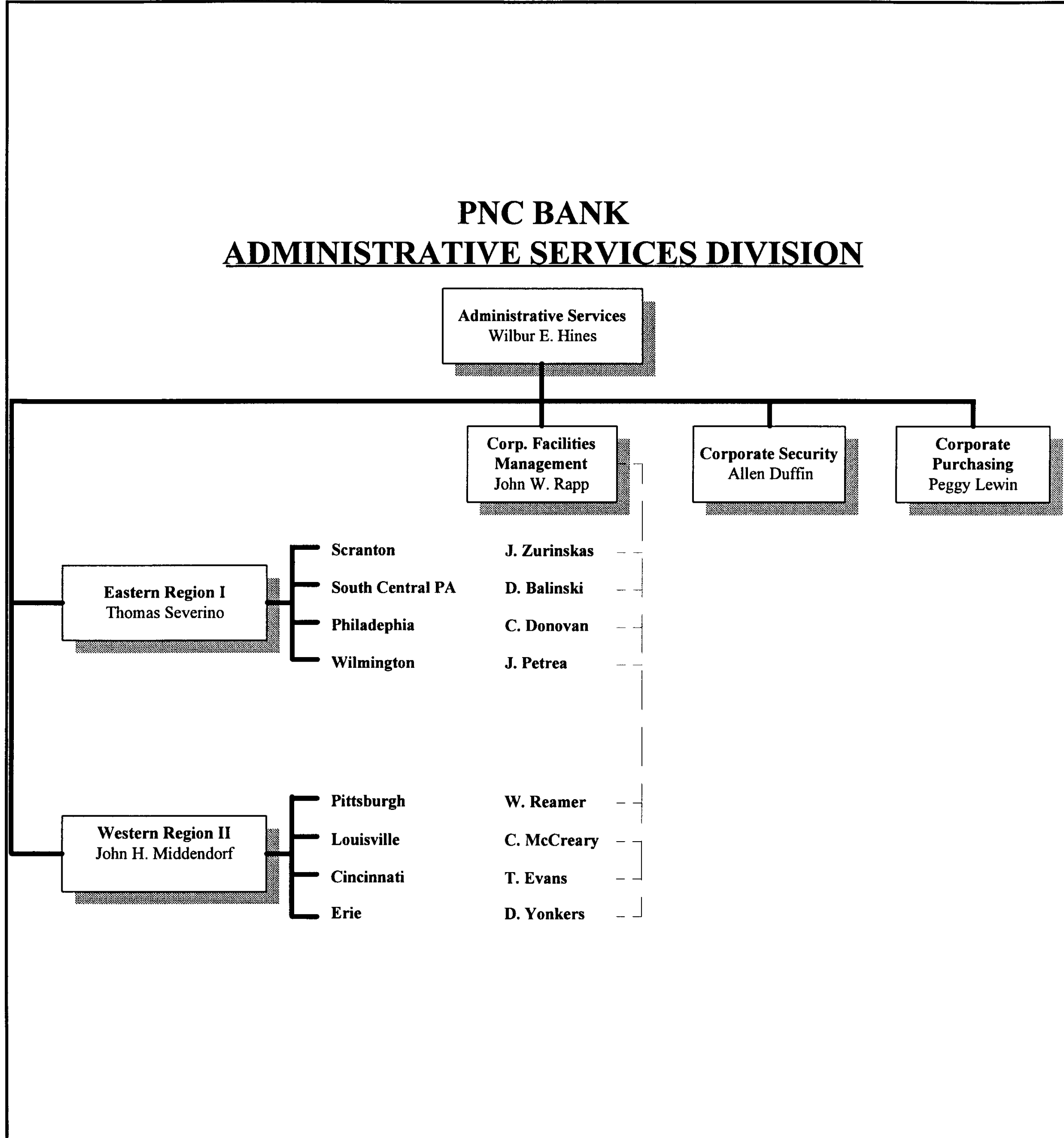
buy-out for PNC from Integra Bank who had acquired Equibank during the negotiations. Integra Bank was in the process of constructing a new building across the river and did not need the space at Two Oliver Plaza, especially at over market lease rates.

REORGANIZATION OF THE REAL ESTATE FUNCTION

Per the bank's established reengineering schedule, Facilities was reorganized in the beginning of the second quarter of 1993. Based on the recommendations of the Administrative task force, senior management established a Corporate Facilities unit (CRE) to institute and implement all the policies, procedures, and standards regarding real estate for the entire corporation. Corporate Facilities was also responsible for corporate strategic facilities planning, all operating property expenditures, as well as project management for all corporate projects and local market projects in excess of $250,000.

Rapp, formerly the Manager of the entire Pittsburgh Facilities group, was promoted to manage Corporate Facilities. Wilbur Hines from Human Resources was made the Head of Administrative Services. The new organizational structure followed the matrix management format (see figure 3). Two regional managers were responsible for Facilities, Purchasing, and Security in the eight local markets and they reported directly to Hines but also worked closely with Corporate Facilities. Corporate Facilities intum, also reported to Hines but had the responsibility of supporting the

Figure 3



functions of the local markets as well as performing its corporate functions.

Corporate Facilities' Goals and Objectives:

The primary goal of this newly formed Corporate Facilities unit was to oversee the implementation of the real estate related recommendations of the Administrative Task Force. Since Rapp and many of the other local market managers had been part of the original Administrative Task Force, implementation was not difficult organizationally within the division. In fact, unlike many other areas of the bank which had not shared information or worked together in the past, Facilities had an advantage which stemmed from the various local markets meeting informally twice a year since 1988 to discuss common problems and issues. Due to timing, one of the first recommendations of the task force to be implemented pertained to adopting common standards for density, furniture, finishing, carpeting, and lighting. The newly acquired Two Oliver Plaza which had since been renamed Two PNC Plaza, became the pilot project for these standards as the space needed to be renovated over the summer of 1993 for Data Processing.

RENOVATION OF TWO PNC PLAZA FOR DATA PROCESSING

As part of the lease buy-out arrangement, Integra Bank agreed to vacate the ten floors it occupied on a weekly basis over the summer of 1993. This arrangement allowed PNC to renovate the space so that the Data Processing staff located at the White Westinghouse building moved into Two PNC Plaza before the lease expired at White

Westinghouse on October 31, 1993. As other third party tenants' leases expired at Two PNC Plaza, the plans were not to renew the leases but backfill the space with businesses currently renting space at two other leased locations in Pittsburgh, One Oliver Plaza and 300 Sixth Av. The goal established in the spring of 1993, was to totally be out of One Oliver Plaza by 1998 and occupy the entire building at Two PNC Plaza by the year 2000.

Data Processing's Needs:

Data Processing had consolidated the computer systems of the eight markets into one system to enhance efficiency, provide consistency, and reduce costs which included downsizing or eliminating staff at the local market level. In 1993, however, it was expanding its operations in Pittsburgh due to new acquisitions and corporate-wide initiatives to provide efficient computer systems that operated 24 hours a day, 7 days a week (the 24 X 7 initiative). PNC was extremely focused on better serving its customers and wanted its information systems to be customer-oriented and easy to use. The relocation to Two PNC Plaza was justified due to the following reasons:

• The 24 X 7 initiative as well as other systems criteria required updating all the information systems. Although the systems could have been updated at the three separate locations, it was less expensive to update the systems at one central site.

• Data Processing was moving away from its mainframe legacy systems to user

friendly client server systems which were open ended and expandable. This shift required a new skill-set which lead to the expansion of staff who were trained in more business-oriented applications such as Rapid Application Development Tools and Prototyping Tools as compared to its present staff's knowledge of more technical applications such as Cobol and SICS. The new location allowed for future growth which the other three locations did not.

• Due to the reengineering effort throughout the bank, many business lines needed to implement new computer applications to best achieve their business' goals. To efficiently and effectively design the needed applications, a software specialist from Data Processing often met with the internal customer at his/her office and started designing the application on a portable computer with the customer present to ensure that the design met all of the business unit's needs from the beginning of the process. The software specialist then completed the application design back at Data Processing's offices knowing that the application needed little adjustment once presented in its final form to the business. From a commuting efficiency standpoint, the Data Processing division needed to be located near its internal customers. Two PNC Plaza filled this need since many of Data Processing's customers were located in the two adjacent buildings - One PNC Plaza and One Oliver Plaza.

Team Approach:

The first kick-off meeting to discuss the move of the Data Processing Division to Two

PNC Plaza was held on April 22, 1993. Members from both the Corporate and Local Pittsburgh Facilities group attended as well as members from the different departments of Data Processing to review how the project was to be managed and controlled. The team approach had been one of the "best practices" adopted from the original Pittsburgh Facilities unit by Corporate Facilities as well as to the other Local Market Facilities units. As a result, both Corporate and all the Local Market Facilities units now referred to its customers, the business lines, as service partners. Since Corporate Facilities encouraged its service partners to participate throughout the entire process, a weekly meeting time was established for the team to discuss the progress of the renovations as well as any issues concerning the project management process. Facilities also prepared a "roles and responsibility" document for the Real Estate and Data Processing personnel (See Figure 4).

Although Facilities and Data Processing had worked closely together over the years to coordinate telephone, data, and computer connections in various buildings, this situation was slightly different in that Data Processing was now its customer. According to Rapp, the team effort and reconciliation of issues were easier in this particular situation since both Data Processing and Administrative Services, along with several other divisions, reported to Tim Shack, Senior Vice President of Operations for the entire bank. Since Shack was well informed about the needs of Data Processing as well as the goals of Corporate Facilities regarding the implementation of standards, he was able to quickly resolve any disputed issues.

Fechter from Corporate Facilities initially worked with the business units of Data Processing to establish their exact occupancy needs as well as projected growth needs. Based on these projections, Bob Kist, the delegated single point of contact for all of Data Processing, and Fechter mutually agreed to allocate space that adequately allowed for three to five years of growth. Once the space needs were decided, Paul Fusan as Senior Corporate Project Manager took over the project from Fechter. Jack Dougherty as the Local Market Manager assisted Fusan with the daily operations of the project so that he would be well informed when his group, Pittsburgh Facilities, took over the day-to-day operations of the building once the renovation was completed.

Selection of an Architect:

Given the established time deadline, Corporate Facilities decided to only request RFP's from three architectural firms. The method for selecting the architect was the same as selecting any other facilities' vendor as PNC felt very strongly about using bank customers whenever possible. As a general rule for major projects, each Facilities unit in the eight markets routinely sent out a questionnaire to its particular market's bank customers witht whom it was interested in working. The questionnaire asked for information regarding the type of projects the firm had worked on before, any particular areas of expertise, staff size, CADD capabilities for Architectural firms, experience in new construction vs. renovation, and other such questions. If the responses to the questionnaire matched the qualifications that Facilities felt was necessary for the project, a firm was prequalified as a potential vendor and usually

Figure 4

NAME	FUNCTIONAL TITLE	ROLE
Mike Gilmore	Manger, Corporate Project Management	Negotiate design partner for project;assist in negotiation of contract;supply schedule for project; supply building standard criteria
Paul E. Fusan	Senior Corporate Project Manager	Overall project management responsibility for budgeting, design and construction, coordination, and timely completion. Primary contact.
Marvin Burruss	Assistant Corporate Project Manager	Assistant to Project Manager. Implementation of building wide facility issues- namely ADA compliance.
Jack Dougherty	Major Building Administrator	Provide daily assistance on implementation of contract. Responsible for future maintenance of bldg. systems
RSH	Design Firm	Work with Bob Kist, single point of contact for all of Data Processing, to arrive at final design and construction documents.

asked to submit a proposal. The majority of the time, the low cost bidder was selected as all of the firms asked to bid were already determined to have had the same expertise based on the questionnaire.

Three firms who met the requirements for the project according to the questionnaire each had previously completed, were all asked to attend a meeting where they were given an overview of the project and the scope of the responsibilities required. The ten floor renovation of Two PNC was planned as a fast-track project compared to the traditional design, bid and construct method. The architect was to provide programming, block plan layouts, preliminary layouts, bid documents, and final construction documents for the relocation of the Data Processing Division from the three locations to the 10 floors in Two PNC Plaza. In addition, PNC Bank standards were to be applied to this project with respect to space density, office sizes, furniture, finishes, lighting, and carpeting. Of the three firms, RSH (Ruprecht, Schroeder, and Hoffman), the most cost-effective bidder, was selected as the project's architect.

According to Ted Schroeder, one of the principals of RSH, his firm had reengineered its delivery process several years ago to enhance its competitiveness in the marketplace. As part of the reengineering process, RSH installed a sophisticated computer system and decided to employ only certified architects to prepare all the drawings from start to finish. In the past, a drafter initially worked on the drawings and then gave them to the architect to review and improve which was very inefficient and costly. Now that the architect with the aid of the computer did all the work himself/herself, RSH had been able to reduce costs which were transferred to the customer in the form of lower prices.

Service Delivery Process:

Although Fechter had calculated approximately the amount of space needed for Data Processing, the first thing RSH did was to shape the exact number of floors needed in Two PNC Plaza. Two PNC Plaza was unusual in that it had 14 corners per floor due to its unique design which reduced the overall space efficiency. Fusan worked closely with RSH to achieve what Corporate Facilities thought should be the average corporate density standard applied throughout the bank of 185 s.f. per person. For space efficient square or rectangular buildings, however, Corporate Facilities felt that the density would not need to exceed 185 s.f. per person.

According to Fusan, "Corporate Facilities relied on RSH to be an extension of the department as opposed to the old days when you used to stay with the architect when he/she met with the business unit to head it off at the pass (meaning any departure from the plan)." As a result, RSH met individually with each department of Data Processing to understand its needs and created a design that was in compliance with the new bank standards but was also suited to the needs of the user. Occasionally there were situations in which the strict standards could not be applied due to the physical structure of the building or the specific needs of the user. In such cases, RSH presented the justification for not applying the standard measurements to Fusan for evaluation who then approached Rapp for approval.

In almost all of these cases, the justification made sense and the allocated standard

space was increased accordingly. One incident in which Corporate Facilities did not increase the allotted space involved many of the conference rooms. Since Data Processing didn't need these conference rooms for private meetings, Fusan resolved this issue by recommending that these conference spaces be built without walls, saving space, while at the same time providing meeting areas for the various groups.

Fusan and the team also had to deal with special facility requirements due to Data Processing being a highly technical operational unit. The building's mechanical and cooling systems were designed to run 12 hours a day, 5 days a week. Many of Data Processing's systems, however, needed to operate 7 days a week, 24 hours a day. To solve this need as well as ensure that the building operated cost effectively, RSH with input from the Management Information Systems (MIS) unit, designed a special Telecommunications Center on the sixteenth floor for the equipment and systems that needed to operate continuously. RSH also designed special technology labs for the Information Systems staff to test new technology for the branches or other business lines. In addition, every area, including the private conference rooms, was wired for PCs and the workstations were designed to accommodate individual staff PCs with a shared printer.

In retrospect, Fusan and Kist felt that the project progressed well due to the constant communication among all the team members. As originally scheduled, the Data Processing group located at the White Westinghouse building moved into its renovated

space before its lease expired on October 31, 1993. The other departments located at the SDC building and Fort Dusquene moved into the building over the following few months as scheduled without any significant problems as well.

This project also resulted in the Chairman, Thomas O'Brien, approving the density standard used for this project as the new corporate standard to be applied bankwide. To verify that it was on the right track as far as instituting space standards and efficiently stacking the corporate owned buildings, Corporate Facilities hired a consulting group, CRG, in March of 1993. CRG had worked with many other banking institutions and was aware of the density standards being applied in other banks. CRG watched over the Two PNC Plaza proposed occupancy and in its report to the Chairman in August of 1993, CRG recommended the standard density of 185 s.f. per person as Corporate Facilities had suggested and applied in the Two PNC Plaza renovation.

RESULTS ACHIEVED BY CORPORATE FACILITIES

In addition to the successful renovation of Two PNC Plaza and the relocation of the entire Data Processing Division, Corporate Facilities achieved many of the other goals and objectives established by the Administrative Task Force. By March of 1994, Corporate Facilities had saved $1.8 million in direct expenses by eliminating redundant positions as well as implementing "best practices" such as outsourcing janitorial and landscaping services as well as all major building management. In addition, Corporate

Facilities saved approximately $3 million in direct facilities costs as a result of establishing standard furniture, design, and construction standards in addition to developing the corporate space standard. Corporate Facilities also formed a separate strategic planning group within the department and installed a CAFM system (Computer Aided Facilities Management) to help them better plan, track, and report everything from lease expirations, square footage per person, size of floorplates, locations of properties, real estate financial data, efficiency ratios to the growth projections of the many business units.

Design Partners:

Another initiative recently implemented by Corporate Facilities to reduce facilities expenses as well as broaden the capabilities of the Local Market Facilities units, was the Design Partner Program. Prior to the reorganization, most of the working drawings were done in-house but a decision was made to outsource this type of work in addition to giving more responsibility to the Architectural /Design Firm regarding developing the internal programs. Corporate Facilities, in the summer of 1994, completed its initiative to have each Local Market Facilities unit select a Design Partner for each principal building in its market as well as for its significant retail branch projects. The goals of this initiative were to reduce project costs and cycle times as well as develop a long-term relationship with a local partner that added value to the corporation. As a result of the excellent work it did on Two PNC Plaza, RSH was selected by Pittsburgh Local Market Facilities to be the Design Partner for One

Oliver Plaza.

GOING FORWARD

John Rapp was very pleased with the results of the initiatives that his unit had implemented over the last fourteen months. He realized, however, that there was much more to be done including a stronger emphasis on strategic planning going forward. With his group's new corporate focus, he hoped to further align the bank's future growth plans with real estate initiatives that added strategic value. As a result, he and his staff would continue to evaluate new approaches to reducing occupancy expenses as well as other ways to provide quality and value-added service to its service partners (lines of business).

Chapter Five - Analysis and Conclusions

This chapter is an analysis of both the Citibank and PNC Bank case studies, individually and comparatively, in relationship to the real estate propositions the author presented at the end of Chapter One: (1) The role of the CRE executive will become that of a master coordinator; (2) Mergers and acquisitions/or a major restructuring will result in the real estate executive having to acquire an adequate understanding of each business lines' objectives in order to determine which assets will provide strategic value, and therefore should be utilized, and which assets should be sold; (3) Reengineering will result in a consolidation of the bank's real estate assets in the short-term and in the long-term real estate assets will be acquired for the benefit of the entire corporation. Reengineering will affect the way the CRE unit delivers service to its customers, the business units, and will result in more outsourcing; (4) Technology will enable banks to convert multiple computer systems to one bank-wide system, affecting the number of operational centers needed and the location of the centralized data centers.

PNC BANK

Restructuring of PNC Bank:

Due to the desire to improve its efficiency ratio as well as implement consistent policies, procedures, services, and products throughout the various affiliate banks, PNC Bank implemented the Pennsylvania Plan in 1992, which restructured the way the

entire corporation conducted its business. The weak economic conditions, as well as increasing competition from nonbank financial service providers, required that PNC operate as one unified bank under a line of business structure.

John Rapp, now the manager of Corporate Facilities, participated on the Administrative Task Team formed for the Pennsylvania Project. His participation in the Pennsylvania Project broadened his understanding of the strategic objectives of each line of business as well as the overall business objectives for the bank. The insight he gained allowed him to foresee the need for additional space in Pittsburgh due to the restructuring of the entire company. As a result, he was instrumental in demonstrating to senior management, in the 1991 Pittsburgh Market Facilities Strategic Plan, that there was a need for the bank to acquire another building in Pittsburgh to adequately accommodate current and future space needs cost-effectively.

Reengineering:

The restructuring of PNC spurred the reengineering of all the business lines including Facilities. Prior to reengineering, each market had its own Facilities unit that operated according to the guidelines established by its market CEO. Often the Facilities policies and procedures varied greatly among the eight different markets and there were no shared responsibilities. This structure resulted in redundant operations as well as the inability to leverage better pricing from third party vendors. To accomplish the objectives of the Pennsylvania Project, the Administrative Task Team recommended

the formation of a Corporate Facilities unit to oversee the adoption of common policies, procedures, and standards across the eight local markets as well as oversee major bank projects in excess of $250,000. The renovation of Two PNC Plaza was one of the first projects undertaken by the newly reengineered Facilities division.

Service Process

One of the goals of reengineering was to provide quality service to the internal customer, the business lines. To achieve this goal, Corporate Facilities formed a team comprised of members from Corporate Facilities, Pittsburgh Facilities, the various business units of Data Processing, and the outside service provider, RSH Architects. The team met weekly not only to ensure that issues got resolved in a timely fashion, but also to allow Data Processing to participate throughout the entire process and build the service partner relationship that was essential for Facilities to achieve with its customers.

From the inception of the project, Corporate Facilities met Data Processing to better understand their current business plans and future objectives. From these meetings, Corporate Facilities determined the proper location for Data Processing, special physical requirements, as well as their present and future space needs. Given Data Processing's need to be close to its internal business customers, Two PNC Plaza was determined to be the best location for this business. In addition, due to Data Processing's business initiatives as well as the bank's future acquisition plans,

Corporate Facilities allocated ample space in Data Processing's new location to allow for internal growth and for the absorption of new staff from newly acquired banks in the future.

Outsourcing

An outcome of reengineering Facilities was the realization that internal staff should spend more time on higher-value issues. These issues included looking carefully at real estate needs and outsourcing those services that could be done more effectively, in terms of quality and cost, by an outside service provider. In the case of Two PNC Plaza, the architectural firm was hired not only to do the drawings but also the project programming that had been completed by internal staff in the past. Corporate Facilities also initiated the outsourcing of all major building management, janitorial services, and landscaping services.

Technology:

The relocation of Data Processing required Corporate Facilities to comprehend the highly technical requirements of this division such as the need for the special Telecommunications Center which needed to operate 24 hours a day, 7 days a week. The result of Corporate Facilities' work, renovating this location to meet the exact specifications of the Data Processing Division, benefited both the internal and external customers. It reduced the internal customers' operating costs and improved the external customers' access to telephone banking by providing facilities that allowed the

computer systems to operate continuously.

Evolution of the Master Coordinator Role:

The renovation of two PNC Plaza created new opportunities and new roles for Corporate Facilities. The successful completion of Data Processing's new space demonstrated Corporate Facilities abilities to streamline processes and interact with the business lines; as importantly, it led to the implementation of cost-effective standards to be used in the 925 bank properties leased or owned across the eight markets (Pittsburgh, Philadelphia, Scranton, Erie, Harrisburg, Louisville, Cincinnati, and Wilmington). Given PNC's growth strategies, these standards would also be applied to any new real estate inherited by a merger or acquisition to ensure PNC maintained its low efficiency ratio.

The establishment of Corporate Facilities was essentially cost-driven. The majority of the recommendations of the Administrative Task Team involved the adoption of common standards, policies, and procedures in an effort to increase efficiency and reduce costs. Since April of 1993, Corporate Facilities has established and implemented the average density standard of 185 s.f. per person as well as other standards regarding furniture, lighting, and carpeting in an effort to reduce overall occupancy costs. It has also initiated cost-effective real estate strategies such as the outsourcing of all major building management, the outsourcing of landscaping and janitorial services, and the Design Partner Program throughout all the markets. With

its new responsibility of overseeing all bank projects over $250,000, such as the Two PNC Plaza renovation discussed in the case, Corporate Facilities also safeguards against lack of necessary expertise, poor quality of construction, excessive costs, or misalignment of a project and long-term corporate-wide real estate strategies.

From being Manager of Pittsburgh Facilities, to his involvement in the Pennsylvania Project and then becoming Manager of Corporate Facilities, John Rapp's role within the Bank has evolved to that of a Master Coordinator. The Master Coordinator role requires the ability to coordinate all of the Facilities initiatives bank-wide and to tailor real estate solutions to the business needs of the multiple units. John Rapp has been able to accomplish these tasks due to his proven management skills, as past Manager of Pittsburgh Facilities, and due to his involvement in the Pennsylvania Project which exposed him to corporate-wide initiatives.

CITIBANK

Restructuring of Citibank:

John Reed, Citibank's Chairman, realized that if Citibank was going to regain its earning momentum, it would have to change from its decentralized structure to a more cohesive centralized structure. He and other members of senior management especially realized the need to centralize corporate real estate in order to gain control of and reduce occupancy costs which were grossly disproportionate to Citibank's current revenue stream. Without waiting for the results of the bankwide task force,

senior management centralized the corporate real estate function and changed the name of Real Property Services to Corporate Realty Services. With the name change came a specific mandate to establish and manage the strategic direction and the costs of the bank's real estate assets in the U.S. and Canada (two-thirds of all of Citibank's real estate assets).

To effectively carry out this mandate, senior management transferred Ronald Belfiglio form one of its European banking operations to be Head of CRS and promoted Stephen Binder, The Project Management Manager under RPS, to Director of Space/Occupancy and Real Estate. Due to the broad mandate of senior management, Stephen Binder held the awesome responsibility of creating his own policies and strategies to achieve the desired results of the mandate. Strategic real estate planning also required Stephen Binder to interact with all of the lines of business to understand their business goals in order to align their business plans with the real estate plan for the bank.

Reengineering:

The restructuring of the entire bank resulted in every business line streamlining processes, eliminating nonprofitable operations, and consolidating computer operations in an effort to reduce cost, enhance efficiency, and improve customer service. As a result, there was a tremendous amount of vacant or underutilized space that needed to be consolidated or cost-effectively disposed of. To deal with this issue, Stephen

Binder immediately put together a strategic real estate plan of how CRS would reduce occupancy expenses for the period of 1991-1995 by either consolidating space or disposing of space. Due to this initiative, CRS has disposed of over 4 million s.f. during the period of January 1991- December 1993 and reduced occupancy expenses from $1.345 billion to $1.261 billion in 1993.

CRS also implemented the "Over/Under Initiative" in midtown Manhattan as a means to reduce current and future occupancy costs and ensure that Citibank would occupy enough space close to its headquarters in the future. CRS and its broker reviewed lease with above market rents in desired buildings that were not due to expire for several years. After negotiations with each landlord, many leases were extended at today's lower market rent saving the bank millions of dollars.

Besides negotiating lower rents, CRS has focused on centralizing office locations in each city to a finite number of buildings, wholly or mostly occupied by Citibank units, to gain leverage with the landlord and occupancy flexibility. The relocation of Dealer Finance Sales and Human Resources to Lake Success, NY is an example of both. CRS has also been innovative in thinking about real estate locations and future space needs. Many of Citibank's operational centers are in locations where CRS has obtained municipal incentives or where real estate values and salary scales are much lower than the Metropolitan New York area. CRS is also exploring the office of the future and is researching whether telecommuting or hoteling is viable option for

Citibank.

Service Process

CRS is also in the process of reengineering its service delivery process to its business customers. Given the new customer focus bankwide, CRS must now concentrate on providing its services in a cohesive fashion to its internal customers. In the 100 Baylis Road example discussed in the case, each member of the CRS staff had his/her own job to fulfill and there was no single point of contact established for the business units. Notably, this relocation project resulted in tremendous cost savings to the bank and the Consumer Bank Division, and provided better access to the external customer for those units that required such access. CRS now wants to streamline the process even further and increase its effectiveness. By improving the service delivery process, CRS will also enhance its ability to interact with the business lines as a strategic partner.

Outsourcing

Reengineering has also resulted in outsourcing many of the services CRS at one time performed in-house. Due to the demands of the commercial banking industry as well as the increased workload spurred by the unit's centralization, the in-house staff must utilize its time on high-value projects and delegate the majority of the tactical responsibilities to third party vendors. The Preferred Broker Program is such an example. By employing preferred brokers, CRS increases the number of transactions

it can handle and enables its internal staff to spend more time with the business line customers. Since CRS's new focus emphasizes strategic planning, this interaction is essential. Its in-house staff must act as a liaison between the business lines and the preferred brokers to ensure quality and suitability of the services provided to the business units.

Technology:

Citibank has taken full advantage of the ability to convert multiple computer systems to one centralized information system that can be accessed from any offsite location. As a result, Citibank is consolidating many of its operational divisions located in multiple markets across the country to one centralized location. In the case of Direct Access, its operations were discontinued in New York and transferred to San Antonio, Texas, the centralized site for all telephone banking operations. It appears to be a matter of time before Dealer Finance's operational division also relocates to a centralized data center.

The trend at Citibank is for all operations not directly tied to a specific market to eventually be relocated to a bank-owned data center in green-field sites such as San Antonio, St. Louis, Sioux City, and Tampa. The location and tenure of the facilities greatly reduces occupancy costs and enables the bank to achieve economies of scale by centralizing these operations.

Evolution of the Master Coordinator Role:

Before Stephen Binder could start implementing policies and procedures aimed at reducing occupancy costs, he had to create a database describing all the real estate locations in the would that made up the Citibank corporate real estate portfolio. His research accounted for 3,300 locations (including branches) in 93 countries.

The next step for him was to meet with all the line of business executives in order to create Citiplans for each major domestic market. Since part of the mandate from senior management was to manage the strategic direction of the bank's real estate assets, it was imperative to understand the real estate needs of each of the business lines. Based on the information he learned about each line's initiatives and objectives, he created Citiplans for each market and based the length of the plan on the needs of the businesses located in a particular city.

Stephen Binder also initiated the Citilandlord Policy, Citibank's Space/Occupancy and Real Estate Rental Policy. This initiative allows business units to transfer vacant space and the costs associated with the space to CRS. CRS then has the responsibility for finding another occupant for the space or cost-effectively disposing of the space. This program benefits both the business unit and the corporation because CRS has the ultimate responsibility for cost-effectively managing all the space in the bank.

By nature, Citibank is entrepreneurial in spirit and accordingly Stephen Binder was given the latitude to create strategies that achieved the overall goals of the corporation. Due to senior management's support of his initiatives as well as his ability to implement creative policies and real estate strategies, Stephen Binder has evolved to the role of Master Coordinator. In this role, he not only oversees all of CRS's space/occupancy and real estate initiatives, but has also developed a rapport with the business line executives. In many cases, he had no previous contact with them prior to the centralization of corporate real estate.

COMPARATIVE ANALYSIS

Given the propositions presented in this paper, both Citibank and PNC are approaching the management of their real estate assets in similar ways even though they are very different banks. As a result of both banks centralizing the management of their real estate assets, the corporate real estate units are utilizing space more efficiently. They are doing this in two ways: (1) consolidating space and (2) instituting corporate-wide policies regarding space and furniture standards. In addition, both corporate real estate units are outsourcing more services to reduce costs and add value, concentrating on improving its service delivery process to its internal customers, and emphasizing strategic planning initiatives. The extent to which each bank carries out such strategies, however, depends on its position within the commercial banking industry and its future goals.

Scale and Scope:

Clearly there are different issues that Citibank's CRS Division must address in managing 32 million s.f. of real estate in 3,300 locations in 93 countries, compared to PNC's Corporate Facilities which oversees 10,600,000 s.f. in 925 locations primarily in four states. Citibank needs to be concerned with the needs of the business lines that span the globe. This requires much more intensive relationship management to stay abreast of changes that could affect real estate locations globally. Relationship management is no less important at PNC, but doesn't require the same emphasis as at Citibank.

The restructuring of Citibank also presented more challenges to the CRS unit as compared to PNC's Corporate Facilities unit due to the fact that the majority of real estate decisions, before the restructuring, had been made by the autonomous business units located worldwide. John Rapp had the benefit of past interaction with business executives, and as a result, had an understanding of their real estate portfolio. Stephen Binder, on the other hand, started from scratch but was able to achieve a great deal in a short time given the mandate from senior management.

Money-Center Bank VS. Superregional Bank:

The Citibank status as a money-center bank and the PNC status as a superregional bank will greatly affect the number and locations of assets each CRE unit manages in

the future. According to industry experts, both banks have a high probability of surviving the consolidation of the commercial banking industry.[77] PNC's growth plans, however, are based on continuing to acquire other banking institutions and most likely will expand its retail branch network nationwide if the Interstate Branching Act is passed by Congress. As a result, the number of real assets and locations in new markets is likely to grow substantially. This growth strategy will present new challenges to Corporate Facilities.

Citibank, like almost all of the other money-center banks, does not have the right financial credentials to profitably acquire other large institutions. Its plans are focused on growing its current business lines. As a result, CRS will concentrate its efforts on more effectively utilizing the bank's real estate assets in its current markets and evaluating new green-field locations for non-specific market businesses.

Outsourcing:

Both CRE units have engaged outside service providers to provide services that were performed in-house. Both units have realized that it is often less expensive to outsource than to maintain full-time staff. As importantly, outsourcing allows each CRE unit to adapt the level of services needed and to utilize its in-house staff for higher value projects. The magnitude of each bank's real estate assets, however, tends to influence the opportunity for the CRE unit to form a strategic alliance or preferred

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[77] McCoy, *BottomLine Banking*, p. 151.

supplier relationship. Due to the number of Citibank real assets in the U.S., it made strategic sense for Citibank to engage several preferred brokers. Due to PNC's concentrated markets and locations, leasing and disposition can still be handled in-house for the most part.

Efficiency:

Due to the fact that PNC's competitive strategy is that of a cost focuser, it is extremely important that it maintain its historically low efficiency ratio by scrupulously managing its revenue/expense ratio. Since occupancy costs are its second largest expense after salaries, management of PNC's real estate will be critical to the success of its competitive strategy.

Citibank, on the other hand, is relying on its differentiation strategy to retain its customers and grow its businesses. Containing occupancy expenses, however, is very important to the profitability of this strategy. Historically, Citibank has had one of the highest efficiency ratios of the top 50 banks, but controlling expenses has reduced its ratio from 68.51% in 1988 to 64.3% in 1992.[78] Due to Citibank's size and geographic real estate locations, it is unlikely that it will ever attain as low a ratio as PNC but reducing this ratio, however, is still paramount to Citibank's success and survival in the banking industry.

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[78]Ibid, p. 206.

CONCLUSIONS

Clearly the unprecedented change and competitiveness of the commercial banking industry has caused these two banks to evaluate how they operate internally as well as how they provide value-added service to their customers. In this challenging environment, controlling noninterest expense has become just as important as generating revenues. Senior management has gained a new appreciation for cost-effective, consistent, and value-added management of the corporation's real estate assets.

It is my belief that in the near future, both CRE units will be instrumental in the relocation of non-market specific business lines and operations to less expensive locations as a means of helping their banks gain a competitive advantage. Moreover, with the applications of electronic banking increasing both for retail and corporate customers, banks will have more freedom in selecting business locations. It is also my belief that telecommuting and hoteling will also become more prevalent in the banking industry. Portable computers are changing the need for sales people to meet with customers at the bank's offices and enhancing customer convenience by the sales person going directly to the customer's office. By implementing hoteling or telecommuting, the bank achieves two objectives - reducing occupancy costs and increasing customer satisfaction.

In conclusion, a bank's competitive strategy alone will not ensure its survival. In this highly competitive industry, senior management must fully embrace the exploration and adoption of creative real estate solutions if its bank is to survive and prosper in the new commercial banking environment.

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