



Lease Relationship Management Solutions

Lease Relationship Management (LRM)

Providing Integrated Capabilities for Optimizing Management of Multi-site Real Estate Assets

An Overview of the Challenges and Opportunities with LRM

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Overview

Over the past few years, a continuing revolution of “new-economy” software tools and Internet-driven technologies have begun to radically transform many core functions within the global real estate industries. This is to be expected, given the fact that the total value of real estate in the United States alone is more than \$21 trillion and ongoing investments in real estate construction are on the order of \$600-700 billion in the U.S. and as much as \$3.5 trillion globally.

However, to date the majority of new real estate oriented software tools and Internet applications have focused primarily on improving the efficiency of specific tasks, such as construction management or deal tracking, and on broker-driven tools used for marketing properties and managing real estate transactions. Much of the industry focus has also been on so-called “disintermediation” issues involved with using the Internet to streamline overall real estate transaction processes to remove inefficiencies and to give principals more direct control over their investment activities.

While these technology advances have had sweeping impacts on many arenas of the real estate industry, a relatively untapped opportunity area for significant efficiency gains and cost savings is in the provision of new comprehensive tools for empowering corporations to improve the management of their leased real estate assets. For many companies, the cost of leasing and managing real estate represents one of the top three expenditure items in their overall financial structure, however traditionally the tools available for lease management have been fragmented and often inadequate for handling complex multi-site environments.

Recently, the emergence of a new unifying concept known as Lease Relationship Management (LRM) has begun to radically transform the traditional approaches to handling leased real estate. Just as Customer Relationship Management (CRM) tools have enabled companies to optimize all customer-related processes, LRM is now giving corporations an overall framework for effectively unifying and proactively managing every aspect of their leased real estate processes.

In this overview white paper, we will explore the driving factors and enabling technologies that have given birth to the emergence of LRM and will look in more depth at the key elements required for implementing an effective LRM structure. In addition, we will review the suite of products from Bay Logics, Inc. that are leading the way in the LRM revolution and are turning LRM’s potential benefits into practical reality for many corporations.

A “Process-View” of the Lease Management Cycle

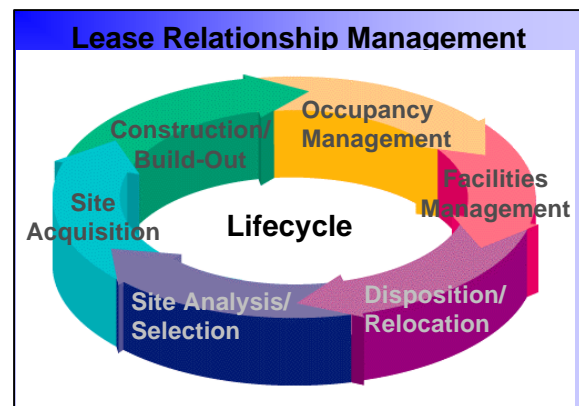
All too frequently the multi-faceted challenges of dealing with leased real estate have traditionally been handled on a disjointed ad hoc basis. In part this has arisen because different organizational players tend to take the lead for various parts of the overall picture. Specific tasks such as site selection, lease negotiation, construction of tenant improvements, and on going facilities management may require specialized types of expertise and so may logically fall under the primary control of different departments, such as legal services, finance, operations and facilities.

Although it is vital to bring together a blend of different skills and expertise throughout the overall process, too often each of the sub activities is conducted in relative isolation from the others, with little or no cross coordination or communication, frequently causing fragmented, inefficient and/or costly results. In addition, each of the different players are likely to have established procedures, methods and software management tools that may or may not be compatible with one another, thereby creating further difficulties with inter-process coordination. Not only are these factors creating inherent inefficiency, they are also hampering the ability of companies to establish and refine “best practices” for all of their lease-related processes.

In order to bring all of the lease-related activities together into an efficient unified system, the LRM concept starts by recognizing the reality that management of leased real estate is essentially a cyclical process with a number of common recurring, enduring and transitory elements that constitute the whole. Instead of treating each critical activity as a distinct and unique non-recurring event, LRM provides a comprehensive end-to-end framework for linking together the entire process.

Some of the key elements that occur within virtually any LRM cycle include:

- Site Analysis/Selection
- Site Acquisition
- Construction/Build-out
- Occupancy Management
- Facilities Management
- Disposition/Relocation Management



Depending upon the specific nature of each lease and the individual company’s unique operational requirements, each of these major areas

may contain within it many different subsidiary processes. For example, the site analysis/selection phase includes needs analysis, demographics, financial analysis and broker identification. Similarly, the site acquisition phase entails deal tracking/broker management, contract negotiation, and contract acceptance. The construction/build-out phase needs to coordinate design, engineering, contractor selection and project management. Once the facility is operational, the occupancy management phase must

take into account and proactively handle a wide range of on going issues, such as contract administration, change management, taxes, financial analysis, and task and transaction management. In parallel, the facilities management phase must coordinate many different vendors and equipment issues on a continuing basis in order to effectively control costs for periodic maintenance, repair/replacement, procurement, project management, etc. At lease end, the disposition/relocation phase must encompass disposition analysis, broker identification/deal tracking, contract negotiation, contract management, move-out management and sublet occupancy management.

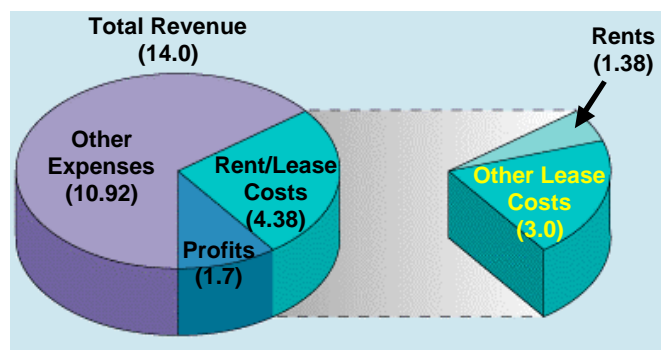
Challenges of Managing Multi-Site Real Estate Environments

Although managing and coordinating the above issues can be a significant task for even a single-site, the challenges quickly become very complex when spread across a typical corporate environment consisting of many different leased facilities. Effective LRM solutions need to address complex lease-related issues across a wide range of different industry scenarios including retail, oil and gas, telecom, field sales offices, and other complex multi-site environments.

For example, in industries such as retail sales outlets, grocery store chains, fast food services, business service centers, and other scenarios in which a geographically dispersed array of leased site forms the backbone and core of the business operations. In these situations, the corporate real estate managers often must be able to track hundreds or even thousands of individual leases, with asynchronous deadlines for handling different events and with unique requirements for virtually every site. In addition, to effectively manage on-going occupancy and maintenance issues across all of its sites, each company needs to have tightly integrated communication mechanisms for coordinating between centralized corporate management and remotely located local site managers and/or third-party vendors.

The overall cost implications of managing such multi-site environments go well beyond the stream of rent payments alone, with in most cases the non-rent items representing a significantly larger amount than the rent itself. In addition, the aggregate costs of leasing and managing the real estate assets generally represents one of the top categories on the corporation's financial statements.

For instance, the chart to the right shows overall financials for a major retail chain with over 6000 locations, which have a total annual rent expense of \$1.38 billion. While the rent expense alone is nearly equal to the corporate profits of \$1.70 billion, when other lease-related costs are included the aggregate expenses of \$4.38 billion represent nearly a third of all corporate expenses combined.



Obviously in such an example, the ability for improved Lease Relationship Management to save even a relatively small percentage of the overall lease-related costs can mean dramatic improvement in the corporation's financial performance. This is especially true when one considers that the resultant savings in leased real estate expenses fall directly to the company's bottom line.

The challenges and benefits of multi-site Lease Relationship Management (LRM) are also becoming increasingly critical for a wide array of industries that go well beyond the traditional retail-chain model described above. For example, the recent proliferation of inter-woven sub-leasing arrangements such as banks leasing mini-branches and/or ATMs within supermarket facilities represents an escalating set of challenges for corporate real estate managers. From the perspective of the financial institutions, the lease-related issues surrounding thousands of mini-sites must be coordinated across multiple interfaces spanning both the corporate level and the remote locations. From the perspective of the supermarket chains, the LRM systems also must be able to accommodate all of the issues associated with being both a lessee and a landlord across many different geographically dispersed locations.

Other industry segments that can benefit significantly from the use of comprehensive LRM tools include those companies that need to manage a huge inventory of relatively small leases, such as the right-of-way leases required by utilities, phone companies, cellular communications providers and railroads. In these instances, a company's leased real estate assets may consist of tens of thousands of individual leases with a widely disparate patchwork of terms, timeframes and special conditions. While the actual rent expense for any individual lease may seem relatively small in the overall scheme of things, the operational costs of a management lapse can potentially be very significant. For example, for a cellular telephone provider whose competitive position depends upon assuring reliable service to end customers, the inadvertent failure to renew a lapsed lease for a single cellular base-station site could have dramatic costs in terms of degraded reputation and revenues.

By providing a flexible framework for coordinating all of the end-to-end lease-related issues for virtually any industry or company-specific requirements, the new wave in Lease Relationship Management is now putting powerful new tools in the hands of corporate real estate managers. As a result, virtually all companies with multiple leased sites are able to exert improved control over their leased-related expenses and to improve both their bottom line financial performance and their operational effectiveness.

The Evolution and Convergence of Enabling Technologies

The emergence of innovative new LRM solutions has arisen in response to corporate requirements but it has simultaneously been made possible by a convergence of both evolutionary and revolutionary enabling technologies.

A number of key trends have helped set the stage for the quick development of comprehensive LRM solutions. These include:

- Proliferation of point-product software solutions for various real estate related subsidiary functions
- Widespread acceptance and adoption of corporate-wide ERP and CRM structures
- Rapid worldwide adoption of the Internet and Internet-based communications standards

Proliferation of Point-Product Software Solutions

The proliferation of specific point-products focused on handling various limited aspects of the overall leased real estate spectrum have helped lay the groundwork for emergence of LRM solutions in two key ways. First, the adoption of software solutions for managing various sub-segments of the process, such as project management software for construction build-out, has raised the general awareness and acceptance of productivity improvement tools across the industry as a whole. Secondly, the development of these “islands of improvement” has clearly drawn attention to the need for comprehensive mechanisms such as LRM to bring all of the functions together into a unified process.

Adoption of Corporate-wide ERP and CRM Systems

On another front, the widespread acceptance of other corporate-wide tools such as ERP and CRM has also helped pave the way for adoption of LRM systems. Particularly the industry buzz and publicized successes surrounding Customer Relationship Management has direct parallels to the potential benefits of Lease Relationship Management. CRM has drawn such a strong focus across all industries because it provides tangible benefits from a systematic set of tools for addressing the core arena that invariably constitutes one hundred percent of any company’s revenue base. In a very similar vein, LRM is now commanding similar attention across virtually all industries because it also offers very tangible benefits from systematically managing all aspects of another key arena that also represents one of the major components of any multi-site company’s P&L and balance sheet.

Emergence of the Internet as a Global Force for Change

The third major enabling trend, the rise of the Internet, is arguably the most sweeping global technological and social phenomena in history. In little more than a decade, the Internet has exploded from being a relatively esoteric communications system used by a few scientists and academics to a ubiquitous worldwide communications, entertainment and commerce media that is transforming virtually every aspect of our daily lives. In the business arena, the migration of many traditional functions and systems to the “new economy” of the Internet is dramatically boosting productivity and transaction speeds while simultaneously breaking down old paradigms and creating new ones.

The widespread use of de facto Internet standards, such as browser-based interfaces, Internet Protocol (IP) based communications, and information formatting and transaction standards (HTML, HTTP) have all combined to create an ideal environment for quickly porting existing applications on to the Internet and/or rapidly developing entirely new applications. In addition, other emerging technologies such as XML have extended the

ability to efficiently link new Internet based applications with legacy databases and other existing business applications.

On a broader level, the widespread migration of commerce to the Internet has sometimes resulted in completely transformed business models with new inter-relationships and entirely new types of participants. For example, the Internet's ability to efficiently allow direct transactions between principals is driving a trend toward "disintermediation" across many different industries in which the traditional roles for middlemen have been eliminated. While the disintermediation trend has injected new speed and efficiency into many business processes and markets, it has also created the need for new comprehensive frameworks and mechanisms to provide overall context and cohesion. Some industry observers have referred to this new emerging role as a "meta-mediary" function in which a significant part of the added value is a unifying of subsidiary processes, services, products and information around a common theme and/or a shared set of business objectives. Within the real estate industry, one of the facets of the LRM function will be to act as a meta-mediary in order to bring together, aggregate and unify many disparate Internet-based subsidiary applications, processes and services.

Key Characteristics of Comprehensive LRM Systems

The primary objectives of comprehensive tenant-driven LRM systems must include:

- Providing a framework for unifying and aggregating *all* activities and subsidiary processes involved with managing leased real estate assets
- Bringing all of those processes under the direct effective control of the lease holder corporations
- Providing real-time proactive mechanisms for identifying, tracking, and managing all critical lease-related events and tasks throughout the entire life-cycle of the lease
- Ensuring effective communication and coordination between all participants in the process, including centralized and remote corporate staff as well as external communications with landlords, vendors and sub-lessees.
- Providing the built-in architectural flexibility and scalability to allow for integration with a variety of existing processes and for efficiently serving multi-site organizations ranging from a relatively few sites to many thousands of leased sites

In addition, LRM solutions should also be able to effectively provide for:

- Fostering a meta-mediary environment for open sharing of industry-related information, news, and events
- Promoting communication and community building between key industry players, service providers and so forth.



Lease Relationship Management

In effect, LRM serves the dual purposes of putting corporate tenants in control of all the processes involved with their leased property and other site-related costs, while simultaneously building and extending the effectiveness of communication between lease holders, owners and providers of goods and services.

Leading Edge LRM Solutions from Bay Logics, Inc.

As the acknowledged prime mover in the development of comprehensive LRM solutions, Bay Logics, Inc. is addressing the issues associated with LRM with a full suite of advanced products and services that are already producing tangible benefits across a wide range of industry segments.

For instance, one Bay Logics corporate customer with over 650 retail store locations has experienced first year savings of over one million dollars, just from LRM's tighter controls for catching and correcting landlord billing errors. A number of fast food retailers have seen similar results with occupancy-cost savings of more than a million dollars per year. In addition, real-world experience has demonstrated that the tangible benefits of LRM can begin to be realized with organizations having as few as only 15 to 20 leased property sites.

With a solid track record of over 13 years of serving the technology needs of the real estate industry, Bay Logics has successfully implemented more than 280 major productive improvement solutions for managing real estate assets in Fortune 1000 companies around the globe. To date, these pioneering technology solutions have helped improve the profitability of more than 150,000 leased or owned properties representing 5 billion square feet and over \$100 billion in annual related transactions, while also laying the groundwork for today's comprehensive LRM capabilities.

All of Bay Logics' LRM solutions are designed to provide a complete framework for end-to-end integration and management of all lease-related activities. Current primary product offerings are as follows:

SiteSeer™

SiteSeer is a powerful and flexible tenant-based Lease Relationship Management system that seamlessly integrates real estate and accounting functions for small to medium size companies. Specifically designed to manage leased properties, owned properties, ground leases, and easements, SiteSeer tracks rent, options, lease features, notices, locations, contacts, operating costs, statistical cost ratios, and physical property characteristics. SiteSeer is the most successful product of its kind with over 240 installations worldwide.

Domain C/S™

Domain C/S enables larger companies to effectively manage site occupancy processes with improved efficiency, speed, accuracy and ease. Domain C/S's robust client/server structure, inherent versatility and bi-directional communications capability has quickly earned industry recognition as 'best in class'. Domain C/S was designed to provide all the functionality of SiteSeer plus many more capabilities needed for more complex corporate environments including deal tracking, document processing and property tax management. With its inherent scalability and robust interfaces to major enterprise database management systems, Domain C/S has already proven to perform well for organizations with thousands of leased properties. Virtually every business requirement for occupancy management can be met and/or exceeded with Domain C/S.

WorkPlace™

WorkPlace provides a powerful Internet portal that connects users to a vast array of Bay Logics' e-business partners while using Domain C/S. As a single unified control console, WorkPlace displays a window into Domain C/S, market information, commonly used reports, options and renewal tickler lists, trend charts and links to lease-related service providers all in one place. With its personally configurable interface, WorkPlace empowers headquarters and field personnel to participate in LRM in real time—making the enterprise more profitable, more efficient and more competitive.

The screenshot shows the BayLogics WorkPlace web application interface. The page is titled "BayLogics Lease Relationship Management Solutions" and features a navigation menu with options like "My Profile", "Personalize", "Home", "Contacts", "Reports", and "HomePage". Below the navigation menu, there are several content panels:

- News:** A list of news items, including "Five Firms against Great Britain for \$6.3 million" and "Biorad labs and time line assays confirm global warning".
- PROPERTY DATES In & Out:** A table with columns for Property ID, Property Name, and Date. It lists properties like ABALINE, PACIFICA BUILDING, and DALLAS OFFICE BUILDING.
- Critical Dates:** A table with columns for Property ID, Property Name, and Date. It lists properties like ABALINE, PACIFICA BUILDING, and DALLAS OFFICE BUILDING.
- Insurance:** A table with columns for Property ID, Property Name, and Insurance. It lists properties like DALLAS OFFICE BUILDING and PACIFICA BUILDING.
- What's New:** A section titled "WHAT'S NEW" with sub-sections for "Upcoming Events" (BayLogics Users Conference, Sept. 10-13), "Press Releases" (BayLogics smashes San SF market, BayLogics TAPS Emergent OnLine, BayLogics and Intertech Alliance, BayLogics Selected by Staubach), and "Stock Quotes" (listing BLSN, BCOMPS, and BDCX).
- Search:** A search box with a "SEARCH" button and options for "all the words" and "anytime".
- Yellow Pages:** A search box for businesses with an online presence by category and/or location.
- Web Directory:** A directory of links to various categories like Arts, Business, Computers, Games, Health, Home, News, Recreation, Reference, Science, Shopping, Society, and Sports.
- Horoscopes:** A section titled "Horoscopes" with the text "No data returned from Astrology service".

Integration and Consulting Services

In addition to the above described specific product offerings, Bay Logics also offers complete in-depth integration, consultation and project management services for optimizing the benefits of LRM and for tailoring configurable capabilities to meet unique corporate requirements. Although many installations of Bay Logics' products have only minimal support and integration requirements, as a solutions-oriented company, Bay Logics also provides the flexibility to become as deeply involved as any particular customer might require. Support services can range from simple on-demand telephone support all the way up through complete project management, needs analysis, database integration, process re-engineering and training.

As the industry leader in the development of comprehensive LRM solutions, Bay Logics is dedicated to both ensuring tangible real-world productivity improvements for every customer and simultaneously fostering overall communication, cooperation and the coordination of industry-wide solutions. Through the combination of specific LRM products, the WorkPlace meta-mediary portal and comprehensive integration services, Bay Logics is continuing to push ahead the state-of-the-art in Lease Relationship Management on multiple fronts for many different industries.