Many are debating whether the financial services industry is entering a period best described as the “new normal” or whether we are exiting an “abnormal” period in our history. The one thing that is not debatable, the industry is undergoing significant change. We have all been taught to embrace change and become an agent of change. Change is good and creates new opportunities. Unfortunately, indigestion, heartburn and pain come with it.

The good news for most of us is, the light at the end of the tunnel is not a freight train. It is a light pointing toward new opportunities and challenges, with a laser focus mandating that we identify, manage and mitigate the risks inherent in the balance sheet, and control recurring operating expenses. We all have to reinvent ourselves, and look for new ways to do the business of banking more efficiently.

With this understanding and knowledge many banks are assessing their strengths and weaknesses with a goal of better leveraging their core competencies and those of their strategic business partners. Bankers are asking themselves the question, “Do we have the necessary expertise to manage corporate real estate and special assets within the bank and what are the hard and soft dollar costs of doing so, versus outsourcing these functions?” Many national, super regional and regional banks have already made these decisions.

While some fortunate few are expanding their retail banking office network or building a new corporate office or operations center, most banks are focused on preserving capital and customers, and redoubling their efforts to identify, manage and mitigate risk while controlling operating expenses. Given the cyclical nature and complexity of real estate, outsourcing corporate real estate and special asset management functions deserves consideration.

Occupants of the C-Suite are instructing their staff to perform highly technical and varied corporate real estate and special asset management duties, and are realizing that the expertise to safely and accurately identify and manage these risks, and control associated operating expenses does not reside in their shop. Then, the question they ask themselves becomes, “Do we build the necessary infrastructure and incur the additional operating expenses to support these functions, or do we outsource one or both?” Bank employees wearing fifty-two different hats are being faced with situations like these:

- “Clay, we need you to do an analysis of these construction documents for an assisted-living facility to confirm the general contractor’s cost of construction. We need to confirm his equity investment and that he has skin in the game.”
- “Andy, make sure we are holding sufficient funds-in-process on this $1.7 million child care facility construction project, and compare the progress of construction to the general contractor’s recently submitted pay request. We need to make darn sure that our in-process loan disbursements, holdback and undisbursed loan balance are aligned with all pay requests.”
- “Clay, the Board has decided to consolidate our different operating bank brand names into one. They want to benefit from the lower operating expenses, and simplify the Bank’s back-office operations. Need you to do an analysis of all corporate real estate branding opportunities, prepare a request for proposal and submit it to sign companies for bids.
- “David, there may be an opportunity to reduce some of our branch bank offices’ energy use, and lower our power and lighting monthly expenses. We need you to look at every opportunity to lower these operating expenses. Do an energy audit to see where these opportunities lie, what the potential cost savings would be, and estimate the payback period for making the changes.”
- “Mike, there is a potential bank acquisition candidate that we need to conduct some due diligence on. Make a physical inspection of all their corporate real estate and non-performing assets, and produce a property risk assessment, evaluation analysis and a recommended action plan on each property by the end of next week.”

The impact of making incorrect corporate real estate
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