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## THE PROPERTY REPORT

### Chrysler Rethinks Real Estate

*Auto Maker Aiming to Cut Costs of Vast Property Portfolio*

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DETROIT

**C**HRYSLER CORP. IS casting a more demanding eye on a little-known part of its empire—real-estate holdings it values at \$8 billion.

Like a growing number of major U.S. corporations, including AT&T Corp., Coca-Cola Co. and Eastman Kodak Co., the No. 3 U.S. auto maker has turned to outsiders to improve its performance. Intent on reducing costs and selling off nonessential assets, Chrysler has hired Equis Corp., a Chicago-based global real-estate firm, to analyze the hundreds of properties it owns around the world. Terms of the new agreement call for Equis to co-manage Chrysler's real-estate portfolio, which includes manufacturing plants, offices and distribution centers from Kokomo to Beijing.

Exact details are still being worked out, but the partnership is expected to change all of Chrysler's real-estate procedures, from negotiating rental rates to determining the best ways to use space for Chrysler's 125,571 employees. The real-estate review will include all of Chrysler's automotive plants and office space. "We want to be more proactive in the management of our holdings," says Jim Sproul, Chrysler's senior real-estate specialist. Currently, Equis is developing a world-wide database of Chrysler's leased and owned properties.

Chrysler will retain its in-house team, which consists of two managers and several administrative assistants, while working with an additional 225 experts from Equis. The auto maker's single largest property is the Auburn Hills Complex in Auburn, Mich., a 4.4-million-square-foot property that includes Chrysler's world headquarters and the Chrysler Technology Center. Chrysler also owns a 110-year-old assembly plant in Toledo, Ohio, which is believed to be the nation's oldest operating automotive factory, and two assembly plants in Detroit.

Equis, whose other clients include Ameritech Corp., Coca-Cola and NationsBank Corp., will also be responsible for handling administrative functions and acquiring property for future expansions related to Chrysler's real-estate holdings. The auto maker owns or leases property in 30 states and 104 countries.

Both Chrysler and Equis declined to discuss the specific size of Chrysler's real-estate portfolio. But according to filings with the Securities & Exchange Commission, Chrysler owns \$8 billion of real estate and has lease expenses valued at \$500 million annually.

"Most major corporations see real estate as a fixed cost of doing business," says Richard Podos, Equis vice president, who is in charge of the Chrysler account. "They don't see the savings

that can come from rethinking how it's managed."

But those companies that have embraced the trend are creating significant dividends for real-estate management firms. Equis and others are starting to find it difficult to keep pace with the demand for real-estate cost-management services. And some believe that demand is only beginning.

Industry experts say the mini boom has at least five more years of growth because industrial giants are just now discovering the costs that can be saved by simply realigning their real-estate strategy. On average, real-estate expenses represent between 25% and 35% of an industrial company's total assets, and almost 5% of gross income. Real-estate costs are usually the third-largest expense, behind purchasing and salaries. Officials at Chrysler and Equis say they haven't yet established savings targets.

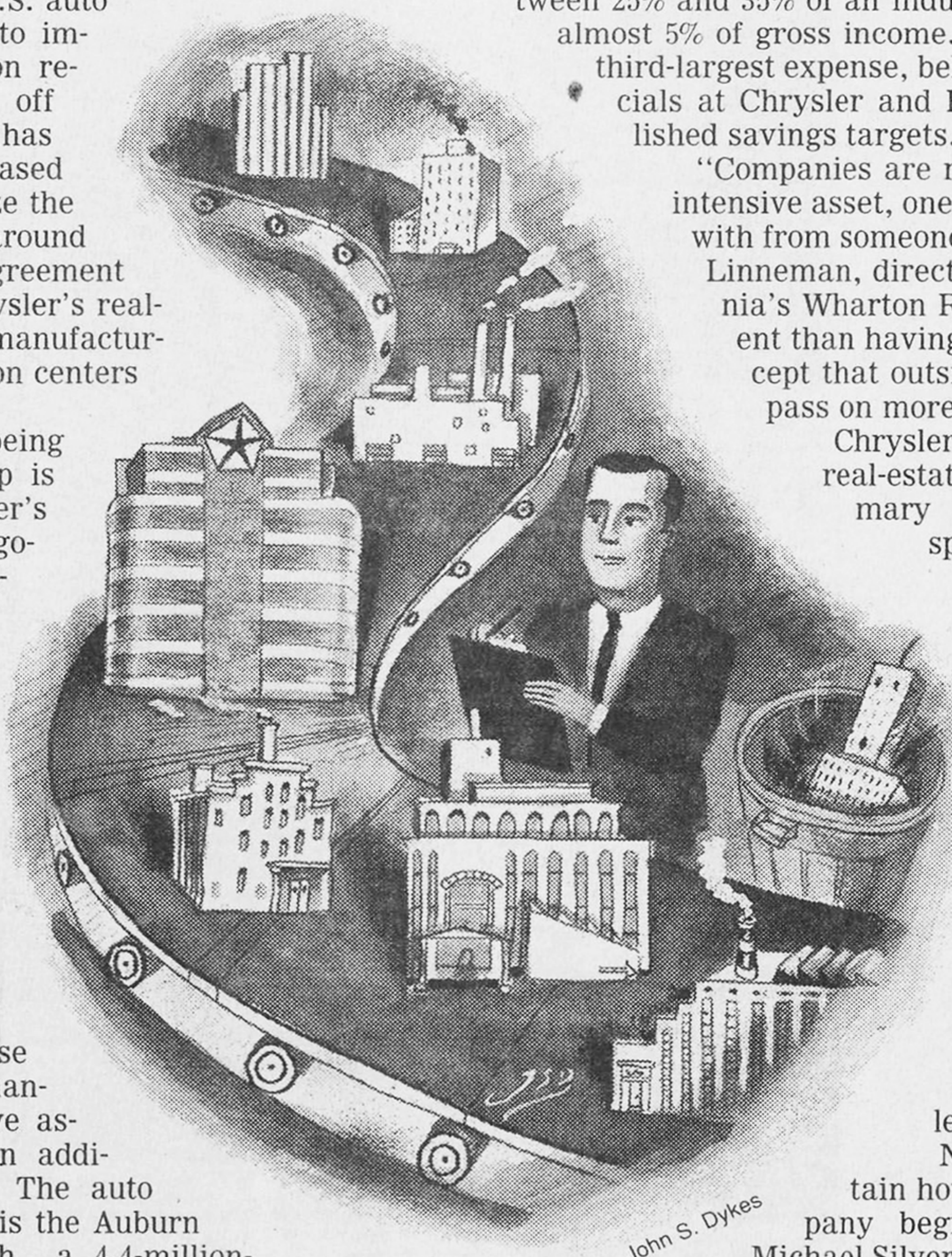
"Companies are realizing that real estate is a very intensive asset, one that they're better off getting help with from someone who specializes in it," says Peter Linneman, director of the University of Pennsylvania's Wharton Real Estate Center. "It's no different than having help from an outside counsel, except that outside real-estate managers can help pass on more value to shareholders."

Chrysler officials concede that managing real-estate costs hasn't always been a primary focus, mainly because Chrysler spent much of the 1980s and early 1990s trying to stay out of bankruptcy. "We have a couple of excellent real-estate professionals who manage our business," says Loren Lau, director of projects and international finance. "But by the sheer size of the business they administer, we would have to add significant staff, or find an alternative, to achieve the results we need to support our core business. It's better for us to find someone who is in the real-estate business and then use them to leverage our internal resources."

Neither Chrysler nor Equis is certain how long it will take before the company begins to see major savings, but Michael Silver, Equis's president and chief executive officer, says the trend already is changing how the real-estate industry does business. "The typical mentality at companies in this industry is that the deal is everything," says Mr. Silver. "Only a few of us are looking at the market for managing occupancy costs and the need for speedy, error-free transaction services."

Through its aggressive program to cut costs in partnership with its suppliers, Chrysler already has proved it knows how to generate shareholder value and save money at the same time. Last year, for example, Chrysler reduced its expenses by \$1 billion over 1995 levels. This year, Chrysler expects to generate \$1.25 billion of savings ideas from suppliers.

Mr. Lau insists that Chrysler is focused on more than the bottom line: "We want to be smarter in our transactions, to anticipate trends better and to use our own internal resources better. We're counting on Equis to deliver enhanced administration and transaction capabilities and a consistent approach," he says.



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