



# ASSET

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## BUSINESS AND PROPERTY MANAGERS

THINK PROFIT - ACT PROPERTY!

ACES Paper No 06.5/6 by

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ACES Spring Conference  
Bath, May 2006



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ALAN WHITE's career has involved the direct management of operational property for businesses including Diageo, Lloyds TSB, Dee Corporation and Booker McConnell. Whilst at BT Group as property director he was involved with the strategic planning and the largest UK property asset outsourcing involving a £2.38bn transaction with Telereal. In the previous nine years he developed a number of operational property strategies for BT including programmes of property downsizing, cost reduction, asset value enhancement and the formation of its in-house property company Southgate Developments. Alan left BT in 2001 and then headed up DTZ Pleda Corporate Consulting Group. He now runs his own consulting business specialising in providing strategic occupation, financial and property management advice to businesses and public bodies.

Alan is chairman of the RICS Facilities Management Faculty and of RICS Business Services. He is a member of the Bank of England Property Forum and a past adviser to the Ministry of Defence, Department of Transport, Office of the Deputy Prime Minister and the Office of Government Commerce. Alan is involved with real estate education through the University of Reading, Oxford Brookes University, Cass Business School and Sheffield Hallam University.

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## INTRODUCTION

The structure for this paper is as follows:

- Operational property;
- Managing property;
- Performance measures;
- Business challenges;
- Think Profit – Act Property!

I want to emphasise the importance of business AND property as opposed to the conference strapline of business OR property managers. My view is that we have to be business and property managers with an emphasis on the business.



## OPERATIONAL PROPERTY

### CONTEXT

Operational property is that needed by business or public authorities in order to operate. It is large in terms of the UK economy:

- In the UK operational property = 34% of total business assets;
- 17% of UK fixed tangible assets;
- R E & Construction contribute 12½% of UK GDP - £120 billion pa;

... and big in business too...

- Second or third largest business running cost;
- Balance sheet value of £400 billion;
- Investment property valued at £350 billion.

A huge amount of capital is tied up in corporate operational property and investment property.

### PUBLIC SECTOR OPERATIONAL PROPERTY

About £300 billion is “invested” in UK public sector operational and non-operational property. This means that in both sectors the investment in real estate is well over £1 trillion. It is fair to say that more attention is being focussed on these portfolios than a few years ago, particularly in the local government sector. “Hot Property” generated high-level attention to the use, full cost, the state of repair and the suitability of operational property. The Treasury is also focussing on asset management as a key activity although this may only be with the objective of raising cash. It does however encourage the RICS to get into the property asset management area including preparing Guidelines for professionals in this important area. Asset management is a key activity for central and local government; this must be adopted as “business as usual”.

### COST, VALUE AND CONTRIBUTION OF PROPERTY

The cost of not managing corporate real estate is high:

- £18 billion per annum - at least;
- Equivalent to £50,000,000 per day; £2,000,000 per hour;

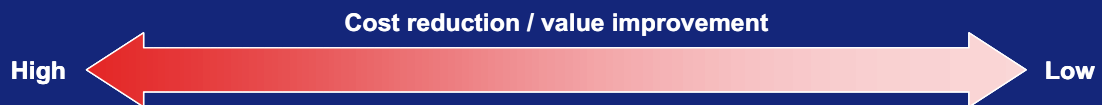
How much are you losing?

FIGURE 1

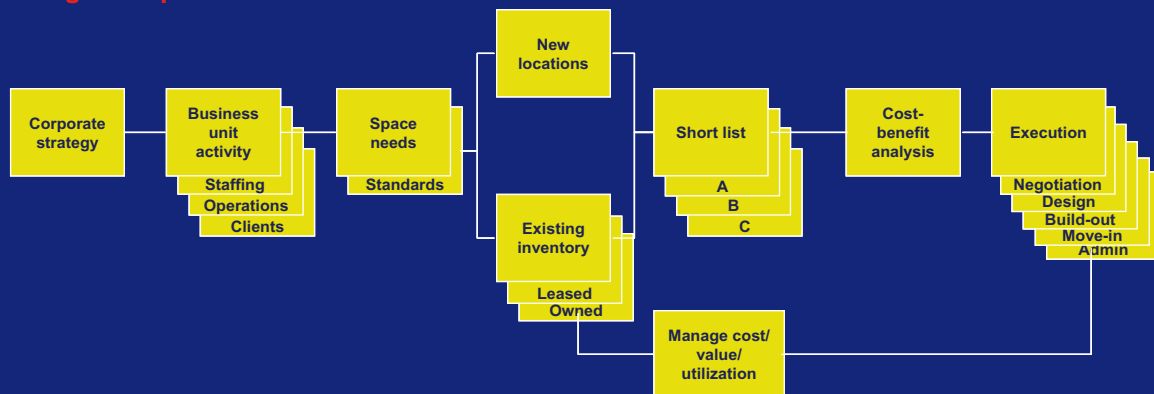
## Integrated business & property strategies

LEVERAGE FOR CHANGE IS GREATEST WHEN PROPERTY DECISIONS ARE INTEGRATED WITH CORPORATE STRATEGY

Strategic impact



Management process



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## MANAGING PROPERTY

### MAXIMISING VALUE TO THE OPERATION;

In my experience what we need to do to maximise value is to reach the corporate strategy/ business unit activity end of the diagram in Figure 1 rather than remain, as many of us are, at the execution (facilities management) end of the line. Organisations can achieve maximum value when real estate managers get sufficiently into the management process so as to make the maximum strategic impact.

### BT CASE STUDY

A study of BT over ten years (See Figure 2) up to the time their property portfolios were outsourced demonstrates that the property team were attempting to understand the business drivers and match property strategy to what the business aims. In the early 1990s BT, privatised in 1984, was starting to feel the competition and needed a business strategy to reduce cost and improve competitiveness. The property team helped with a strategy to use less space,

reduce cost, sell surplus property, and to generally reduce the amount of property used by the business, a property strategy of downsizing and reducing cost. Later, in the 1990s, staff, image and quality of service issues were the problems. BT was unable to retain and attract decent staff largely because its premises were so awful. So the property team devised a strategy to improve workplace quality with new office buildings and call centres but without losing sight of the reduction in cost programme. Further on in the 1990s the speed of business change was such that it was difficult for the property team to keep up with changes in business strategy. Accordingly we sat property people in each business unit in order to understand at an earlier stage what was happening to business strategies and what that would mean in terms of property requirement. In other words the property team were beginning to establish a partnership with the business. Then as the technology bubble broke, and the telecommunications and computing sector crashed, BT found itself highly in debt and the property team were asked to do whatever it could to raise cash. Hence the urgent sell-off (which I suspect BT over time will regret) of the property portfolio to raise £2.5 billion in order to reduce debt.



The diagram in Figure 3 shows the effect of the ten-year programme of reducing the size of the property portfolio eventually recycling £450 million from disposing of surplus real estate. The important lesson is the need for a property reaction to business imperatives, an example of property supporting the business.

There are additional things the property team can do to deliver to the business. But how do we do that? Well, we should:

- Control who can deal;
- Control who can spend;
- Bring discipline in the use of space;
- Construct a property database and link with enterprise-wide MIS;
- Get to the strategy table and stay there;
- Organise business unit space strategies to link with business plans;
- Sell whatever is surplus;
- Understand the financial drivers and accounting

requirements of various property-related strategies;

- Manage the whole portfolio of resources.

Other ways in which well managed property can support the business include:

- Balance sheet and P & L improvement
- Enhanced ROCE (Return on capital employed)
- Increasing stakeholder value
- Managing to optimise the use of all resources
- Workplace & workspace strategies
- Promoting improvements in productivity - retention, attraction
- Promoting quality of service delivery to external stakeholders
- Assisting with culture change
- Improving the image, reputation and profit of the business

## Think profit – act property

	1991	2001	Total
Size millions sq m	8.0	6.0	25% reduction
Value £ millions	1,800	2,700	50% increase
Running cost £ millions pa	1,250	750	40% reduction £ 2.66 billion
Capital recycled £ millions	>>	>>	£450m

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## PERFORMANCE MEASURES

### WHY BOTHER TO MEASURE?

There are many reasons why it is necessary, and important, to measure how property management is progressing; such as

- Required financial and management audit measures;
- Enable external benchmarking of performance;
- Route to optimisation for the portfolio;
- Communication to staff - they are key influencers;
- Communication of the property strategies;
- Test new ideas - unlikely changes can sometimes make a big difference;
- One day the analysts will be interested in property!

### WHAT TO MEASURE?

You should be measuring cost, space, value, and performance.

#### Cost metrics

- Total property cost per head/work station/sq metre
- Cost breakdown per head/work station/sq metre
  - ▣ property cost
  - ▣ workplace costs
  - ▣ running costs
- Property cost per unit manufactured
- Property cost per division
- Property cost as a percentage of total business operating costs

### Space Metrics

- Area occupied per head
- Area occupied per work station
- Area occupied per unit manufactured
- Area occupied per division
- Accommodation vacancy rate

### Value Metrics

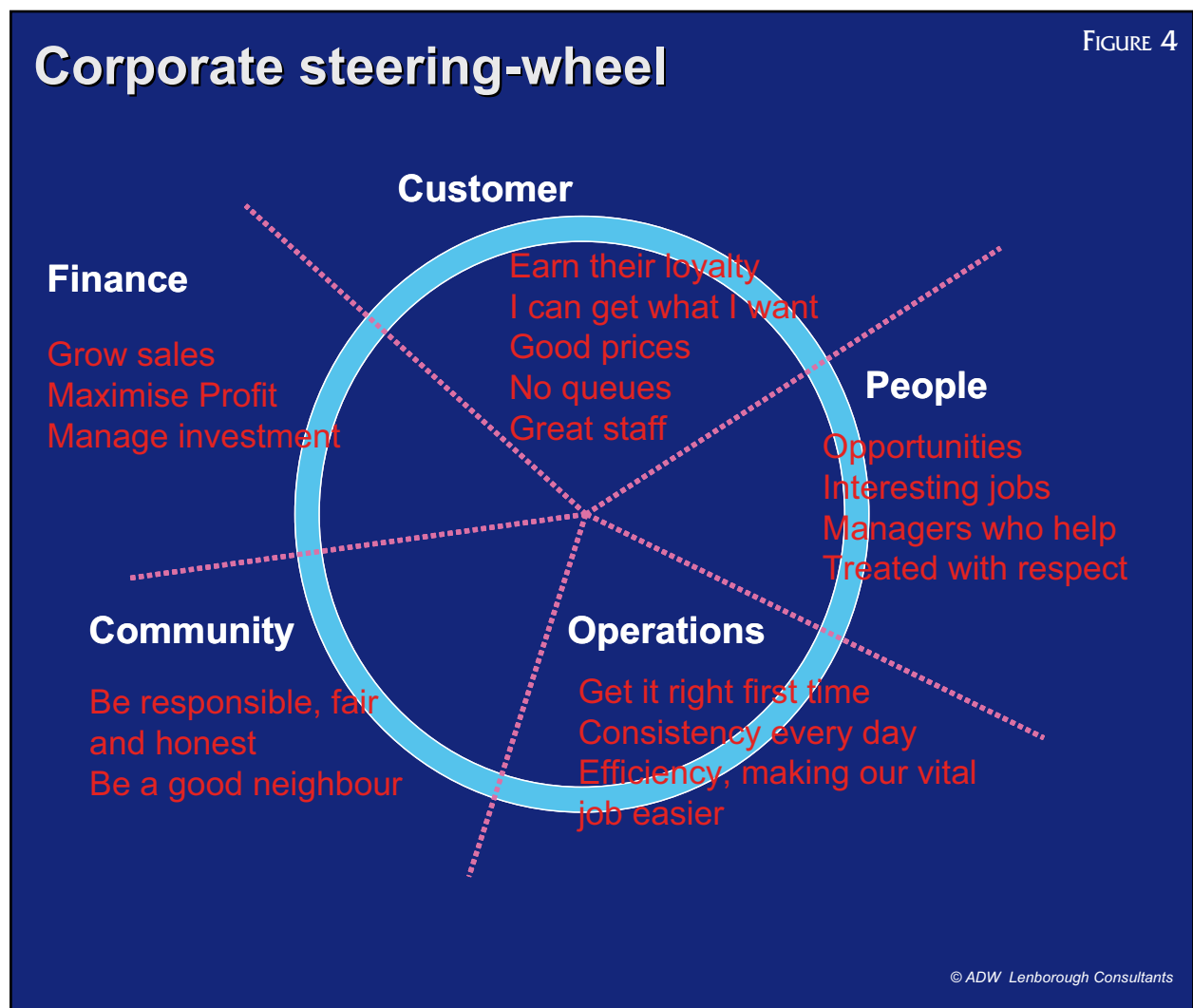
- Total portfolio
- Portfolio packages
- Overall return on capital employed
- Return on new asset investment
- Return on refurbishment investment
- Assessment of highest and best use

- Assessment of internal rents
- Estimated Going Concern/Enterprise Value

### Performance Metrics

The indicators above are the standard ones associated with a property portfolio but the Performance Metrics area is more difficult. Here I mean those soft qualitative contributions like measuring staff performance, such as corporate responsibility and sustainability, which are becoming easier to measure because people are becoming more familiar with them. Areas like productivity or trying to assess the productivity of staff in an office environment are difficult but definitely worth looking. A complete listing is:

- Ratio of business to real estate timescale;
- Average length of lease expiry;
- Total 'overhang' of workstation years;



- Occupancy ratios per month;
- Workstation occupancy: hours per day ratio ;
- Average operation response time;
- Productivity assessments;
- Staff performance – attendance; hiring; leaving;
- Corporate responsibility;
- Sustainability.

## CORPORATE RESPONSIBILITY

To emphasise corporate responsibility and sustainability Tesco look at their business through a corporate steering wheel (See Figure 4) and measure their important key activity areas by looking at the five named key areas:

- Customer
- People
- Operations
- Community
- Finance

Not surprisingly the finance key activity considers the growth of sales, maximising profit, and managing investment. The other areas are Customer, People and Operations, including “getting it right first time.” The Community key activity area is “Be responsible, fair and honest. Be a good neighbour.”

The Tesco corporate responsibility areas are as follows.

- Understanding changing needs and trends
- Sustainable people strategies
- Sustainable energy policies
- Recycling the trash – own and customers
- Health and nutrition
- Local sourcing
- Neighbourly occupation
- Community awareness

The interesting about these is that property people can contribute in most of these areas, for example, understanding changing needs and trends. This relates to customers’ changing needs and trends and many of

these will have a real estate impact such as a property requirement for increasing the size of a store or its car parking. Many authorities will have sustainable energy policies, as do many public authorities, such as energy saving devices in buildings and balancing air conditioning and refrigeration cooling with heating buildings. Recycling is moving into running in-house recycling activities that augment those offered by many local authorities.

Under “Neighbourly occupation” Tesco is reviewing the design of in-town stores so that they fit in better with the environment and superstores, to see whether affordable housing or other community facilities can be included within the development. Many of these points relate to property offering Tesco property people the opportunity to assist their business colleagues.



FIGURE 5

## The challenge for property managers

### Business challenges

How do we reduce costs?



How to maximise investment returns?



How do we increase collaboration of our workforce?



How do we better serve our customers?



How do we build business performance?



How do we optimise value potential?



### The operational property perspective

Use less space; control spending; centralise dealing; streamline procurement

Quality development schemes; locational excellence; competitive costs; strict project management

Quality space; premium facility management; support services; flexibility; communication

Improve locations; better facilities; premium facility management; technology for efficiency

Strategy involvement; performance measurement; manage resources comprehensively

Full data, MIS and controls; flexibility built in; technological excellence; customer feedback and response

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## BUSINESS CHALLENGES FOR PROPERTY MANAGERS

Business managers face the challenges set out on the left hand side of the diagram in Figure 5. On the right are set out operational property managers and business can contribute here. For example, how do we reduce cost? For real estate this means use less space, control spending, centralise dealing and streamline procurement, and so on through the list. Each business challenge can be tackled in a straightforward manner from the property perspective.

## THINK PROFIT – ACT PROPERTY

What I hope I have emphasised in this paper is how important it is for us as property people always to have the business perspective very much in our minds. We are business and property managers and we need to “Think profit” or “Think performance” and “Act property”.

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