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STRATEGIC PROPERTY MANAGEMENT: TIME TO DELIVER

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ALEX DAWSON

Knight Frank



THE AUTHOR:

Alex Dawson is head of Strategic Consultancy and Public Sector at Knight Frank. He focuses on public sector clients, with direct experience in providing strategic consultancy advice in relation to occupational and surplus properties, including advice to public sector clients regarding their property occupation and rationalisation.

He has a strong understanding of option analysis, and occupational strategy projects and the issues that can arise. Alex is also responsible for the management of a number of Framework Agreements, coordinating project delivery teams on a wide range of projects for the public sector.

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STRATEGIC PROPERTY MANAGEMENT: TIME TO DELIVER

INTRODUCTION

In this paper I intend to focus on one aspect of strategic property management, which is occupational strategy, and what you can do with the property needed for service delivery. I will also discuss the following.

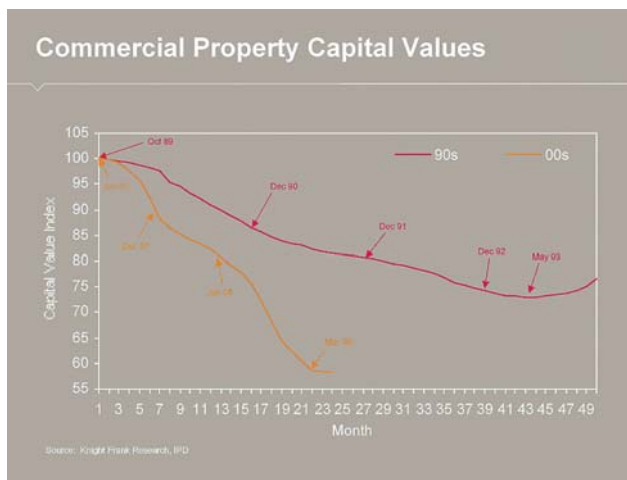
- The Economic Situation
- Central and Local Government Guidance
- Recent Studies – what should you do?
- Accommodation Strategy Delivery Plan

The Economic Situation

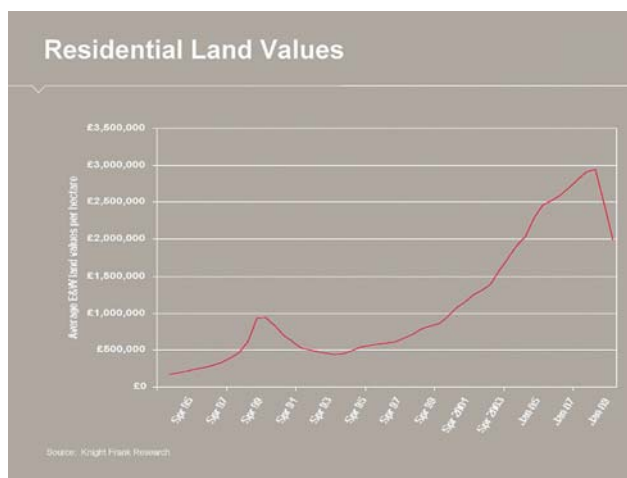
First of all how does the current recession compare with the previous one?

Clearly the fall in commercial property values has been deeper and quicker than last time. The big question is “Is this recession a V, a double dip, or is it a U?” And more importantly, “what about the future?” There are mixed messages at the moment. I can only just remember the recession before that in the 70s but recall it was not as deep as the current one.

Also residential land values have fallen by up to 50% and more in some areas. This will affect a lot of your property decisions, as often the value of residential land is one of the key factors that will underpin strategic property rationalisation proposals or some property sell-offs. Further falls in value are likely, land is being brought and sold at the moment but a lot of people are sitting on their land. No one is sure about the future of residential values.

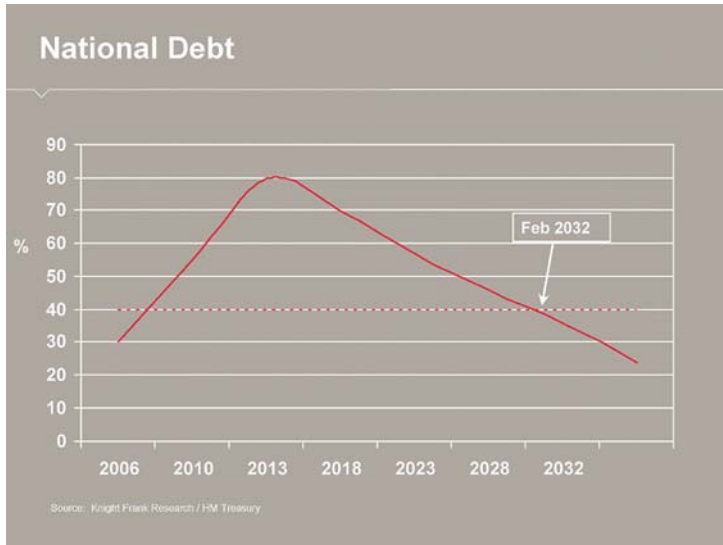


These are rental value growth and total returns from 1987 to date and forecasts to 2013 according to IPD and Knight Frank Research who have pooled a lot of information. Their view is that we are at the bottom of the recession, things are due to pick up in the commercial property market and the forecast is that returns and rental growth are also due to pick up. How can you make best use of this data for your services and property strategies?



The economy remains fragile, unemployment is at the highest level for 14 years, about a million people have been made redundant in the last 18 months; mortgage rates, mortgage approvals, availability of finance are suffering. Unsurprisingly residential sales and mortgage approvals have dropped substantially but now appear to be stabilising.

- Economy shrinking
- Tax revenues falling
- Efficiencies needed
- Time to deliver



Obviously the Prime Minister has got a headache and what will David Cameron do about it? Both are now vying for attention, as there will be an election on or before June 2010. Meanwhile people are getting nervous about making decisions and are waiting for the election. Whoever takes power there will be cuts and changes in spending and policy. Unemployment is rising, the economy is shrinking and the income to the government is going down.

But there are signs in the property market that things are not all that bad. Speaking to Hammersmith and Fulham Borough today, property they are selling at auction went for way above their reserves, mainly small lot sizes under a £1 million with developers and other cash buyers out there for

The result is that Government has had to help us all out, and bail out the banks, and produce and print money, and engage in quantitative easing. The national debt is set to increase over the next few years and according to these Treasury figures, the worst year for national debt is going to 2011/2012 when it will hit a peak of about 80% of GDP. Now the Prime Minister's goal during the growth years was that national debt should always be at about 40% of GDP. Obviously that has been overtaken by the recent emergencies with the result that the Treasury now predicts that we will not hit 40% until February 2032. How they can be quite so accurate, I'm not sure, but then I'm not an economist.

opportunities.

Some property company share prices have doubled recently. Similarly for some regeneration oriented companies with land holdings and a business model based on regeneration and development, their share prices have almost doubled. There are good signs as well as difficult times ahead; the economy is extremely fragile.

As a result of all that the economy is in a pretty bad state so there are lots of incentives and reasons to economise on property costs, and to rationalise and make better use of your assets.

Recession headlines

The headlines are

- Borrowing at record levels
- Unemployment rising

RICS Asset Management Guidelines and Best Practice Papers

- Guide to enable effective and efficient property service delivery
- Implement and improve business performance
- Process



- Measuring performance and results



Solutions

Much guidance has been issued telling you what you should do with your property. For example

- Gershon Review 2004
- Lyons Review 2004
- Varney Review 2006
- Working Without Walls 2004
- High Performing Property 2006
- Working Beyond Walls 2008
- Operational Efficiency Programme 2009
- RICS Local Authority Asset Management Guidelines 2009
- Audit Commission – Room for Improvement 2009

I will deal with some of these in more detail to see where we can find examples leading to solutions.

This contains a lot of useful information to digest and lots of process for you to follow. Before you can start the review process you need measurement and data. If you intend to improve things you need a base line and then data to show what you are improving. These guidelines contain some very sensible recommendations.

Audit Commission Room for Improvement

- 1 in 14 UK Councils are an exemplary asset manager (29:412)
- Well planned use of property helps deliver services and skills needed to modernise property use and delivery
- Council property ownership is £250 billion
- Local authorities raised an average of £4 billion from property sales in 2000–2008 – can this continue?
- Central Government policy and incentives unclear, no encouragement to deliver



Only 1 in 14 UK councils are an exemplary asset manager, so there is room for improvement, and many Councils have since moved forward with asset management plans. One key issue from the report is that Government policy and incentives are unclear giving no encouragement to deliver strategic asset management in local government.

HM Treasury Operational Efficiency Programme (OEP) 2009. Carter Review.

- Strategic property management needed at senior level
- Public sector property diverse in location, funding and use
- Book value not equal to market value
- Challenge use and demand for property is needed to align with business objectives
- Incentivise and control property use
- Data guidance and monitoring is needed to demonstrate results
- Work together - Regional, Local, National Government



The Carter Review emphasises that strategic property management needs the buy in of senior people in any organisation. For example Chief Executives should understand what is happening and give support to allow that to flow and filter down through the whole organisation. Any operational or accommodation or business change should be led from the top. The report notes that public sector property is diverse in location, funding and use and therefore there is no one size fits all solution. Again a point made elsewhere, and often, is that book value is not equal to market value and so accounting rules should be changed to give precedence to the more useful market value as this is needed in making day to day decisions such as identifying properties for disposal.

This report, published in 2008, emphasises the opportunities that are available from property and how asset management can help deliver public better services.

Both the Lyons Review and the Gershon Review are mainly aimed at government departments and central government organisations but both mention that they are there to set a good example for

others, including local government, to follow.

The Quirk Review reports on community management and ownership of public assets and also has useful guidance on asset management. It advises that you need to seek expert advice including consultants to help move forward your property issues.

Building on Strong Foundations - A Framework for Local Authority Asset Management. Department for Communities and Local Government HM Treasury 2008

- Local Government fixed assets worth £239billion
- Policies to deliver asset management
- Local Authorities to deliver asset management in line with their own priorities and opportunities
- Options and opportunities will vary between Authorities
- One size does not fit all



<http://www.communities.gov.uk/documents/localgovernment/pdf/20.pdf>

Next steps in strategic property management

The essential requirements and outcomes of strategic property management are as follows.

- Improve service performance
- Reduce accommodation requirements
- Deliver savings in asset and revenue budgets and asset reduction
- Clear asset management responsibilities
- Stronger incentives and controls
- Link with business and resource planning

The four reports focus on Service Transformation, High Performing Property, Working Without Walls, and Working Beyond Walls.

There is plenty of guidance to consider. We need to draw together the advice, recommendations and conclusions and move forward. There are a lot of things to rely on. The RICS asset management plan, encouraging people to work together, is good. Government too is encouraging us to work together. There is a bespoke methodology in the RICS guidance, with a consistent theme of occupational requirements, different geographical and political incentives and different member issues. All the guidance has first to be tweaked and adjusted to fit your own property or estate management circumstances.

Any strategic property management plan will also consider the property investment income from your properties and other assets and should also be included in any strategic plan. Stronger incentives and controls are needed from Government to help move things forward. At the moment property values are low, small size lots are selling but bigger size lots are not so now is the time to look at properties, prepare the plan, and prepare to move forward with the current economic cycle. As the cycle moves up there will be opportunities to capture higher values.

These are the essentials of an accommodation strategy delivery plan. Your plan should be bespoke, this is not a set tool kit for every situation. The essential stages are the themes running along the bottom of the slide; these need to be tweaked to suit your own circumstances. I will examine each stage in detail.

Delivery Plan: estate needs

First of all examine your estate needs; these are the essential elements.

- Business requirements and stakeholders
- Location(s)
- Office/operational/technical needs
- Adjacencies/specialist requirements
- Customer facing requirements
- Space sharing/density
- Environmental Performance

Lyons Review. Gershon Review. HM Treasury 2006

- Lyons Review Shaping the pattern of Government Service March 2004
 - Relocation of Central Government support from London and the south east
 - Long term benefits of relocation out of London
 - Asset management of office portfolio
- Gershon Review Releasing resources for the front line July 2004
 - Use of e technology
 - Coordination of estate
 - Local Government Targets
- Set a good example

http://www.hm-treasury.gov.uk/consult_lyons_index.htm



Quirk Review - Community Management and Ownership of Assets: Department for Communities and Local Government HM Treasury 2007

- Delivering strong local communities
- Guidance on asset management to improve community management and ownership
- Tool kit for Local Authority to deliver asset management
- Seek expert advice on estate management and delivery
- Smarter investment structures to maximise asset based development opportunities
- Public involvement in estate decisions

<http://www.communities.gov.uk/documents/communities/pdf/321053.pdf>



Consider the opportunities that are right on your doorstep. It may not be necessary to completely relocate if you can expand or extend. There may be opportunities through the LDF process provided you ensure that your proposals move forward in step with the LDF timetable. Consider whether planning criteria can be met and that in-house funding and/or grant funding is available. For basic office accommodation remember how the use of office accommodation has changed over the years. Once there were large cellular office buildings, with central corridors. Now there is open plan with 8 to 10 sq. m. per person, touch down space, hot desking, working from home, and the intranet. Make sure

new office accommodation is fit for present day working and can be adapted to meet the needs of the future.

Delivery Plan: analysis

Work out the balance between demand and supply. Assess current cost against future requirements. Take into account the receipts from the excess holdings and the value of existing assets or the extent of any liabilities. Beware of any book valuations; ensure all valuations are based on market value.

Look again at all properties and consider whether you can retain, improve, dispose or recycle. In diagrammatic form this analysis phase looks like this.

Basically look at the business demand, look at the supply, undertake an analysis and work forward what you can do to your operational estate.

Given the state of the property market the preparation of

Consider how you can work together with other bodies. Hereford is working with a local health authority to produce a joint accommodation strategy. Westminster is talking to neighbouring boroughs about how they can work together to deliver library services and Newham is considering bringing together the back offices of all the different elements of the Council that are currently diversified across the estate. Work out what is needed, look at your estate needs and move forward. Consider too the council's sustainability agenda. Will agreed sustainability targets influence where you want to be, what you do with your existing properties and where you move forward.

Delivery Plan: demand, business space analysis

Look at and assess demand. Remember that you need more than offices and workstations for delivering services. You also need meeting rooms, space for support services, circulation, public functions and the specialist adjacencies your authority might want to bring in. You also need nurseries, community buildings, education buildings, children services space and so on.

There are many different issues to consider. Can you join together some of those services across geographically neighbouring authorities? This could achieve economies and efficiencies and an improvement in services.

Delivery Plan: supply

Look at your supply, your existing holdings. Which are freehold, which are leasehold? Do they meet your needs; do you need new property?

Other Government Guidance

- Varney Review Transforming the delivery of public sector services 2006
 - Modernising service delivery and customer processes
- High Performing Property 2006
 - Cross Government benchmarking to deliver fit for purpose estate
 - Lead by Example ?
- Working Without Walls 2004
 - Needs are changing
- Working Beyond Walls 2008
 - Developing and Accommodation Strategy for the future



Accommodation Strategy Delivery Plan

- 🏠 Estate – Why do we need it?
- 🏠 Demand – What do we need?
- 🏠 Supply – Do we have it?
- 🏠 Analysis – What's the difference?
- 🏠 Options – How do we deliver?
- 🏠 Challenge – Make sure we are right.
- 🏠 Implementation – Delivery in today's market?
- 🏠 Review and Analysis



a cash flow analysis becomes even more important particularly in terms of when the surpluses will be hitting the market.

Delivery Plan: challenge

This is one further opportunity to challenge and revisit, to look again at services, look at all the options that you have considered; to make sure that it is fit for purpose and that the changes will deliver savings and improved services.

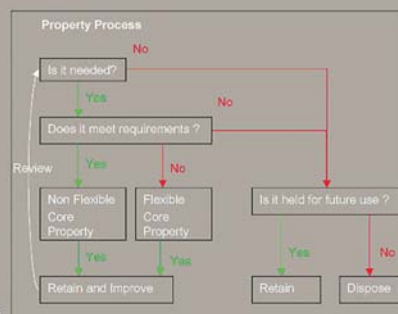
Delivery Plan: implementation

The essentials are

- Project management
- Meeting objectives
- Pre-planning, property optimisation
- Demand and supply
- Future proof
- Savings/receipts
- Business benefits

Delivery Plan - Options

- Cash flow analysis
- Market terms
- Timescales
- Future proof
- Prioritisation of options/matrix scoring
- Meeting demand requirements



Strong project management is essential; you need buy-in from the top of the organisation in order to meet agreed objectives. Keep a careful eye on savings and receipts at all times.

Time to Deliver – Local Authorities

Finally this is a summary of all the action points identified in this paper.

- Local Authorities
 - Capacity and skills needed
 - Data/valuations
 - Meet budgetary requirements
- Central Government
 - Give incentives to improve
 - Mandatory rationalisation

Analysis



- Market Opportunities
 - Buy low sell high
 - Optimise project and property planning
 - Strategic acquisitions now
 - Long term analysis to dispose
 - Skills availability

The important message is that there are ways to improve your council's accommodation and there are property opportunities in the current economic cycle.

Alex Dawson,
Partner and Head of Strategic Consultancy
and Public Sector, Knight Frank