

Issue 64, June 15, 2001

Property is changing and so is the role of the real property asset manager 89
David Eades, Knight Frank, Views on Property Changes 90-91
Bryan Moulds Property Council of Australia (SA), Views on Property Changes 92-93
Ami Sudjiman-Spinks, Strategic Facility Services PL, A Short History of Property 94-95
Gripe of the Week 96

**WHAT'S HAPPENING TO
PROPERTY
AND THOSE WHO MANAGE IT?**

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to this issue**

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Major changes are now taking place in the way that property is developed, owned, and managed. I spoke with **David Eades**, Senior National Director of Knight Frank, of the Brisbane Office, and with **Bryan Moulds**, State Director of the Australian Property Council, out of the Adelaide Office, about their views on the changes and how they may affect property asset managers.

With such far reaching changes predicted, I think that it is helpful to see these changes in perspective – in terms of what has been happening to property in the recent past. **Ami Sudjiman-Spinks**, Strategic Facility Services P/L, Canberra, has provided an excellent condensation of the changes that have taken place at the level of the Commonwealth Government and State Governments in Australia and associated changes in the politics and economy of the time.

Editor

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“Large, multinational, companies don’t want to cope with a plethora of individual country contract documents; they are demanding a standardised procurement process”

Will Government follow this lead?

**David Eades,
Senior National Director
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Standardised procurement processes

Globalisation is affecting the property market. About 50% of international trade is conducted within the same company and 50% of the largest organizations are now corporations, not countries. This is having a profound affect on the way that property services are now being organised. Large, multinational, companies don't want to cope with a plethora of individual country contract documents; they are demanding a standardised procurement process.

Contracts written in terms of response times

Typical contracts would often be in terms of response times; urgent calls might have a 20 m response time, whilst there may be an 8 day response to clean something. Clearly the quicker the response time required, the more expensive the contract.

Supplier response – a one stop shop

And the response from outsourcing companies has been to offer a 7x24 hour service from a multi service centre – with centres spaced around the globe 8 hours apart. Just one number will connect you to a call centre somewhere around the world that is 'awake' – and deal with any request. Suppose you are an Australian company

operating in Kuala Lumpur, the Prime Minister has just been impeached and there is rioting in the streets. The same access number that you used for plumbing or cleaning services can now bring you extra security guards for your property. But the service centre can be in Sydney, Afghanistan, anywhere. McDonalds in Moscow operates out of one large building which is totally serviced by just one company – that company provides electricity, gas, water, telecommunications, stationery procurement, even child care services.

CBD is changing

Some years ago the pundits were predicting that a move to 'hot-desking' and 'home working' would cause a flight from the CBD but it hasn't happened. In fact, far from increasing, the level of vacancies in CBD properties has fallen. Similarly the expectation that technology would bring about a loss of white collar jobs has not happened. What has happened is that the nature of CBD property, and its white collar tenants, is changing.

The CBD is now catering for businesses that don't do business in a mechanical way. Mechanically repetitive jobs are being automated; accounting tasks such as managing receipts and invoicing, monthly accounts, and the collecting of rents, attention to tenant reported faults, general repairs and similar 'back of house' processing is being moved out of the CBD – and out of the business to specialist outsourcers.

In the process, property managers in these CBD properties are left with the portfolio decisions – strategic and high end tactical decision making.

“Perhaps the biggest change is a recognition that buildings are an input into the business rather than a separate investment and should be managed as such.”

Portfolio options are increasing

The portfolio manager today faces far more options, from fully owned to fully leased, sale and leaseback, and joint venturing with financial institutions. More hybrids are being developed all the time. Cross border leases, so far only applied to infrastructure, may now be applied to property.

In general, CBD properties are becoming more high rise and more high tech. There is a trend towards the landlord controlling all tenant services, being a wholesale purchaser of electricity, water, gas and telecommunications and on-selling these to the tenants. (This has generally been the case for water in the past but is now extending to all utilities.)

Polarisation

Regional properties (secondary office locations outside the CBD, fringe CBD), as they are now will continue to be custom built and multi-tenanted. Local area property will continue to be predominantly low rise but will tend towards being fully self contained – providing all services to their tenants from canteen to mail room. There will be greater integration between commercial, retail and social needs.

Buildings an input not investment

Perhaps the biggest change is a recognition that buildings are an input into the business rather than a separate investment and should be managed as such. This became clear to the major telecommunications companies when they realised that their buildings may be worth, say \$5m, but inside the buildings were \$25 m of equipment! With low inflation, capital appreciation is not happening.

Where does the Government stand?

So far we have looked at property in the private sector. What about the Government? Physical assets are no longer driving decisions. There is a general recognition that the government has over-invested in property and is not getting a return commensurate with the level of investment. Within the next 5 years, the Federal Government will dispose of all of its property, retaining just five buildings for cultural heritage purposes, buildings that were the cornerstones in the land use planning of Canberra. They have taken the view that they can get a 17% return on social investment, far higher than their investment in property.

State Governments will take their own paths, but are unlikely to divest themselves of all property. They are, however, already moving towards multi-service contracts.

In summary

The major property changes are

- (1) The CBD is becoming more specialised – and in terms of complexity, starting to look more like infrastructure.
- (2) Buildings are now being seen as an input to the process and are being measured in terms of performance.
- (3) The number and range of financial options is increasing greatly.

“Performance of property is now paramount for both short and long term cash flow. Property must really perform and it is being driven much harder.”

Bryan Moulds
Executive Director
Property Council of Australia
(SA Branch)

Property ownership has changed

Go back 10 years ago and the main owners of retail/business properties would be insurance companies and banks, corporate real estate and family type ownership. The main interest was in capital growth and capital gains. Today what is interesting is the growth of collective ownership (syndicates) and liquidity (property trusts). The drive is now for cash flow; property is now looked at in the same way as shares. There are also many more investors.

Performance now paramount

Performance of property is now paramount for both short and long term cash flow. Property must really perform and it is being driven much harder. The aim is to get most efficiency out of property. Listed property trusts are valued in much the same way as shares – by their current and future expected earnings

Role of the property manager

Five years ago a property manager would not have been that much interested in managing electricity consumption, he would have seen that it was available and paid the bills, but that

was all. Today, the task of the property manager is more complex, he has to balance the increasing cost of energy for his building with ensuring continuity of supply. He has to trade off risk and cost reduction.

Property manager now has to be interested in client's business

There has always been a contrast between shopping centre managers and commercial building managers. Shopping centre managers have always been interested in the potential profitability of their tenants and in the kind of business that they are in because they needed to balance the offerings of the entire centre to maximise their own cash flow.

Commercial space has never been sold like that. However, the return to the owner comes from being full. In the future a building's potential – how it helps tenants make money – means that the building manager will need to have much more contact with his client. Smart buildings in Adelaide were full even when vacancies were at their peak because the managers did this

Not one but many tenants

The property owner used to go to his leasing manager who would set up a marketing plan. Ideally he would have one tenant, if not then two or three. The worst case scenario was 50 tenants. However, today, very few companies can take a 7,000 square lease. Small businesses have different requirements for services, they require more than just space. If you have, say, 30 tenants, they might want extra common board room or meeting room on each floor. And Maybe not only kitchen on each floor but also a capuchino machine. Or, better, an arrangement with a coffee shop on the ground floor that also services the building. In other words, each small tenant has a need for 150 squares of private space *plus*.

“The facility managers involved themselves in the supply side of the business and suggested ways in which supply chains could be changed to reduce demand on warehouses freeing them up for other purposes or sale.”

Managers need to be pro-active

Building asset managers have to understand that buildings are only infrastructure for business. This means more than simply asking clients about their requirements for broad band width. Some years ago Kodak Eastman looked at its balance sheet and saw that of its \$5 billion of assets, \$3.5 billion were property. It decided to set up a professional CRE section with professional facility managers to manage this large property portfolio. Many of the buildings owned were warehouses. The facility managers involved themselves in the supply side of the business and suggested ways in which supply chains could be changed to reduce demand on warehouses freeing them up for other purposes or sale.

Tenders for services may well change

Instead of simply costing the management of services as a cash amount, new tenders may be organised for cash *plus* a share of savings or business. Mitsubishi now deals with its suppliers in this way, encouraging them to take an interest in Mitsubishi's business by paying them a cash amount plus a share of profits from their innovations.

Today the need is for flexibility

A typical tenant years ago would be an insurance broker with a 4 person office requiring 100 sq metres. His business plan would be drawn up for 5-

15 years and would typically show the business growing over time and thus needing more space. In fact, the tenant may well take 200 sq metres now because he would know that it would be fully committed within the 5 year lease period.

But small business is changing. Today a small business may have a business plan that shows it having 3 people now, expanding to 30 in 6 months time as it tackles a major project then dropping back to 6 and expanding again later as demand requires. What these businesses want most is flexibility. Some small businesses may plan only to be in business for about 3 years, they start up and then sell off. New thinking will be needed to design, build and manage space for such businesses.

Governments also need for flexibility

Governments have sold and leased back buildings – driven by the need to get capital off their books, pay off debt and worry about the recurrent later. The time is fast coming when Governments will need to look for savings on the recurrent side and that means a demand for innovation on the part of building suppliers and managers. Say a school that needs to supply 500 now but only 100 in 5 years time. Leased space in a flexible arrangement may make the adjustment of school facilities not only easier but more acceptable to the community – since there will be encouragement to the building owner to find new tenants and thus more business for the community.

PROPERTY ASSET MANAGEMENT— A BRIEF HISTORY OF TRENDS AND INFLUENCING FACTORS IN AUSTRALIA

Ami Sudjiman– Spinks, Strategic Facility Services

Understanding where we have been is essential to knowing what steps we should take to meet the coming changes. Ami has distilled the major changes and influences affecting those changes in the following informative table

Time frame	Changes in government	Other changes/ influences	Changes in Real Property management
The 1980s	<ul style="list-style-type: none"> ▪ Centralised control and responsibility throughout the Labor government framework. 	<ul style="list-style-type: none"> ▪ Interest rates floating around 12-18%. ▪ Defence estates were managed by the respective Armed services. 	<ul style="list-style-type: none"> ▪ Centralised property management framework, with Department of Administrative Services (DAS) being responsible for the acquisition, management and maintenance of real property. The Australian Estate Management (AEM), one of DAS branches, was responsible for the overall management of the Commonwealth real property portfolio. ▪ Exception being Department of Defence and a small group of agencies that prefer to manage their own real property portfolio.
Early 1990s	<ul style="list-style-type: none"> ▪ Government encouraging agencies to adopt more commercial practices in conducting their business, but requiring more accountability from its agencies, particularly in their expenditures. ▪ Major restructuring of government department portfolios. 	<ul style="list-style-type: none"> ▪ Interest rates fluctuating down around 7-12% ▪ Introduction of more commercial approach to general government businesses, with Telstra being formed as Government Business Enterprise and being required to be 'profitable'. ▪ Introduction of asset management concepts in the State Government Public Works and Services arena. 	<ul style="list-style-type: none"> ▪ Government agencies occupying Commonwealth owned real property being asked to formalise their leasing arrangement with AEM, on behalf of the owner, the Commonwealth government. ▪ More government agencies preferring to manage their own real property portfolio, and be more in control of their accommodation related expenses. ▪ Various parts of DAS started to operate as commercial businesses, charging other departments for their services in designing, constructing, maintaining and managing real properties on their behalf.

Time frame	Changes in government	Other changes/ influences	Changes in Real Property management
Late 1990s	<ul style="list-style-type: none"> ▪ New Liberal Government came to power. ▪ More commercial approach to government administration, with preference to control and administer key government tasks, leaving other tasks to the private sector and general community to contribute. ▪ Major restructuring and shedding of government agencies. 	<ul style="list-style-type: none"> ▪ Interest rates floating down to 6%. ▪ Review of Commonwealth Government Procurement Guidelines. ▪ Introduction of accrual accounting to all government levels. ▪ Introduction of asset management concepts to Commonwealth Government agencies. ▪ Greater emphasis on performance measures rather than the use of prescriptive requirements in many terms & conditions and contractual arrangements. ▪ Defence Estates are now centrally managed in various Regions, with respective Armed Services no longer having direct control over their Bases. 	<ul style="list-style-type: none"> ▪ All parts of DAS were sold to the private sector, DAS itself was dissolved and a core Property Group was set up in the new Department of Finance and Administration. The general management of the domestic real properties was outsourced. ▪ Government decided not to invest in real properties, and the government should retain only essential type of real property (eg Embassies, special purpose and industrial), provided there is pre-committed income prospect, or that the market conditions are such that it is more beneficial for the Commonwealth to own its real property. ▪ A new set of 'rate of return' for the real property portfolio was applied, with most of the domestic office real property failing to meet the target performance. The under performing portfolio was subsequently divested, although most were leased back by the government agencies occupying the building.
Current	<ul style="list-style-type: none"> ▪ Greater emphasis on accountability by agencies, with their programs being directly linked to the whole of government objectives ▪ Complete re-allocation of risks, from the government to other sectors. ▪ The Commonwealth government holds only core government administration. All other service-oriented tasks are now managed and delivered by the private sector. 	<ul style="list-style-type: none"> ▪ Interest rates staying around 5-6%. ▪ Accrual accounting adopted in all levels of government. ▪ Asset management principles adopted by most government agencies at all levels. 	<ul style="list-style-type: none"> ▪ Government confirmed its position on not investing in real property, except for nominated types of real property, with set rate of returns and divestment targets in place. DoFA opted to avoid capital investment and the capital user charge applicable for using any government assets, preferring to lease their accommodation spaces and treat the rental charges as recurring expenditure costs. ▪ Defence, other government agencies, including Government Business Enterprises followed similar policies of not owning the real property accommodation they have occupied for many years, opting to divest the portfolio and leasing them back. ▪ General management of the remaining Commonwealth real property portfolio is outsourced through a strategic alliance partnership arrangement with PriceWaterhouseCoopers.



Angry? Cheesed Off?

What really annoys you about Asset Management ?



For the last few issues, I have asking practitioners what really irks them about asset management and the way it is currently applied. Today it is my turn.

Indiscriminate Data collection

I have great problems with the resources that today are being expended in the collection of data, without any idea of

- (a) what questions the data will be able to answer;
- (b) how important those questions are to the success of the business; and
- (c) whether there are cheaper, quicker, more effective solutions to these questions than the collection of mass data.

Data does not become knowledge until it is analysed

and it cannot be analysed unless there is a purpose that provides the framework for the analysis.

I frequently have people ask me how to justify the amounts that need to be spent on asset information systems. Answering the three questions above will go a long way! The fourth question, of course, is

- (d) what will happen if these questions are not answered?

If you cannot pinpoint some of answers and indicate how they will save more than the costs of acquiring, populating, learning and maintaining the new data system – why do it? (I suspect it makes us feel more professional to have a substantial database, but is this really a good justification?)

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