

WORLD WATCH



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World Watch
Information from Canada
Owner-occupiers fare less well than those corporations that lease facilities!

Interesting findings

In 1996, ICF participated in a Research Study of Portfolio Management under the leadership of the McMahan Group. In the course of the Study, one of the researchers on the team analysed the financial performance of major corporations and came to the conclusion that over a 10 year period, and within a given industry, owner-occupiers fared less well than corporations that leased their facilities. At that time, we did not have information to explain this finding. Herewith information from two studies that (1) confirm the prior findings and (2) provide what is a likely cause for the findings.

Special Report in the Economist

The Economist issue of May 31, 2003, includes a special section on Real Estate world-wide. The analysis gives a status report about RE in most major developed countries, and about the risks of an RE sector bubble and subsequent collapse. On page 13 of the special section there is a short "box" on buildings as support for companies operations. It includes the following:

"According to a report by the Royal Institution of Chartered Surveyors (UK), the average tenant uses 12% less space per worker than the average owner-occupier.

"A study by City University Business School (UK) found that companies with mainly leasehold property financially outperformed those that owned their premises. In Europe over two-third of offices are owner-occupied, compared with only one-third in America."

The first study provides a clue as to a cause for the results of the second study.

*Françoise Szigeti (Ms), Vice President
International Centre for Facilities (ICF)
Ottawa, Ontario, Canada*

Does anyone have any information of similar studies to the ones reported here being carried out in Australia, New Zealand or elsewhere? If so, Françoise would be pleased to hear from you.
Contact info@icf-cebe.com

Editor: A possible explanation for both of these findings is the greater amount of attention paid to accommodation costs when buildings are leased rather than owned. Some years ago, I was visiting a government department that was moving out of high value CBD property in Sydney to the suburbs. One harassed officer said, as he contributed a few more books, papers and personal possessions to a storage box, "You know, we would never have had to move if we owned this property. It is just that they have put the rents up!" Opportunity costs do not have quite the same imperative to action as real costs!

Information from Australia—Case Study

Rural City of Murray Bridge - Too Many Road Reserves

Rhona Parker-Benton

The Issue:

With over 366 kms/760 hectares of unmade road reserves generally running through farming land Council recognised through a Risk Management audit that these road reserves were not only a liability risk as no formal agreements were in place for farmers to use the land, but that we had too many road reserves that were unlikely to be used in the future as roads.

What we did:

The process commenced 2 years ago when a site inspection was undertaken of all road reserves. Road Reserves with significant native vegetation, water courses, major utility infrastructure etc were all categorised and the data collected added to our mapping data. Following a report to Council, permits were introduced for all landholders using road reserves for business purposes.

From the farmers perspective, if they don't want to use the road reserve they are required to fence. In order to manage our own risk, the permit requires the farmer to have insurance over the road reserve.

Rather than ignore the farmers pleas for long term security over the reserves (some had centre pivots over the road reserve, and no legal right to have them there) we sent out letters to all farmers with road reserves being used for business purposes and asked whether they were interested in buying them.

By determining a set of criteria that would be used to assess these reserves we could objectively determine whether disposal was an option. Typical criteria for this assessment included an analysis of the following

- Is the Road Reserve required for Legal Access
- Could it be used in the future as part of a possible Through Road, particularly between and near highly used rural linkage roads
- Did it provide direct access to a Watercourse (or did it lead to a watercourse),
- Is significant Remnant Native Vegetation present on some of the land
- Was there a potential for the road reserve to be used in the future for recreational purposes including walking trails, houseboat moorings (where on/adjacent to a water course)
- Did the Operations dept of Council have any known future use of the land.

The council officer responsible had support from the SA Farmers Federation and also the Dept for Recreation and Sport. Both of these were seen to be key agencies. Had we undertaken the exercise without their input no doubt the integrity and objectiveness of the whole process would have been questioned.

The results:

Response to the introduction of permits was initially negative, but over time, following a further more intense review of future requirements for these road reserves the response from all but a handful has been reasonable. Out of (92) ninety-two land owners with permits (32) thirty two responded indicating that they were interested in purchasing the road reserve. After assessment, only (7) seven landowners with (8) eight road reserve segments were deemed to be appropriate for disposal at this time.

What we learnt

The most inhibiting factor to more reserves being sold is the cost of the Roads Closing legislation. Farmers were happy to pay a reasonable price for the land in order to secure the tenure over the land, but the costs of completing the sale under this legislation made it prohibitive.

If there is one key recommendation to be made it would be to change the way unmade road reserves can be disposed of.

In many cases the road reserves were surveyed between 80 - 100 years ago, and they have little to no relevance now. Farmers can provide photographs that show that the land has been farmed for many decades, and in cases where the farms have been handed down through the generations they had no idea of the existence of the road reserves

More detail can be found in Rhona's full paper at the www.amqi.com Library page (just type in SAM121 to get all of the web enabled references cited in this issue; or search 'roads')

Watching the UK

A Secondary Market in PFI stakes

The *Investors Chronicle* in the UK reports that investors are 'encouraged by the signs that a market is likely to develop in mature Private Finance Initiative (PFI) stakes. This means that construction companies can sell up once a scheme is complete to generate new funds, rather than hold on to a stake for years. Last year, Mowlem made an £800,000 profit on the sale of a stake in a Scottish housing scheme and, earlier this year, Laing bought Amey's PFI portfolio for £43m.'

The upside of this is likely to be more funding available. **What are the downsides?** One of the advantages of PFI has been the linking of construction and ongoing maintenance. The thinking is that the private companies will be interested to secure the best life-cycle deal because they will be the one to reap the benefits in reduced maintenance through good design and construction—or vice versa. If this doesn't hold, will we see less rigorous design and construction with subsequent companies left to 'pick up the pieces'?

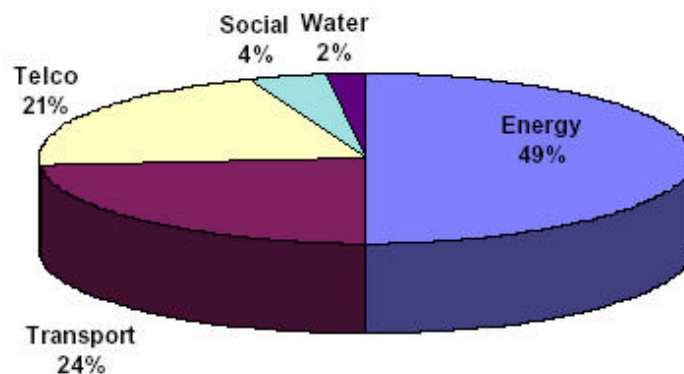
Remembering that what happens overseas, tends to happen in other places eventually, is this a good move or a bad one, overall? Contribute your views to www.amqi.com/forums

Private Investment in Public Infrastructure

The Australian Centre for Infrastructure Development (AusCID) conducted a survey this year of privately funded, owned and operated public infrastructure and found it to be a very significant component of the Australian economy.

You will find the full paper at their website, www.auscid.com.au. (and there is a link to this site in the Virtual Asset Management Community library at www.amqi.com—just search on SAM121 to find all web references related to this issue, or search 'private investment') Here are some of the highlights.

Total Value of Private Sector Investment, 2003 \$113,559 million Investment by Sector



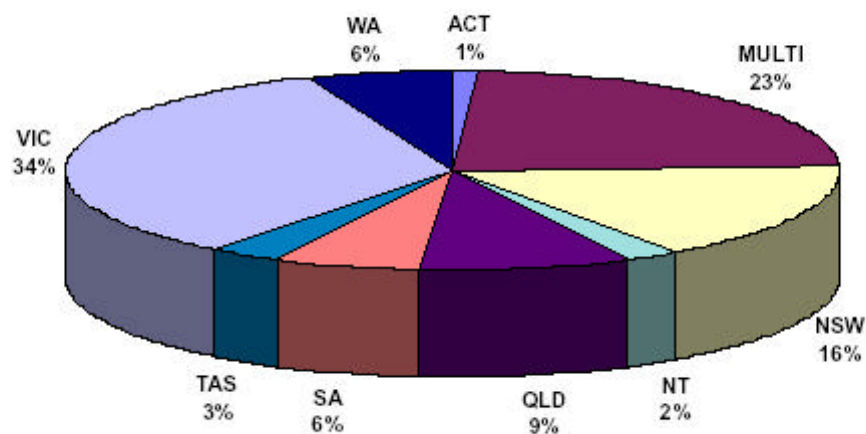
Private Investment in Public Infrastructure

Summary Table

Sector	Industry	Total Value of Private Sector Investment (\$m)	% Share of Total Investment	Gross Turnover of Assets (\$m)	Gross Employment Costs (\$m)	Number of Employees
Energy	Electricity	37,500	33.0	7,200	800	13,600
	Gas	19,300	17.0	3,400	600	9,600
Water		2,300	2.0	400	50	700
Transport	Roads	9,100	8.0	1,200	26	600
	Rail	6,500	5.7	400	160	2,400
	Ports	1,200	1.1	300	28	600
	Airports	10,000	8.8	1,100	120	36,800
Telecommunications		23,600	20.7	17,200	1,200	34,000
Social	Hospitals	2,200	2.0	400	240	5,200
	Justice	1,000	0.9	500	350	1,300
	Stadiums	800	0.7	21	13	500
	Total	113,400	100.0	32,321	3,587	105,000

Private Infrastructure Investment by State, 2003

The majority of privately owned infrastructure assets are located in Victoria (see Figure 2). This is to be expected, considering the series of privatisations in the energy and transport sectors by the Kennet government.



See the original paper for methodology used to decide what was to be included and how it was valued. The original text quotes total private ownership of public infrastructure at \$113.559 m but the table uses \$113,400. This is probably do to rounding.

Watching the USA

New York City was the first to 'hit the wall' in infrastructure renewal terms and horror stories from the early 1980s abound in the asset management literature. In recent years, concern with deteriorating water and wastewater has occupied the US Senate. It looks as if electricity will shortly follow! Increasing interest is being shown in asset management.

I find a number of things interesting in this proposal. (1) Raising a campaign fund to convince the people to vote yes in the referendum to fund infrastructure—more power to the people? (2) Parks and gardens are becoming as important as water (3) The people of California are promised that if they vote in \$70 billion of infrastructure spending, no new taxes will be raised in the next 20 years. Will maintenance be provided for in the allocation for expanded infrastructure? The USA has always been a 'leading indicator'. **Could campaigns like this for infrastructure spending be a sign for the future?**

Why You Should Support Proposition 53: The California Future Initiative

According to the non-partisan Legislative Analyst, Proposition 53 would generate about \$70 billion to maintain and improve California's rapidly deteriorating infrastructure during its first 20 years – with no new taxes. Proposition 53 provides a *direct benefit to you and* millions of other California taxpayers.

What happens if the California Future Initiative fails to pass?

With massive state budget deficits and legislative action to shift infrastructure dollars to state operations, failure now could delay critical transportation, water, waste management, open space and other infrastructure projects for decades. **That is a loss for all California residents and businesses**

What happens if Proposition 53 passes?

Half the money from Proposition 53 (\$35 billion) would go to LOCAL infrastructure projects. Implementing legislation would dedicate

50% for transportation based upon modelling formulas (\$17.5 billion) over 20 years

15% to competitive grant programs for water supply, recycling, wastewater and storm water projects (\$5.25 billion)

15% for parks and open space further allocated as follows – 60% to cities and local districts (\$3.2 billion) –40% to counties and regional parks and open space districts (\$2.1 billion)

20% on a per capita basis as a block grant for any local infrastructure project (\$7 billion)

Half the money from Proposition 53 (\$35 billion) would go to State infrastructure projects. Implementing the legislation would dedicate:

50% for transportation projects on the STIP (\$17.5 billion)

20% for parks and open space - \$7 billion

30% for projects on the Five Year Infrastructure Plan (\$10.5 billion)

Polls Show We Can Win This Initiative!

However, no state-wide measure in California can pass unless it is well financed. Contributions are critical to get our message to voters. We have established a \$2.5 million campaign budget that we feel is reasonable and achievable. Please review the reverse side for Information on how to contribute to the California Future Initiative. **Please Make Your Contribution Now!**

This was supplied by Roger Byrne, GHD, who is currently doing his best to introduce asset management to California

Meanwhile, Back in Australia.. Do We Need a National Infrastructure Policy?

In the first issue of the *Public Infrastructure Bulletin* March 2003, Cecilia Hilder, Director Policy with the Australian Council for Infrastructure Development (www.auscid.org.au) addresses the reasons why Australia needs a long-term national infrastructure policy.

Why the need for a strategy

- "A long term strategy outlining infrastructure requirements assists government to budget in a more transparent and efficient way. By defining and outlining future infrastructure needs and designing their implementation better, more informed decisions can be made at each point. This minimises surprises and results in lower costs."
- "An additional benefit in an era when the private sector is increasingly working with government to meet the infrastructure needs of the community, is that an infrastructure strategy, and clear articulation of that strategy, has the potential to create greater certainty [for private sector]."

Why the lack of a strategy?

- "...the most obvious is Australia's Federal structure; it is difficult to get agreement across so many levels of government with so many competing interests"
- A reluctance on the part of all governments to look too far ahead.
- Politicians tend to be adverse to committing to projects where the costs are worn now and the benefits come later, most likely during the reign of the opposition.
- "The media often dismiss long-term strategies as they do not provide for easy and immediate pictures; they also tend to focus on specific projects wanting information on expensive roads and bridges for example, and large, tangible new projects."
- "Interest groups tend to avoid the issue of long-term strategies because it is not meeting the short term objectives of their constituents"

Your View?

With the development of State Infrastructure planning (eg Vic, NSW, Qld) if state plans are consistent with national directions do we need a national strategy—and if they are not, CAN we have a national strategy?

What do you think? Needed? Not Needed? Desirable? Possible?

www.amqi.com/forums