



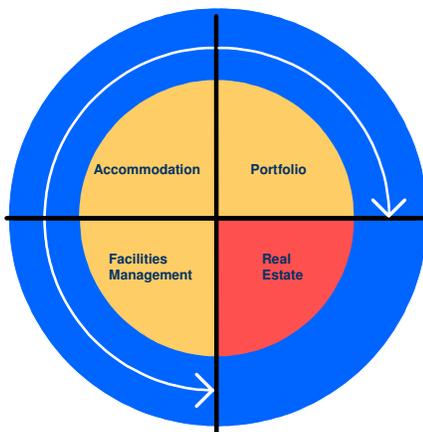
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With multi-disciplinary skills across estate management, business and architecture Stephen is responsible as CBRE's business line Director of Corporate Facilities Management through Australia and New Zealand.

CBRE Corporate Facilities Management brings clients a rich portfolio of approaches, tools and processes for capturing and sustaining outsourcing benefits. They deliver outsourced services to specifically and directly assist corporate and public-sector occupiers to manage, administer and operate their property and facilities portfolios.



**TOTAL ASSET MANAGEMENT
INTEGRATED STRATEGIES**

CORPORATE ASSET MANAGEMENT

A 'whole-of- real estate' approach (property + facilities management) positions corporate real estate practitioners and their corporate customers to better support the delivery of corporate performance objectives. This article explores total asset management and its place as the principal driver of corporate real estate and facilities strategies.

In her seminal text, *Strategy and Place*, Martha O'Mara clearly supported the view that "the most important step to put real estate in a strategic context is to accept that real estate is of no value to the corporation, regardless of its economic value, in an external real estate market, if the real estate does not support the objectives of the organisation." (*Strategy and Place, Martha O'Mara A. p9 Free Press*)

The catalyst for Asset Management, when approached from an occupiers, as opposed to an owner/investors perspective, is significantly different. Whereas an investor is seeking value preservation and maximisation, an occupier's objective is the provision of a business-enabling environment; the location, accommodation and facilities, which supports and enhances the performance of an organisation's personnel, operations and premises. These objectives must be achieved with real estate, an asset without flex and responsiveness to dynamic change.

Delivering beneficial outcomes is not serendipitous; it comes as a result of active management pursuit. Total Asset Management adopts a top-down perspective, directly linking property and facilities within a framework that:

- Integrates operational and capital asset planning with organisational strategic and business planning processes, aligning the real-estate and business cycles;
- Facilitates full cost reporting of real estate assets in the delivery of business operations;
- Assigns responsibility and accountability for asset performance; and
- Streamlines the methods of delivering property and facilities management to provide the business-enabling environment.

The challenge for those charged with responsibility for property and facilities is to synthesise all of the considerations and communicate these outcomes which enables them to be factored in to the corporate strategic management and objective setting process.

Kieran McLaughlin, CBRE Director of Government Corporate Facilities Management believes that "government reporting and planning requirements provide an environment where opportunity to deliver Total Asset Management strategies is encouraged."

STRATEGIC CONTEXT

Our experience indicates that public and private sector organisations are developing an appreciation for the impact of an integrated consideration for their real estate activities.

Contextually, organisations are challenged to analyse, identify and put in place strategic asset management platforms. They lack the organisational resource to provide the managerial, technical knowledge and systems resources required.

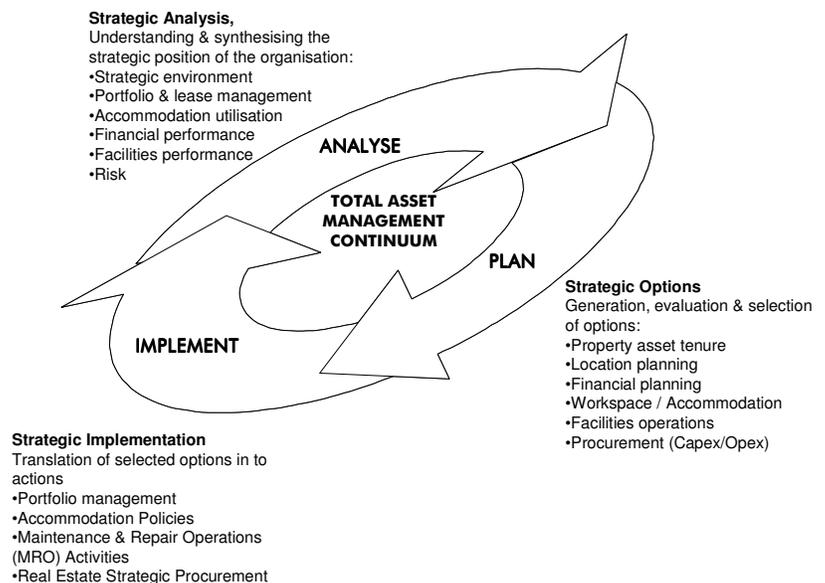
Historically for corporate occupiers, outsourcing has principally targeted cost reduction by 'doing the same things more cheaply and more effectively'. This is changing – CBRE describes transformational outsourcing, a new approach to outsourcing focused on achieving business change. We are witnessing reduction in the outsourcing of 'as-is' operations, rather organisations are seeking transformational capabilities, synthesising the management of property, facilities and real estate finances.

THE ASSET MANAGEMENT CHALLENGE

An effective asset management strategy is a challenge. Correlating and integrating internal and external factors influencing real estate and facilities decisions requires planning, budgeting and reporting in the language of the boardroom – communicating the impact on the balance sheet.

The responsibility of the Corporate Real Estate (CRE) practitioners is to integrate and synthesise the vast array of property and facilities drivers into a considered strategic '*whole of real estate*' platform, ensuring that it does not occur in isolation of business strategies.

As an overarching strategic framework for effective total Asset Management, the means of understanding, controlling and monitoring CRE can be described as a real estate management continuum. This continuum provides a logical organised process for exploring and making known the unknown.



This approach is supported in the PCA study Real Estate Performance Measurement “CRE Strategic Business Plans: An essential component of leading CRE practice particularly when aligned, and ideally integrated with the organisational strategy.” (Corporate Real Estate Performance Measurement Measurement Property Council of Australia A white paper September 2004)

ALIGNING REAL ESTATE & BUSINESS OBJECTIVES

A ‘*whole of real-estate*’ premise necessitates the melding of business management practices to integrate property and facilities, and to craft an insightful forward looking strategy.

Continuous Improvement is a journey not a destination. It establishes a framework for identifying & implementing change, change that by increments moves an organisation’s current real estate activities & performance to a desired future state:

- Brings to light areas of strength & weakness, allowing focus on strategic opportunities.
- Creates a quality culture bent on continuously improving the performance of every real estate task & value-chain activity
- Requires clear view of the starting point, establishing a clear baseline, on which to monitor performance.

Risk Management practices are a systematic process to identify risks that may impact on the organisation’s real estate objectives, analyse their consequences & develop ongoing measures to treat them, for example:

- Financial – e.g. makegood obligations, rent reviews, unplanned capital expenditure
- Functional – plant & equipment performance, business continuity, workplace planning/flexibility
- Compliance – OH&S, BCA, annual certification.
- Environmental – hazards, liabilities, reporting

Strategic Procurement a systematic approach to sourcing of property & facilities achieving value-for-money & aligning corporate needs with market capabilities involves:

- Definition - Spend analysis, current & future business requirements
- Cost - stability/variance, approaches to cost savings, flexing to consumption demands
- Capability - Custom solutions, geographic coverage, technology, risk.
- Service – customer service practice, financial administration, flexibility to change, relationship.
- Sourcing strategy – selective, expression of interest, tendering, negotiating

Corporate Finance & Real Estate Life Cycle
Total cost of acquisition, operating & maintaining & disposing of a real estate asset over its life:

- Capital Costs - costs of asset creation, the site, design, construction, or acquisition costs/fees
- Operating Costs – ongoing costs of occupying (rent, rates, outgoings insurance, depreciation), maintaining, refurbishing, churn
- Environmental sustainability - resource sustainability & beneficial environmental impacts
- Disposal Costs - Sale & marketing fees, or demolition / decommissioning
- Finance Costs - cost of capital & financial structuring

TARGETING CHANGE

In order to target performance improvement in corporate real estate, a basis for analysing and communicating key strategic management drivers is necessary. Measuring and analysing performance over time identifies and illustrates performance trend rate, establishing the portfolio performance criteria, and enabling measurement of the diversion from the desired performance.

Those familiar with financial ratio analysis, (comparison of the relationship of different financial performance information), will see the how this practice can be extrapolated to respond to real estate requirements and considerations.

In CRE, a variety of metrics have been developed to represent the performance or health of an organisation's real estate. Michelle Willimott Associate Director heads the Research Consulting Services division recently conducted a cross sectional review of common metrics to derive a suite of metrics which, when considered jointly represent how efficiently an organisation uses its assets and how efficiently they manage their operations.

Some typical benchmarks include:

Real Estate Performance Ratios**Revenue**

- Real Estate costs as a % of EBITA

People

- Occupancy People Churn rate
- Space Utilization ratios

Capital

- Capex as a % of replacement value
- Ratio of value of leasehold improvements versus total annual expenses

Expenses

- Budget / Actual facilities operating expense
- Annual real estate occupancy cost per FTE
- Annual real estate cost m2

Lease

- Vacancy Factor
- Reversionary comparison (current rent to market)

Risk /Opportunity

- Lease expiry /option profile
- Lease obligation exposure

Source: CBRE Research Consulting Services

Ms Willimott says: "Our Property Performance Benchmark Service is a tailored service which compares the property, financial and operational performance of a client's property portfolio against comparable portfolio & industry benchmarks. It is multi-tiered and cross sectional in its approach and can be strategically used as an asset management tool; a funds management tool and to generate further business opportunities and enhance business leverage for our clients."

A common hazard for strategy development is a lack of consensus, shared thought, choosing between options or trying to reduce a list from many items to a few. It is often useful to determine what categories or criteria are most important to the final decision, to establish prioritised strategic plans for real estate portfolio, accommodation and facilities management.

Fortunately for CRE practitioners, some easily utilised tools, common to business management, can be applied to objective analysis and ongoing monitoring:

PEST Analysis is a simple assessment of the environmental factors (Political, Economic, Socio-Cultural and Technological) influencing the environment the organisation is operating in. It looks at the big picture of influences and the extent to which they will significant to the organisations real estate performance in the future.

Pareto principle (80% of problems usually stem from 20% of the causes) Pareto analysis is a very simple technique that helps you to choose the most effective changes to make. Pareto charts are used to display the Pareto principle in action, arranging data so that the few key factors that are causing most of the problems reveal themselves. Concentrating improvement efforts on these few key factors will have a greater impact and be more cost-effective than undirected efforts.

SWOT Analysis is founded on the principle that strategy-making efforts must aim at producing a good fit between an organisations property and facilities resource capabilities and its external situation. Carrying out an analysis using the SWOT framework helps you to focus real estate activities into areas where you are strong and where the greatest opportunities lie.

- Strengths – protecting and extending them
- Weakness – repairing and removing them
- Opportunities - the means to exploit them
- Threats – defending against and eliminating them

Group Decision Making Structured brainstorming produces numerous creative ideas about a given question. A brainstorm starts with a defined question, and ends with a listing all ideas put forward by a group. Applying Nominal Group Decision Making helps teams reduce a long list by ranking all of the options from lowest to highest priority and reach the point where a well considered decision can be made.

Balanced Scorecard (Kaplan and Norton) Uses key measures and then weighted criteria to rate each option with respect to each criterion, to take the pulse of an organisation, monitoring present performance, capturing information on how well positioned the organisation is to achieve its future state.

DELIVERING TOTAL ASSET MANAGEMENT

Implementation plans focus management actions to address portfolio, accommodation and facilities management; translating financial, organisational and operational objectives into strategic solutions.

Individual strategic plans link property, accommodation and facilities with planning and decision cycles, to deliver a convergence of:

1. Asset life cycle and total cost of an asset over its life. (eg lease tenure and capital works)
2. Flexibility and adaptiveness to change (eg options for additional space and flexibility in workspace specification and planning)
3. Efficiency in financial control - consideration of lease obligation and facilities commitments (eg initial condition assessments and makegood cost analysis)

These individual plans fit in to the real estate management continuum, being subject to regular review and monitoring to ensure ongoing strategic alignment.

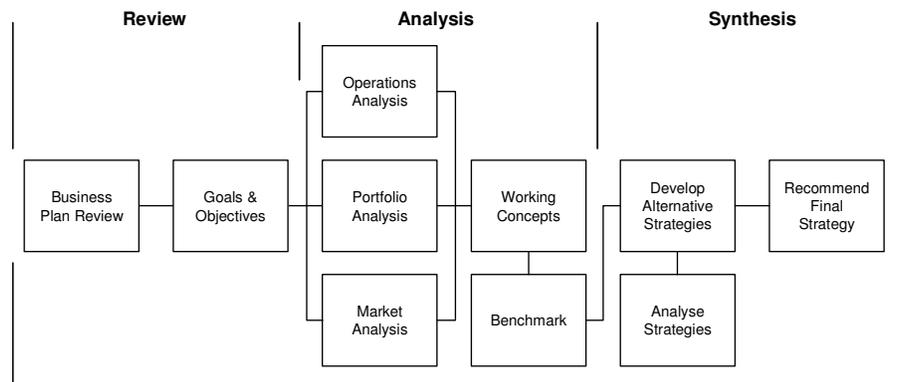
Portfolio Strategy

A Portfolio Management Strategy is concerned with the active integration of critical real estate tenure and financial information into forward management.

Ho-Yen Fan CBRE Associate Director, responsible for the portfolio management of a significant financial service organisation, says that “given the dynamic nature of today’s market it is imperative that the portfolio is consistent with the goals and objectives of the organisation for example short versus long term leases. The challenge is to ensure the portfolio is flexible to meet changing markets.”

The portfolio strategy is pivotal to proactive portfolio management. By formulating a medium term strategic plan that is reviewed annually on the basis of updated market research and property information, advance planning for portfolio requirements can be achieved.

Portfolio Planning Methodology



The ideal Portfolio Strategic plan incorporates:

Analysis

- Business unit needs analysis and the future projections
- Market research location demographics, shifts and trends
- Regular monitoring and reviewing of leases against current and forecast market performance to achieve the optimum financial performance.
- Assessment of existing real estate and facilities delivery methods, and whether they will continue to be appropriate to meet the organisations corporate objectives.

Options

- Location distribution, locating the organisation where it needs to be.
- Optimising leasing opportunities (re-gearing, contributions, obligations)

- Development of options for whether leases are to be renewed or owned premises are to be retained, and if not, what action is proposed.
- Embracing the total cost of ownership so that it optimises the lifetime cost of real estate and facilities for the organisation

Implementation

- Inventory of current property obligations and active management of the exposure to adverse changes in leasing expenses.
- Tracking lease events - expiries, options, review and rentals.
- Disposal Strategy to identify assets that are surplus to requirements and how the disposal process will be managed.
- Risk management (lease expiry, financial exposure , compliance, unidentified events e.g. makegood obligations

Accommodation Strategy

An Accommodation Strategy establishes the key accommodation issues based on the organisations and business unit accommodation needs, as well as its corporate objectives. Ideally it should consider the medium term time frame (minimum three-year) and be reviewed and updated annually.

The Accommodation Strategy provides the analysis and options recommendations integrating:

- A review of the organisations existing accommodation portfolio and its suitability to meet service delivery goals in regard to location, size, quality and cost
- Comparative (benchmark) performance of the accommodation occupied in terms of space utilisation and costs per person.
- An examination of existing work practices along with the extent to which they might change and the impact this could have on accommodation requirements.
- Identification and implementation of accommodation standards and utilisation criteria.
- Additional space, locations and functional areas required to meet service delivery requirements.
- Identification of strategies to meet the organisations space utilisation target.
- Workspace /fitout procurement strategies for FFE.
- Develop capital and MRO activities suitable for the optimal delivery of the business-enabling environment.

Facilities Management Strategy

Sustaining financial and operational efficiencies in maintenance and repair operations and capital projects is as much about understanding management issues as it is the technical ones.

The Facilities Management Strategy should adopt a '*whole-of-life*' standpoint. This identifies the current status of the facilities operations and practices, and determines specific programmes of activity and measurable goals and objectives to achieve the desired state (building fabric, compliance, plant & equipment,

Opex/Capex), in light of the operating environment and overall business strategies.

Developing an executable Facilities Management Strategy to achieve sustainable outcomes includes:

- Identifying the current status of the facility condition, work environment and practices.
- Determination of what facility management needs to do to close the gap with this ideal state.
- Establishment of the level of maintenance required to provide ongoing availability of assets (manufactures recommended, corrective/breakdown or preventative)
- Consideration of the facility lifecycle in terms of technical, functional and legal compliance.
- Identifying the personnel, management and systems resource requirements and operating delivery models.
- MRO and Capital budgets illustrating costs and savings of implementing the plan.
- Strategic procurement process for leveraging purchasing opportunity and matching internal needs with market capabilities.
- Risk management philosophy and practices.
- Practices for sustained value through ongoing contract and supplier performance management
- Measurable goals, objectives and specific time frame, in light of the current operations and overall business strategies.
- Scheduled MRO and Capital activities throughout the year

Summary

A structured approach to analysis, options development and implementation planning, provides the means to deliver a 'whole-of-real estate' approach and put real estate in a position to support the delivery of corporate performance objectives.

The challenge for CRE organisations and CRE practitioners is to integrate and synthesise the vast array of property and facilities drivers into a considered strategy, and objectively communicate this in the language of the boardroom.

Fortunately for CRE practitioners, some easily utilised tools, common to business management, can be applied to objective analysis, crafting an insightful forward looking strategy and enabling ongoing monitoring.