

HOW TO GET EXTRA PERFORMANCE FROM YOUR BUILT ASSETS

“Our view is that significant extra performance can be derived from built assets in two ways: Firstly, from increased revenues, performance and services and secondly, by reduced operation costs.” Keith Brooks - Head of Property

In the current market, cash is an increasingly precious commodity. Businesses in all sectors are no longer pumping money into the creation of new assets. Instead, investors, owners and occupiers of built assets across all sectors are focusing on ways to improve shareholder and stakeholder value by making their existing assets work harder, with limited capital expenditure.

Our view is that significant extra performance can be derived from built assets in two ways: Firstly, from increased revenues, performance and services and secondly, by reduced operation costs.

In our experience, the organisations who achieve most value are those that realise that their built assets are not just bricks and mortar, but also an opportunity for generating improved business efficiency. The key is in understanding the direct contribution your built assets make to your business revenues and the effective delivery of services. Once you make that link, and are able to benchmark the performance, you can identify how your assets could be better used to generate greater revenue, or where efficiencies could be identified to save you money.

Typically, we find that this approach will achieve bottom line cost savings of 10% and an increase in revenues or services delivered of 5%.

However, landlords will only maximise these opportunities if they get closer to their tenants' needs.

From research we have commissioned from our retail and corporate office occupier clients, 71% of tenants interviewed felt that their priorities were not being supported by their landlords. Also, 77% of tenants did not feel their service charges represented value for money. If landlords can bridge this service delivery gap, they will be able to benefit from increased tenant retention and additional revenue streams in a challenging market.

Bridging the gap

Many companies struggle to make the link between built assets and revenues or services delivered. Too often we find that the people who are responsible for built assets are not given the mandate or authority to influence the key business drivers. Our experience is that all businesses have a varying degree of misalignment between the built assets and the revenues and services they generate.

In addition, many organisations are still adjusting from a boom period when the emphasis was firmly on creating new assets rather than improving the performance of existing ones.

If the above is resolved, the built assets can act as a well-oiled engine to support the business, whether it is growing or consolidating, ultimately increasing shareholder and stakeholder value.



We suggest that the following will help realign the assets to business performance:

- Direct exposure to the market the business is operating in
- An understanding of where the business revenues are coming from or services being provided, both now and in the future
- Understand the nature of different asset types and how they support the business
- Benchmark the asset performance and readjust to fit the business needs.

Armed with this level of knowledge, asset and property directors can achieve considerable value to the business. In the case of our clients from the Real Estate investor sector, they can even go further by finding additional income streams from tenants.

Generating capital

There are a number of ways that real estate owners / occupiers can raise capital using their assets. Sale and leaseback is a route to release value locked up in freehold or long leasehold assets. The potential investor will be interested in length of the lease, the initial rent, tenant covenant and potential for income growth. This is an ideal way to inject funds but retain the asset in, for example, a self managed pension fund.

Another route worth exploring is lease re-gearing which can reduce the tenant's rental whilst simultaneously increasing the landlords capital value. Now is the time to review your lease obligations as significant value can be delivered depending on the current lease structure.

Increasing income, reducing costs

So how do you go about making these changes, particularly in a downturn? The starting point is benchmarking - not just where your business is today, but where it will be tomorrow. Once you know that, we are finding a number of approaches particularly effective in squeezing extra performance out of the built assets that support the business plan.

Bring in extra revenue: Productivity and efficiency reviews

Often, we find that what works well is a fundamental change of approach. For example, when we advise Real Estate Funds we recommend that they view income streams from their buildings not simply in terms of rental per square foot, but as a source of operational revenues. Suddenly, clients are able to realise additional sources of revenues from non-rental income sources.

Another example is in the public sector where we have consistently linked the business operational models with the functional requirements of space. In one such case, we looked at the operational practices of a London council and concluded that the same services could be provided with a significantly reduced space requirement.

From the manufacturing sector we have various examples where the performance of factories were boosted by realigning the machinery to reduce downtime, or where more product lines were added to the current range.

Reduce cost: Aggregating supply chains

Now is the time to rationalise the number of suppliers, drive productivity from 'performance based' service level agreements and incentives to reduce waste. Packaging together disparate supply chains for services, for example, maintenance, telecoms and waste disposal, and then

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extending those services to your tenants can save money and even boost performance. We're seeing a high number of recently acquired or merged businesses examining their collective built assets for opportunities to reduce costs through aggregating services.

Reduce operational expenditure: Category management

There are good lessons to be taken from the retail sector on reducing operational expenditure through the use of category management. By looking at your assets in categories of use or income, you are linking costs directly to revenue. Each category can be run as a mini business with its own performance measurements and targets. You can then work closely with suppliers to identify efficiencies and improve performance.

Improve and protect revenues: Knowledge management

Now more than ever it is important to have a clear understanding of what you have. This is prerequisite for any property director wanting to be in full control of their built assets. However, we are finding that too many organisations do not have a comprehensive register of assets that will enable them to make informed decisions and move quickly in response to a challenging market.

With a move towards more M&A activity as corporate values are eroded, we wonder how many property directors are in control of their built assets and able to identify asset risks and opportunities quickly. By using a suitable technology platform, property directors will be put in control of their assets. The more sophisticated tools will provide data on built asset performance, creating even more value for the business.

Maximise expertise: New asset management models

Some Real Estate investors, facing reduced fund management fees, have been forced to create a new model to manage their built assets that will drive extra performance and earn the fund improved returns.

This model has been labelled Delivery Partner Model solutions by clients. Typically it involves integrating your existing property function with an external provider to deliver all asset decisions from transaction, to CAPEX and OPEX. The partner is entrusted that they will pool the best knowledge and experience available. The joint team is then incentivised and measured against a common set of performance measures focused on value and cost efficiency.

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