



# **Managing property effectively to improve business performance**

Institute of Directors - The City of London Branch

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## **Property is often the second highest business expense after people...**

- Over £18bn wasted by UK plc on unnecessary property costs - Economist Roger Bootle (May 2002)
- “There is an elephant in the balance sheet”  
- Sandy Apgar - Director magazine (August 2003)
- What proportion of that is held by businesses in London?



## Why is its cost so far down the list of priorities...?

- Asset or liability?
- Knowledge “gap” or “blind-spot”
  - Property at senior management level
  - Business at property adviser level
- Disconnects and conflicts of interest
  - Business is customer focussed
  - Property is landlord orientated
  - Business minimises cost
  - Property maximises asset value



## Why is its cost so far down the list of priorities...?

- There is inertia and resignation
  - “We have toyed with the idea of a global property person in the past....”
  - “To be perfectly honest it’s not top of my agenda right now...”

Group Finance Director, International plc

- Who should carry the business property agenda?



## What accommodation can my business afford...?

- One that
  - Satisfies the business drivers
  - Is fit for purpose
  - Balances flexibility, certainty and cost
  - Allows for changes in business strategy
- Not one that
  - Inhibits growth/shedding excess space
  - Prevents efficient use of space
  - Costs above market



## Am I paying over the odds...?

- Audit
  - What do I have?
  - What does it cost?
  - What should I be paying?
- Benchmarking
  - Affordability ratio (Total Property Cost/Turnover)
  - Portfolio level
  - Competitor level



## What is best value in property terms...?

- What are the business considerations?
  - Business objectives
  - HR
  - IT
  - Finance
  - Real Estate
- Property advice can maximise the “bottom line”
  - Manage costs
  - Unlock value
  - Transfer risk
  - Enhance productivity



## How do I balance the issues of cost, risk and value...?

- Establish a visible process like any other project:-
  - Understand your objectives
  - Have a sponsor at board level
  - Set deliverables, budget and timeline
  - Determine process, tools and skills required
  - Communicate with stakeholders
  - Implementation
  - Review and feedback



**If I pay attention to this item what difference will it make to the performance of my business...?**

- Case studies
  - Chase Manhattan Bank
  - Employment agency



## Chase Manhattan Bank...

- Cost savings through mergers and acquisitions...

	1991	1998
- Operating Income	\$10bn	\$17bn
- Operating Costs (% Revenue)	66%	54%
- Total Property Costs	\$973m	\$796m*
- Affordability Ratio	9.7%	4.7%

\*\$1.65bn at 9.7%



## An employment agency...

- Knowing your lease terms, creating opportunities...
  - Lease break March 2003
  - 8 floors - 4,800 sq ft
  - Cellular - Period building
  - 35 staff - no expansion
  - Onerous break provisions
  - Limited staff interaction
  - NPV 10 years c.£2.3m
  - New lease December 2008
  - Single floor - 4,500 sq ft
  - Open plan - atrium
  - 35 staff - plus expansion
  - No break
  - Enhanced staff interaction
  - NPV 10 years c.£2.4m



## Where do I go from here...?

- Know your portfolio - the risks and opportunities
- Integrate HR, IT and Finance in your real estate decisions
- Develop an agile property strategy
- Maximise business and property expertise to gain competitive advantage