Property Management

Mark Deakin

PROPERTY MANAGEMENT

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Corporate Strategies, Financial Instruments and the Urban Environment

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Routledge
Taylor & Francis Group
LONDON AND NEW YORK

First published 2004 by Ashgate Publishing

Published 2016 by Routledge
2 Park Square, Milton Park, Abingdon, Oxon OX14 4RN
711 Third Avenue, New York, NY 10017, USA

Routledge is an imprint of the Taylor & Francis Group, an informa business

British Library Cataloguing in Publication Data
Deakin, M. (Mark), 1955-
Property management : corporate strategies, financial instruments and the urban environment
1. Real estate management - Finance 2. City planning - Economic aspects 3. Sustainable development - Economic aspects
I. Title
658.2

Library of Congress Cataloging-in-Publication Data
Deakin, Mark.
Property management : corporate strategies, financial instruments and the urban environment / Mark Deakin.
p. cm.
Includes bibliographical references and index.
ISBN 978-0-7546-3628-1
1. Real estate management. 2. Real estate management--Environmental aspects. 3. Real estate investment--Finance. 4. Real property--Valuation. 5. City planning--Environmental aspects. 6. Land use, Urban--Environmental aspects. 7. Sustainable development. I. Title.

HD1394.D427 2004
333.33'068--dc22

2004048252

ISBN: 9780754636281 (hbk)
ISBN: 9781138247383 (pbk)

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Chapter 1

Introduction

This book examines the development of property management in terms of the corporate strategies and financial instruments made use of to appraise the land and buildings making up the urban environment. The examination takes place under the following headings:

- Introduction
- Property Management
- Corporate Strategies
- Financial Instruments
- Computer-based Information Systems, Property Management and the Appraisal of the Urban Environment
- Sustainable Urban Development: the Framework and Directory of Environmental Assessment Methods
- Valuation, Investment Appraisal, Discounting, Obsolescence and Depreciation: their Impact on the Urban Environment
- Evaluating the Development of Sustainable Communities
- Conclusions

The chapters

The chapter on property management begins by outlining the issues underlying the development of property management. Under the heading of: value for money, economy, efficiency and effectiveness, attention is drawn to corporate strategies and financial instruments of property management. From here the text examines the corporate strategies developed to improve the standards of property management. The book then goes on to examine the financial instruments that have also been developed to bring about better standards of property management.

Having set out the corporate strategies and financial instruments of property management, the examination goes on to focus on one of the most pressing issues facing property management. Under the heading of 'computer-based information systems, property management and the appraisal of the urban environment', attention is drawn to how the said corporate strategies and financial instruments provide the capital accounting systems, asset registers and valuation methodologies needed to undertake a comprehensive appraisal of the land and buildings making up the urban environment. This examination shows that while a great deal of information is currently available on the various initiatives underlying the development of property management, there is still a noticeable absence of any data on either the corporate strategies, financial instruments, or computer-based information systems forming the mainstay of the capital accounting systems, asset registers and valuation methodologies under consideration.

The text

The text aims to close the gap that currently exists in what is understood about the development of property management, by providing academics, middle managers, directors and chief executives with the information required to not only manage property as a corporate resource, but make sure the strategies which are made use of for such purposes are financially sound. Developing this theme, the text goes on to examine the contribution capital accounting systems, asset registers and valuation methodologies make to sustainable urban development (SUD). Here the text provides a framework for analysing SUD and a directory of the environmental assessment methods currently available to appraise land and buildings. Examining the assessment methods under the heading of 'valuation and investment appraisal', the text goes on to study the impact discounting; obsolescence and depreciation have on the urban environment. This study is then drawn upon to show how the discounting mechanism is being used to develop sustainable communities. Following this conclusions are drawn and a research agenda is advanced.

The research projects

The examination draws upon a number of research projects the author has been engaged on over the past five years and is targeted at 'property managers' responsible for developing the corporate strategies and financial instruments (capital accounting systems, asset registers and valuation methodologies) needed to provide a comprehensive appraisal of the land and buildings making up the urban environment. The research projects in question include the following:

- The development of property management
- Financial services for the development of property management
- Sustainable urban development

The findings of these research projects have been published elsewhere (see Deakin, 1996; 1997a, b; 1998a; 1999a; Deakin 2000a, b, 2002a; Deakin and Curwell, 2002). The object of this book is to bring the body of work carried out to examine the development of property management together under one title. This is done under the heading of property management and qualified in terms of the corporate strategies and financial instruments underlying the developments in question. Taking a multi-disciplinary approach to the development, the publication brings together two disciplines (property management and environmental science) which have previously remained separate fields of study.

The first five chapters focus attention on the development of property management. Here attention is drawn to the corporate strategies, financial instruments and computer-based information systems underlying the development of property management. However, it is also here – with the development of computer-based information systems – that the common ground underlying the development begins to emerge. This emerges with the corporate strategies and financial instruments needed to provide a comprehensive appraisal of the land and buildings making up the urban environment. The common ground between property management and environmental science develops further in chapter six. Here attention is drawn to the contribution the financial instruments of capital accounting systems, asset registers and valuation methodologies make to SUD.

Having bridged the gap between these two disciplines, the text develops the connection by providing a framework for analysing SUD and a directory of the environmental assessment methods currently available to appraise land and buildings. Here the language, vocabulary and terms of reference linking both fields of study are introduced to highlight the relationship developing between property management and environmental science. The inter-disciplinary nature of the relationship is examined under the sub-heading of 'valuation and investment appraisal'. Here the inter-disciplinary nature of the development is highlighted in terms of the impact discounting, obsolescence and depreciation have upon the sustainability of the land and buildings making up the urban environment. How, in particular, the discounting mechanism provides a technique of analysis for evaluating the sustainability of urban development.

Landmark developments

The examinations highlight the degree of change property management has recently been subject to. Looked at together, there can be little doubt the changes highlighted in the examination are significant and mark major developments in the field of property management. What-is-more, as landmark developments, the changes can also be seen as representative of the on-going commitment by academics, middle managers, directors and chief executives alike, to make property management more progressive, able in that sense to link with other fields of study which it is connected to. All the examinations that appear in the text are, to a large degree, a product of the progressive agenda which is currently developing and commitment to strengthen the connection property management has with environmental science.

Chapter 2

Property Management

Introduction

This chapter examines the development of property management in terms of the VFM test: land audits; property reviews and transition towards the 3Es. It goes on to look at the consensus emerging over the VFM test and questions the transition to the 3Es has raised about the development of property management. Investigating the 'all-pervasive' marketisation of property management, the examination draws attention to the technical and economic basis of the development. Here attention is drawn to the high-tec, economic cum cultural paradigm of an information rich, communicative form of property management and the place it takes in the re-organisation and reform of services provided under the emerging structures of post-Fordism and neo-Schumpeterian workfare state. The paper draws the investigation to a close by providing some 'sign-posts' in the development of property management.

The VFM test

In the late 1970s it had become generally accepted there was a real need to make large organisations more accountable and subject to a greater degree of audit. With audit came the term 'value for money', what Butt and Palmer (1985) refer to as 'a wide and ambiguous term', but one that, nevertheless, goes a long way to establishing the principle of economy and the use of money as the measure of value attributable to expenditures on goods and services. With the concept of audit and principle of economy came the idea of 'managing better with less', being 'lean, mean, enterprising and competitive'. Based on this managers started to ask the following:

- what accounting procedures are in place;
- how is expenditure audited;
- how could expenditure be made more economic;
- how can the auditing of expenditure be made use of to review the performance of goods and service provision.

In response to this managers started to question whether expenditure met the value for money test. Whether, that is: the accounting and auditing provisions in place are economic and how reviews of expenditure can be carried out to test this. As a consequence, a VFM methodology began to develop. It should be noted that the methodology in question has a relatively simple and straightforward philosophy. In its most simplistic form it can be represented as:

- the definition of the objectives for the test;
- the detailing of the accounting procedures underlying the provision of goods and services;
- the auditing of expenditures;
- a review of performance.

As a set of inter-related activities, the methodology appears quite straightforward. At this level of representation is can be seen as generic, applicable to any situation where accounts are needed and expenditure requires to be audited.

Grounded, as it is in the principle of economy, it is perhaps possible to generalise the objective of the test as value adding - be it in terms of income producing, or cost-saving measures. Working within this objective, the test transforms into a management exercise: one that details the accounting procedures for the provision of the goods and services in question; goes on to audit and on further to establish whether such expenditures can be made more economic through a review of performance. It is perhaps this simple and rather straightforward representation of the VFM test that makes it an attractive management exercise. It should perhaps also be noted that the exercise is not one which is limited to the review of performance, because the information generated from the test, its audit and review, can and often is drawn upon to form the basis of not only a rationalisation, but a thorough and often rigorous re-organisation of the management process underlying the provision of goods and services.

In taking this form, the audit and review issues are represented by the Society of Local Authority Chief Executives (SOLAS, 1986) enquiry into the matter and the Local Authority Valuer's Association (LAVA, 1989) examination of how to manage such exercises. In chronological terms it is a development that is perhaps best marked by Britton, Connellan and Crofts' (1989) representation of such audits and reviews as a form of rationalisation.

Land audits and property reviews

According to Britton, Connellan and Crofts (1989) a land audit or property review, is a process by which systematic attention is given to each interest in landed property by a team of qualified people working to a close brief. Here, the audit and review in question are seen to represent an essential first step towards attaining good management.

In the context of the exercise, 'good management' is defined in terms of the initiatives - in this instance the audit and review - that not only allows the measurement of land and property in terms of 'monetary value', but which also leads to the 'minimum' amount of expenditure on the management of related goods and services. To achieve this Britton, Connellan and Crofts (1989) propose the following. Firstly, the audit and review must be supported by both the professional officers, directors and executives of the corporation in question. In order to achieve this, they propose it is necessary to 'sell' the idea to those within the organisation whom it will affect and in this connection it is important to state from the outset, how the financial proceeds of the exercise are to be distributed within the corporation. Secondly, it must systematically cover all the organisation's landed property, regardless of tenure and use. Thirdly, it should cross all boundaries (geographical and departmental) because land audits and reviews are a corporate activity. Fourthly, the first land audit and review should be planned as a single project with a defined time span which should be as short as possible. If this means that it requires additional resources, these should be costed and provided for in the project, because if the exercise takes too long, the beneficial effects of the audit and review will be diluted. As a rule of thumb, it is suggested a small portfolio of holdings should be audited within twelve months and a medium-sized holding should be reviewed in three years. It is also proposed that the largest portfolios should be audited within the span of a typical rent review period which is five years.

As they go on to point out: one of the main functions of the land audit and property review should be to establish suitable performance indicators for each property interest and to set up systems for the continuous monitoring of performance according to those indicators. The suggested measures of performance are:

- net capital receipts from disposals;
- increases in receipts from income-producing landed property (for example: investment property);
- the reduction in landed property used by the organisaiton;
- the reduction in running costs;
- the ratio of all receipts and savings to the cost of the audit and review.

From this it is evident that land audits and property reviews centre upon the generation of capital receipts from income producing land and property. As such it is an exercise that is geared towards solving the problem of the static estate in organisations, the subsequent mis-match, under-use and relatively high level of vacancy, by the disposal of land and property the audit and review declares surplus to requirements. While the exercise reduces the amount of land and property made use of by the disposal of poorly performing assets and benefits from the consequent improvement such a form of rationalisation brings about, the problem of running cost control appears to take a low priority in the overall scheme of things. This is to some degree borne out by the fact questions about running cost control only appear towards the bottom of the list. It is perhaps this switch of concern from the generation of capital receipts via the said audits and reviews, to the reduction of running costs, that marks the transition from rationalisation to re-organisation. While it is appreciated the distinctions drawn here between VFM, land audits, property reviews, rationalisations and re-organisation are subtle, they are nonetheless critical for the reason they signify that:

- in responding to the VFM test, the management of property has been augmented by initiatives in land audit geared towards the review of property and assessment of whether land and property held by an organisation meets their requirements, if there is a mis-match, under use of assets, or high level of vacancy;
- in placing a monetary value on the holdings the opportunity cost of land and property ownership is established, along with the price of holding assets that are unsuitable, partially used or vacant;
- the high cost of holding inappropriate assets tends to illustrate the price of owing such resources is too high and uneconomic in real terms, a situation which tends to force a redistribution of land and property through realisation and disposal;
- the outcome of such an exercise represents a form of rationalisation and drive towards economy in the allocation of assets;
- in seeking to consolidate the gains realised from such a form of rationalisation, attention has now begun to switch from the audit and review of holdings as a stock of land and property, towards the stream of expenditure on the goods and services required to manage the assets in question;
- this focuses attention on the static estate (the so-called mis-match, under-use of assets and question of vacant property) and problem of running cost control - the need for an audit and review of the growing expenditures on the stock and flow of goods and services paid out to cover the cost of managing property;
- following this, a number of additional initiatives have surfaced which looked at together represent a deep and thorough re-organisation of property management.

It is evident that in taking this form, the movement towards the 3Es represents a growing interest in the economics the audit, review, rationalisation and subsequent process of re-organisation forming part of the drive towards a greater degree of efficiency and effectiveness from the management of property.

Towards the 3Es

As already pointed out, Britton, Connellan and Crofts (1989) define good management in terms of: measuring the value of property in monetary terms and employing the minimum amount of expenditure on its management. Having defined 'good' management in such a way, they go on to suggest such a form of property management: deserves the adjectives, 'economic', 'efficient' and 'effective', as the landed property will be maintained on a business-like footing, producing sufficient benefit (performance of duties and attainment of objectives) at