Property & Asset Management Performance in the UK

Results from the REMark survey 2013

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Abstract

The objective of this paper is to look at the performance of Property and Asset Management (PAM) in the UK over the past five years. This part of the property industry suffers from extreme cost pressure to the point where profitability is in question.

The paper discusses different business models for PAM and uses a detail process model to pull out the key metrics for the industry.

Using the REMark survey of property managers and funds it reports upon the performance of property and asset managers with respect to efficiency and collection performance over a five year period, drawing out key trends.

Keywords: Property management, Process change, Collection performance, Asset management, Facilities management, Operational performance

Introduction

Over the past thirty years in the UK, Property and Asset Management (PAM) has suffered from being a poor relation to the higher profile investment and agency departments in large multi-functional practices - yet the sector has a reputation for providing a solid income stream across the economic cycle without the volatility associated with transaction based income.

In uncertain times, the annuity nature of Property Management income has attracted investment in new systems and processes that address areas such as property accounting and has improved the sectors attitude to both process and data management as a result. While this has been the case for bigger practices, the sector has a long tail of smaller property managers that operate more traditionally.

In the multi-functional practices that dominate the supply of PAM services there is always an imperative to cross sell services into other areas such as asset management at both the strategic and tactical levels. This is often at odds with customer perceptions and recent years have seen the emergence of specialist property management companies that just address the fundamentals without the need to sell other services.

From a landlord's perspective, PAM is arguably more important than the high profile aquisitions and disposals that characterise the transactional parts of the industry. Maintaining the landlord:tenant relationship is crucial to the operational performance of real estate and property managers are custodians of the landlords reputation. Any property owner that is interested in keeping tenants needs property managers that are providing the very best customer service.

Measurement of the sector tends to be in terms of low level metrics such as "% rent collected by the quarter day". This focus upon accounting efficiency places cost control firmly at the top the property management agenda.

Part of the problem is that fees have been driven down to uncompetitive levels. This has the effect that everything apart from the base service is charged separately and, as a result, resented by the client. This is well recognized by the property management community, and all will pay lip-service at least to the idea of good customer service. However, there is a fundamental problem here for an industry that, so far, has found it difficult to square top class customer service with an inadequate fee structure.

Property & Asset Management in the UK

Structure

From the outside, Property and Asset Management has a clear role to play in the ownership of real estate either as an investor or as an occupier. However, there the clarity ends. The industry persists in regarding management of owner occupied assets as being something wholly different to ownership by investors despite the fact that the same windows need to be cleaned.

Palm (2013) identifies two strategic pathways to consider regarding real estate management but practical experience dictates that each outsourcing project in property management is different and that there is very little consensus about what is and is not included under the banner of "property management" in the UK.

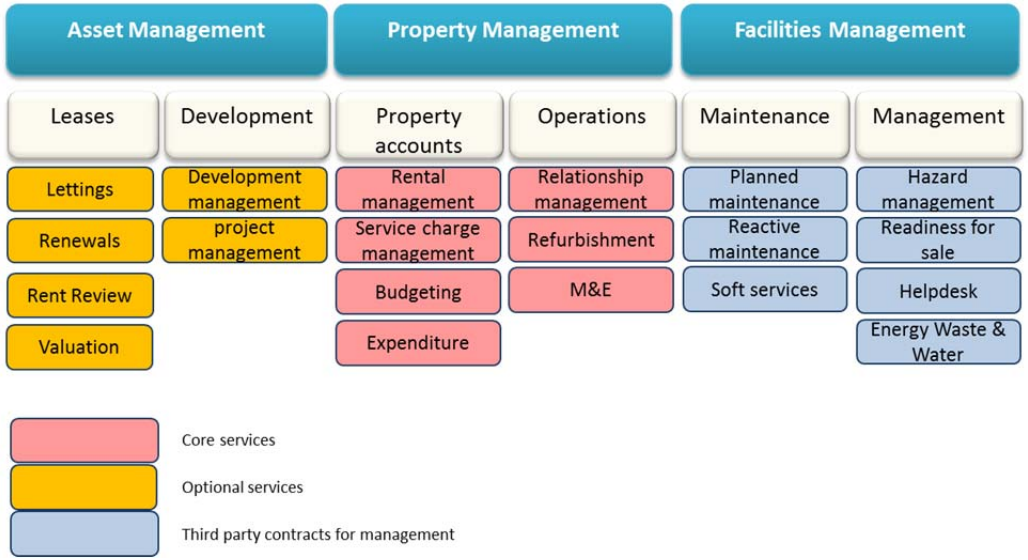

Figure 1 - Remit Process Model (RPM)

Figure 1 shows a schematic of the top level of the Remit Process Model (RPM). This is actually a library of over 500 best practice process charts covering everything from changing a roller towel to procuring a new office. In this case it is being used to demonstrate an external view of where different macro processes should fit in the PAM

spectrum. However, individual contracts often have a diffeent structure with processes such as letting, for example, being undertaken by property managers.

There are a number of different models for outsourcing in this area. Typically, their adoption is driven by the extent to which the property owner is prepared to cede control of strategy in each particular area. These have been distilled into generic types:

- a conventional mixed model;
- a managed model;
- a process based model.

Where large or specialist portfolios are involved it is common to split the outsourcing contracts by sub-sector. Two typical specialist areas would be Shopping Centres and Trophy Office Buildings for example. These are both areas where the operational management itself is relatively specialist and there are perceived advantages in placing them with specialist managers.

Conventional Model

The conventional property management model sees strategic asset management retained in house but everything else outsourced. In-house asset managers handle the management of acquisition and disposal and the preparation of asset plans for each building.

Property managers handle the basic property accounting functions as well as managing on site M&E, small refurbishment works, strategic Facilities Management and performing basic diary functions with respect to lease expiry and review.

Figure 2 - Conventional model

Facilities Managers will be on-site, full or part time, depending on the asset. Facilities management operations will be sub-contracted out to specialists through the property manager.

Typically, operational asset management functions such as lease management, rating or rent review would be outsourced to market specialists under this model, but this may be through the conduit of Property Management - restricting the outsourcing interface to one.

Managed Model

In the managed model, property and facilities management strategy is retained in house. The tactical implementation of Asset, Property and Facilities management is outsourced to "best in class" specialists in each area.

Figure 3 - the managed model

This may involve any number of suppliers, but has the advantage of securing the most focused skills although at the price of a higher management overhead.

Process based Model

The process based model looks at the wider property management area from the perspective of process and breaks down the functional areas into those that are process dependent and those that are skill dependent.

Figure 4 - the process model

Under this generic model, the client retains strategic control but outsources the entire management layer to a process manager who will deploy resources in each of the functional areas. These resources may be owned by the process manager, potentially offshore, or they themselves may be outsourced further to market specialists.

This model has the advantage of a single interface and fee structure but at the price of ceding operational control of assets to a third party, albeit in the knowledge that any process-led functions will be executed as efficiently as possible.

Supply

Despite much market activity and both an increased focus on service and increasing competition, there has been very little significant change in the position of the key service providers over the past two years.

The 2013 survey sees JLL still the largest provider of PAM services - boosted by their acquisition of King Sturge. CBRE and Savills have both strengthened their positions in the last three years while DTZ's problems prior to being taken over have been well documented.

Demand

Estimates of the PAM market size vary significantly. Remit analysis of over 4,000 fees achieved shows charges consistently to be around 1.5% of the rent roll. The IPD Annual index is based upon property with a combined rent roll of some £6.6 billion this would imply a market size of about £250 million. This is almost certainly an under-estimate. In 2011, based on 2009 data, Oxford Economics estimated the portfolio and property management to be around £2.2 billion, including a small contribution from the public sector.

Price

Lam (2012) identifies the economic forces influencing the outsourcing process of property management services. Findings were that the property services market was contestable, and through competitive tendering the level of competition had a significant negative impact on production cost and a significant positive relationship with service quality. Fee level was also found to have no significant effect on service quality. Professional maintenance services were found to be complex and associated with significant transaction costs, especially where there was a high degree of contact with tenants.

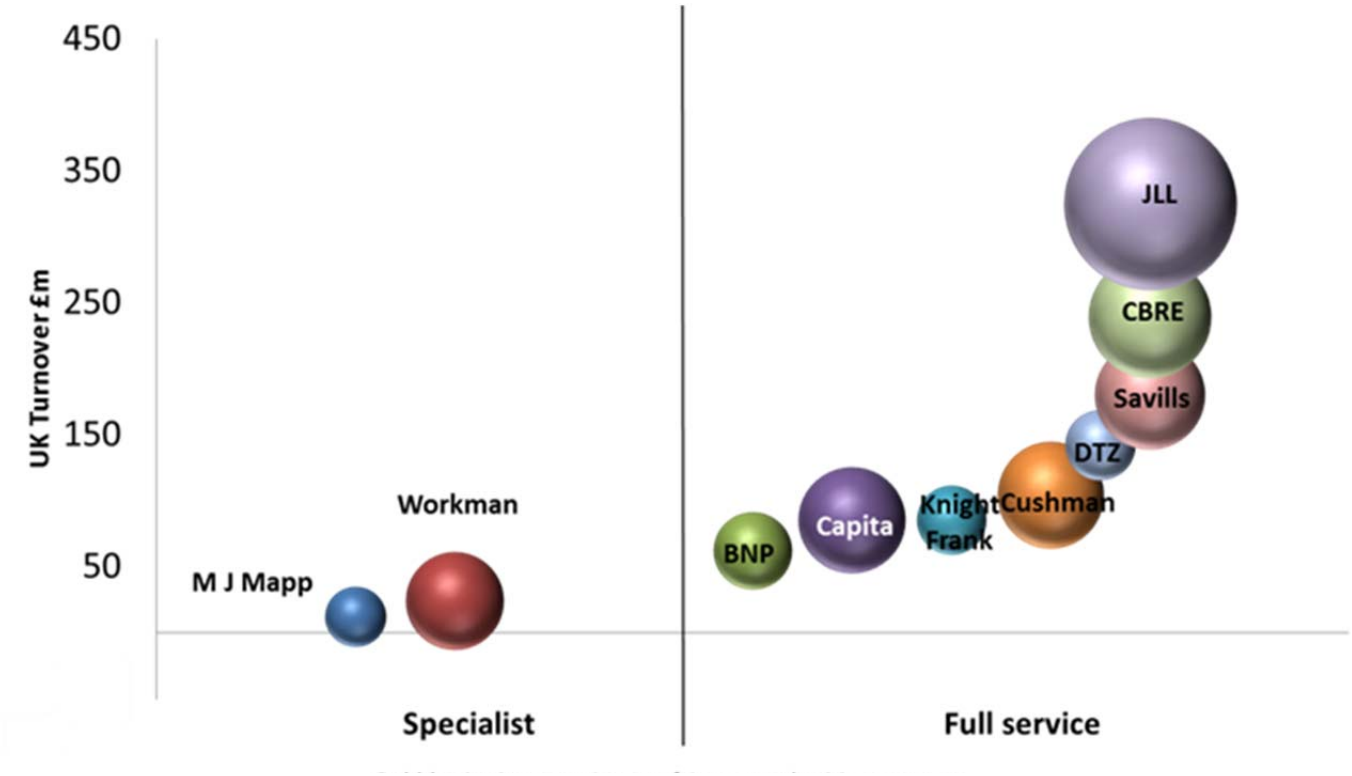

Figure 5 - PAM suppliers

The REMark survey

REMark is part of an on-going programme of research by Remit Consulting. This particular report is based upon returns from Property Managers and Investors in the final quarter of 2012.

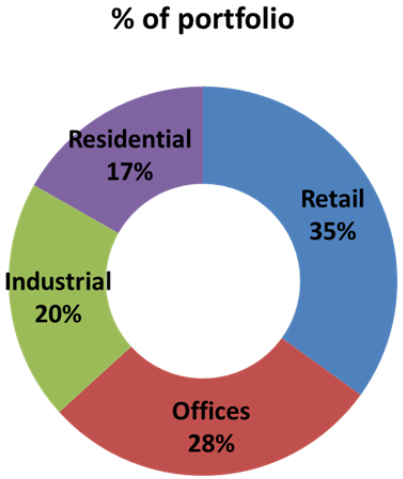

Figure 6

This chart shows the response coverage by sector. Comparing this to the IPD annual index for the UK, REMark covers a higher proportion of commercial leases in each sector but less residential property

Performance

This REMark research shows that collection performance has improved significantly over time. Rent collection has risen from 56% to 78% at the due date since 2008 with 92% being achieved after 7 days. For service charges, 66% are collected by the due date with just over 80% by the end of the first seven days. Figure 7 shows the full breakdown.

However impressive this improvement, it still reflects an unacceptable level of systematic inefficiency in the collection process. The due date for rent is the date that the rent is due, not the date the process starts.

To give an idea of the potential scale of the cost of this inefficiency: using the same IPD Annual index rent roll of some £6.6 billion adjusted to reflect an estimated whole market size. To collect that rent at the pace indicated by REMark over a 30 day period would imply an annual cost to the industry of some £17 million.

Raising the proportion of rent collected on the due date to 90% with knock on improvements at 7 and 14 days would more than halve this finance cost of collection.

The worst rates of rent collection reported in this survey were two responses under 50% at the due date up significantly on the 27% seen in the last survey but still a chronically inefficient proportion of rent that is due on that day.

Overall Figure 8 shows the distribution of returns shows the majority of collection rates between 75% and 90% at the due date but the average of 78% is dragged down by the underperformers.

This is an area where the performance of the big, multidisciplinary property managers far exceeds that of the smaller players. On average collection at due date is 82.3% for the big players and only 65.6% for small property managers. This demonstrates that the significant investments made in PAM systems and process improvement over the past five years is beginning to have an impact.

Figure 7 - Collection performance

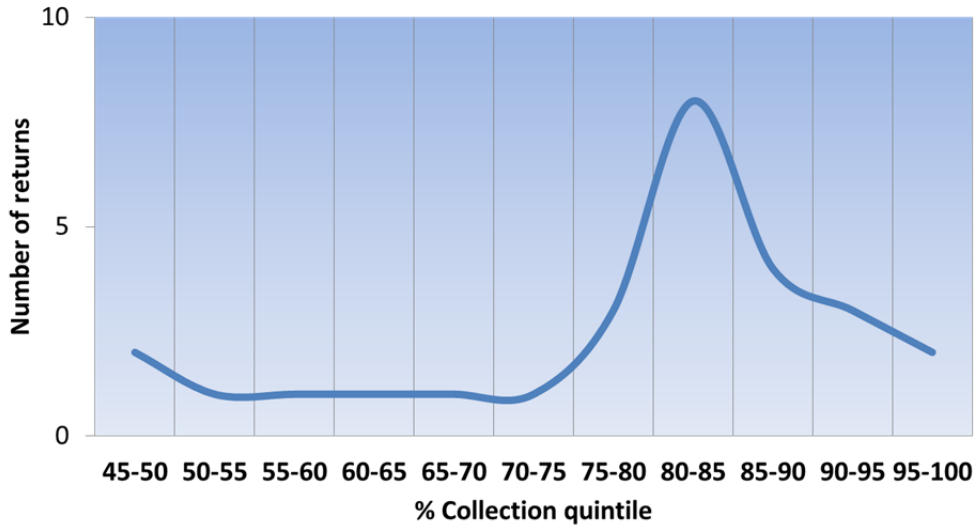

Figure 8 – Collection distribution

Efficiency

One of the key determinants of efficiency in property management is the efficacy with which the volume of work is handled. REMark pulls out two metrics here: the number of leases per capita; and the staffing cost per lease.

Property Management - leases per capita (lpcs)

Overall the average number of leases handled by each surveyor stands at 150 – up 25% from the 120 leases per surveyor recorded in 2010.

Figure 9 shows this metric set against the size of the responding property management team including support staff and other disciplines. This shows the number of leases per surveyor trending downwards from 165lpcs for the smallest teams to 95lpcs for the largest. In fact 92% of the returns fall within the range 80lpcs to 220lpcs.

There are many factors that will influence the number of leases being handled, not least the complexity of the assets, the range of services and the quality of service being provided. However, given a consistent level of provision and despite improvements in the past few years, it is clear that there is room for significant efficiency gain in some firms.

Property Management Accounts - leases per capita (lpca)

The REMark responses give us the opportunity to examine individual functions. Figure 10 shows the relationship between the size of the property management accounts team and the number of leases handled per capita.

These teams include accounting specialists as well as surveyors but the data shows the same pattern with overall leases per capita averaging at 175 and the vast majority of the responses in a range between 80lpca and 220lpca. A similar trend is also apparent in the number of leases per capita declining as team size increases.

Although the number of leases per capita is slightly higher for property accounts this is a commodity service and should be highly automated. It is surprising, therefore, that the figure is not significantly higher.

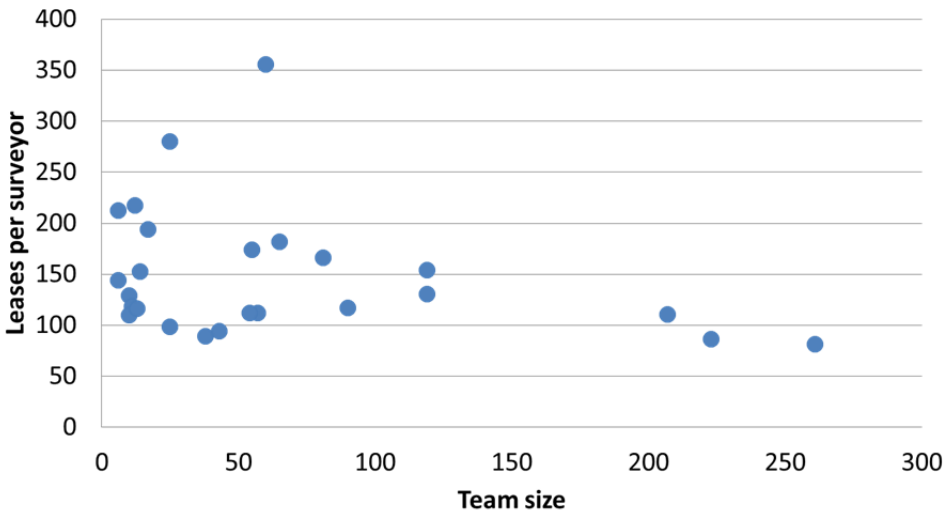

Figure 9 – Property Management – leases per capita

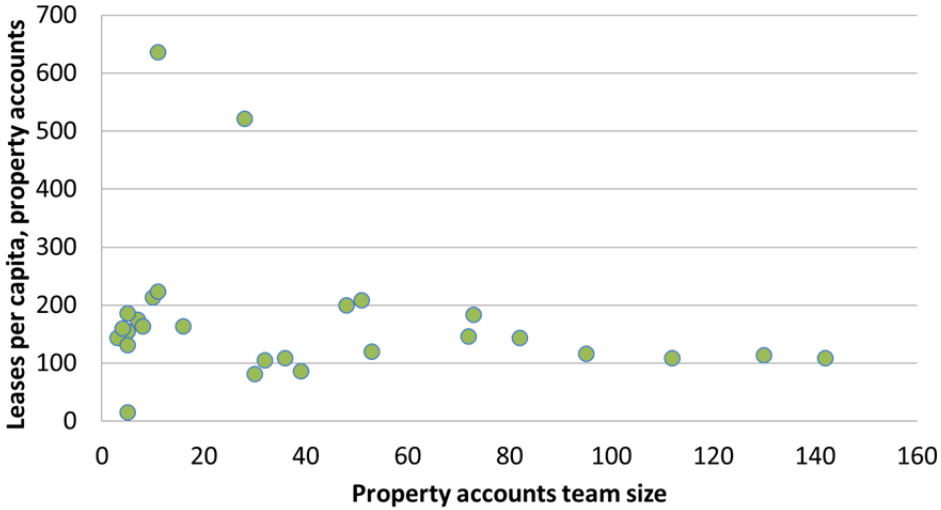

Figure 10 – Property Management Accounts – leases per capita

Figure 11 applies the same test to Facilities Management. Here, average leases per capita are much higher at 253, but, given the hands-on nature of much Facilities Management, the expectation would be that the team size should be much more closely correlated with the number of leases being managed.

However, this data makes no distinction between those teams that manage an internal workforce and those that outsource, nor does it distinguish between facilities intensive assets such as shopping centres and others where the facilities burden is lighter. Further research is needed in this area to define the services and their contribution.

Staffing costs per lease

Clearly, the cost of staffing is a major component of overall property management costs and a major determinant of pricing. Using the RICS/ Macdonald salary survey (RICS) combined with the Annual Survey of Hours and Earnings (ASHE) survey, it is possible to build up a picture of the cost of staffing Property Management.

Remit Consulting also holds detailed data about the fee levels actually achieved for a wide range of property management contracts. Table 1 shows the average levels of fee achieved per lease by sector.

Sector	Average fee per lease
Industrial	£1,290
Retail	£1,428
Office	£1,994

Table 1

Figure 12 shows the breakdown of the REMark responses by function. Around 33% of the Property Management staffing costs are made up by accounting. If Facilities Management is included this drops to 20% - less than we would have expected.

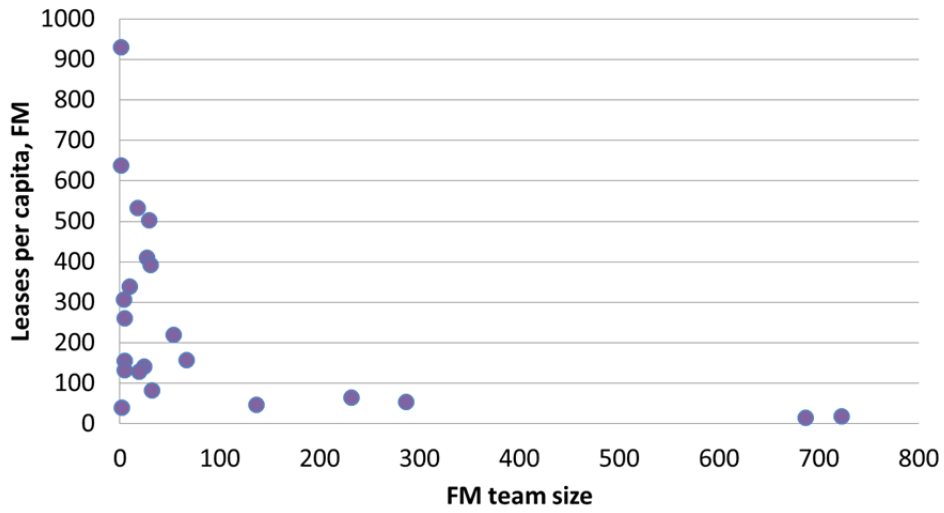

Figure 11 – Leases per capita, for the FM team

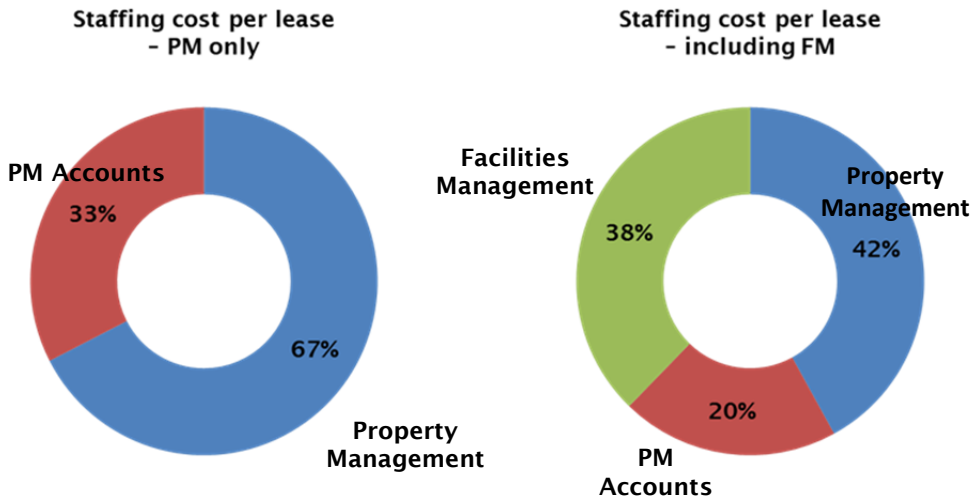

Figure 12 – Responses by function

Clearly different providers will have a unique mix of services offered and this leads to a deal of volatility at a cost per lease level.

Figure 13 shows the staffing cost per lease set against the number of leases handled. This shows that, far from seeing any economies of scale, the staffing cost per lease rises with the number of leases handled.

Given that this analysis assumes a common cost per surveyor (RICS , 2012) and a common support staff cost (ONS, 2012) this appears to show excess capacity in the larger teams. It might, however, reflect increased compliance costs.

While staffing costs in this chart tend to cluster between £900 and £1750, there are a significant number that fall well above this level and well below.

Of interest is what these staffing costs say about fees. Table 1 shows a fairly tight band of fees achieved per lease between £1,290 for industrial property and £1,994 for offices with an average of £1,523 achieved per lease. This accords broadly with industry heuristics.

This analysis shows a much wider variation in staffing costs (remember this assumes a common cost basis) but with an average STAFFING cost per lease of £1,560 ie a staffing cost that is 2.5% higher than the average fee achieved for the work. Once overhead costs etc are added to the cost of servicing the lease – on average this would show a loss. Figure 14 overlays the average fees identified.

This reinforces the traditional view that Property Management is being used as a loss leader to attract fees from other service lines that will cross subsidise the yield from each customer. However, interviews with clients highlight that one of the least palatable aspects of the relationship with Property Managers is just that need to sell further services outside the contract.

Of course, individual property managers pay salaries that vary from the common basis used here and are able to increase margins thereby but it is equally clear that, in many cases, the pricing mechanism used needs far greater transparency.

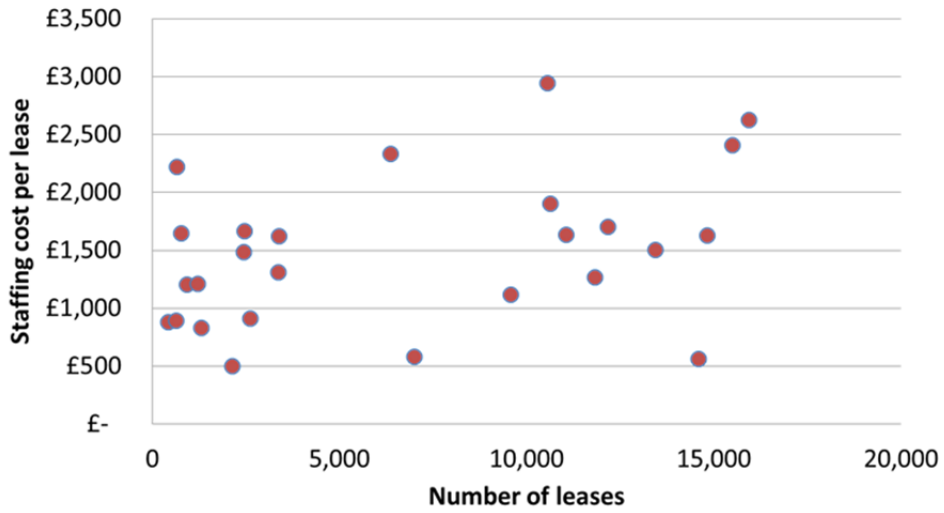

Figure 13 – Staffing cost per lease against number of leases handled

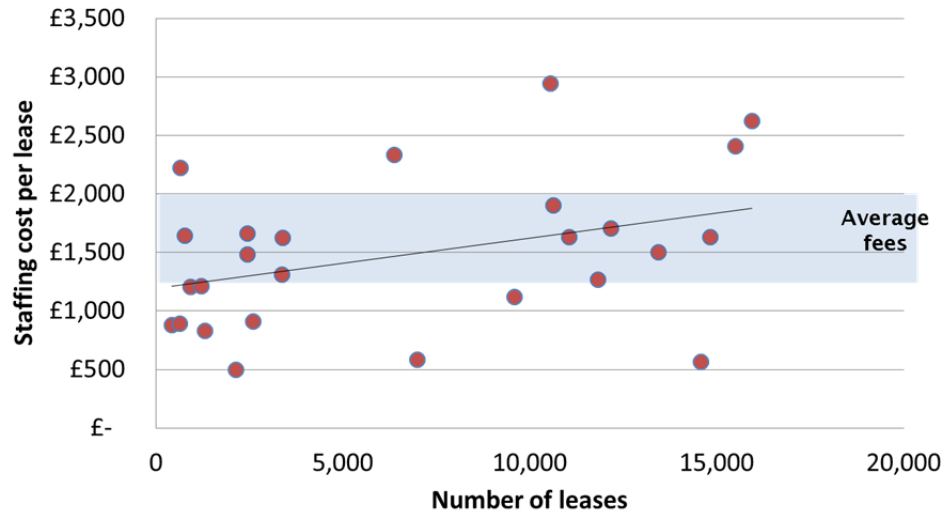

Figure 14 - Staffing cost vs average fees

Conclusions

The objective of the ReMARK survey is not to prove or disprove any theory. It's purpose is to shine a light upon an important part of the industry that is generally under-researched.

The basic metrics of rent collection and operating efficiency have improved since the first survey in 2010 but for many portfolios remain inadequate. There is also a significant gap between the best and worst performing manager. Basic, systemic problems remain prevalent in the process of management.

The survey demonstrates that size is very important in property management. The big managers - JLL, CBRE and Savills, for example – all have better collection performance than the smaller ones.

Perhaps the most telling part of the survey are the costs. It has long been suspected that multi functional real estate practices use property management as a loss leader to sell more profitable services. The ReMARK survey provides evidence of this. Using industry averages, the staffing cost alone often exceeds the average fee per lease, wiping out any profit.

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