Property management, asset management and facilities management

An examination of Property Management, Asset Management and Facilities Management in the context of the management of real property by investors and occupiers

Your essay must include a review of the generic property, facilities and asset management literature that addresses these topics and you are required to reach your own structured conclusions as to the make-up of these aspects of real property management, and the differences and areas of similarity or overlap that might exist between them as operating functions.

The stakeholders in the facilities management process are chiefly the client or property owner, in other words the investor, on one side. With the tenant or occupier on the other side (Best, Langston, & De Valence, 2003). Money, time and function can be viewed as the drivers off any outcome when evaluating the property management process. It is clear that investors and occupiers will view theses drivers in opposing lights and for this reason will have highly divergent objectives. Investors, by definition, are interested in the return that a property or asset has to offer (Devine, 2003). This contrasts with an occupier who would most likely be concerned with the utility or gain that can be derived from occupying an asset. For this reason, investors will often approach the ambit of property or facilities management in a diametrically opposed manner from those occupying the asset. Essentially, the occupier will be looking for long term occupation, while the investor is driven by the need for short term construction. These different views make it near impossible to agree on an all-inclusive definition of facilities (Devine, 2003). One thing that both parties will agree on is the need to build and occupy a successful and usable building at the lowest possible cost (Best, Langston, De Valence, 2003). The role of facilities management in the economy is gaining increased prominence (Alexander, 1994), particularly the value it can have to inward investment. Competent facilities management provides the infrastructural support for investment inflows (Alexander, 1994) and as such should be given a significant amount of respect in a corporate strategy or in the decision making process. From the investor perspective, this is particularly topical as this goes to the core objectives of any investor; maximizing returns. The occupier will be less affected by the prominence that FM is acquiring, but will affected indirectly.

It is an unfortunate consequence that the differing agendas of the investor and occupier often work against each other. This can clearly, and is shown to, lead to conflict between the two parties during the lifecycle of an asset of facility. For instance, the possessor of a shopping centre will look to reduce costs as much is possible without affecting the tenants, whereas the occupier would ideally like the owner to inject as much capital as possible into the shopping centre. A middle ground has to be found, but the road there can be full of conflicts to be resolved and compromises made. The cost-benefit approach is key to defining assets and properties for the client/owner. Devine (2003) has considered four keys requirements that constitute the investor approach, it is patently clear that profit is the driving force. Firstly, it is required to redefine the cost motivation as a pure profit/return motivation. Secondly, it is vitally important to make tangible those attributes of intelligent buildings that are presently intangible (Devine, 2003). Essentially, this is concerned with building performance and its impact on the performance of the business as a whole. For instance, maximizing space that is not being used optimally or ensuring a tenant mix that results in the highest possible profit (once again, this illustrates the conflict that can arise in facilities management; owners will let go occupiers who are not delivering adequate returns). A further requirement is the need to realign the facility as an organizational competence (Devine, 2003). In other words this is concerned with optimizing the returns per unit of space, space that is under-utilized effects investment return. Finally, the investor is concerned with tilting the cost-benefit balance in favour of the benefits (Devine, 2003). This involves optimizing the life cycle costing to reduce costs and using consultative design to create and run a successful and profitable facility.

Asset management is the planned alignment of physical assets with service demand. It is achieved by the systematic management of all decision-making processes taken throughout the life of the asset (Griffith University, 2005). Essentially, assets are platforms that facilitate service delivery. From an investors point of view, there are several objectives that sum can sum up asset management and address competitive pressures, because in essence that is what management of any asset of facility/property is concerned with; getting the most out of the asset whilst minimizing costs and ensuring competitive advantage over any rivals (Rondeau, Stack, & Fox, 2000). Achieving the best possible match of assets and service delivery strategies is crucial, this consists of ensuring that the assets under use match the needs of the owner or investor. Secondly, to reduce the demand for new assets by adopting strategies that result in non-asset solutions, ie: pursuing all available avenues before financing new assets and thus minimizing costs.

The need to maximize the service potential of existing assets is crucial if investors are to minimize costs of existing assets and ensures that service potential is reached. Asset registers are generally used for this purpose (Devine, 2003), their main purpose being to record the existence and costs of different assets. Registers are also employed to ensure that the correct assets are in use and that their management is co-ordinated and appropriate in the context of the service delivery specific to that field. Ultimately, asset registers ensure that assets deliver the value that was intended when invested in (Devine, 2003). Lowering the costs of assets through effective life cycle costing techniques is also an imperative from an investor point of view, this dovetails with ensuring the bottom-line is the focus, this is implemented by maintaining clear accountability and responsibility (Rondeau, Stack, & Fox, 2000).

Facilities Management is performed during the operational phase of a buildings life cycle, which could extend over many decades. As such, it represents a continuous process of service provision that provides support to the owner/investors core business and is a service where improvement will be sought on a continuous basis (Ellison and Sayce, 2007). Essentially, facilities management is associated with day to day running of an asset. This is done most efficiently by implementing a Strategic facility plan (SFP), a SFP is a two-to-five year plan encompassing the entire portfolio of owned and or leased space that sets strategic goals based on an organizations particular strategic aims (IFMA, 2009). SFP helps facility managers do a more effective job and ensures that all employees are working toward the same goals and objectives. A SFP should be flexible and company specific and will ensure that every decision made will positively affect a companys assets and ultimately an investors bottom line (IFMA, 2009)

The facilities plan can be created in four steps, according to the white paper on strategic facility planning (2007). The first step requires the manager to develop an understanding and thorough knowledge of his organizations values and goals. Secondly, scenario planning for all possible scenarios and outcomes should be prepared for; this requires analyzing a companys facility using analytical techniques. Typically, this would include a SWOT analysis (strength, weakness, opportunity and threat (IFMA, 2009). Third, it is necessary to plan for periodic updates to existing plans in response to changes in the market and to plan for changing company goals etc. Fourth, it is necessary to take action based on your plan; to make decisions based on your SFP (IFMA, 2009).

The potential impact that an occupier can have on property worth will also affect the relationship between them and the investor (Ellison and Sayce, 2007). It has been found that in the UK some investors already screen out particular occupiers, suggesting an existing recognition of the impact of the occupier on asset value. Once public awareness and opinion becomes focused on a particular organization or activity and therefore occupiers associated with that activity, the resultant impact on property worth could be significant. A tenant with a high profile and an inferior reputation might reduce the liquidity of an asset by reducing demand from other investors; this would most likely manifest in an increased yield and therefore lower capital values of properties (Elison and Sayce, 2007). A significant difficulty that investors face is their lack of control over who their tenants are. Whilst the equity investor can sell shares in a company that fails to live up to certain standards, a landlord has much less flexibility with a property investment. Due diligence requires investigation of the financial history and capacity of tenants. However, in many cases this does not provide a true reflection on the financial viability of a tenant, this can often result in landlords accepting tenants who negatively affect the value of the building (Elison and Sayce, 2007). Furthermore, the investor is unlikely to be able to refuse an assignee or a sub lessee on reputation grounds under a lease with an open assignment clause. This suggests that such assignment clauses may increase the risk associated with owning/investing in a building over the lifetime of the lease, an issue, which would have to be balanced by any reduction in rent created by a more restrictive clause (Ellison and Sayce, 2007).

Property management, as an operating function, covers a broader spectrum than that of facilities management. Essentially it covers the processes, systems and manpower required to manage the life cycle of a property. This includes acquisition, control, accountability, maintenance, utilization, and disposition (Devine, 2003). It can be viewed as an umbrella, under which the sections of asset and facilities management will fall. The measurement of property management performance takes place within a conceptual framework (Baldry & Amaratunga, 2003). This might appear to be an abstract thing to measure, but facilities management, like any function, has to be measured up to a certain standard. FM is seen to be able to contribute to performance of organizations in many ways, including strategy, culture, control of resources, service delivery, supply chain management and, perhaps most importantly, the management of change (Baldry & Amaratunga, 2003). In order to manage this, units of analysis and levels of analysis have to be conceived. It is clear that investors will attach a higher degree of importance to measuring FM performance as opposed to those merely occupying the facility (although occupiers will feel the direct effects of poor management, they are unlikely to take an active role in measuring it). Investors, with their return dominated objectives will ensure that their facility is being run efficiently and to its maximum potential. In many parts of the world, facilities management has long been seen as a driver of economic growth (Alexander, 1994). For instance in Japan, with a high reliance on office productivity, facilities management is seen as a way of improving the productivity of Japanese office workers (Alexander, 1994)

It is interesting to note that McLennan (2008) sees facility management, particularly in the office sector, as taking two divergent paths, both the result of information being seen as a highly valuable but intangible business resource, Making this information a tangible business asset is the purpose of intellectual capital as a management concept. Intellectual capital can be defined as : " packaged useful knowledge" (McLennan, 2008) The facilities manager is in the powerful position of having access to this data set as a resource. Within the office sector it is about exploiting the strategic value of their knowledge about physical resources. The two paths that exemplify this opportunity are the facilities manger controlling the physical resource on behalf of the investor, or the facilities manager controlling the physical resource on behalf of the occupant. These diverging ways of using information illustrate the difference in approach between investor and occupier. It seems that as part of the knowledge based economy the path relating to the investor can provide more value (McLennan, 2008).

Globalisation is requiring business and facilities to be increasingly agile and adaptive (Green & Price, 2000). This brings a focus to the way in which business decision making is conducted; it is challenging traditional approaches to property from both the occupier and investor perspectives (Green & Price, 2000). This desired environment requires the management of an integration of people, property, and place. It also requires the integration of asset, property, and facilities management. In order to achieve meaningful success in this changing world, it is necessary for the the aims and objective of the investor and occupier to converge. Many developed countries have acted to progressively pursue this coming together of objectives, South Africa, is some way behind.