What is property management?

This essay aims to define Property Management, Facilities Management and Asset management as well as comparing and contrasting the three management sectors. It begins with a description of the three management sectors, and then goes on to differentiate between them. The essay then goes on to draw conclusions based on the comparisons.

WHAT IS PROPERTY MANAGEMENT?

In order to fully understand the term property management we need to first define the word ‘ property’ and what it refers to exactly. Property may refer to residential, commercial, industrial or special purpose property. Special purpose property as defined by Robert and Floyd (1998) would include property such as retirement homes, hotels, clubs, schools, resorts and so on. Hence the management of these various assets is essentially property management.

Robert and Floyd (1998) define property management as the management of real estate on behalf of the owner for compensation. According to their definition, it implies that the person managing the property is not the owner himself and that the owner will essentially compensate the manager for his services rendered.

Evans (2007) states that in the past century property management was never seen as a complex sector and was in fact never a complex sector, and that the term property manager was literally just someone who had the responsibility of collecting rent. Evans (2007) states that during the early 1900s the property manager was known as the ‘ rent collector’ and he was feared and disliked by many and during these times, the property managers main role for decades after this was to collect the rent from tenants.

It was not until the great depression of the 1930s that events worked to transform the despised rent collector in to the property manager we know today (Evans, 2007). Evans (2007) believes that the harsh economic conditions of the depression put pressure on the property owners and hence, made it harder for them to make mortgage or tax payments on their property/s. Due to the depression banks as well as the local governments were forced to take over the ownership of these properties. Since the banks were unable to sell these properties, due to the scarcity of buyers and lack of cash flow, they were forced to keep these properties. (Evans, 2007) continues to state that the banks, who were too busy to deal with all the re-possessed properties, hired fee managers, to lease these properties in order to generate income rather than leaving these properties vacant. Fee managers later took on larger roles and grew into what we know as the modern property manager (Evans, 2007).

There is currently a misconception around the term ‘ property management’, mainly due to the origin of property management; most individuals see it as a landlord or someone that collects rent and grants leases, however the job entails far more than this. Property management is mainly operational and ensures the following functions are completed:

- Every space is leased out,
- Rent is collected,
- All utilities are paid,
- Revenue is focused and,
- It attempts to maintain relationships with clients.

A property manager does not only collect rents or manages leases, he/she now requires specialised skills such as, communication skills, technical expertise, and knowledge is essential in order to be a dynamic decision maker therefore it should be seen as a science.

Robert and Floyd (1998) see it as a managerial science and believe that it is the fastest growing area of specialisation within the real estate industry. Property management involves the responsibility of managing only the common areas of the building for example, managing a multi tenanted building- i. e. residential apartments, shopping malls. Here the scope of the team is to manage only the common areas such as lobbies, parking, gardens, open spaces, roads and various engineering related assets commonly used like lifts, escalators, fire systems etc.

According to Beirne (2006) he believes that even investors do not have a firm grasp on how property management can actually improve the value of the real estate. He states that in many circumstances property management is treated as a ‘ necessary evil’ and that if the business and art of property management is truly merged with the investment it can have a huge effect on the end result. Implying that there needs to be a change in the mind set of particular individuals with regards to property management, and a greater understanding of the sector needs to be established in order to experience the true benefits the sector can bring to an investment.

Robert and Floyd (1998) regard the property manager as the individual who attempts to generate the greatest possible net income for the owners of an investment property over that property’s useful life. They continue with stating that in the same way that there are various types of property, so too are there different classifications of property managers. Although the specific management duties and attributes will vary, the main duties and responsibilities remain the same, some would include, planning, negotiating leases, screening tenants, advertising, maintaining the premises, collecting rent, supervising security, keeping accurate records and making periodic reports to the owner or asset manager (Robert and Floyd, 1998). Hence from the extensive length of duties and responsibilities of the property manager one would automatically tell that the property manager that existed 50 years ago, does know longer exist today and that they are essentially very much needed in the industry.

WHAT IS FACILITIES MANAGEMENT

As with property management, there is a common misunderstanding as to what facilities management actually is. In the old-fashioned sense it is as cleaning, repairs and maintenance, however it is now more established (not fully yet) and hence includes the management of estates, finances, change management, human resource management etc in addition to building and engineering services maintenance.

In understanding what facilities management entails, it is important that one looks into the history of Facilities management and how it came about over time. Krumm (2001) suggests that prior to the industrial revolution many organisations had limited space on which to operate and as a result there was no real need for specialist space. However, after the industrial revolution there was a large increase in the demand for space to house highly specialist processes. This led to a greater need to manage real estate more efficiently, and the need for more management staff. Krumm (2001) also outlines that in the past the small scale of production and enterprises meant that the role of ‘ Facilities Manager’ was taken on by the senior management in the organisation. As processes in enterprises became more complex, the role of the facilities manager required more effort, resulting in the job being handed over to other individuals. Krumm (2001) It has also been suggested that the decentralization of various processes within an enterprise has also led to the greater need for management. This led to the development of facilities management as a profession. (Krumm, 2001). Over time this alias evolved to what we know as a facilities manager today.

After having looked at where facilities management originated we can now go on to define it. Barrett and Baldry (2003) define facilities management as “ an integrated approach to operating, maintaining, improving and adapting the buildings and infrastructure of an organisation in order to create an environment that strongly supports the primary objectives of that organisation”. Alexander (2005) also defines facilities management interestingly, it’s a process by which an organisation ensures its buildings, systems and services support core operations and processes as well as contribute to achieving its strategic objectives in changing conditions.

Atkin and Brooks (2005) state that it is imperative to state the importance of integrative, interdependent disciplines whose overall purpose is to support an organisation in the pursuit of its business objectives. They also believe that the proper application of facilities management techniques enables organisations to provide the right environment for conducting their core business on a cost effective and best value basis. (Atkin and Brooks, 2009).

[“ TOTAL FACILITIES MANAGEMENT”]

In practise, facilities management can cover a wide range of services including the following:

- Real estate management
- Financial management
- Change management
- Human resource management
- Health and safety
- Contract management
- Building maintenance
- Domestic services
- Utilities supplies

Atkin and Brooks (2005)

Alexander (1996) believes that we need to look at facilities management at four levels: corporate, strategic, tactical and operational.

Corporate level:

Managers must contribute to service planning, devise policies and undertake scenario planning. In this level a full understanding of corporate culture is highly necessary.

Strategic level:

Managers carry responsibility for effective business planning of the facilities, services, leadership of the team and development of proposals for developing facilities management. Strategic facilities management is the management of a company’s activities in order for the company to achieve its future objectives. It mainly concerns the decisions planning for the future and the development of existing practices.

Tactical level:

The facilities manager ensures service quality, manages value and implements risk management strategies. He also ensures operational control through auditing and monitoring performance.

Operational level:

The facilities manager is responsible for the operation and maintenance of buildings and for the delivery of the services. Operational facilities management involves the management of daily activities such as the activities that need to be fulfilled in order for the enterprise to operate on a daily basis. It also involves taking account of and assessing current practices for their application in future projects.

Facilities management deals mainly with the management of a whole sum area rather than a part. It deals with the management of the core services of an enterprise, as well as all the services required for the running of the enterprise. Facilities Management is aimed at providing value for money for the enterprise as well as delivering a package which is well balanced and suites the needs of the end user. For example management of an office floor where the whole area and its relevant assets come into the scope.

In order to get a better understanding of Facilities Management, let us look at an example of what a facilities manager does. Let us use a shopping centre for example. In this scenario, there are a variety of activities that need to be taken care of to ensure the day to day running of the shopping centre. Such activities will include the running of the security, cleaning, management of tenants, maintenance, lighting, air conditioning, and basically everything that goes on ‘ behind the scenes’ to provide the user with a pleasurable experience. These activities fall under the scope of the Facilities Manager. The scope of the facilities manager extends to the planning of what services to acquire, when to acquire them as well as creating a balance between cost and quality. The facilities manager will also try to create a balance between the services required while trying to stay within his budget. It is also the job of the facilities manager to take note of current practices and use these observations for future planning and implementation. It must be noted that Facilities Management is not limited to the processes described in this example. What is involved in Facilities Management depends upon each enterprise.

Facilities management, just as Property management is operational, looking at attributes such as, the systematic expenditure of budgeted resources on capital improvements and planned maintenance.

WHAT IS ASSET MANAGEMENT?

In defining asset management it is important to first look at the definition of an asset. There are two main types of assets. These are real assets, and incorporeal assets. Real assets refer to tangible property such as a house, car, desk or television while incorporeal assets refer to intangible assets such as shares or an interdict.

Asset management is a term that can be interpreted broadly and encompasses both real and incorporeal assets. There is no set definition for asset management. It differs according to the differing aims and scopes of various companies. There are different views as to what asset management entails. According to Woodhouse (2009) the term ‘ Asset Management’ currently has three different principal uses. These are:

1. The financial services sector has long used the phrase to describe the management of a stock or investment portfolio – trying to find the best mix of capital security or growth and interest or yields.
2. “ Equipment Maintenance = Asset Management”. Some industrial and infrastructure maintainers (and software vendors) have adopted the term to try to boost the professional standing of the maintenance function. This, however, is a narrow and self limiting view that misses many of the biggest opportunities. Asset care (maintenance) is just one part of asset management.
3. The core business for organisations that is heavily dependent on physical equipment, systems and infrastructure. This encompasses all aspects of investing in the right assets in the first place, exploiting them appropriately, caring for them (maintenance) and ultimately replacing them or disposing of them. This is the meaning defined in the BSI PAS 55: 2008 Publically Available Specification for the optimal management of physical assets.

(Woohouse, 2009)

The three points outlined above are all attempts to define asset management. The first two uses outlined are limited in their scope and are explained briefly below. The third use is a much broader and more modern definition for asset management, and will be discussed more in depth.

In terms of the first use outlined above, this refers to the work of financial institutions such as Old Mutual and Investec and involves the management of stocks and bonds. Asset management in this sense incorporates the management, investment and trading of incorporeal assets or ‘ financial assets’. It can also be referred to as investment management and involves the management of capital investments in order to achieve growth in an investor’s capital. This is done through investing ones capital in shares or bonds and receiving returns in the form of dividends or interest or through an increase in the value of the shareholders shares. Under this definition of ‘ Asset Management’ can also be described as portfolio management. Portfolio management is the management of a portfolio, with a portfolio being a group of mutual funds, shares, stocks or investments. For example, if you have 25 shares in the construction sector, 15 in the property sector and 10 in the commercial sector, your portfolio would consist of 50 shares. Portfolio management would then be the decisions involved in deciding which shares should be bought, how many of each shares to be bought and ensuring that the portfolio is efficiently managed, taking into account risk as well as other factors which might influence the portfolio. This would fall under the scope of a portfolio manager.

It is often perceived that asset management is solely to do with the management of investments or portfolios. However, this is not the case as outlined by the second and third uses identified by Woodhouse. The second use outlined above refers to the maintenance of various assets. This involves managing the asset, from ensuring that the asset is up and running to keeping the asset in good condition. It does not involve the life cycle nor does it plan for changes in technology. It merely refers to the general upkeep of the asset. For example, the maintenance of a vehicle would include servicing of the vehicle, changing the tyres etc.

With regards to property, asset management in this sense would include the cleaning, paying of levies and council rates and the upkeep of an apartment. This type of asset management looks at the maintenance of a specific asset or assets. A landlord could be an asset manager in this sense.

In the past, the first two types of asset management were more widely accepted definitions. However more recently asset management has grown to encompass a broader range of activities. Woodhouse (2009) outlines that the third use of asset management emerged during the late 1980s when the North Sea oil and gas sectors were shaken up as a result of the decline in oil prices, the Piper Alpha disaster and other factors such as market globalization. It became evident that smaller companies were capable of being more efficient than larger companies due to stricter control over costs and the management of assets. This resulted in bigger companies rethinking their business models. Woodhouse (2009) states that at the same time " The public utilities and municipalities in Australia and New Zealand, facing a sustained period of degrading services and escalating costs, realised that a different approach was needed to sustainability and value for money" (Woohouse, 2009).

In both cases above, various companies and businesses took on a form of asset management which resulted in the reduction of costs and the improvement of services. For example, “ BP and Shell experimented with the creation of a small business culture within the leverage of a large organisation. Asset-centred production units emerged, employing multi disciplined teams with to find the best combination of investments, exploitation and care for each production platform. The results were spectacular, reducing total costs of ownership and raising production nearly tenfold, while simultaneously raising safety and environmental performance” (Woohouse, 2009)

As a result, asset management has evolved, and now includes many of the attributes of Property and Facilities Management. This broader range of Asset Management can be defined as:

“ A systematic and coordinated activities and practices through which an organisation optimally and sustainably manages its assets and asset systems, their associated performance, risks and expenditures over their lifecycles for the purpose of achieving its organisational strategic plan – as defined by the PAS 55 – Publicly Available Specification published by the BSI (British Standards Institution)” (Hastings, 2009).

This refers to the third use outlined by Woodhouse. It is a more wholesome definition of asset management, putting it under a broader spectrum and incorporating all the uses outlined above. It encompasses portfolio management, maintenance management as well as a variety of other activities.

The PAS55 definition of asset management involves the management of " Financial Assets, Physical assets, Human Assets, Information Assets and Intangible Assets" (Hastings, 2009) and looks at the management of assets from before they acquired, during their lifetime as well as managing the future need for assets. This means that it takes into account technology and labour, as well as the incorporeal assets identified in the first use. It involves the management rather than the maintenance of the asset and aims to protect an interest in a company rather than a particular asset.

Hastings (2009) describes asset management in a similar way to Woodhouse. He identifies 5 activities which he claims will lead to successful asset management. These are " identifying what assets are needed, identifying funding requirements, acquiring assets, providing logistic and maintenance support systems for assets, and disposing or renewing assets" (Hastings, 2009). These factors can be explained by looking at the management of buildings. It can be further simplified by looking at a specific aspect of a building such as air conditioning. Firstly, the appropriate cooling system will be chosen from a range of different products. The decision will be based on various factors such as the quality and cost of the system. The system will then be installed and will be maintained during its life cycle. Near the end of the assets life span, the asset manager will make decisions as to how to replace or upgrade the air conditioning. The whole thought and management system outlined in the example falls under asset management. It must be noted that while maintenance is the key aspect of the second " Equipment Maintenance = Asset Management" use, it only forms a small part of the third use outlined by Woodhouse (2009).

There are a number of generic attributes which when practised well, with the asset manager giving equal attention to each, will result in the efficiency and success of asset management. Woodhouse (2009) outlines 7 key attributes of good practice in asset management. He outlines that the asset management policy must be “ holistic, systematic, systemic, risk based, optimal, sustainable, and integrated” (Woohouse, 2009).

This can be explained by looking at a business. In order for asset management to be holistic it must be applied throughout the whole business. It must look at all aspects of the business and not just specific areas. It must also look at ways in which value can be optimized from assets. In terms of being systematic and systemic, the business must well organised and structured while at the same time, looking at the bigger picture rather than individual departmental goals. The asset management strategy of the business should also take risk into consideration when drawing up its plans and plan accordingly. In order for the asset management to be optimal and sustainable it must reach a compromise between the various aspects of the business. For example, it must reach a balance, say between quality and cost. In assessing sustainability it must also take into account the life span of the asset. Finally, with regards to integration, the business must link up all forms of asset management. For example, different departments must work together in managing their assets.

COMPARISON BETWEEN ASSET, FACILITIES AND PROPERTY MANAGEMENT

Now that Facilities Management. Property Management, and Asset Management have been defined this paper will go on to compare and contrast the three, looking at the similarities, the differences and where they overlap. To help illustrate the differences three very brief summaries will be outlined regarding the three management methods. These are as follows:

Asset management: The management of an asset or assets

Facilities management: The management of a wide range of facilities or services

Property management: The management of different types of properties

Comparison between Property Management and Facilities Management

Facilities management is similar to property management in the case that both managers manage the day to day operations of a property/estate. The property manager looks at the day to day operations of the tenants, the building, whether every unit is leased etc. and the facilities manager looks at the day to day operations of the various services within the building/property.

With regards to facilities management, it is concerned with effectively and efficiently managing services such as air-conditioning units, drainage, waste, energy and so on. Whereas property management focuses on the management of various types of properties e. g. residential, commercial, industrial and special purpose properties (special purpose property was defined in property management section). For example, in relation to a retail shopping centre, the facilities manager would manage all the services such as the ones stated above i. e. air-conditioning plants, waste management etc. in contrast the property manager will manage the tenants and clients, ensuring all the units are leased out, all tenants are happy, the centre is operating efficiently etc.

Looking at the main purpose of either sector of management we can determine that facilities management requires a manager who has a background extensively in hydraulics, electrical, waste management, structures, recycling, being able to read technical drawings etc. An extensive background in the above mentioned subjects is highly necessary in order to manage these systems effectively, for example employing an engineer as a facilities manager would be a viable option. Now if we consider the definition of property management, it is clear to see that an extensive background in the above mentioned subjects is not highly necessary. Instead a background in property or finance is highly necessary in order to manage the property and tenants effectively as possible.

The main difference lies in the range of services that are included in the two sectors. Property Management is the management of a property or group of properties on behalf of an owner of that asset and the role is primarily of an operational nature. Whereas facilities Management is the management of all tenant operational services within buildings for an organisation, example ensuring the air-conditioning plant is utilising sufficient energy and is working as effectively and efficiently as possible. The facilities manager and property manager however, usually work closely together in order to make sure a building/estate runs smoothly. Simply put, facilities management deals with the management of the whole area of the property while property management deals with looking after common areas.

Another difference between the facilities manager and the property manager is that the scope of work. In relation to facilities management it covers all owned, leased, government and charitable organisational/business structures. And here the contrast comes in because property management is more related to those properties subject to investor or trust ownership, and hence the scope of business is much narrower.

Comparison between Asset Management and Facilities Management

There is a large overlap between Asset management and facilities management. In many cases it is hard to differentiate between an asset manager and a facilities manager. In many texts they are referred to in the same context. The main point of overlap is that both forms of management have a maintenance aspect. They are also both similar in that they deal with the management throughout the whole period of existence of an enterprise. For example, asset management looks at the management of assets from the planning stages, e. g., planning what assets to purchase, right through to the end the life span, and decisions to replace the asset. Facilities management also looks at the management of services throughout the life span of the enterprise and are continuous processes. Both forms of management occur constantly, throughout the life of the enterprise. They are also similar in that they are constantly undergoing change as a result of changes in technology and user preferences and must be adapted accordingly. Facilities management and asset management go hand in hand, in that they both strive to provide value for money for the enterprise as well as the client.

The two management methods are also similar in that they originated and started to grow at around the same time, being the nineteenth and early twentieth century's. They also originated for similar reasons, the main reason in both cases being the need for greater efficiency and better management.

Facilities management also seeks to cost effectively and efficiently maintain various systems and technologies for the benefit of the owner; this brings the financial planning part into the sector, hence making it similar to asset management (maintaining viability). The facilities managers’ scope of work covers many different types/sectors of properties. It covers all owned, leased, government and charitable organisational/business structures, as with the asset manager as well. The facilities manager maintains viability of the organisation (operational nature- running the day to day services) and the asset manager tests to check whether the organisation is in fact viable.

Although there are various similarities between Asset and Facilities Management, there are various clear cut differences between the two. While facilities management is operational and refers to the management of services, asset management looks at management from a more financial point of view, with decisions relating to costs and optimal use of assets. The key difference between the two management methods is that facilities management deals with the management of services while asset management deals with managing an asset. This means that asset management is more specialised and ensures that optimal use is achieved through the life cycle of assets, while facilities management covers a wider variety of aspects from managing not just one asset, but a variety of assets and processes so that they work well together to provide an overall service. For example, with regards to security, asset management will look at selecting the right form of surveillance, and installing and managing the system and replacing it. On the other hand Facilities management will look at the security system as a whole, form surveillance, to proper selection of uniforms for guards, ensuring the proper conduct of guards, and the general running of the whole security service.

In differentiating between the two, there is one aspect that is exclusive to asset management. While asset and facilities management are similar in the second two uses outlined by Woodhouse above, asset management has a financial connotation which does not apply to facilities management. As identified previously in Woodhouses first use, the term asset management can be used to describe the management of portfolios and investments. While facilities management may involve some management of finances, finance is not one of the core features of facilities management. The main difference here lies in the range of services that are either sector comprises. Facilities Management is the management of all tenant operational services within buildings for an organisation. Whereas an Asset manager manages the owners' property from a financial point of view and usually sets budgets for the property manager, hence the interest he has in property yields.

Comparison between Asset Management and Property Management

Asset management and facilities management are similar in that they both focus on planning and implementation, as well as the day to day running of property and assets. They are also similar in that they both operate continuously throughout the life span of a property. They are similar in that their scopes overlap with property and asset managers working hand in hand.