A changing real estate and facilities landscape

The relationship between the world of work and the physical environment within which it takes place continues to change. As a consequence, the role of the real estate manager is changing. Trends in corporate management, the nature of organisations, the pervasive and evolving impact of technology, and changing social attitudes towards work are all changing the demands placed upon the office. For many organisations property is no longer perceived to be a passive, inert bi-product of doing business, but rather a measurable component of business planning that needs to be provided in the same efficient and effective way as other organisational resources.

As property is increasingly seen as a strategic corporate resource, so the traditionally separate planning realms of Real Estate (RE) and Facilities Management (FM) services are becoming enmeshed in a way that has not generally been the case until now. As the costs of skilled staff grow, and as the need to retain them increases, it is no longer sufficient to acquire a building in the right location, at an acceptable rent, if it then fails to provide the kind of supporting environment demanded by a fluid organisation and increasingly discerning staff. And the situation is made more complex still by the increasing tendency for combined RE and FM teams to work hand-in-glove with their colleagues in HR and ICT to help effect change management programmes. What are the implications for facility managers? How can they contribute to the new agenda?

The drive for organisational agility

Trends affecting business today are well known: they focus on methods for becoming more agile: leaner, more efficient and more competitive. Growing skills shortages and labour costs are providing a quality counterweight to the cost drive but the overall emphasis remains business agility. The drive for organisational agility is being enabled by ICT that allows work to be conducted differently. The major issue driving RE today therefore is the need to help create business agility by providing a flexible, productive and cost-effective work environment.

The scale of the opportunity for property to contribute to cost efficiency was illustrated in a report by the economist, Roger Bootle. He argued that across UK business around £18bn was being lost annually through the inefficient use of property[1]. He stated that cutting out this waste would increase gross trading profits by up to 13%; that new working practices such as hot desking could save £6.5bn a year, and a feasible 10% reduction in facilities management costs could save £1.3bn annually. The report suggested that there remained a long way to go before property within organisations could change from being simply a cost of doing business to a key input to production. This is now the key priority for the RE manager, requiring key input from facilities.

One way in which RE managers are responding to the agility agenda is to organise property on the *core and periphery* principle. In this model, a core of long-term property is retained to cater for known requirement, and a peripheral ring of property is procured on flexible terms to cater for business change, short-term needs, projects and so on. This allows the business to minimise its commitment to property, but brings with it facilities issues in terms of ensuring consistency of service and supporting infrastructure.

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[1] Bootle R (2002) *Property in Business: A Waste of Space?* RICS, London

Within the core property there is of course the need to drive down the component costs of facilities services whilst maintaining the quality of service at an agreed level.

New working patterns and demand diversity
A recent report highlighted the high cost of staff turnover: it noted that replacing mid-level managers costs an estimated 50 per cent of salary over[2]. The report also pointed out that high performers have 40–80 per cent greater impact on firm performance than do average employees, so satisfaction measures for these staff are vital for organizational success. The study showed that 75% of staff satisfaction is influenced by “work issues” including package, opportunities, technology, skills matching, management and work-life. However, a very significant 24% is influenced by the workplace; and this includes issues such as comfort, air quality, temperature, noise, lighting and spatial arrangement. It is a truism, but dissatisfied staff do not help the bottom line. This fact is causing RE managers to consider ways in which the work environment can be used to increase satisfaction – part of which means providing a demand-driven work environment and support services.

It seems inevitable that more people will be spending less time at a designated desk, as they adopt flexible working patterns. As indicators of this trend, the number of teleworkers has grown from 921,000 in 1997 to almost 2.4m in 2005[3]. Another indicator is the growth of sole director companies: their numbers increased by 35% between 2001 and 2003[4], reflecting the ease with which individuals can now operate commercially outside the bounds of larger companies. The fact is that more and more people are mobile, either within the office and involved in collaborative work, or away from the office undertaking, for example, client work. Time utilisation surveys regularly show that up to 40% of workstations are vacant at any point in time and increasing numbers of organisations are tackling this area of waste by introducing flexible working patterns. Such regimes give individuals greater control over exactly where and when they carry out their work, with the *quid pro quo* that ownership of desks is surrendered. More importantly, they can reduce an organisation’s demand for space by around 20%-30%.

Despite the headline possibilities for space saving, it is crucial in such programmes to leverage benefits, both for the individual and the organisation, not simply reduce the amount of space used. A number of organisations that have their space dramatically have not made similarly dramatic savings in facilities costs because service provision has increased significantly. It is here that the facilities manager plays a critical role. Facilities services are part of the experience of an organisation, whether for employee, customer or visitor, and so they must reflect the values, processes and brand of the organisation. With flexible working patterns they must evolve into demand-driven regimes to support demand diversity, and this means adopting a genuine service culture

[2] British Council for Offices and Commission for Architecture and the Built Environment (2005) *The Impact of Office Design on Business Performance* BCO/CABE, London
[3] Ruiz Y & Walling A (2005) Home-based Working Using Communication Technologies *Labour Market Trends* Vol113 No10 pp405-436 ONS p420
[4] Lindsay C and Macaulay C (2004) Growth in Self Employment in the UK: 2002-2003 *Labour Market Trends* Vol112 No10 pp399-404 ONS p400

Of course the new working patterns are enabled by a fast evolving technology infrastructure. For example, IP telephony is in the process of killing the telephone exchange, as well as the fixed phone itself. At the same time, PCs are yielding to wireless laptops, PDAs and Bluetooth technology, and tablet computers that use a stylus like a pen instead of key board and mouse. Such trends are changing the rules of communication: "…just as the phone call should not be routed to a desk, so the e-mail should be sent to a person and not a piece of furniture. Messaging in the twenty-first century will be person-centric, not office-centric"[5]. The underlying theme of these developments is the growing redundancy of "fixed" technology and the growing importance of mobile technologies.

The implications of changes in working patterns bring the real estate and facilities functions closer together. For the FM manager they mean a more complex set of demands: they mean a service culture, catering more for the soft demands of people and less for the hard demands of office equipment. The FM manager also has a key role in identifying the most appropriate specification to support operational needs.

Measuring real estate

As the profession of real estate management has matured in recent years, so too has the measurement of property performance. Some of this rigour has evolved from the desire to track improvements: benchmarking is now established and will spread further through the facilities profession. Measurement rigour has also arisen from mandatory requirements. RE managers are now grappling with corporate governance in the form of the Turnbull Code in the UK and Sarbanes-Oxley for US corporations, the underlying thrust of which is greater transparency and accountability in corporate procedures. The implication for real estate is the need for high quality, up-to-date and appropriate management information, with key input from facilities.

Commonly-used measurements are shown Figure 1. Corporate efficiency is clearly one of the most important and well-used measures of property performance. Utilisation rates (unit area per worker) have been widely used to measure the effectiveness with which space is being used, but the changes described earlier are causing subtle changes to information requirements. As more workers are at least partly mobile and as desk sharing increases, so it becomes important to measure space efficiency by the *number of people supported* per unit area or per workstation.

[5] Ross P (2005) Technology for a New Office In: Worthington J *Reinventing the Workplace* 2nd Edition Architectural Press, Oxford p148

Figure 1
Measuring Real Estate

Corporate efficiency	People supported per unit area
	Cost per unit area, workstation or worker
	Total cost of occupancy
Operational effectiveness	Worker satisfaction
	Maintenance and condition
	Functional suitability
Social responsibility	Energy and water usage
	Waste recycling
	Health and safety

Property costs per unit area have been another staple measure being relatively easy to collect and analyse. However, while the rent and rates costs provide a good indicator they are no longer sufficient – often only accounting for half of property costs. For a RE manager reporting to an inquisitive Board, the more appropriate and inclusive *total cost of occupancy* also tracks the annualised costs of furniture and fit outs, all hard and soft services, as well as the cost of management.

Once the total cost of occupancy is understood it can then be linked back to the business in order to convey its impact on performance. One of the more common methods for doing this is to create an *occupancy cost index*. Typically this will be an expression of the cost of property in the context of a wider business metric, such as turnover. For example, City law firms often use an occupancy cost index of 11%.

Measures of operational effectiveness and social responsibility lie at the core of the FM manager's realm and so there will be a growing requirement for FM to produce reliable data in these areas.

Integration

One of the reasons for the continuing inefficiency in the management of real estate highlighted by Bootle is the separation that often exists between *real estate* management and *facilities* management. The former typically deals with acquisition and disposal of properties and capital projects, while the latter, often seen as the poor relation, deals with the day-to-day management of service contracts and external service providers. Whilst there are some very notable examples where this *Upstairs-Downstairs* culture has been overcome, it remains the case that the prevalent model is for the two to operate independently. However, a more integrated approach will address growing organisational complexity and the need for real estate and facilities to provide a business support service.

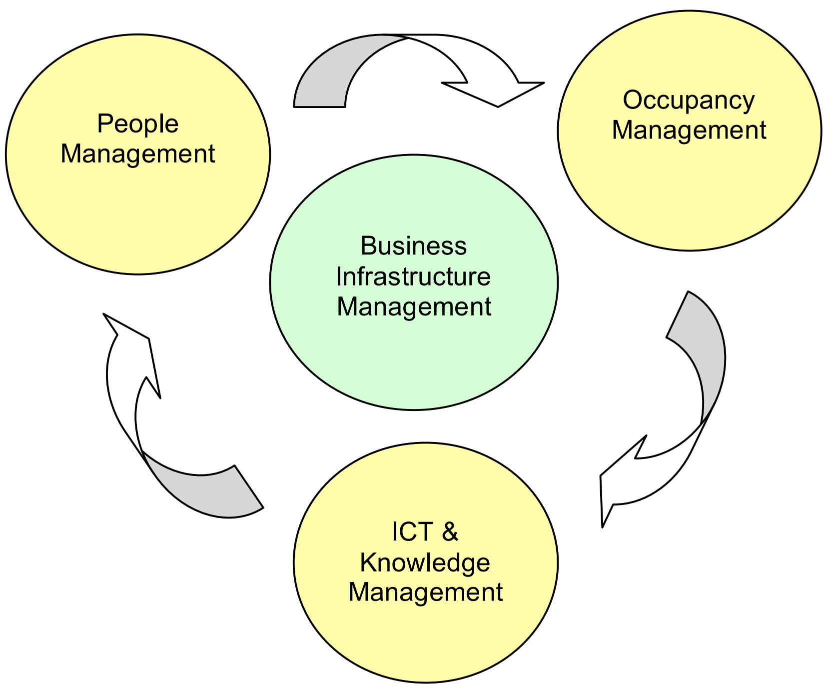
As the practice of real estate and facilities management becomes more sophisticated and responsive, so it will require greater co-ordination with other infrastructure areas such as human resources and technology. RE and FM managers will work less in isolation simply providing the traditional menu of hard and soft services. They will increasingly work in multi-disciplinary teams, in an enabling role, providing support to complex business processes though space and time.

This approach was spelt out by Wes McGregor who argued that to be effective, the work environment will need to result from collaborative efforts, "where IT and HR along with facilities management are combined to achieve an effective integrated support service for business operations".[6] McGregor argued that this new agenda calls for additional skills in facilities managers, who would

> need to become 'multi-lingual' in terms of their ability to interpret the needs of their customers (individual, group and corporate) and translate facilities related issues into a language that enables them to communicate effectively with managers of the business.

Figure 2 shows a conceptual model of integrated business infrastructure management. 'Occupancy management' here refers to an integrated real estate and facilities function. Knowledge management is included within the ICT function to recognise the important role that integrated systems have in linking resource areas in organisational planning.

Figure 2
Business Infrastructure Management



Conclusion

We have seen here that organisations are continuing to change and that the way in which work is undertaken continues to evolve. As these trends continue to bring greater

[6] McGregor W (2000) The Future of Workspace Management In: Nutt B & McLennan P *Facility Management: Risks and Opportunities* Blackwell Science, London p85

complexity to the management of organisations, so it will become more critical to have joined up thinking in key resource areas. This means that those charged with the management of property will have to take a wider perspective on their role than has traditionally been the case. The need to create corporate agility; changing patterns of work and the need for transparency in process and performance will demand novel approaches. The implication is that RE and FM will be working as one to provide holistic occupancy solutions based on a culture of business support services rather than traditional notions of property as a capital asset.

This article was first published in *Essential FM Report* No54 February 2006 pp2-4 Tottel Publishing