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**THE OUTSOURCING OF CORPORATE REAL ESTATE ASSET
MANAGEMENT IN NEW ZEALAND**

PRESENTATION

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Abstract:

The outsourcing of non-core business activities has recently mushroomed throughout the world as organisations seek reduced cost and strategic business advantage in an increasingly competitive marketplace. A component of this overall trend has been a dramatic increase in the extent to which real estate asset management functions of non-property investment organisations have been taken over by “external service providers”. This study is the first in New Zealand to examine current practice, emergent trends, and identify outsourcing issues and problems in detail. Via a survey of 457 organisations the reasons behind the trend to outsourcing are identified, as are the types of services outsourced, the basis of selection of service providers, the skills and attributes required of real estate professionals and the success or otherwise of outsourcing experiences.

Introduction

Some of you who were at the PRRES conference in KL last year may have heard my presentation on preliminary results from research I am carrying out into CREAM in New Zealand.

This paper is a continuation of that research and examines the outsourcing or contracting out of CREAM functions.

This research was carried out jointly with Tim Hayward, a student in our Master of Property Studies programme.

Background

For many non-property investment organisations real estate asset management is seen as a non-core activity and they seek to shift this responsibility onto some one else.

In response to this increasing demand, corporate real estate service providers have emerged.

Some have come from the traditional investment property management sector - others from elsewhere such as accounting firms.

These service providers understandably vigorously promote the advantages of outsourcing, but there have also been reports of outsourced services not delivering the claimed benefits or other more serious problems with the practice.

This paper addresses this situation by presenting presents the results of a comprehensive mail survey of outsourcing practices and experiences amongst a wide range of organisations in New Zealand holding a substantial property portfolio.

A definition of outsourcing and CREAM are in the paper as is a review of recent literature in this area but I will move straight on to the methodology and results.

Research Methodology

A questionnaire investigating various aspects of Corporate Real Estate Asset Management was developed with an outsourcing section focussed around 5 issues I will cover shortly.

In December 1998 this was mailed to 457 organisations in New Zealand owning or occupying substantial real estate resources.

A copy of the survey is attached as appendix A

We received a 43% response rate and apart from an unusually high response by TLA's respondents were pretty representative of the sample.

Data from the survey forms were then entered into the SPSS software package for analysis.

Survey Results

Fig.1 - Organisational Structure of Respondents

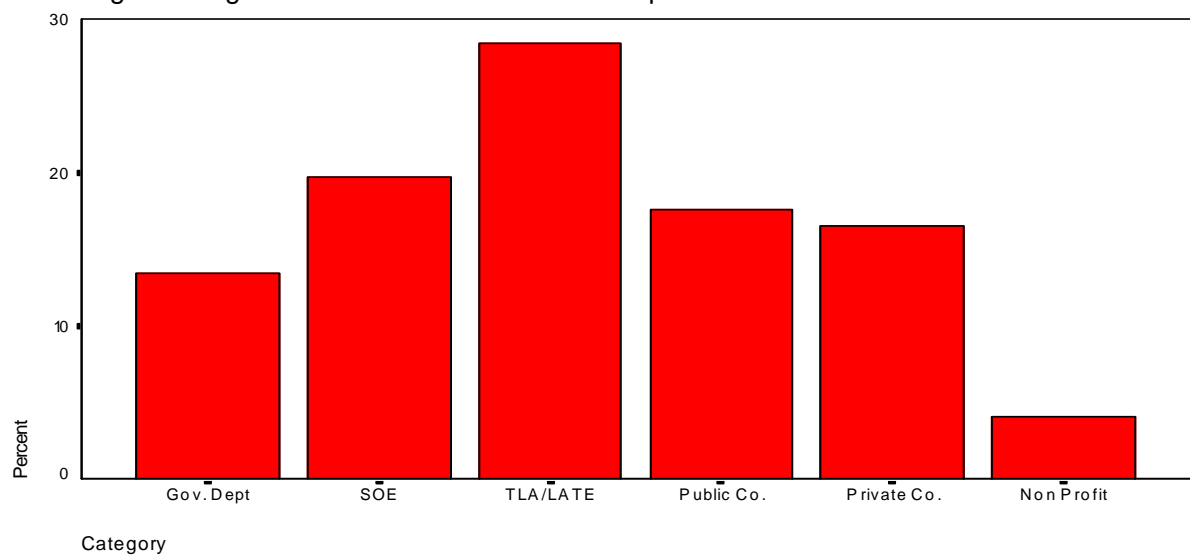


Fig.2 - Core Business Sector of Respondents

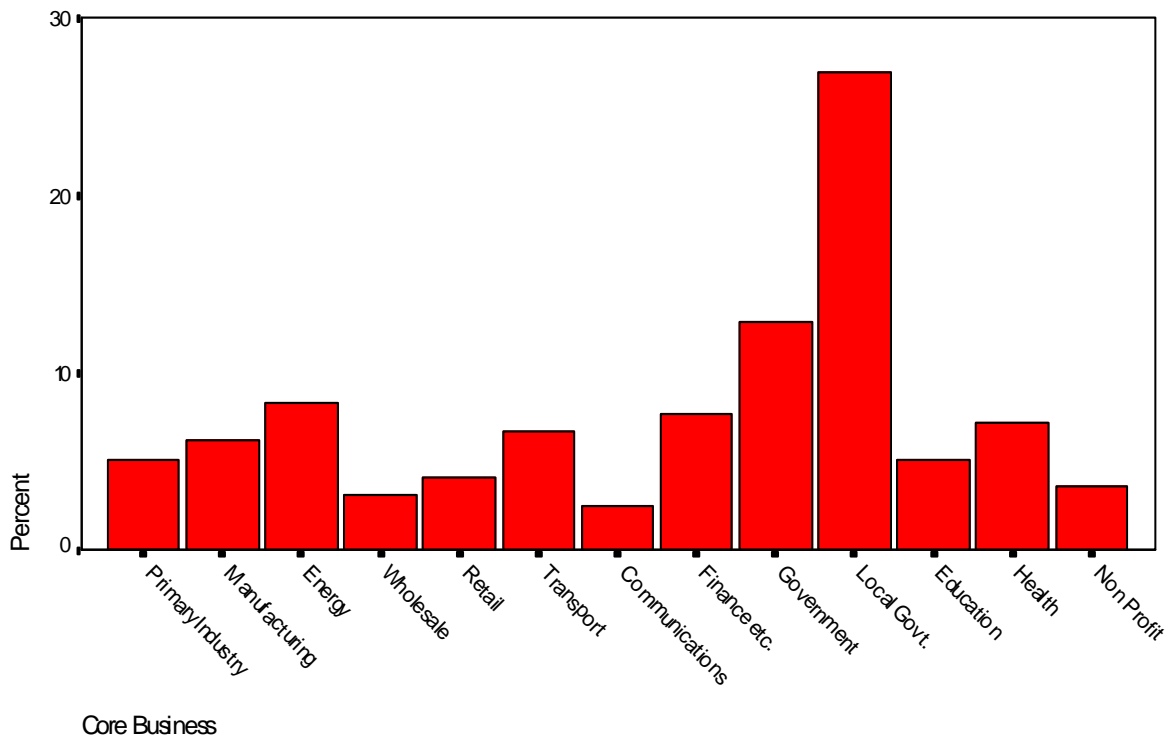
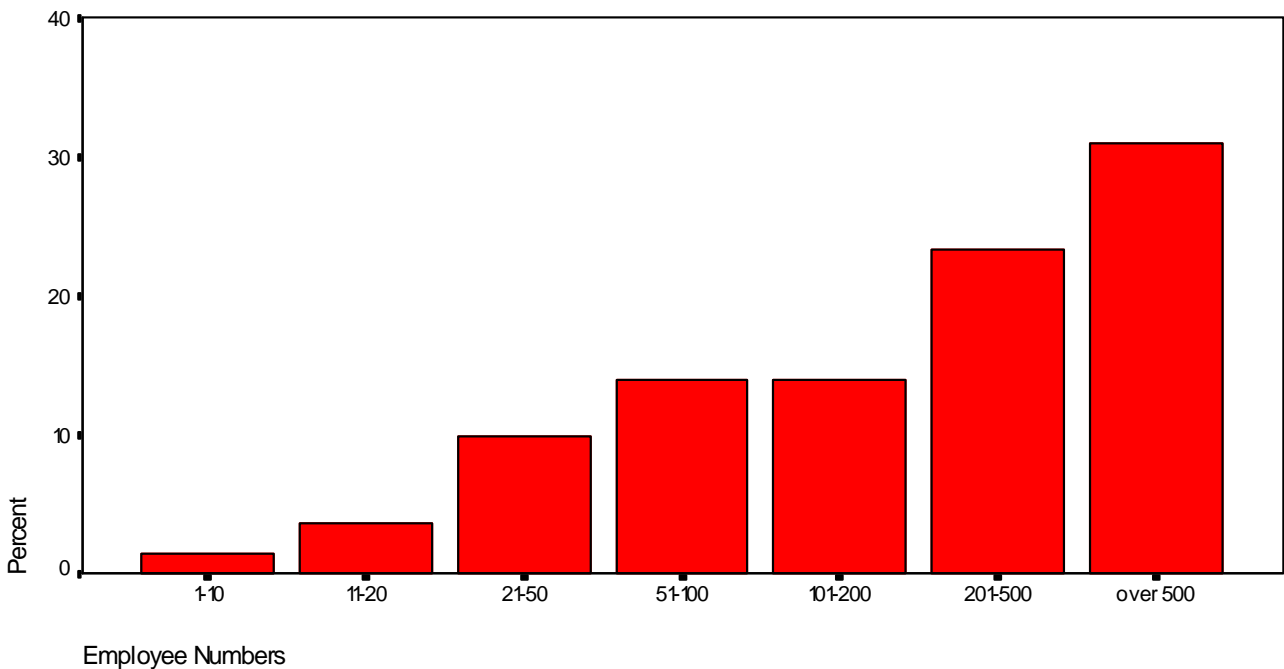


Fig.3 - Organisational Size of Respondents

In Terms of Employees



Apart from the government sectors, the sample was relatively evenly spread across industry sectors and most of the organisations were large -72% having more than 100 employees.

Research Question 1. - Is there a trend of increasing outsourcing of CREAM in New Zealand?

Outsourcing Strategy

- 60% of respondents said they had an outsourcing strategy
- Only 36% had committed this to writing.
- Chi squared and Mann -Whitney U testing showed no significant differences between organisational categories or sectors with respect to having an outsourcing strategy
- The number and value of freehold properties and the performance of CRE management information system were significantly related to the existence of an outsourcing strategy.
- The existence of a strategic plan for corporate real estate was highly significant in respect to having an outsourcing strategy.

Extent of Outsourcing

- For 43% of organisations, outsourcing was now more common than five years ago
- 7% were outsourcing less
- 50% had an unchanged level.
- Again, higher numbers and values for freehold properties were highly significant in explaining increasing outsourcing.
- The existence of a strategic plan for corporate real estate and the existence of a separate CRE unit were also found to be highly significant in explaining increased outsourcing.

Research Question 2. - What corporate real estate functions are being outsourced, and to what extent?

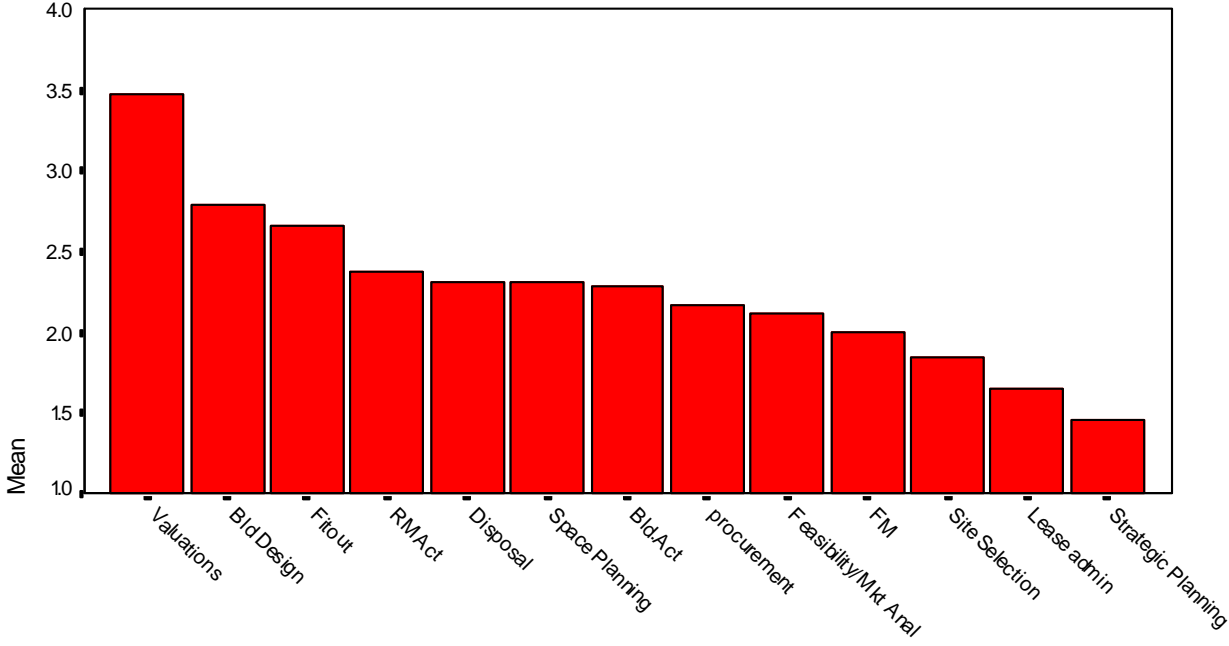
See Figure 4

- Only minor variations when broken down into sub groups and analysed using Kruskal-Wallis analysis of variance.

(For example - Government departments were more likely to do their own building design and Territorial Local Authorities their own site selection, property procurement, space planning and RMA compliance.)

- Significant positive correlations exist between larger organisational staff numbers and increased outsourcing of space layout, building design, Resource Management Act compliance and property disposal.
- Increase in the number/value of freehold properties was significantly negatively correlated to the outsourcing of site selection, space layout and construction/fitout management.
- Those who outsource their property/lease administration were significantly more likely to use current market value for real estate assets in preference to historic or depreciated replacement cost.

Fig. 4 - Comparative Frequency of Outsourcing Individual Real Estate Services

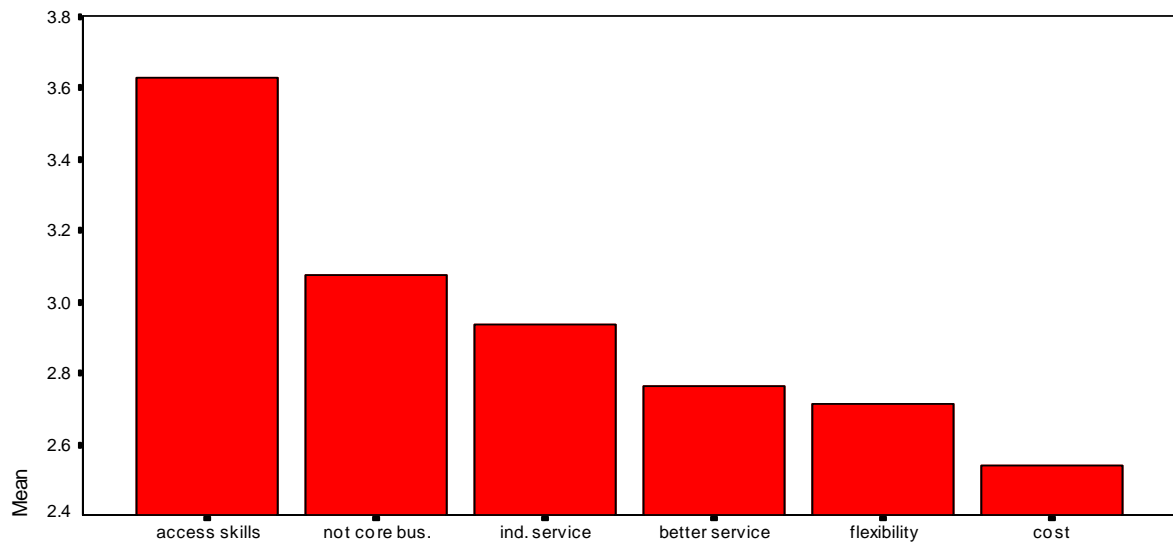


Research Question 3. - What are the main reasons/drivers for the outsourcing of these corporate real estate functions?

See Figure 5

- Access to skills, technology and best practice not available within the organisation is the main outsourcing reason
- Contrary to popular belief, cost savings are relatively unimportant.
- No significant differences due to organisational type, core business or number of employees.
- Negative correlations above the 5% level were found between number of properties owned and the reason “to access skills, technology and best practice not otherwise available”.
- In contrast, positive correlations existed between the number of properties and the reason “to provide greater flexibility in staff resources”
- Those organisations that lease property are more cost conscious as there was a very strong positive relationship between the number of properties leased and a primary focus on cost reduction.

Fig 5. - Reasons/Drivers for Outsourcing
Real Estate Services



Research Question 4. - How do organisations identify real estate service providers and what are the main criteria used in the selection of providers?

Identification

- Networking and personal contact 82% ,
- Associate's recommendation 57%
- Professional affiliations 48% .

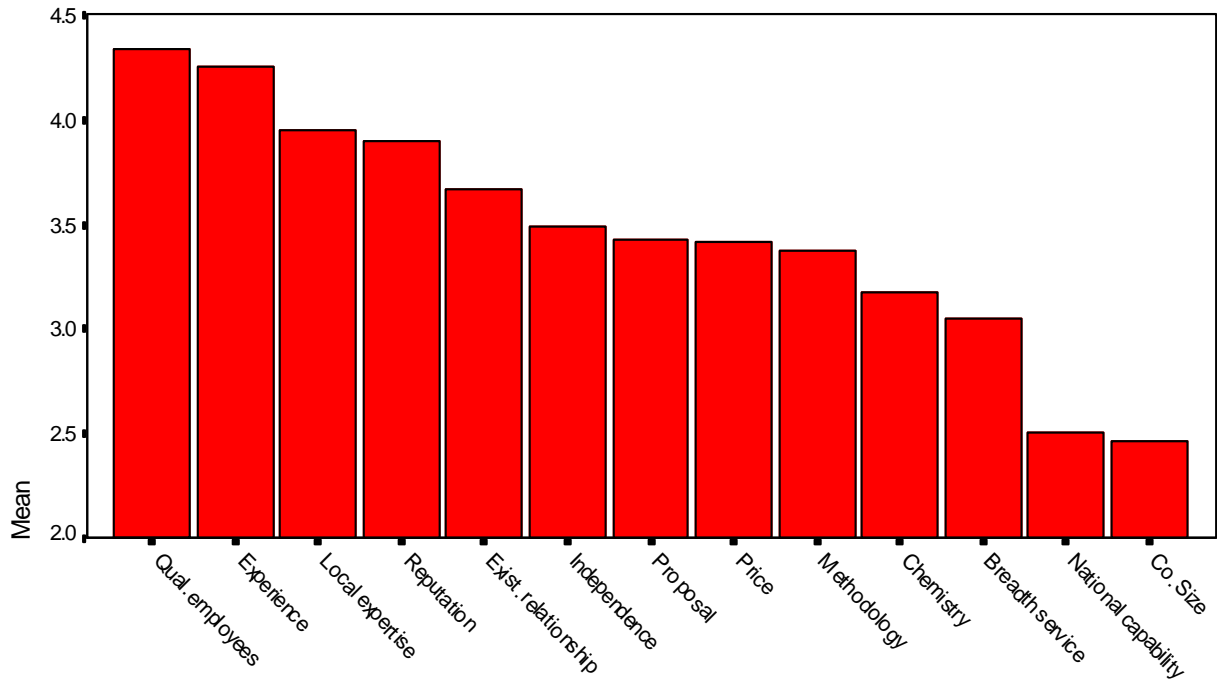
(This result was consistent across all sub groups and also reflects the findings in the Kimbler and Rutherford research.)

Selection

See Figure 6

- Top 4 again reflected the USA situation
- Service cost was of only moderate importance
- Company size, nationwide capability and breadth of service were least important.
- Some unusual sub group relationships

Fig. 6 - Criteria Used to Select Real Estate Service Providers



Research Question 5. - How successful is corporate real estate outsourcing in NZ and what factors affect the success/failure of this outsourcing?

Success of Outsourcing

- Outsourcing was a qualified success for most organisations.
- However 12% of the total sample and 19% of the larger portfolios had taken “back in house” functions that had previously been outsourced.
- These included project management, disposals and acquisitions, planning and policy development and property administration.

Factors Contributing to Successful Outsourcing

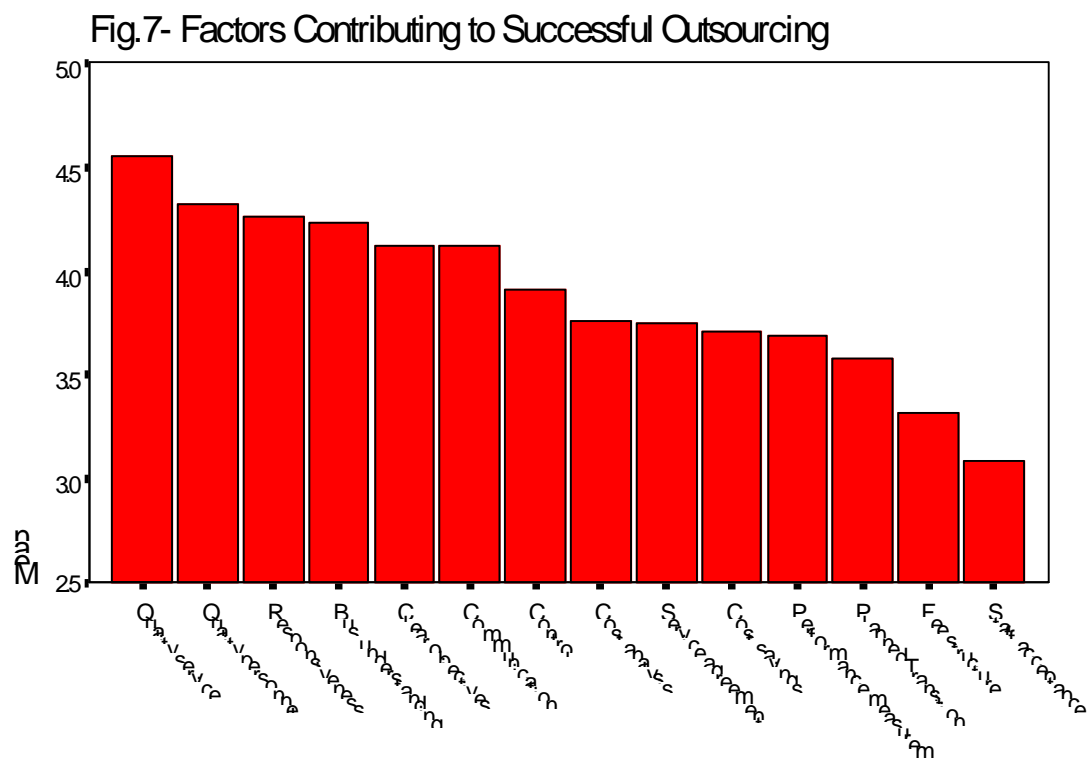
See Figure 7.

- Ratings were somewhat different than in overseas studies
- Fee structures, performance measures and well-developed service level agreements were less important
- Business understanding, quality personnel and service, responsiveness, clear objectives and communications were more important.
- As elsewhere, there was support for retention of an “in house property expert”.

(Kruskal-Wallis one way analysis of variance revealed the importance of the quality of personnel assigned and the quality of the service provided was significantly more important for non-profit organisations and less important for public companies.)

A significant relationship was also found between existence of a strategic corporate real estate plan and the importance of both quality personnel and effective performance measurement tools.

Clarity of objectives and performance measurement factors, plus retention of control were also significantly related to existence of a separate corporate real estate unit.



Conclusion

Outsourcing has increased significantly over the last five years both in overall frequency and the range of functions covered and this trend is expected to continue.

The majority of organisations now have at least an informal outsourcing strategy irrespective of the ownership structure or core business of the organisation.

Organisations with larger property portfolios are more likely to be actively pursuing an outsourcing strategy, as are those with good management information systems, a strategic plan for corporate real estate and a separate corporate real estate management unit.

Property valuations are clearly the most frequently outsourced service followed by building design, fit out and Resource Management Act expertise.

A surprise is the tenth ranking of facilities management/maintenance as this is frequently outsourced overseas.

Government departments and TLA's are more likely to retain some functions in house.

Reducing corporate real estate costs is relatively unimportant for most organisations relative to accessing skills, technology and best practice.

This may indicate that New Zealand organisations have "leapt ahead" of the initial focus on cost reduction shown in early USA studies and are instead focussing on the higher level, longer term advantages of outsourcing.

It may also be reflective of the very low number of qualified property management staff within New Zealand organisations and

therefore the need to “go outside” for a wide range of market related advice rather than being only cost driven.

It appears a scale factor is comes into play with organisations with large portfolios better able to support the retention of skills, technology and best practice “in house”.

It was also evident that those organisations with a strong preference to lease property are most cost conscious.

In common with international research the personal approach is favoured in selecting service providers.

In terms of final selection the top ranked criteria were similar to those found in the USA, but national coverage and breadth of service were less important.

Again there was also a clear distinction between the factors of importance to those favouring freehold versus leasehold tenure.

Outsourcing has generally been judged a success with those who have implemented it, but it is not without its problems.

Success factors were dominated by quality service and personnel, responsiveness, core business understanding, clear objectives and communication.

Less important than in overseas studies were fee structures, performance measures and well-developed service level agreements.

In conclusion, the results of this survey generally reflect overseas research, but there are some important differences to be accounted for, and in particular there are significant differences in outsourcing in respect of those organisations that predominantly lease property.