

The Role of Life Cycle Management in the Corporate Real Estate Portfolio

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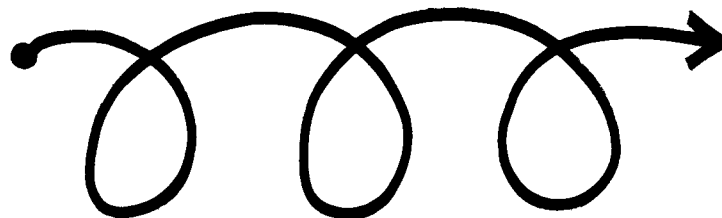
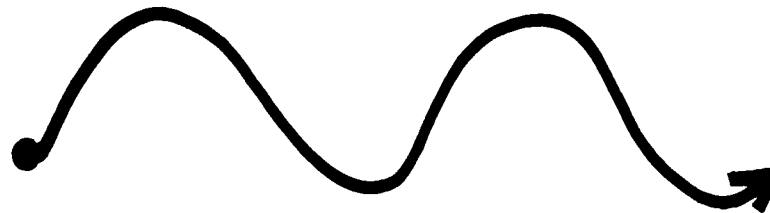
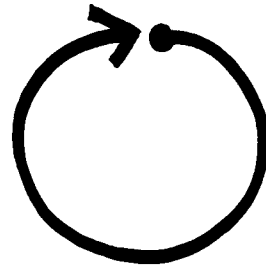


Learning Objectives

- **Understand the concept of Life Cycle Management**
- **Understand the differences between functionality, serviceability, flexibility and adaptability**
- **Learn how to take advantage of strategic tools**



What is a Cycle?





Product Life Cycle



The period that starts with initial product specification and ends with withdrawal of product from marketplace



Product Life Cycle Stages

- 
- **Design**
 - **Introduction**
 - **Growth**
 - **Maturity**
 - **Decline**



Design

Product

- research
- development
- test marketing
- need flexibility
- decisions to be tentative or reversible

Facility

- research and requirement
- concept development
- design and specs
- *need flexibility*
- *decisions to be tentative or reversible*



Introduction

Product

- full-scale marketing
- sales low and rising
- losses or low profits
- uncertainty of ultimate sales level
- vulnerable to attack
- inexperienced personnel
- need to maintain flexibility
- problems dealt with as they arise
- close monitoring

Facility

- building commissioning
- move occupants or attract tenants
- losses or low profits
- uncertainty of ultimate occupancy level
- *inexperienced personnel*
- systems subject to 'infant mortality'
- *problems dealt with as they arise*
- *close monitoring*



Growth

Product

- rate of sales increasing
- substantial profit
- decisions based on rapid increase in demand
- performance standards
- customer service becomes critical
- cost is secondary

Facility

- occupancy increasing
- substantial rate of return
- *decisions based on full occupancy model*
- *performance standards*
- *customer service becomes critical*
- operating cost is stable
- maintenance cost is established



Maturity

Product

- rate of sales close to flat
- profits plateau and decline rapidly
- aggressive competition
- declining prices
- cost/price squeeze
- facilities need repair
- pursuit of efficiency

Facility

- some occupants dissatisfied, seeking more current facility
- income is stable
- *operating, maintenance costs are increasing*
- cost/price squeeze
- *facilities need repair*
- *pursuit of efficiency*



Decline

Product

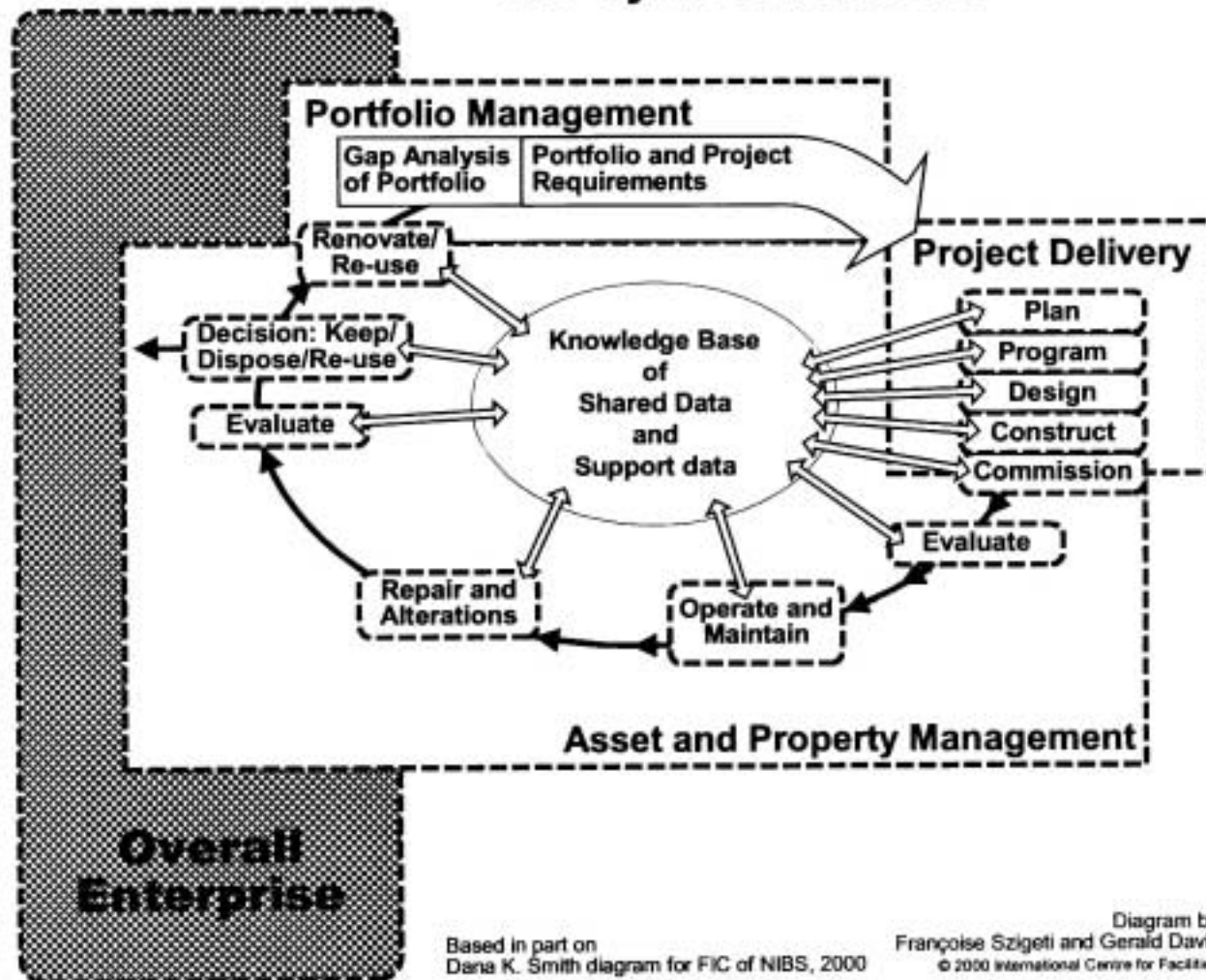
- rate of sales decreasing
- declining profits
- serious cost/price squeeze
- minimize risk
- retrenchment
- looking for new opportunities
- focus on true cost elimination

Facility

- rate of occupancy decreasing
- rapidly increasing costs or declining building condition
- *serious cost/price squeeze*
- *minimize risk*
- *retrenchment*
- *looking for alternates: lease, buy, build*
- *focus on true cost elimination*




Life Cycle of Facilities



Based in part on
Dana K. Smith diagram for FIC of NIBS, 2000

Diagram by
Françoise Szigeti and Gerald Davis
© 2000 International Centre for Facilities



What is Life Cycle Management (LCM)?

- **Making smart decisions over the life of a facility**
- **Life Cycle is the period that starts with initial facility specification and ends with withdrawal of the facility from marketplace**
- **Includes tools and techniques that are used to support smart decision making**
- **Includes Life Cycle Costing**



Who Are the Stakeholders?

- **Corporations/organizations**
- **Shareholders/investors**
- **Taxpayers**
- **Occupants**
- **Urban planners/architects/engineers/
facility planners/interior designers**
- **Portfolio, property and facility managers**
- **Accountants**
- **Neighbours**



Why Use Life Cycle Management?

- **Maintains the value of the asset over time**
- **Decision support**
- **Risk management**
- **Legislation and regulation**
- **Activity Based Costing**
- **Understand demands on facility over time**

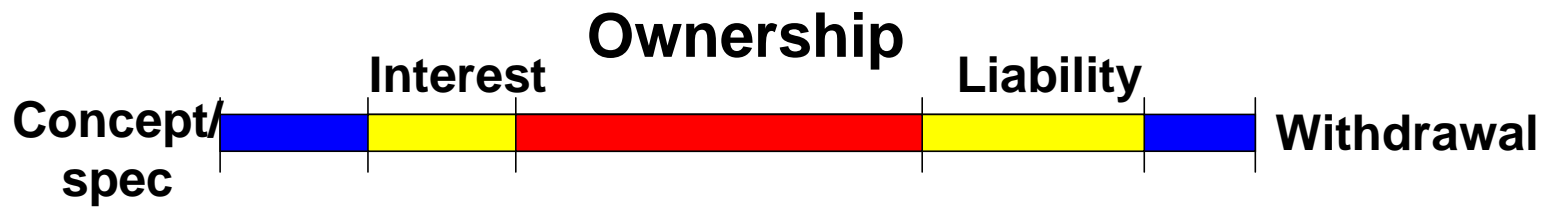


When?

- **Continuous process**
- **Planning for the day you move out**
- **Reporting requirements -
government and corporate**
- **Where are you in the life cycle and
how do you respond**
- **Design vs. decline**

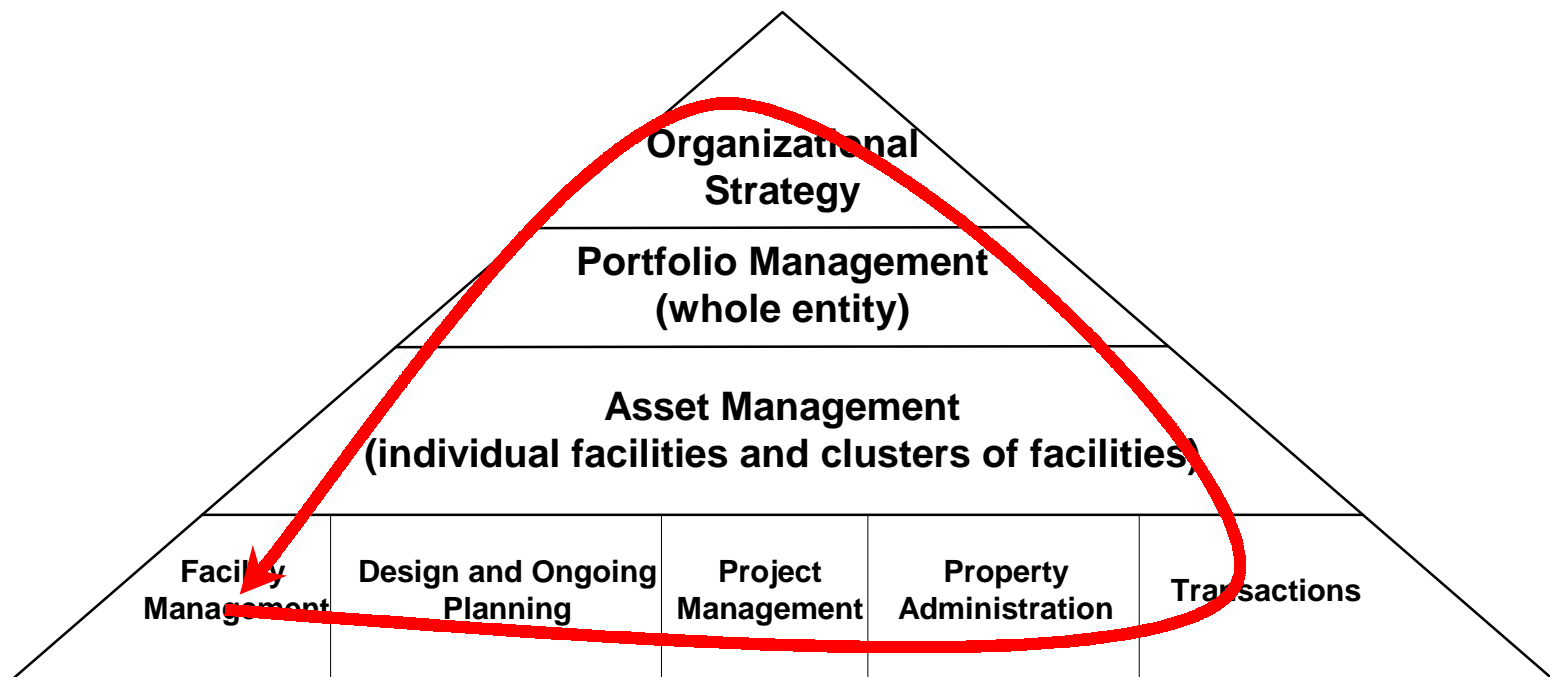


LCM Time Line





Real Estate Picture



Source: Executive Report on Research Findings, Special Report, Fall 1999, © The McMahan Group for the Corporate Real Estate Portfolio Alliance



Asset Management Plan

- Asset description and condition
- Operational performance
- **Functional performance**
- Market analysis
- Financial performance
- Strategic context
- Develop/redevelopment potential



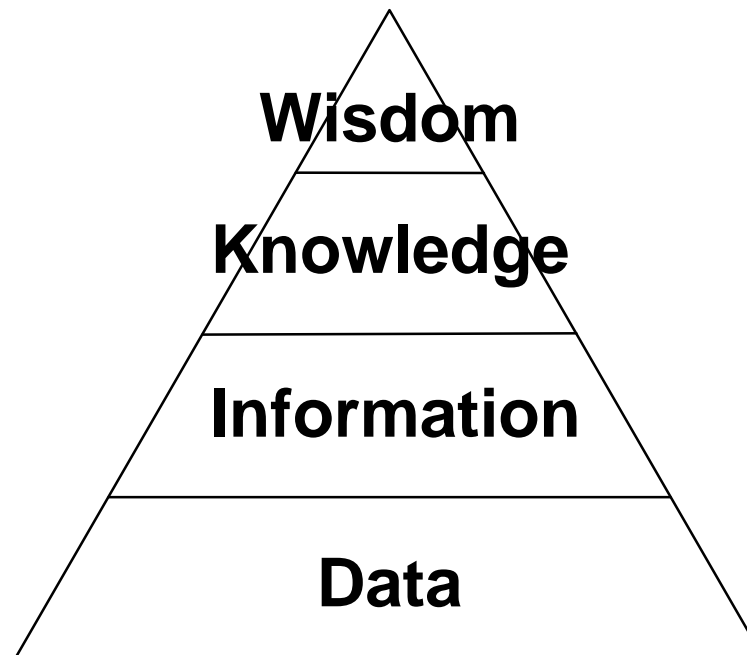
The key question

- **The extent to which the organization's requirement for future flexibility and adaptability match the capability of a building facility to meet these requirements in a cost effective manner**



Functional Performance

- Why?



The Information Hierarchy



Definitions

- **Functional performance of a physical asset is the test of 'Serviceability,' 'Flexibility,' and 'Adaptability'**



Definitions (cont'd)

- ***Serviceability***: the capability of the facility to meet the quality and functional requirements of the occupant group



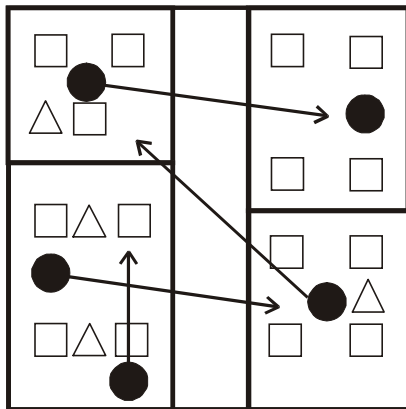
Definitions (cont'd)

- ***Flexibility of the Interior Work Environment.*** Flexibility is a measure of a building accommodation setting that has the capability to respond or conform to organizational operational change with respect to three major planning criteria - versatility, rearrangeability, and convertability

Ability to change

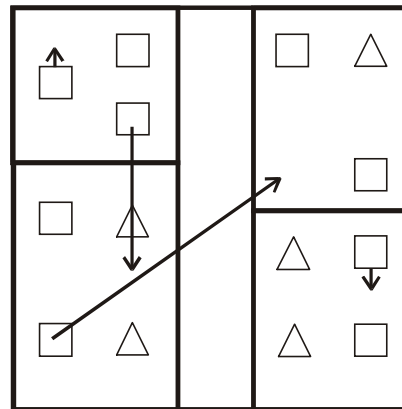
Flexibility

Versatility



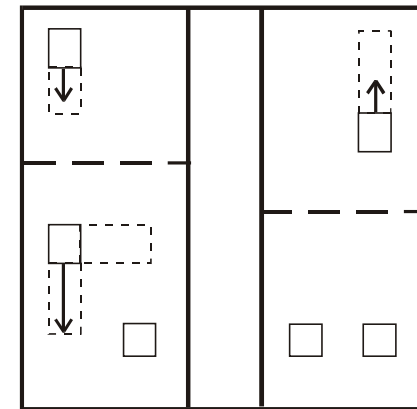
Move the People
Around

Rearrangeability



Move the Things
Around

Convertibility



Reconfigure the Space
and the Things

Based on Pena, William, 1987, Problem Seeking, Washington, DC, American Institute of Architects Press



Definitions (cont'd)

- ***Adaptability of the Building Fabric:*** Adaptability is a measure of a building's capability to respond to major changes in functional use which involves implementation of new accommodation settings within an existing physical asset



Change

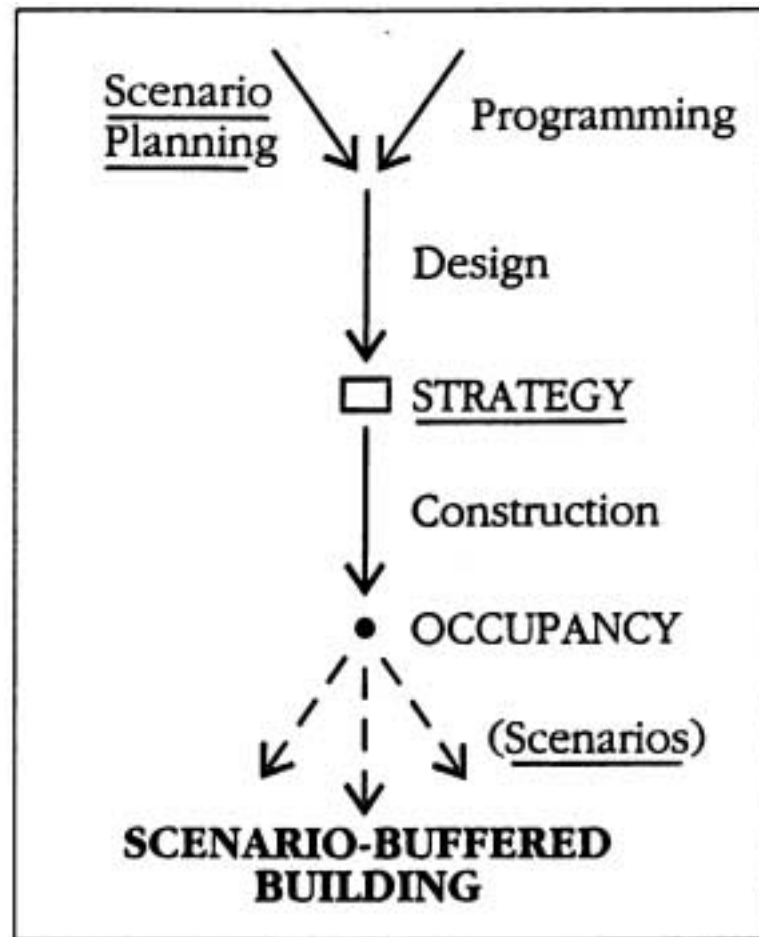
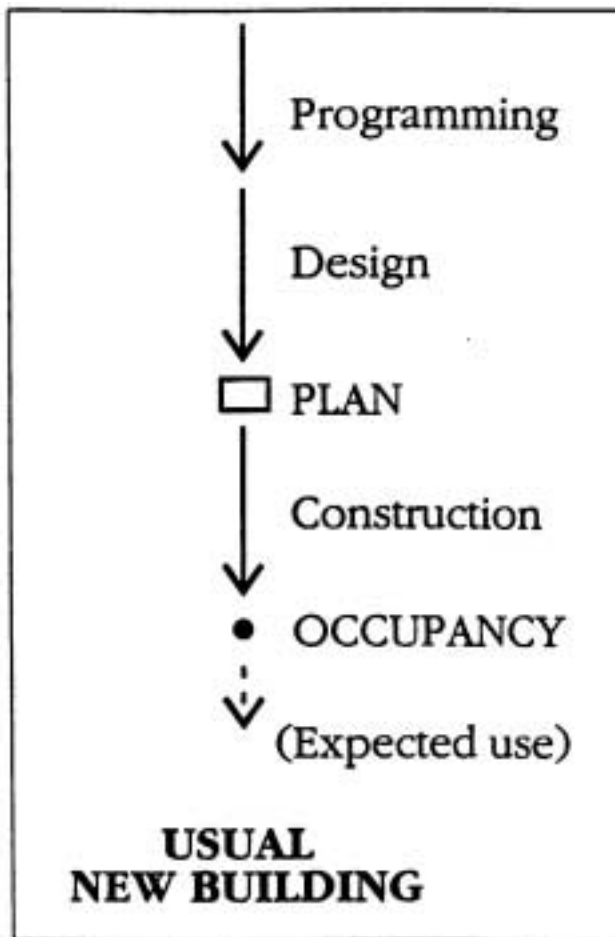
- **The only constant is constant change**
- **The challenge to facility service providers is to be prepared for and reduce the cost and impact of change**



A Different Approach

- **Traditional approach is planning for the day of 'move-in'**
- **Instead, think about planning for the day of 'move-out'**







Prescriptive vs. Performance

Storage space

Ease of access to information

Solution

Requirement

Prescriptive

Performance

Working drawings with all details

Working drawings with requirements

'Follow or else'

Enables creative solutions by all

Reduces risk

Is risky



Tools

- **Tools you are familiar with**
 - **Building condition report**
 - **Asset management plan**
- **Tools you may not be familiar with**
 - **Building evaluation (BEPAC, BQA)**
 - **ST&M Toolkit**



ST&M





To Recap

- **The quality of the fit between a building and its current and future occupants is described according to 3 main categories: Serviceability, Flexibility and Adaptability**



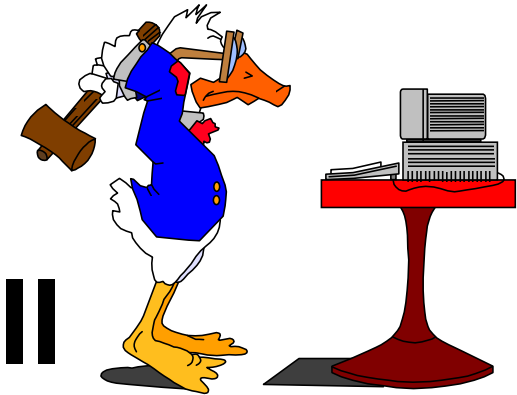
Three areas of focus

- **Tenant ▶ Serviceability ▶ Occupant**
- **Interior ▶ Flexibility ▶ FM**
- **Building ▶ Adaptability ▶ Owner/Investor**



The Costs of Change

- **Occupants' organizations will handle most change with organizational operational solutions**





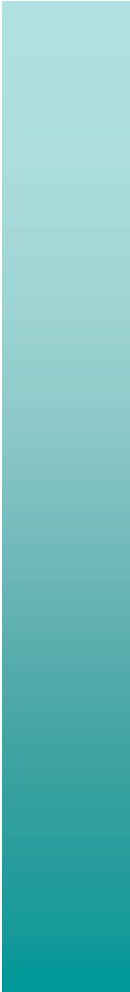
The 80/20 rule

	Expected Rate of Change	Potential Cost of Change to Physical Asset
Tenant → Serviceability	80%	5%
Interior → Flexibility	15%	15%
Building → Adaptability	5%	80%

Percentages listed are not actual findings, they are only meant to illustrate the inverse relationship.



Repair versus Replace

- 
- **Cost differentials**
 - **Service level - response time and down time**
 - **Acceptable condition - environmental, policy**
 - **Economic outlook (optics)**
 - **Value - productivity vs financial**
 - **Heritage status**
 - **Corporate history**
 - **Cascade of failure**

