A strategic approach to municipal-owned real estate will unlock substantial value for the municipality and the ultimate owners of the real estate – the citizens

Municipalities own and/or lease large real estate portfolios. More often than not, it is way beyond what is required to execute their primary function. The exception to this is their residential portfolio. Since South African municipalities have a legislative obligation of providing housing for the poor, the municipal-owned residential portfolio is a political tool with social benefits for the poor. We have an insatiable demand for subsidised housing, and it is a much politicised arena. The result is a municipal residential portfolio that usually has a very low vacancy rate. It is often virtually optimally utilised; and, if there is any inefficiency in the portfolio, it is as a result of administrative bureaucracy. In this portfolio, procurement of maintenance contracts is the area with the highest potential for improvement.

Conversely, municipal-owned commercial buildings, vacant land and agricultural real estate are often underutilised municipal assets. These assets can be utilised to provide primary municipal accommodation (offices and/or storage) and/or to generate additional income. It could even become a tool or catalyst for economic regeneration or nodal revival.

Holding costs of real estate is a substantial expense. Professor Karen Gibler (Department of Real Estate, Georgia State University) states, “Direct expenses relating to real estate has been found to be second only to payroll costs, making its alignment with business objectives an organizational imperative.” Consider costs such as rates and taxes, security (to prevent vandalism, looting and illegal occupation) and maintenance, and that is only on an unoccupied building/land. Potential savings are therefore enormous.

The municipality’s primary objective is social upliftment, provision of basic services, protection of the poor and provision and maintenance of infrastructure. It is not in the landlord/developer/real estate management business, and as a result the non-residential real estate portfolio is often viewed as a necessary cost to be dealt with by various departments. Simply put, commercial municipal-owned real estate is usually low down on the municipality’s priority list.

This is not a uniquely South African problem though. From developed countries such as the USA, Canada, the UK, the Netherlands and France to relatively young democracies such as Russia and
South Africa, municipalities struggle with the strategic management of their owned-commercial-real-estate portfolios.

**Private sector leads the way**

Corporate Real Estate Management (CREM) is a relatively young discipline, which saw the light in the early 80s. Researchers speculate that CREM originates out of the 1973 oil crisis, which translated into the late-70s, early-80s recession. The growth and acquisition strategies deployed during periods of economic wealth were exchanged for a savings-orientated cost control strategy. Corporations started focusing on “…aligning the [real estate] portfolio and its services to the needs of the business…” seeking “…maximum added value to the business…”. (Van Der Schaaf, 2002).

In the previous century, the CREM discipline fell in and out of favour with corporate executives. Recession triggered cost reduction strategies, subsequently looking at the biggest cost drivers (such as HR payroll and real estate management). The realisation that strategic real estate interventions take time to pay dividends (lagging the macro-economy because of lease terms and its long-term investment characteristics) highlighted the need for continuous CREM initiatives.

In essence, CREM looks at real estate from the occupant’s perspective with organisational (not necessarily financial) benefit in mind. Today, this characteristic is one of the industry’s Achilles’ heels. Proving its value in the organisation is very difficult, since it stretches way beyond financial and measurable success, influencing corporate image, employee satisfaction and production.

**The municipal real estate portfolio is different**

Drawing from the CREM success (even though substantially intangible), municipalities started looking at the discipline as a solution in times of financial austerity. The mere financial reward CREM offers made it attractive.

Municipal portfolios are not the same as private or corporate portfolios though. It is often acquired through historical inheritance, without strategic purpose, or such purpose has become obsolete. It could even be a political statement. In Paris (and many other cities around the world), municipal real estate is often used by politicians to “leave their mark”, to leave a legacy. Other buildings provide community services such as court houses and town halls. Time and technological advances render these buildings functionally obsolete, and innovation is required to retain the national asset and turn it into something useful again.

Many other factors such as outsourcing of municipal services, the rise of open-plan offices, telecommunication and technological advances (such as air-conditioning) also changed the municipality’s accommodation requirements over the years. Buildings that were sufficient to provide in the municipality’s primary accommodation a couple of decades ago, are now obsolete. Occupancy costs in older buildings are substantially higher than in more modern (and often leased) accommodation. This is often used to build the business case around new accommodation. Not considered, is the fact that the older building still remains in the municipal-owned portfolio and still attracts costs.

To make matters even more complex, the municipality is merely the custodian of the property. There is no board, CEO or other individual that can take an executive decision to dispose of the asset. It is owned by the community; and in South Africa, there are many Acts and regulations that regulate the management and use of public properties. These include (but are not limited to):

- Act No. 56 of 2003: Local Government: Municipal Finance Management Act (MFMA)
• Act No. 19 of 2007: Government Immovable Asset Management Act (GIAMA)
• Municipal Finance Management Act 2003: Municipal Asset Transfer regulations (MAT)
• GRAP accounting standards

And the problem is...

From the previous paragraphs, we can clearly see different approaches in Real Estate Management. There is management purely for profit (property management), management from the occupant’s perspective (CREM) and Municipal Real Estate Management (MREM). The approach is directly related to strategy and the organisation’s ability/ inability to reach their objectives. Consequently, one can quickly see the benefits of identifying core and non-core assets. Core assets support the organisation in achieving its objectives and can be managed as a costs centre. Non-core assets need to be disposed of or rented out, in order to generate income to offset related expenses. Identifying the primary role of each asset in the portfolio and subsequently linking it to the organisation strategy are therefore paramount to achieve optimal asset utilisation.

Other symptoms of a Municipal Real Estate portfolio not being managed on MREM principles include:

• An incomplete and/or inaccurate Real Estate Asset register
• Employees who have the management of the Real Estate portfolio as a secondary or tertiary task in their job description
• No dedicated Real Estate division
• Non-compliance with GRAP, GIAMA and other legislation
• Qualified audits
• An incomplete lease register
• A low revenue collection rate
• A high vacancy rate
• High maintenance costs
• Underutilised space
• Large capital amounts tied up in unused assets
• Vandalism
• Illegal occupants.

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Works Cited