The significance of flexibility in improving return on property investment: the UK perspective

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Abstract

Purpose – The purpose of the study described in this paper was to explore with property and facilities managers to what degree they are able to achieve a good return for their organisations on PFM, and what might facilitate or inhibit that.

Design/methodology/approach – Semi-structured interviews were held with 12 managers with significant experience of property and facilities management (PFM). A variety of industry sectors, and the public sector, were represented in the sample. Within these interviews, the researchers were able to explore the opinions of respondents and the qualitative data gathered provided interesting insight on the research topic.

Findings – This research identifies that in practice it is extremely difficult for companies to achieve a wide spectrum of added value from property and facilities. Property management may have a lower profile in organisations than it deserves, with a concentration on cost rather than opportunity. A sense of resignation may be created by long leases, which are still "the norm" in the UK. The literature review and primary research show dissatisfaction with long leases and a strong preference for more flexible arrangements with landlords. Flexibility is inextricably linked to the expectation of better return on property investment. The demand for flexibility is felt most acutely in economic recession, which causes organisations to consolidate space and manage property and facilities at a micro level.

Research limitations/implications – This research was based on a relatively small sample size (12), collected from volunteer respondents in the south of the UK. On the basis of the findings, there is scope for further research on a larger scale, perhaps involving structured samples, quantitative data collection methods, and comparisons of the UK with a country where PFM choice is wider, such as the USA or Australia. Development of an economic model of the impact of flexibility on return on investment might be possible.

Practical implications – This paper provides a comprehensive discussion of how PFM is typically managed in the UK and how property and facilities managers would like to see it improve in the future.

Originality/value – This paper has identified an apparent suppressed demand for more flexibility in the property market in the UK. This could be of use to PFM suppliers in designing future offerings, and to the companies who use PFM services in articulating their requirements to suppliers.

Keywords Flexibility, Return on investment, Property management, United Kingdom

Paper type Research paper

Introduction

Corporate real estate and facilities costs represent the second highest cost to most organisations after staff costs (Sminski, 2000). Property and facilities management (PFM) can be an important method of improving financial performance, and adding value to a company's operations. Studies in Amsterdam (Krumm *et al.*, 1998) and the

Facilities
Vol. 24 No. 3/4, 2006
pp. 106-119
© Emerald Group Publishing Limited
0263-2772
DOI 10.1108/02632770610649377

UK (O'Roarty, 2000) have identified several main elements of added value in real estate management.

First, PFM makes a contribution to increasing productivity – if the working environment is right, people within it can be more effective. Property issues must also be considered in cost reduction or cash generation discussions. It is an essential element of risk management: an inappropriate property portfolio can break a company; a good formula can reduce risk.

In particular these studies highlighted the contribution that property management can make to enhancing the flexibility of the firm – variation in working hours, working space and other new ways of working. Last, but not least, PFM contributes to the brand values and public relations of an organisation. An example given in our primary research was that a tatty reception area could ruin visitors' good opinions of a company.

Efficient management of property can have a demonstrable effect on a company's performance. However, research from Debenham Tewson Research (1992)[1] (as cited in Then, 1999) suggested that property management receives relatively little management attention and time, and it is rare for property to receive treatment in corporate plans. Property management within organisations has been identified as being in general reactive, and there is evidence that property is only considered by organisations when they are under severe profit or cost constraints.

One of the problems in the commercial property market seems to be the length of leases, which makes it difficult for companies, especially those in fast-changing sectors, to be as flexible as they would like. Achieving consistent return on investment in property and facilities seems to require a proactive approach.

Literature review

The literature reviewed prior to primary research included studies from the USA and other parts of Europe, as well as UK sources. To a considerable degree, the advantages of proactive PFM seem to be universal, although the choices available to property and facilities managers do vary by national market.

The importance of property management

Corporate real estate and facilities costs represent the second highest cost to most organisations (Sminski, 2000). However, research has indicated that property costs are decreasing as a proportion of total business running costs, predominantly through cost control and a reduction in the amount of space needed (OPD, 2004).

Property management can be an important method of improving financial performance, and adding value to a company's operations. For example, De Jonge (1996, as cited in Krumm and Vries, 2003)[2] identified seven main elements of added value in PFM:

(1) *Increasing productivity.* People working in sufficient, appropriate, hassle-free and healthy space are likely to be more productive.

(2) *Cost reduction.* Efficient use of workspaces avoids waste.

(3) *Risk control.* As far as possible, companies need to maintain flexibility in their property portfolio.

(4) *Increase of value.* Doing the right thing at the right time with property can be very beneficial to a company, but it requires considerable knowledge of the property market.

(5) *Increase of flexibility.* Companies can mix their financial risk in property (e.g. owning versus leasing) and their occupancy patterns (e.g. flexitime).

(6) *Changing the culture.* Space plays its part in change in the workplace.

(7) *PR and marketing.* The image of buildings and their location can contribute to a company's corporate identity.

Considering the wide spectrum of potential added value it is clear that property management is an important issue for companies.

Senior management attitudes to PFM

Efficient management of property can have demonstrable effect on a company's performance. However, property management receives relatively little management attention and time, and it is rare for property to receive treatment in corporate plans. It is viewed as an asset requiring little management (Debenham Tewson Research, 1992, as cited in Then, 1999)[3]. Property management within organisations has been identified as being in general reactive, and there is evidence that property is only considered by organisations when they are under severe profit or cost constraints (Avis *et al.*, 1989, as cited in Then, 1999)[4].

In fact, it is generally perceived that property is a business cost, rather than a resource that requires strategic attention (Graham Bannock & Partners Ltd, 1994, as cited in Then, 1999)[5]. This indicates that managers are unaware of the full opportunities for improving their performance through property management. Many companies are missing opportunities to reduce cost and enhance performance because they give limited attention to managing their portfolio (Anderson, 1995, as cited in Then, 1999)[6].

This lack of understanding in boardrooms of the contribution of property to financial returns and shareholder value, means that companies may in some cases be damaging their financial performance and with it shareholder value. Some companies' may perceive that it would be difficult to change the current structure of their property portfolio.

The importance of flexibility

Flexibility, particularly financial, is frequently considered essential to the survival and performance of organisations. Organisations have reacted in a variety of ways to the rapidly changing business environment of the past 15 years. For example, Gibson and Lizeri (1999, as cited in Gibson, 2003) suggest that downsizing, delayering and outsourcing non-core functions have become commonplace. There is increasing demand in this modern business environment for property, which was once considered an inflexible asset, to become more flexible. Gibson (2003) suggests that property flexibility can be grouped into three key areas:

(1) contractual (financial) flexibility;

(2) physical flexibility – in how the space can be configured; and

(3) functional flexibility – in the range of uses for the space.

Clearly, financial flexibility is of particular importance to managers in ensuring their company's continued survival and performance, and therefore receives great attention in any property selection.

There has been a substantial increase in the number of companies that report only leased property, and a fall in the number of companies that report only freehold property, over recent years (Lasfer, 2003)[7]. The level of property held by UK listed companies through operating leases has doubled over the past decade, from £34 billion in 1991 to £68 billion. Research has shown that companies that lease their property are likely to be larger than those reporting freehold property (Lasfer, 2003). The propensity to lease is also higher in faster growth companies (Lasfer, 2003).

There are a number of reasons for a company to lease property, these include: freeing up capital, ease of relocation and less responsibilities for management. Firms with high costs of capital are more likely to lease (Krishnan *et al.*, 1994, as cited in Fisher, 2004).

According to Lasfer (2003)[7] companies that decide to lease property primarily do so to reduce debt, to finance their growth prospects, to pass on tax allowances to the lessors, and to conserve liquidity. By leasing, companies can have greater financial flexibility, and may be able to avoid bankruptcy.

Leasing property is clearly demonstrated to have a positive effect on companies' performance. Lasfer (2003)[7] finds that companies who lease property use it more efficiently by holding 40 per cent less stock than companies' with freeholds. Companies that have a higher propensity to lease are found to have 20 per cent less debt, lower financial gearing, a higher liquidity ratio, 25 per cent higher cash holding, higher growth rates, and higher R&D expenditure (Lasfer, 2003). These companies also manage their tax liability more efficiently (Lasfer, 2003). Companies that leased the majority of their property outperformed the market by 71 per cent over the last 14 years (Lasfer, 2003). Nevertheless, there are still concerns about whether leasing is flexible enough.

As O'Roarty (2000)[7] points out, the level of perceived flexibility of tenure by business managers differs. These tenures are detailed below in order of perceived flexibility:

(1) five-year lease;

(2) freehold;

(3) fifteen-year lease with breaks at years five and ten;

(4) ten-year lease; and

(5) fifteen-year lease.

Clearly, the more flexible and short term a lease is, the greater the perceived flexibility. In fact, The "Changing Face of Space" Report (Gibson, 1999)[8] also identified that 66 per cent of businesses would rather not hold a lease of more than ten years, while 30 per cent stated that even a five-year lease was too long.

The functional flexibility of space important to organisations, as unused space represents a wastage of resources. Firms may look to decrease their core space, and use short-term leased space to absorb the demands of individual projects (Worthington, 2000). Three quarters of companies cannot justify holding surplus space (Gibson, 1999). Therefore, in any leasing agreement the ability to modify space, or reduce the leased space is likely to be perceived as significant added value.

Companies also find themselves under pressure from corporate governance requirements to seek flexibility in property arrangements. The FRS 12 accounting standard (provisions, contingent liabilities and contingent assets) requires up-front provision on the balance sheet for the future costs of a lease on a vacant or sublet property. Harvey (2004, as cited in Cooke, 2004) suggests that before this standard was introduced companies could spread the effective loss of holding property, whether vacant or sublet, over a number of years rather than it being recorded on the companies accounts as an increased specific liability. The result is that some companies could find their profit effectively wiped out (Harvey, 2004, as cited in Cooke, 2004).

The modern and fast changing business environment has emphasised a need for companies' to focus on core competencies, and outsource their other activities. In terms of property, managers can address this need for flexibility in a variety of ways, such as outsourcing facilities management, moving to serviced accommodation, changing their mixture of freehold versus leasehold properties, and negotiating shorter leases. Property management is an activity that companies' can outsource in order to reduce the amount of time spent on it in-house and to leverage professional expertise. Most likely as a reflection of this more companies are beginning to want more actively managed properties (Gibson, 2000).

Facilities management costs

O'Roarty (2000)[9] highlights that property costs are the important factor to companies in acquiring facilities. The total cost of the property is important to managers in their selection of an appropriate solution to their property needs. When considering the costs of a company's property or facilities, it is important to consider all the costs associated with the facility, including services. Williams (1996) Associates identifies three generic cost centres: premises, support services, and information technology. The research finds that facilities costs account for as much as 15 per cent of revenue costs (these include IT, business support costs, and premises costs).

Because facilities management costs represent such a significant proportion of a company's expenditure, managing this budget is critical. However, over 30 per cent of companies' do have the data to undertake a detailed analysis of them (Gibson, 1999). Considering the importance of these costs, this is potentially a problem for the future survival and performance of these organisations. This poses the question as to whether it is likely to be better for many companies' to outsource facilities management to experts who have more experience in understanding and managing these costs.

Tenant satisfaction in property leases

Despite the benefits possible from leasing property and outsourcing facilities, research by the CFI Group and IPD (2005)[10] has shown that there is a high level of dissatisfaction among tenants with the service provided to them by landlords.

Lease flexibility received the lowest satisfaction score by tenants and therefore may be undermining business competitiveness. The results of this research indicate that landlords should develop relationships with their tenants that are partnership based, providing value to both parties, rather an adversarial relationship which has traditionally been more common.

The research carried out on behalf of the RICS[7] (CFI Group and IPD, 2005) also led to the development of a tenant satisfaction priority matrix. The matrix identifies the following priorities among tenants:

- *Landlord/agent communication.* The low scoring factors were: seeking customer feedback, proactive communication, respond in a timely manner, availability of landlord.
- *Lease flexibility.* The low scoring factors were: including ease of adjusting terms on existing leases, speed of reaching agreement over contract, ease of agreeing terms on new leases, ease of sub-letting, break options to match business need.
- *Contract detail.* The low scoring factors were: ease of contract alterations, additional clauses are fair, contract makes use of standard approach.
- *Problem resolution.* The low scoring factors were: how quickly a malfunction was resolved, how the result turned out, treatment from facilities staff, ease of reporting malfunction.

Despite the potential advantages of leasing, it has its challenges too. At an operational level as well as a strategic level, proactive PFM seems to be needed.

Methodology

In mid-2005, Portsmouth Business School undertook research sponsored by Havant International Limited, a property company that was Portsmouth Evening News Company of the Year in 2004, to explore with property and facilities managers how PFM decisions are made and to what degree they are able to achieve a good return for their organisations on PFM, including what might facilitate or inhibit that.

Qualitative data was gathered between June and August 2005. Interviews were held with 12 managers with responsibility for PFM. Nine were based in commercial organisations headquartered in the southeast of England, and many managed multiple sites, including overseas sites. Three worked for district councils on the south coast.

The role of these managers was primarily described as being strategic and financial, the title of the interviewees typically ranged from facilities to property manager, although one interviewees job title was the vice president of IT and real estate. A financial director and a chief executive were also among the interviewees, representing smaller firms. In local government the title of interviewees included assistant valuer, head of estates and corporate property officer. Their responsibilities included many or all elements of the property plan and providing advise on all aspects of property to the council.

The companies interviewed for this research in most cases had leased properties; a few also rented serviced office space. Only manufacturers tended to own some of their property portfolio. The majority of council property is owned. Councils own a wide variety of property and land, including housing, industrial land and units, car parks, open space, and shopping centres.

All companies and councils involved in this research outsourced some facilities services, although the degree to which they outsourced differed greatly. Whilst three companies clearly relied heavily on outsourcing, including the smallest company involved in this research, other companies (typically manufacturers) relied on service contractors to a lesser degree.

Participation challenges

Whilst all the local authorities contacted were very keen to talk about their property arrangements with the researchers, it was comparatively very difficult to recruit private sector interviewees. Over a 100 companies were contacted, and nine were able and willing to participate. There may be a variety of reasons for this disparity, but the researchers noted that council officers have a perception of themselves as landlords and therefore property managers. In the commercial sector, the core business of an organisation is obviously dominant and property is a service it consumes. Two interviewees commented that the importance of PFM was underestimated.

Questionnaire design

The interview structure had two parts. The first part consisted of open questions about how property decisions were made in the organisation. The second part consisted of open questions about what sort of decisions are made about property, in particular concerning costs, change and outsourcing; and what might facilitate or inhibit them. The second part also encompassed questions about what respondents expected PFM to involve in the future. Care was taken to pose open questions to enable interviewees to describe facts, attitudes and views in their own terms.

Limitations of the research

This research was based on a relatively small sample size (12), and therefore in-depth discussions were required to explore the questions. The sample is also influenced by the fact that the respondents were self-selecting volunteers. Respondents were assured that their responses would be anonymous. As Saunders *et al.* (2003, 3e, p. 177) point out, "Cases that self-select often do so because of their feelings or opinions about the research questions." They go on to point out that this may be entirely appropriate. Twelve respondents with significant experience of PFM are likely to have important and relevant opinions. The researchers were still able to achieve representation across a variety of industry sectors.

Despite its limitations, the research has reinforced some points from previous research, confirmed a suppressed demand for flexibility from PFM suppliers, and indicated new lines of enquiry for future research.

Research findings

The decision-making unit (DMU) for PFM

In our primary research, we found that many people in organisations are involved in property decision-making, and many stakeholders' views are taken into consideration. In fact, one interviewee considered that too many people might be involved in property decision-making in his organisation.

Large companies have property managers and/or services managers for facilities. Three facilities managers had a background as engineers, and ended up in the role through taking on some responsibilities and the role slowly increasing, or through project-based work. Only one manager mentioned that they were a member of the BIFM, and had a facilities management career background.

Financial directors are always involved; and major decisions involve the chief executive and sometimes the whole board of directors. It is clear that property and facilities managers are in some cases keen to have a greater involvement in decision making, particularly at board level. Users of space or services are often consulted, and surveyors or property agents are used as external advisors.

Seven of the nine companies involved in this research had a member of the board with specific responsibility for property. The person on the board with responsibility was typically either a corporate real estate director or a financial director.

Based on the results of these interviews, in all companies it was clear that there was a certain amount of delegated power, which allowed some property management decisions to be made at a site or senior management level. A significant minority of companies recognise the importance of property and it is a regular topic of discussion at a senior level.

Circumstances that initiate PFM decisions

Based on the results of these interviews it seems that of the nine companies interviewed for this research, effectively only four discuss property actively on an ongoing basis, and one of these four companies has only recently began to discuss this proactively. It is also worth noting that this may not be a representative sample, as it seems quite likely that those companies with property managers willing to participate in this research are likely to be more actively interested in property, and were therefore more willing to be involved. If this is the case it is possible that property is even less of a proactive discussion topic within companies than this research would suggest.

Typically, facilities managers commented that PFM were not discussed at board level that often, only decisions over a certain value or of sufficient significance go to the board, with most decisions occurring at a local or senior management level. At a local level, the company's property model was not an issue providing that things were running smoothly. In a few companies, the facilities managers needed to review their property requirements on a regular periodic basis. Proposals were then put forward to the managing director or the board for decisions to be made. Property is usually discussed proactively at board level at budget time, as it is "a big cost" and therefore needs to be reviewed.

Typical occasions prompting major property reviews were consolidation of property following acquisition, sub-letting property (or disposal) following contraction, renegotiation of leases (e.g. if market rates change) and lease expiry. In one company, a new facilities manager had highlighted property as a major area of financial wastage, and had been given the opportunity to make major recommendations.

Property management can be quite complex in a large international firm with a variety of sites and multiple uses of sites. One manufacturing multinational commented that company property had become recognised as being of strategic importance as potentially both an asset and a burden.

A good example of proactive PFM was a company that had investigated what property was costing them in detail, and using the data together with growth/shrinkage predictions to make a plan for each site. In the case of some sites where long leases were in place, plans could not be implemented for some time, but there could be some reworking of existing arrangements. (Another company in the study pointed out that moving can be very disruptive to employees and reduce productivity, a cost which must be considered when looking at the business case for property changes.)

The exemplar company also needed to consider workspace requirements to support new working patterns – they planned to move away from a one person, one desk model to a model that encompasses desks for those who have a need to be in the office full-time, and "hot-desking" for those who do not. They also planned to invest in customer-facing facilities so that they could avoid hiring hotels for events.

Operational PFM

It is clear that property and facilities managers are busy people, with some fairly difficult day-to-day responsibilities.

The following examples are typical of "day-to-day" PFM challenges derived from our primary research:

- "Battles" with the service company, as the service company's responsibilities were not entirely clear;
- installation of new equipment;
- recycling;
- reduction in the number of staff at a site using the catering facilities, which had lead to the catering becoming uneconomical;
- refurbishment; and
- fulfilment of the landlord's obligations, such as maintenance, facilities, cleanliness and upkeep of common areas, and safety.

Regrettably, respondents commented that it was common to have problems with lessors and service companies, with "inflexibility" seeming to be correlated with the symptoms.

Because PFM costs represent such a significant proportion of a company's expenditure, managing this budget is critical. However, according to "The Changing Face of Space" Report (Gibson, 1999), over 30 per cent of companies' do not have the data to undertake a detailed analysis of them.

All but one interviewee from the companies included in our primary research believed that they had a complete picture of their property costs. Although most admitted that some unexpected costs always occurred that can only be planned for to a small degree. In most cases it was mentioned that yearly plans and forecasts had to be produced detailing property costs, followed by reports at the end of the year. Generally, information on property was consolidated at site level, which could be too broad a measure if a site has many uses. Only one company specifically mentioned that they tracked PFM costs per activity/workspace area. Most others seemed to allocate PFM costs by floorspace or headcount.

Two facilities managers commented on the complexity and time-consuming nature of the budgeting and reporting processes. Another pointed out that it can be very difficult to keep track of all costs over the period of the financial year, and that things can change rapidly.

Of the nine commercial sector interviewees, three did not or were not aware of benchmarking of PFM costs occurring in their organisation, whilst six did undertake some benchmarking activity to some degree. Of those companies that did benchmark three utilised external consultants or property agents to help with the benchmarking process.

A number of key factors typically prompt an examination of the value of a company's PFM costs, such as changes in economic conditions, rises in costs from existing suppliers, and changes in the business causing a reduction or increase in the need for space.

Research by the Chartered Institute of Purchasing and Supply (CIPS) (2002) revealed that serviced office space is more cost effective than a conventional lease for most small company or branch requirements. Most respondents with experience of serviced offices thought them expensive but agreed that they were cost-justified for occupancy of up to 20 staff.

Outsourcing experiences

All the companies surveyed had in place a high level of outsourcing of non-core services, and six of the interviewees considered that their company was likely to increase outsourcing to some extent into the future. No one interviewed considered that his or her company would decrease outsourcing in the future. However, it is worth noting that those companies with a more established level of outsourcing believed that there was an important balance to be maintained between outsourcing and retaining control of the facilities management function.

Most respondents commented that their companies did need to concentrate on their core business and "get out of support services", but there were qualifications to this view. Some expressed concern that outsourcing resulted a loss of quality levels in service delivery, or that good services cost more than in-house. One respondent explained that, whilst it just did not make sense to have core staff concerning themselves with issues such as catering, security, and gardening etc., in his experience, outsourced providers needed managing in detail, and it was necessary to be doing that function right before you could hand over management to an outsourced provider. One other believed that value could be achieved through long-term relationships with service contractors. One anticipated a situation where separate outsourced contracts would be joined together into one package.

Suppressed demand for flexibility

One respondent in our primary research said that they were still waiting for the day when landlords realise that they cannot get away with 25-year leases any more. He compared the UK property market unfavourably to property markets in the USA and Australia, where, in his experience, there was more variety in rental arrangements. Flexibility was a common theme in discussion with respondents, but tended to be an aspiration, rather than anything that has been experienced and could be described.

Lease flexibility received the lowest satisfaction score by tenants in the RICS survey in 2005. The survey concluded that companies found it a difficult and protracted process to adjust terms on existing leases, agree terms on new leases or arrange sub-letting. The implication was that the relationship between landlords and tenants is usually adversarial. Most research respondents perceived that the whole issue of flexibility was a suppressed demand not really addressed by the property market.

The smallest company involved in this research, which was an IT company, had a five-year lease, with two breaks. In addition to the lease, the company had a separate arrangement for maintenance of the building. The interviewee saw this lease as key to their flexibility whilst they were rapidly growing.

One of the respondents who had experience in different types of company commented that companies in "stable" sectors of the economy might be quite happy with ten-year leases, but companies in more volatile sectors, such as IT, need shorter leases and more flexibility.

In any leasing agreement the ability to modify space, or reduce the leased space is likely to be perceived as significant added value.

Public sector variations

Councils typically own the majority of their property, which consists of both commercial and non-commercial. Councils often use property as a source of income in order to lower council taxes. Councils must manage their property proactively, as the government is pressing local authorities to use their property more effectively. Councils must provide a live document on asset management under the "Continuing Performance Assessment" scheme. The council's report is then inspected centrally providing a grade for the council's effectiveness.

Owing to the complex reporting and decision making process within councils, this process meant that most interviewees believed that those people that should be involved in decision making generally at some point in the process are involved. However, one interviewee highlighted the importance of users as a stakeholder to be involved in decision-making.

All council interviewees believed that their council had a high level of information on property costs and that this was necessary because of the reporting and budgeting that must occur each year. Benchmarking is relatively widespread in councils, with property departments typically benchmarking against other councils via the Association of Chief Estate Surveyors in Local Government and in some cases against the private sector. Councils are under constant pressure to review the value of their property, and it is a key priority of the estates department to keep costs low and increase value for money. This means that most councils evaluate the value of their property arrangements on an ongoing basis.

The local government respondents felt that councils would consider changing their current arrangements if it could save them money, whilst maintaining quality levels. Changes may be prompted if:

- results from benchmarking indicate poor performance;
- the council executive specifically ask the department to review the value of property;
- central government policy required it; and
- lack of staff to service a property became a problem.

Councils are active in outsourcing and likely to increase their outsourcing and/or minimise the number of contracts by consolidating with one provider. Council managers shared commercial property managers' concerns about quality. It was also noted that private sector organisations could find it difficult to report to councillors.

Conclusions and implications for managers

Management of property and facilities in commercial organisations is a critical function given the large amount of money that companies have tied up in both. Companies that have taken a pro-active approach have seen considerable benefits not just in cost reduction, but also in better quality workspace. Unfortunately, since PFM is effectively a "non-core" function, and fraught with adversarial relationships with service providers, it has perhaps not received the focus or status that it deserves in companies, whilst in local government, policy focus has ensured high status for the function.

These research findings indicate suppressed demand for flexibility. The reality for PFM decision-makers is that there are a number of inhibiting factors in the market, such as the length of current leases that companies are tied into, that make it difficult for them to add value through effective use of space and facilities. The apparent "knock-on" effect of those inhibiting factors is that senior management interest in PFM does not appear to be regular and sustained. Given the high proportion of costs tied up in PFM in most companies, this is disappointing. Co-operation between facilities managers and accountants in identifying how activity-based costing might be applied to space and facilities could help to address internal inertia.

Some sectors of the economy are more cyclical and likely to need to flex their workspace up in growth periods and down in recessions. The sectors most susceptible to economic fluctuations in recent years have included IT, recruitment, training, consultancy and marketing services. Consolidation of property and facilities after merger and acquisitions activity is usually necessary in all sectors. Companies who experience phases of growth and consolidation need to micro-manage space, and others need contingency plans for recessionary pressures, which are bound to include PFM change. Demand for flexibility in lease and facilities arrangements seems bound to increase.

It is surprising that this apparent suppressed demand for flexibility has not become overt demand. Obviously, the nature of the property product and facilities service gives suppliers considerable "lock-in". Some respondents have highlighted the productivity problems associated with moving premises, which has to be considered in the business case when property overhead becomes a burden. Although relationships with landlords and facilities companies are already adversarial in many cases, focused pressure from tenants is surely key to persuading PFM suppliers to adapt to customer needs. Perhaps this is a suitable cause for associations representing small and medium sized companies.

Future research

On the basis of these findings, there is scope for further research on a larger scale, perhaps involving structured samples, quantitative data collection methods, and comparisons of the UK with a country where there is a greater variety of lease, rent and services choice, such as the USA or Australia. Development of an economic model of the impact of flexibility on return on investment might be possible.

Notes

1. Based on interviews with 100 major companies.
2. Study carried out in Amsterdam.
3. Based on interviews with 100 major companies.
4. Based on a survey with 230 organisations.

5. Based on personal interviews with 12 finance directors of UK private sector companies, followed by a postal survey of 111 property managers.
6. Based on 20 companies across European countries in three sectors: financial services, manufacturing and retail/distribution.
7. Based on all quoted companies in the UK over the 1989-2002 period.
8. UK survey of businesses carried out in 1999.
9. Depth interviews undertaken with 17 UK-based companies, which together occupied in excess of 5 million square meters of office space.
10. Based on 66 interviews with IPD members across the UK.

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