

RESEARCH

SUMMER 2004

Survey of  
Property Trends  
Corporate Property Issues

## Corporate property issues

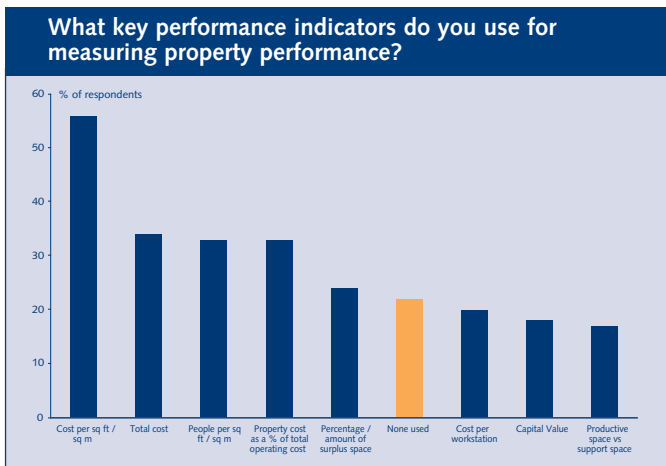
### Introduction

In addition to our regular survey of property trends, we questioned respondents on their attitudes to a number of major issues facing corporates in their strategic property decision-making.

The survey was carried out between 25 May and 16 June 2004, and covered 220 private sector firms of all sizes, in all sectors and from all regions.

### Key performance indicators

Respondents were asked which key performance indicators they use for measuring the performance of their property portfolio, from a list of eight potential measures. These measures are shown in the following chart.



- The majority of respondents (56%) used cost per sq ft / sq m of a building as a key performance indicator for measuring property performance. This option was the only single measure used by more than half of the respondents. Within the banking, finance & insurance sector, a much higher 70% of the companies indicated that this was a key performance indicator.
- Three measures – the total cost of the portfolio, the number of people per sq ft / sq m and the property cost as a percentage of total operating costs – were each mentioned by one third of companies as a key performance indicator.
- The capital value of a property (18%) and the 'productive space versus support space' (17%) were the least frequently used indicators.
- 22% of respondents stated that they did not monitor the performance of their property portfolio. Industrial and manufacturing companies were the least likely to monitor the performance of their property holdings.
- Larger occupiers were much more likely to monitor portfolio performance. Only 5% of respondents in the 2,000-4,999 employee category and 7% in the 5,000+ employee category stated that they had no key performance indicators. Larger occupiers also showed a much higher degree of sophistication. For example, 61% of companies in the 2,000-4,999 employee size band used their property cost as a percentage of their total operating cost, compared with 33% in the overall sample.

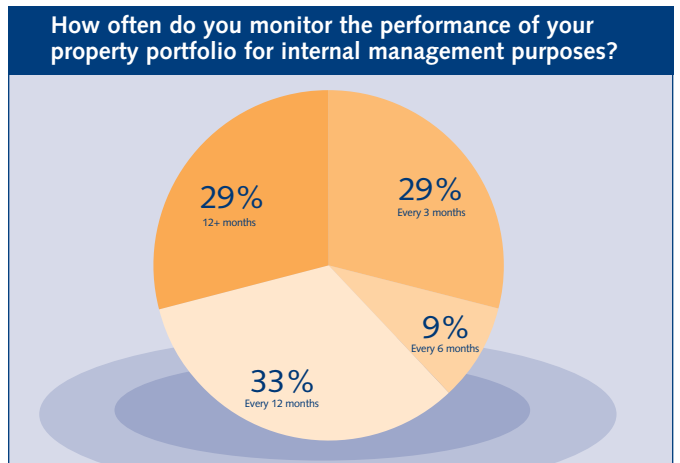
- 5% of respondents used other key performance indicators such as the quality of space or the potential rental value for measuring property performance.

Overall, these results reveal that there is no fixed or agreed standard for measuring property performance. 22% of companies stated that they have no measures, and 56% are still using the somewhat crude unit cost as a key measure, although it would appear that portfolio measurement is becoming increasingly sophisticated amongst larger occupiers.

### Monitoring performance

Respondents were asked how often they monitor the performance of their property portfolio for internal management purposes.

- The majority of respondents (71%) monitored their portfolio at least once a year.
- Some companies monitored the performance of their property portfolio on a more regular basis – 29% of all companies monitored their portfolio every three months, 9% monitored it every six months and one third reviewed the performance of their property portfolio on an annual basis. The sector that most regularly monitored portfolio performance was banking, finance & insurance.
- 29% of companies monitored their portfolio less frequently than once a year. The distribution, hotels and catering sector showed the most infrequent performance monitoring, with 62% of the companies monitoring their portfolio less regularly than once a year.



An impressive 71% of all companies monitored the performance of their property portfolio at least once a year, indicating that property is viewed as an important issue by the majority of corporates.

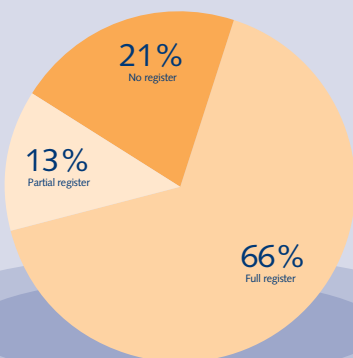
### Property asset registers

Respondents were asked if their organisation has a register of property assets.

- Of the companies surveyed, 66% kept a full register of their property assets. An above average proportion of respondents within the industrial and distribution sector stated that they kept a full register of their property assets.

- At the other end of the spectrum, 13% of companies only kept a partial register of their property assets and 21% had no register at all. An above-average number of respondents in both the banking, finance & insurance sector and the 'other Manufacturing' sectors were without a register.

#### Does your organisation have a register of property assets?



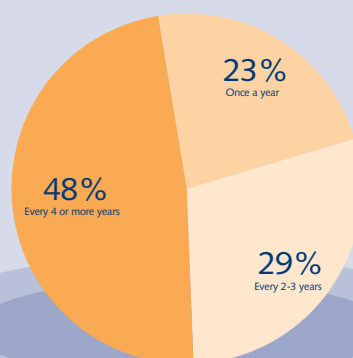
Although 78% of respondents monitor the performance of their portfolio, and 71% undertake at least an annual check, only 66% of respondents had a full register of their property assets. This is surprising, particularly for banking, finance and insurance companies, where a low proportion of respondents had a full register of property assets.

#### Revaluation of property assets

Respondents were asked how often they re-value their property portfolio.

- Just 23% of companies re-valued their property portfolio on an annual basis and 29% did so every two to three years. The banking, finance & insurance sector did so the most regularly, with 44% of all companies in the sector re-valuing their property portfolio every year.
- Nearly half of companies (48%) re-valued their property portfolio at most only every four or more years. The industrial sectors re-valued their portfolio the most infrequently.

#### How often do you re-value your property portfolio?



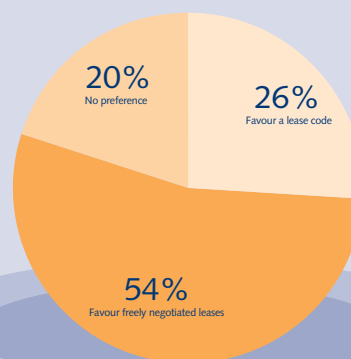
With the move from FRS to IAS accounting standards (accounting for leases) well under way, the 77% of companies who value their portfolio no more frequently than every two years could be in for a shock! The IAS standards are mandatory for the 2005 accounting year. The need to balance leasehold liabilities in accounts could create problems for those businesses that do not have the right data and are not aware of current value.

#### Lease code

Respondents were asked whether they were in favour of legislation setting out a detailed lease code or whether they favour the current system where leases are freely negotiated.

- Over half of companies (54%) were against legislation setting out a detailed lease code, preferring freely negotiated leases. The banking, finance & insurance sector had the largest proportion of companies in favour of freely negotiated leases at 69%.
- Only 26% of companies were in favour of a lease code.
- A fifth of the companies surveyed had no preference towards either a lease code or freely negotiated leases.

#### Are you in favour of legislation setting out a detailed lease code or do you favour the current system?



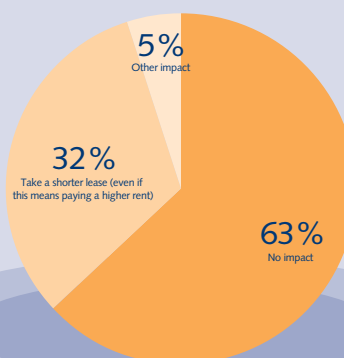
The results indicate that only a quarter of occupiers wish to see government interference in the leasing market. This signifies that the vast majority prefer to utilise their own negotiating capabilities and that free markets should be allowed to determine value and cost.

#### Stamp duty on leases

Respondents were asked what impact the introduction of the new stamp duty on leases would have on their property strategy.

- The majority of companies questioned (63%) thought that it would have no impact on their property strategy.
- However, approximately one third of companies thought that they would take shorter leases, even if this meant paying a higher rent.
- 5% of companies thought that the changes would have an impact other than taking shorter leases, for example through a reduction in their expansion plans or a more cautious property strategy.

#### What impact will the introduction of the new stamp duty on leases have on your property strategy?



## Conclusions

Taken together, the responses to the questionnaire survey show that much of the UK occupier market continues to underestimate the cost and value of its occupied estate. However, increasing sophistication is being shown by those companies whose occupancy costs are relatively high, such as those in the banking and finance sectors. The frequency with which companies monitor their portfolios is encouraging, although one third of companies in the survey still do not have a full register of their property assets.

The results also reflect the breadth of legislative and regulatory changes currently or soon to be facing corporates, from stamp duty on leases and the move to IAS accounting standards to potential legislation on a lease code. Corporates may well be unprepared for the impacts of these changes.

Many of these changes appear to lead in the direction of shorter leases. We shall be watching this area closely in future surveys.

## UK offices

### London West End

10 Stratton Street  
London  
W1J 8JR

### Birmingham

3 Brindleyplace  
Birmingham  
B1 2JB

### Cardiff

27 Windsor Place  
Cardiff  
CF10 3BZ

### Glasgow

Sutherland House  
149 St. Vincent Street  
Glasgow  
G2 5NW

### Manchester

81 Fountain Street  
Manchester  
M2 2EE

### London City

25 Bucklersbury  
London  
EC4N 8DA

### Bristol

University Gate  
Park Row  
Bristol  
BS1 5UB

### Edinburgh

34 Melville Street  
Edinburgh  
EH3 7HA

### Leeds

5-7 St. Paul's Street  
Leeds  
LS1 2JG

### Newcastle

30 Grey Street  
Newcastle Upon Tyne  
NE1 6AE

[www.gvagrimsley.co.uk](http://www.gvagrimsley.co.uk)

0870 900 89 90