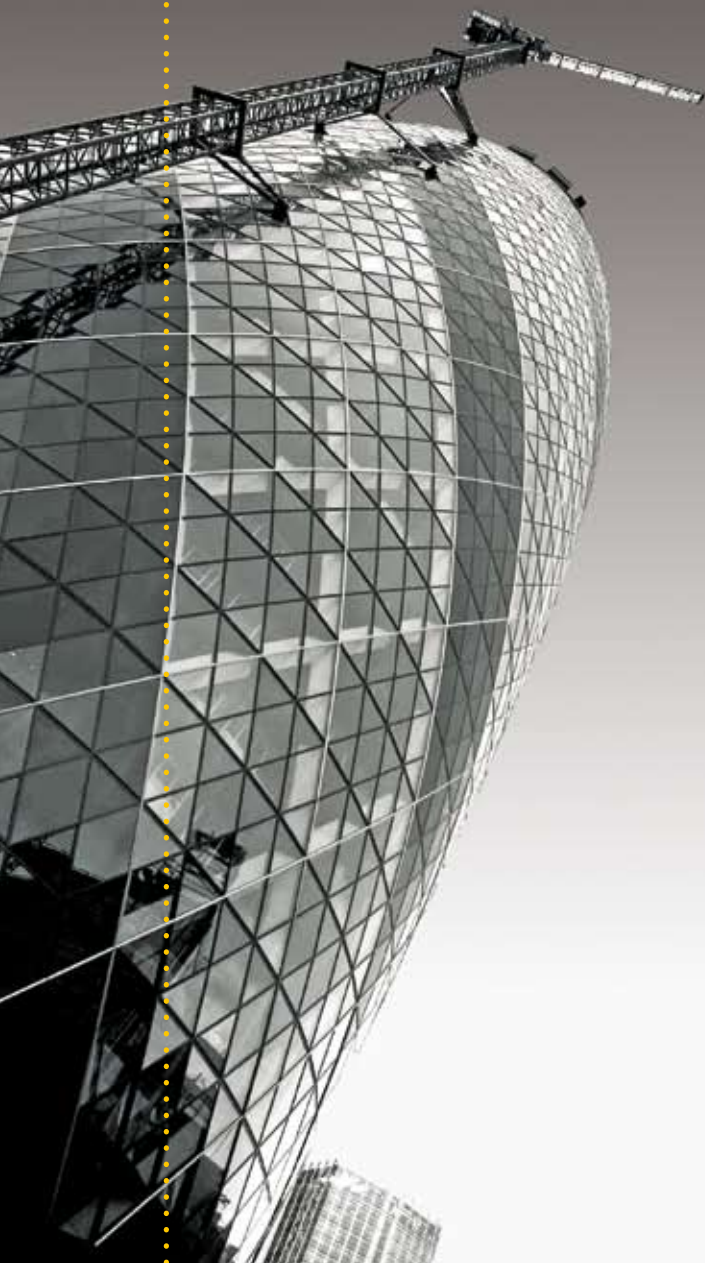


Survey of Property Trends Supplement

Corporate Property Issues

RESEARCH



- 90% of corporates regard property as an asset
- 88% believe it adds value to the business
- Only 3% have seen the pressure on costs reduce
- 80% use at least one measure of performance metric
- 70% want to surrender some of their leases
- 60% are either not complying with FRS12/IAS37, or are not clear whether they are complying
- 61% have their freeholds valued externally but only 16% have their FRS12/IAS37 liability assessed externally

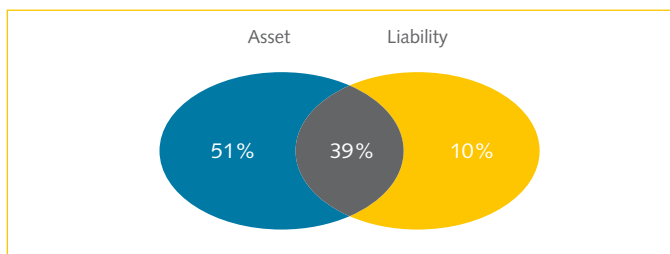
Corporates view property as an asset, but have failed to fully adopt FRS12/IAS37 and to use metrics to drive efficiency.

Introduction

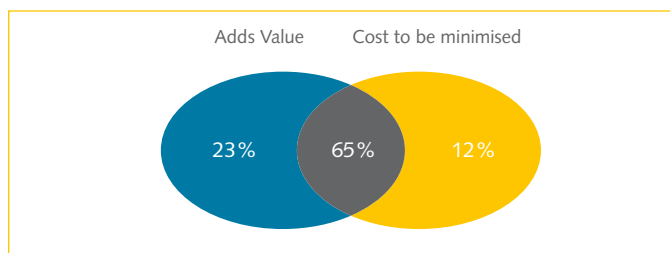
In addition to the bi-annual survey of property trends undertaken by GVA Grimley and the CBI, we question corporates on their attitudes towards the property they occupy. The survey covers private companies across all sectors of the economy and across all UK regions. Topics include whether occupiers view their property as an asset or a liability, how they measure performance, and how they assess their surplus property liabilities.

Corporate property – asset or liability?

Respondents were asked to indicate whether they regard their operational property portfolio primarily as an asset or as a liability, or indeed whether they regard it as both an asset and a liability. The results show that just over half of the respondents regarded it as only an asset, 10% regarded it as only a liability, and almost 40% regarded it as both.



A further question asked whether respondents felt that their operational property can add value to the business, whether it is just a cost to be minimised or whether it added value to the business but the costs had to be minimised. Two thirds of respondents regarded it as adding value but that the costs associated with it need to be minimised. Just under a quarter of respondents thought that property adds value (without considering the cost implications), with just 12% of the opinion that it is only a cost to be minimised.

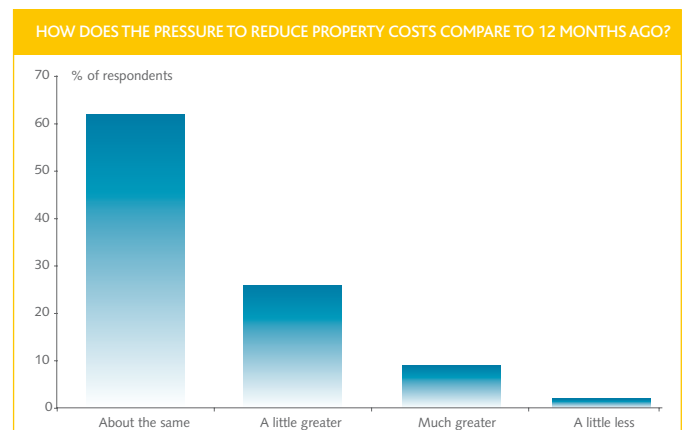


It is interesting that around 90% of respondents regarded their operational property as an asset and believed that it can add value to their business, particularly as a great deal is generally made of operational property being a liability that corporates want to reduce. This shows that costs are a major focus but that property is a business asset.

Pressure to reduce costs

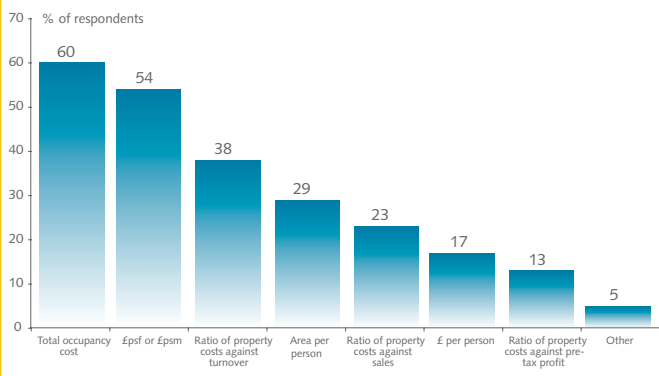
When asked whether there had been any change in the pressure to reduce property costs over the last year, the majority (62%) thought that there had been no significant change. Just over a quarter (26%) thought that the pressure had increased a little and 9% that the pressure had become much greater. Unsurprisingly, only a very small number of respondents (3%) thought that there had been any easing in the pressure to reduce costs.

Overall, therefore, 97% of respondents are reporting that pressure on cost remains as important or more important than it was a year ago.



Measuring performance

WHICH PROPERTY PERFORMANCE MEASURES DOES YOUR COMPANY USE?



The survey asked respondents to identify which measures they used to assess the performance of their operational property portfolios, against a range of options. The four primary measures are:

- Total occupancy cost - 60%
- Pounds per square foot / metre - 54%
- Ratio of property costs against turnover - 38%
- Space occupied per employee – 29%

The other three suggested measures (ratio of property costs against sales, £ per person and the ratio of property costs against pre-tax profit) were all used by less than a quarter of respondents.

There was a clear variation by size of company, with larger companies more likely to use property performance measures. For example, 70% of respondents with over 5,000 employees measured the total occupancy cost, as did 66% of those with 2,000-4,999 employees. In contrast, less than half of occupiers with less than 500 employees used this measure.

80% of respondents used at least one measure to monitor performance. Of those who did monitor their performance, 22% used only one measure to monitor property performance, whilst 56% used two measures and the remaining 22% used three or more measures.

For those who used more than one measure, the most common combinations were:

- Total occupancy costs & ratio of property costs against turnover - 20%
- Total occupancy cost & ratio of property costs against pre-tax profit - 18%
- Epsf/m & turnover - 17%

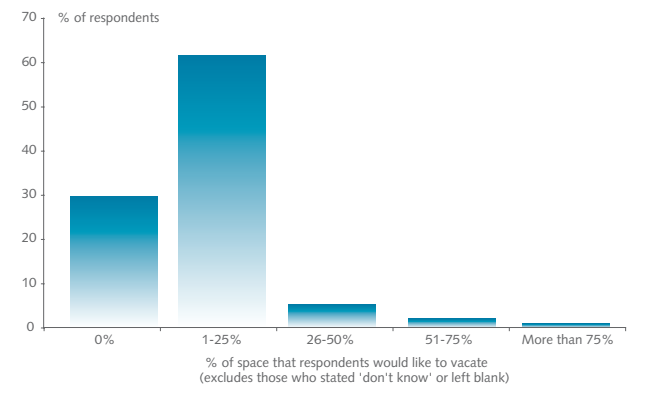
Corporates regard the space they occupy as an asset, although the costs they incur with that space need to be minimised. But what are they really doing to drive cost savings if they are not looking at various metrics to judge how well they are using the space? There does not appear to be a high degree of consensus amongst occupiers on the types of measures used. The survey suggests that about two-thirds of corporate occupiers are using two or more different measures.

Lease flexibility

The survey questioned respondents on the subject of lease flexibility. This was undertaken in terms of the proportion of their property on which they would like to terminate leases now if this were an option.

Surprisingly, 30% of those who answered the question stated that they would not want to terminate any of their leases. However, a clear majority of 62% would terminate up to a quarter of the space they lease, whilst 9% of respondents would wish to terminate more than a quarter of the space they occupy.

IF YOU COULD TERMINATE LEASES NOW WHAT PROPORTION OF YOUR PROPERTY WOULD YOU LIKE TO VACATE OVER THE NEXT 12 MONTHS?



Small companies are less likely to want to terminate leases than large firms. 89% of companies with 5,000 or more employees want to terminate leases, compared with 39% of those with between 500-1,999 employees, and 46% of those with 200-499 employees.

90% of those in Distribution and Retailing (SIC6) and 74% in Business and financial services (SIC8) want to terminate leases, whereas manufacturers are less likely to want to do this, especially the engineering sector (24%).

The 2006 Strutt & Parker IPD Lease Events Review suggests that in 2005, 41% of tenants with an option to break their lease exercised this option (weighted by rental value), an increase on the 30% recorded the previous year. Overall, it appears that occupiers are becoming increasingly likely to exercise break options.

Assessing surplus property

Respondents were asked whether or not they have fully adopted the FRS12/IAS37 accounting standards, which set out how the costs associated with surplus property should be reported. 40% of companies stated that these standards have been fully adopted, with 7% stating that this was not the case. Significantly, 53% stated that they did not know whether this accounting standard had been adopted. This raises the question as to what 6 out of 10 companies are doing in respect of the issue, as the respondents to the survey are decision-makers in organisations.

As would be expected, larger companies were more likely to have adopted FRS12/IAS37 than smaller ones (for example, 49% of those with at least 5,000 employees, compared with less than 10% of those with less than 200 employees). Also unsurprisingly, those respondents from SIC 8 (banking, finance, insurance and business services) were much more likely to have adopted the standards than those from other sectors, with 66% of respondents stating that they had adopted the standards.

Respondents were also asked how frequently they assess their FRS12/IAS37 liability. Of those who answered the question, 65% stated that this was undertaken annually, with 6% stating two-yearly and 8% stating five-yearly. The remaining 21% stated that they used some other frequency of assessment. Both FRS12 and IAS37 require that the liability for property be reviewed annually, so 35% of those under FRS12/IAS37 calculations are not complying with the requirements.

Of those respondents who stated that they had fully adopted the FRS12/IAS37 accounting standards, 76% stated that this was undertaken annually, suggesting that the remaining 24% are not actually complying with the requirements.

84% stated that they assess their FRS12/IAS37 liabilities internally, with the remaining 16% assessing this externally.

Valuing freeholds / long leaseholds

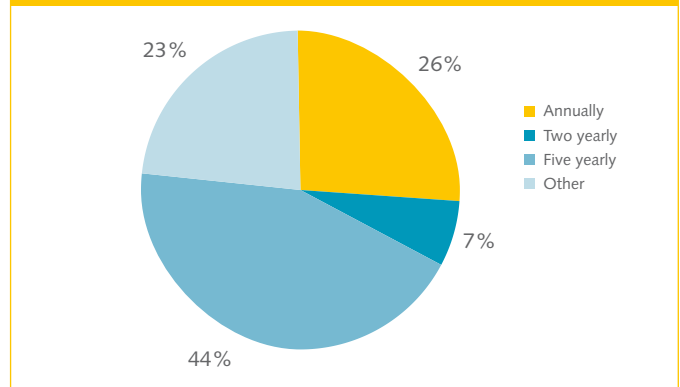
Respondents were also questioned on how frequently they value their freeholds / long leasehold properties. 26% stated annually, 7% stated two-yearly and 44% stated five-yearly (the remaining 23% stated 'other').

Of those who answered this question, 39% stated that they assessed the value internally, with 61% stating that this is undertaken externally.

In terms of the Red Book, the basis for valuation varies depending on the nature of the company but the survey suggests that around 80% are valuing five-yearly or more and as such are probably complying with the requirements.

So why is it that corporates are complying fairly well with the requirements on one side of the equation but not on the other? Possible explanations could be lack of knowledge or that the FRS12 / IAS37 figures increase the provisions and therefore reduce the value of companies.

HOW OFTEN DO YOU REVALUE YOUR OPERATIONAL PROPERTY ASSETS?



Conclusions

Although there is pressure to reduce costs, the property that companies occupy is clearly regarded as an asset that can add value to the business and not simply as a liability for which costs should be minimised. However, companies do not appear to be acting on this view in terms of the degree to which they actually monitor their property in order to make objective decisions.

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