

Strategic Portfolio Planning

Linking Services, Property & Value

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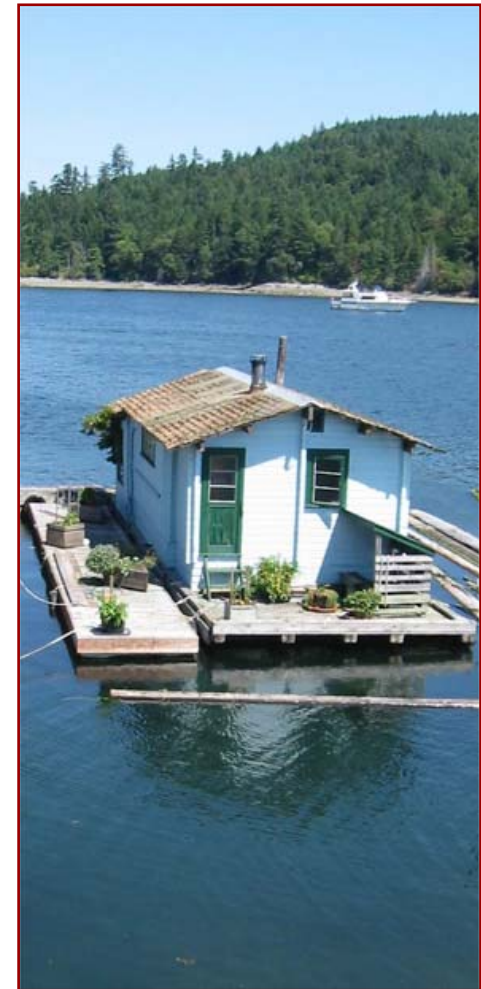
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Presentation Outline

- Purpose
 - ◆ To outline a *holistic approach* to planning & supplying government services
 - ◆ To illustrate the *improved efficiency* from this approach
 - ◆ To demonstrate the *key role* of government real estate departments

- Presentation structure
 - ◆ Case studies – proven examples
 - ◆ Framework – the theory behind it
 - ◆ The Sustainable Layer





Case Studies

Proven examples



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Case Study 1: Riverview Tertiary Mental Health





Case Study 1: The Riverview Business Case

- New mental health facility, conceived 1999
 - ◆ Green principles but not LEED™
- Less costly to build, operate
 - ◆ Hospital \$350,000/bed; Connolly Lodge \$100,000/bed
 - ◆ **Construction savings: \$5m for 20 beds**
 - ◆ Hospital \$375/diem; Connolly Lodge \$142/diem
 - ◆ **Operational Savings: \$1.7m/year for 20 beds**
 - ◆ **30yr NPV @ 5% : over \$31m** ← **Financial reporting**
- Overall benefit ← **Non-financial reporting**
 - ◆ **Unexpectedly, residents return to the community**
 - ◆ Projected viable in **under 2 years** from business savings
 - *Effectively, 14 month payback*



Case Study 2: BC Seniors Care

- Health DM : request for support
 - ◆ Help with TB submission
 - ◆ 3,400 new seniors care beds
- Response
 - ◆ Review alternatives
 - Existing services increasingly outdated, insufficient
 - Edmonton: Choice Centre
 - Surrey: Dutch Assisted Living
 - ◆ "Natural step" adds significant value
 - "Closer to home"
 - Better, cheaper care
- Recommendation : change

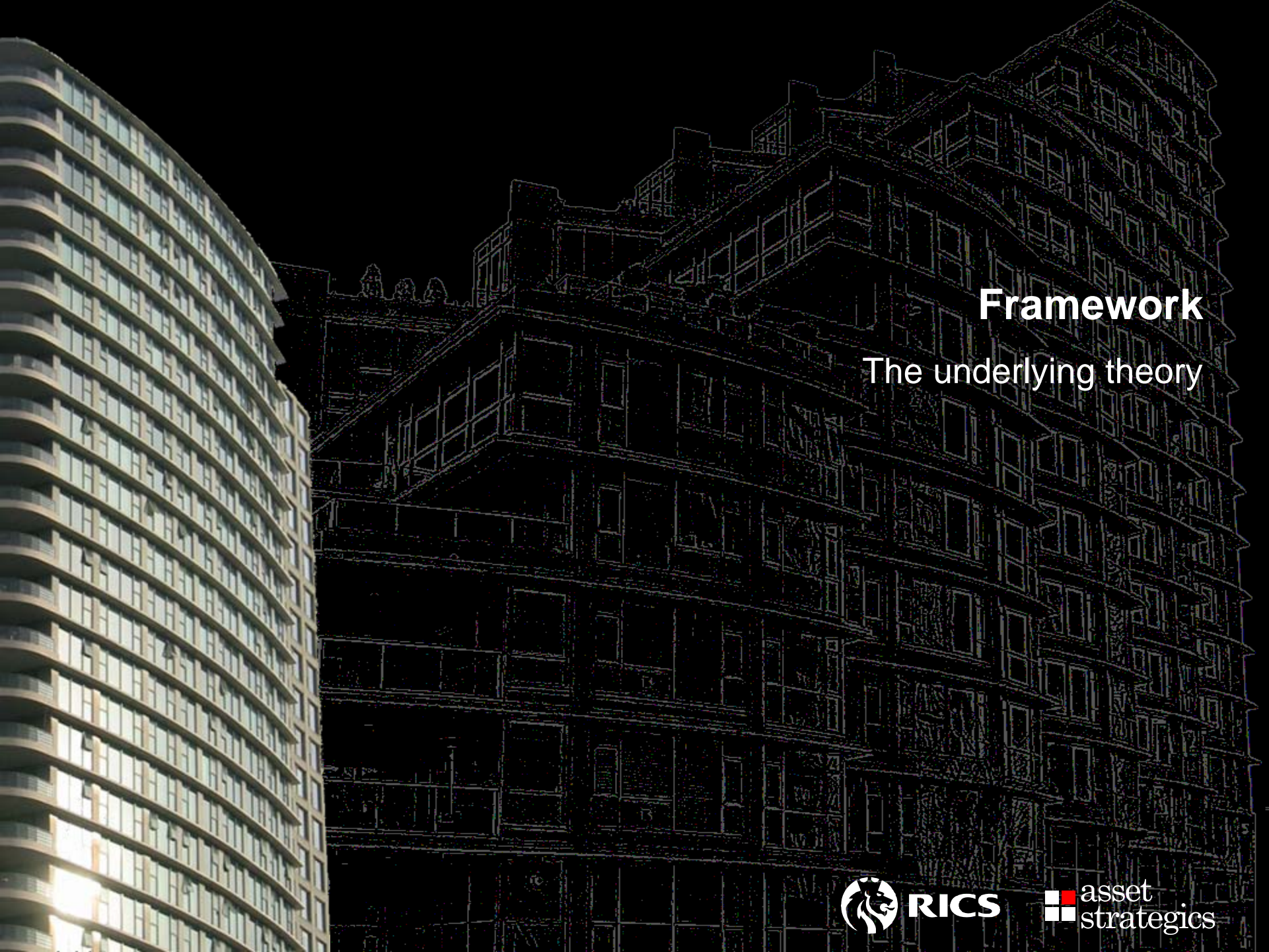




Case Study 2: BC Seniors Care Result

- Holistic business case
 - ◆ 25 year projection: demand analysis by illness, gender, location, age, ethnicity etc.
 - ◆ 32mb s/sheet, approved in 6 weeks
 - Sensitivity and options analysis
 - Linked to financials, resources
 - ◆ \$7bn "savings" : \$2m to implement as a Public-Private Partnership
- Difference
 - ◆ Integrated demand & supply
 - Property just another aspect
 - ◆ Method: Modified development residual viability analysis





Framework

The underlying theory



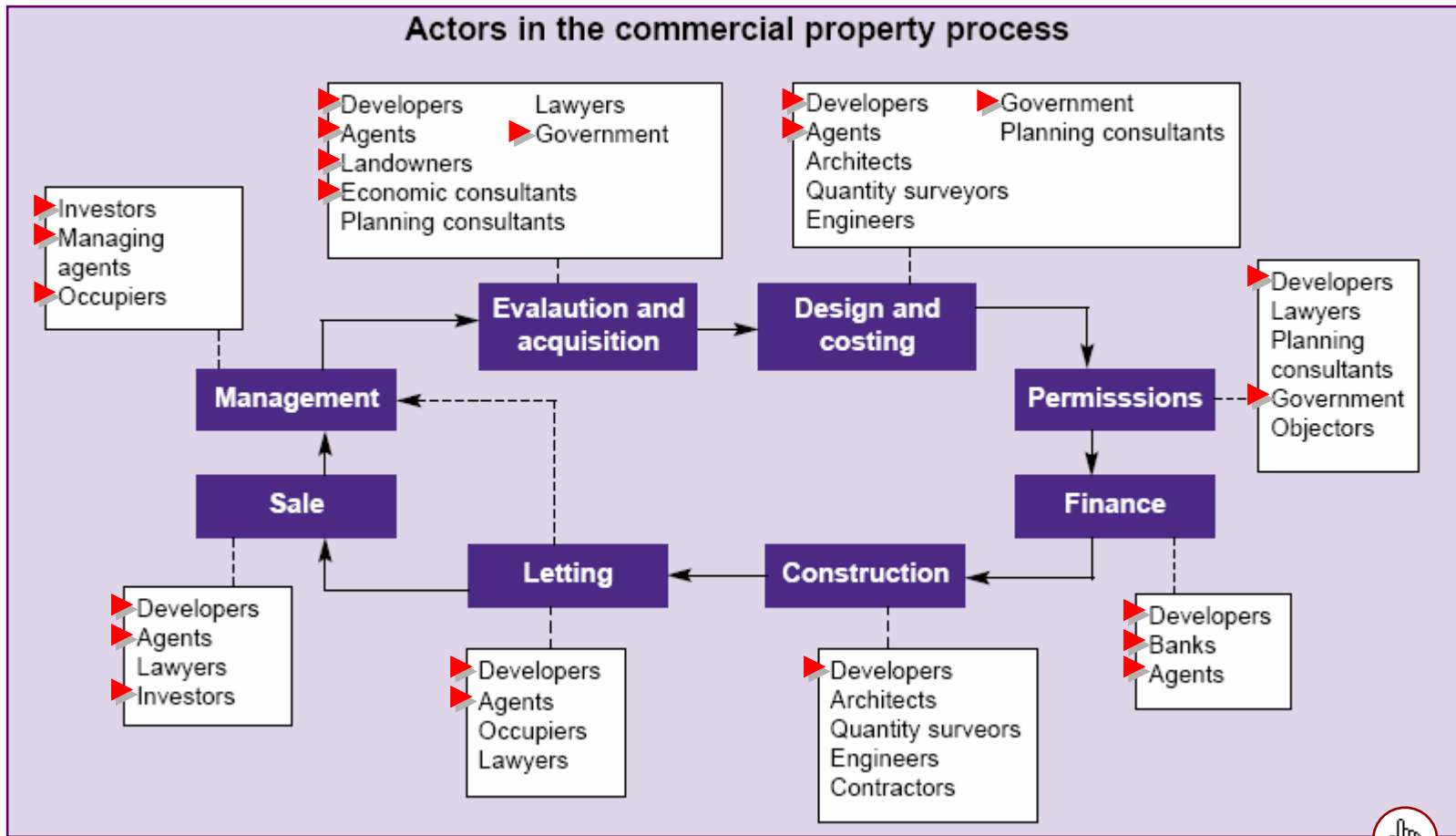
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The Market System : Demand Drives Supply



Source: [Sustainability and the built environment - an agenda for action](#), RICS Foundation, October 2004

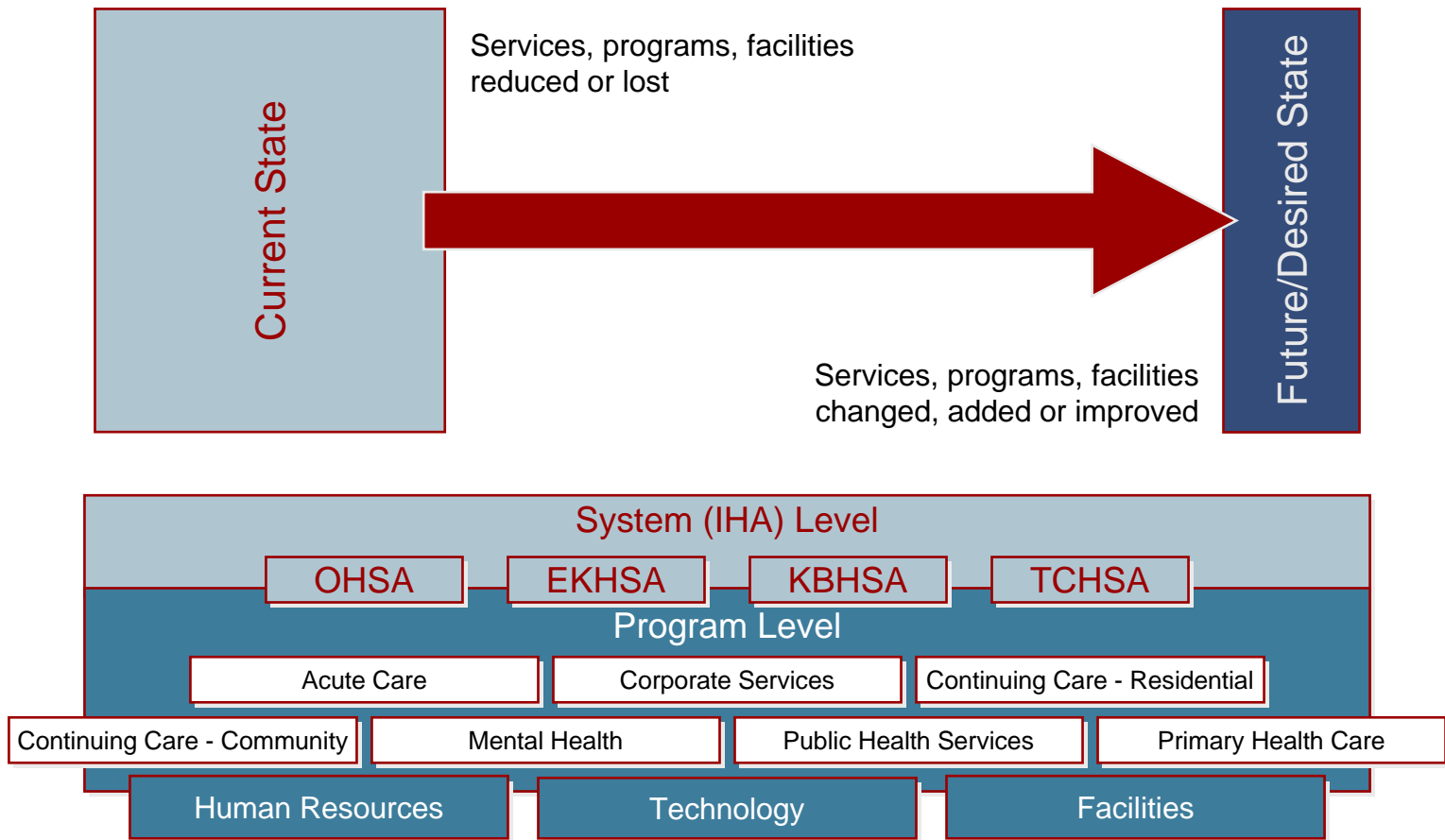


▶ Interested in value



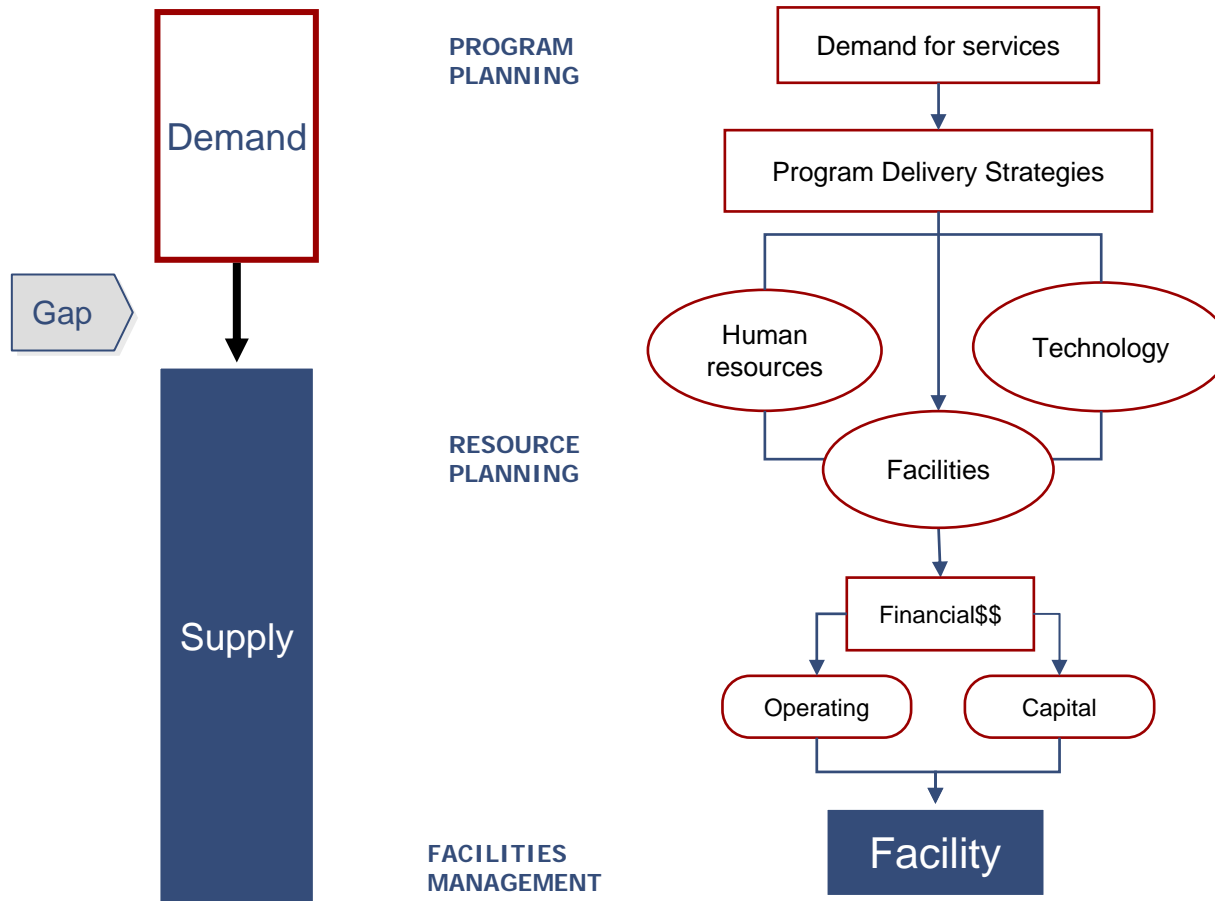
Government System : Program Changes Drive Needs

Example : BC's Interior Health Authority



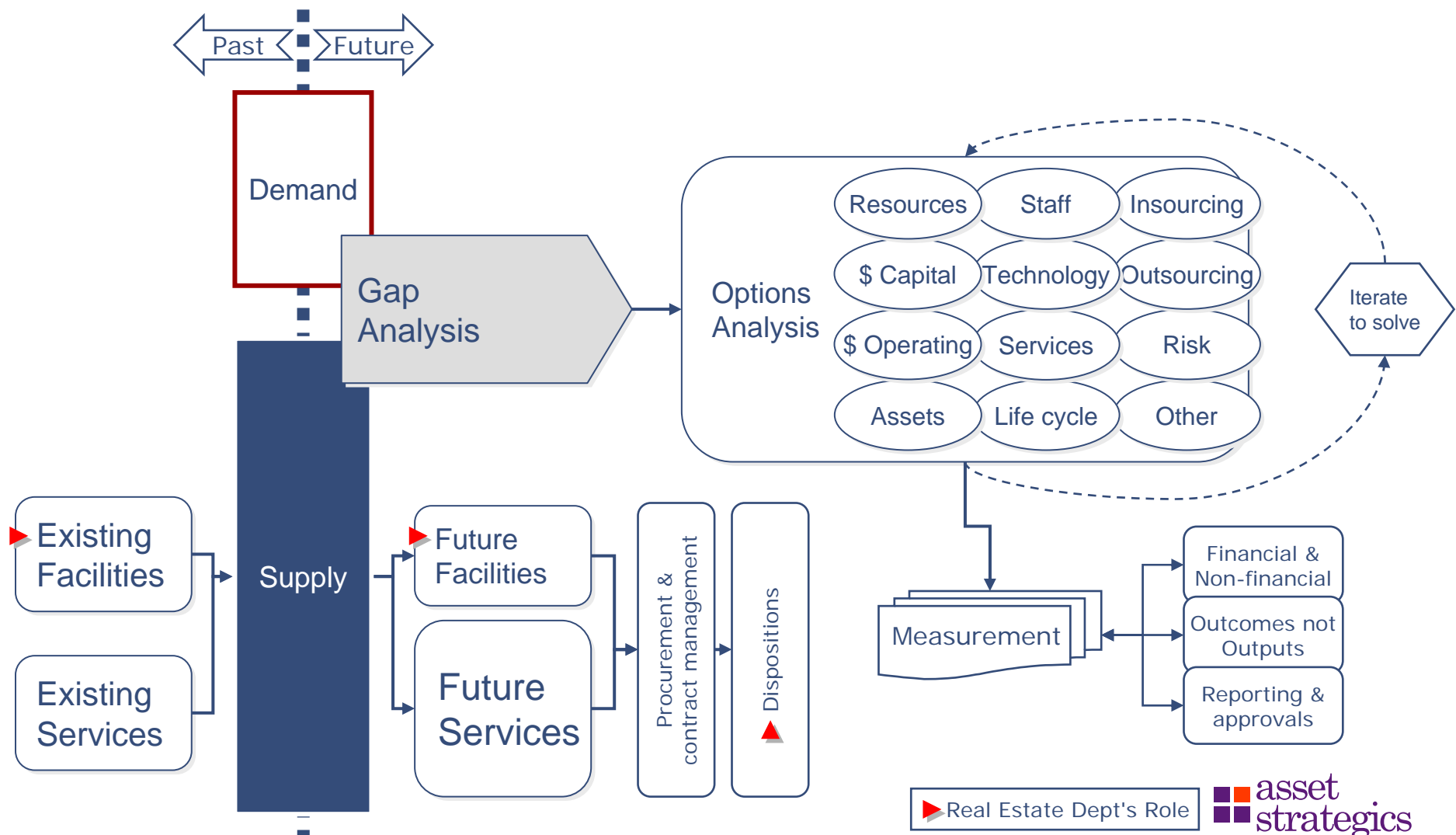


Government System : Status Quo / Linear Planning





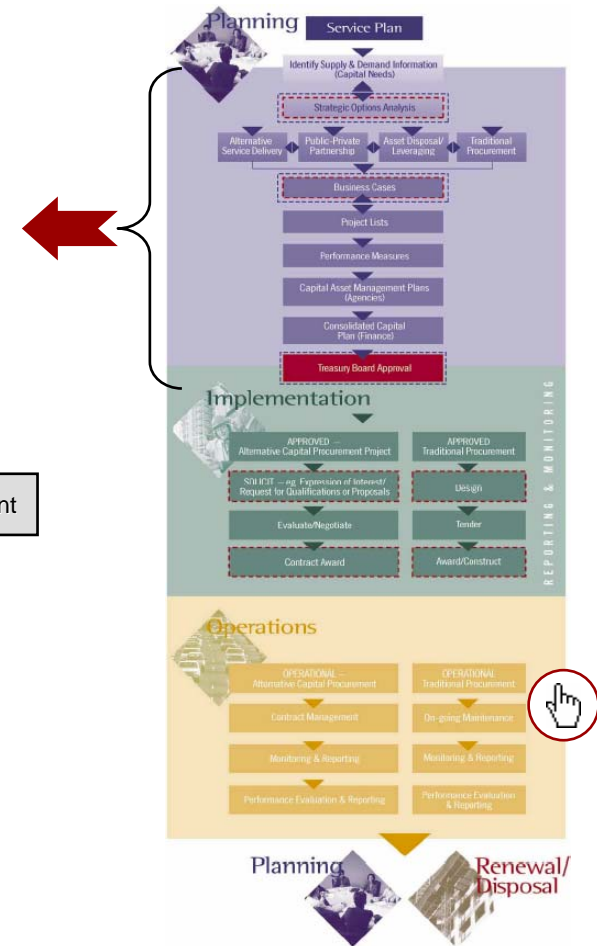
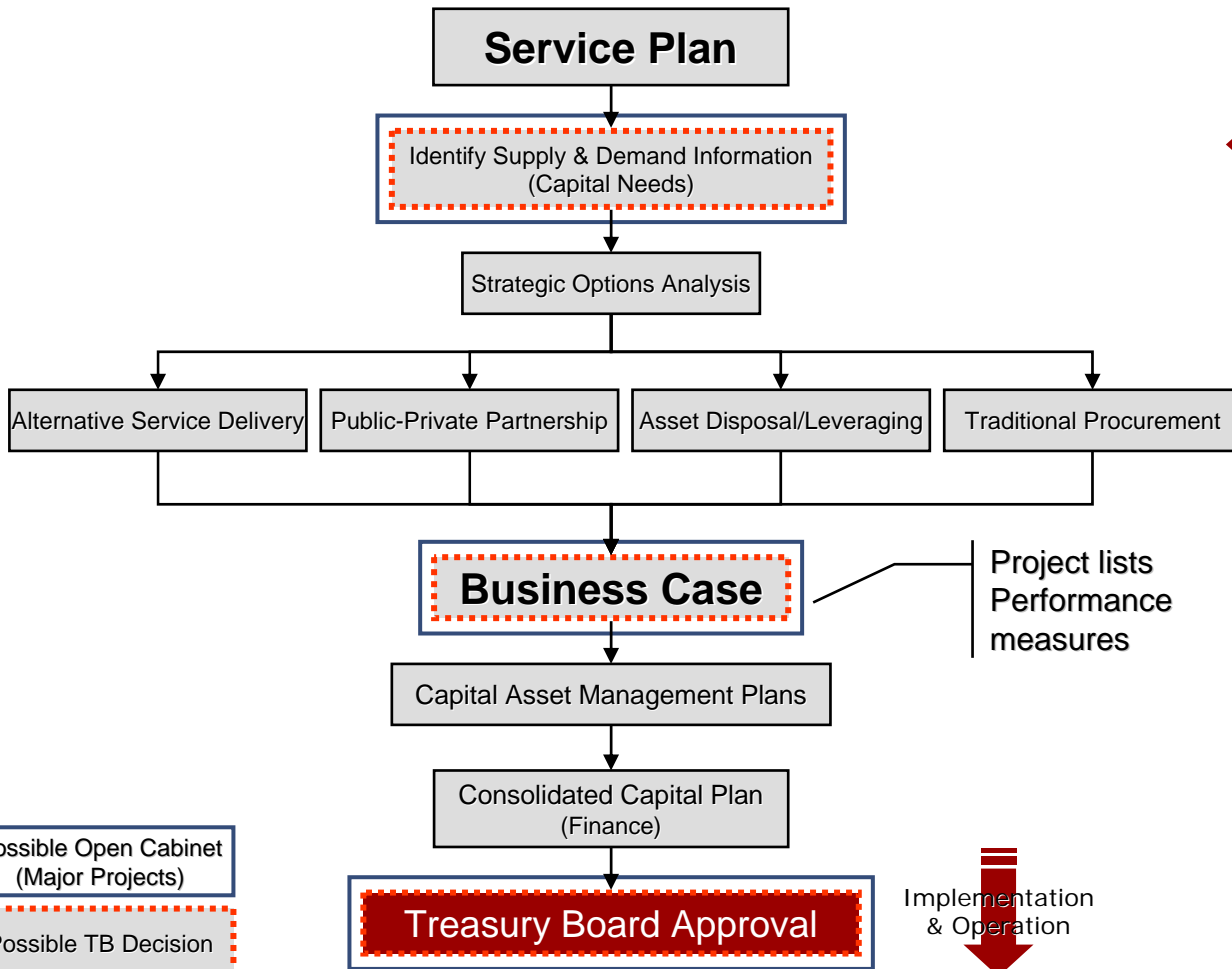
The Underlying Role of Real Estate





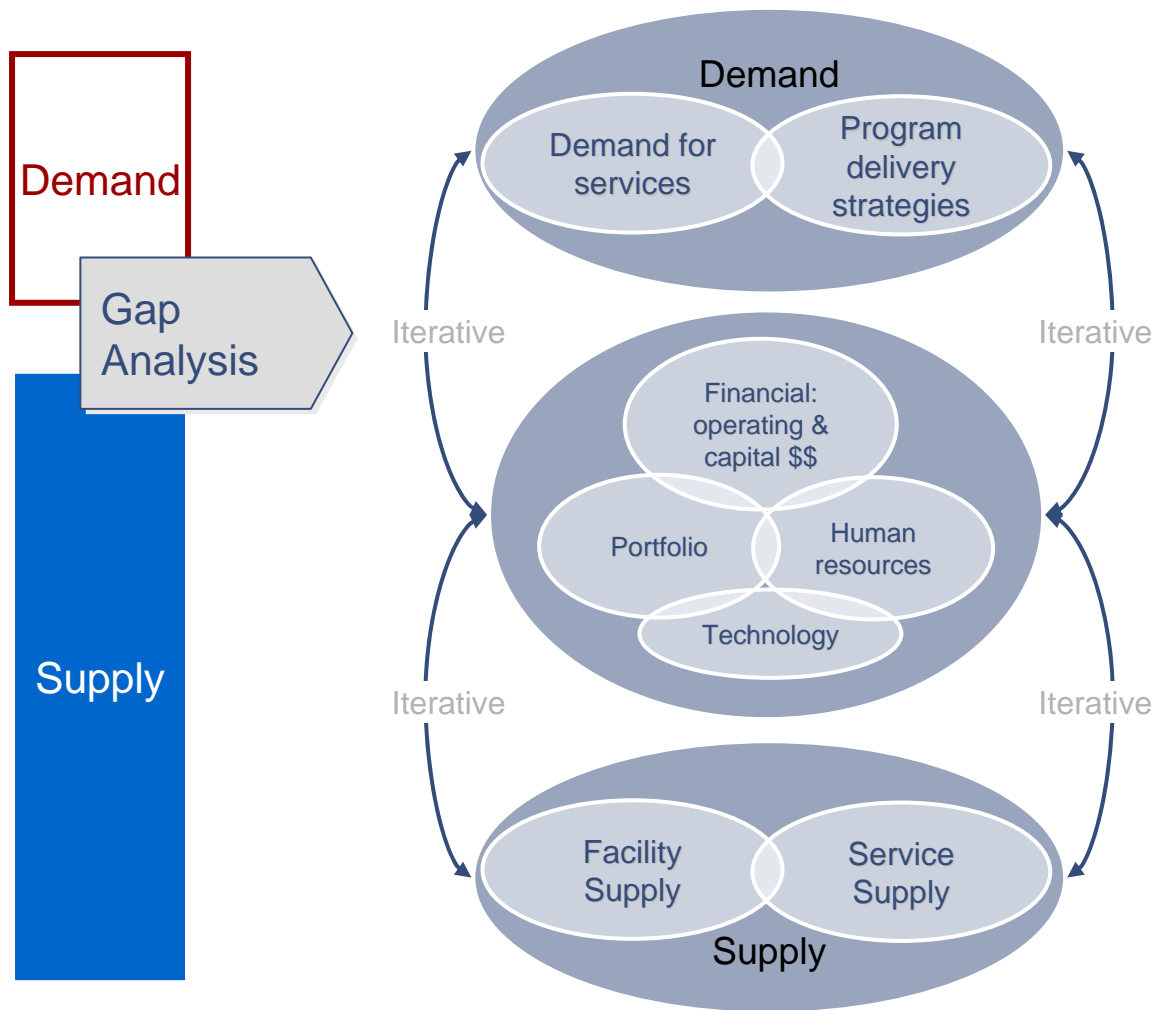
Capital Asset Management Framework

Step 1: Planning





Strategic Portfolio Planning: Integrating Real Estate Demand with Service Supply



FUNCTIONAL SERVICE ALIGNMENT

PHYSICAL & FUNCTIONAL INVENTORY ASSESSMENT

- Physical & functional assessment
- Functional effectiveness/obsolescence
- Remediation/re-use analysis
- Future alignment potential
- Viability & risk analysis

RESOURCE PERFORMANCE PLANNING

- Suitability/Fit to Program Delivery
- Risk Management
- Integrated Analysis - \$/Assets/HR/Technology
- Scenario Modeling (reduce, re-use, re-cycle, new)

STRATEGIC OPTIONS ANALYSIS

- Demand, supply & gap analysis
- Alternative Service Delivery, P3
- Performance contracting & procurement
- Build / not build, lease / own
- Disposal
- Alternative use / re-use
- Revenue generation
- PPM options & costing

BUSINESS CASE

- Quality
- Quantity
- Timeliness
- Cost



The Sustainable Layer

Green as a competitive advantage



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Green Value Null Hypothesis

- Null Hypothesis:

"There is no relationship between the market value of a real estate asset and its green features and related performance."

- Purpose:

- ◆ Analytical neutrality, simplicity

- Trigger:

- ◆ Raised in RICS meeting with Canadian Bankers' Association on changes to IFRS



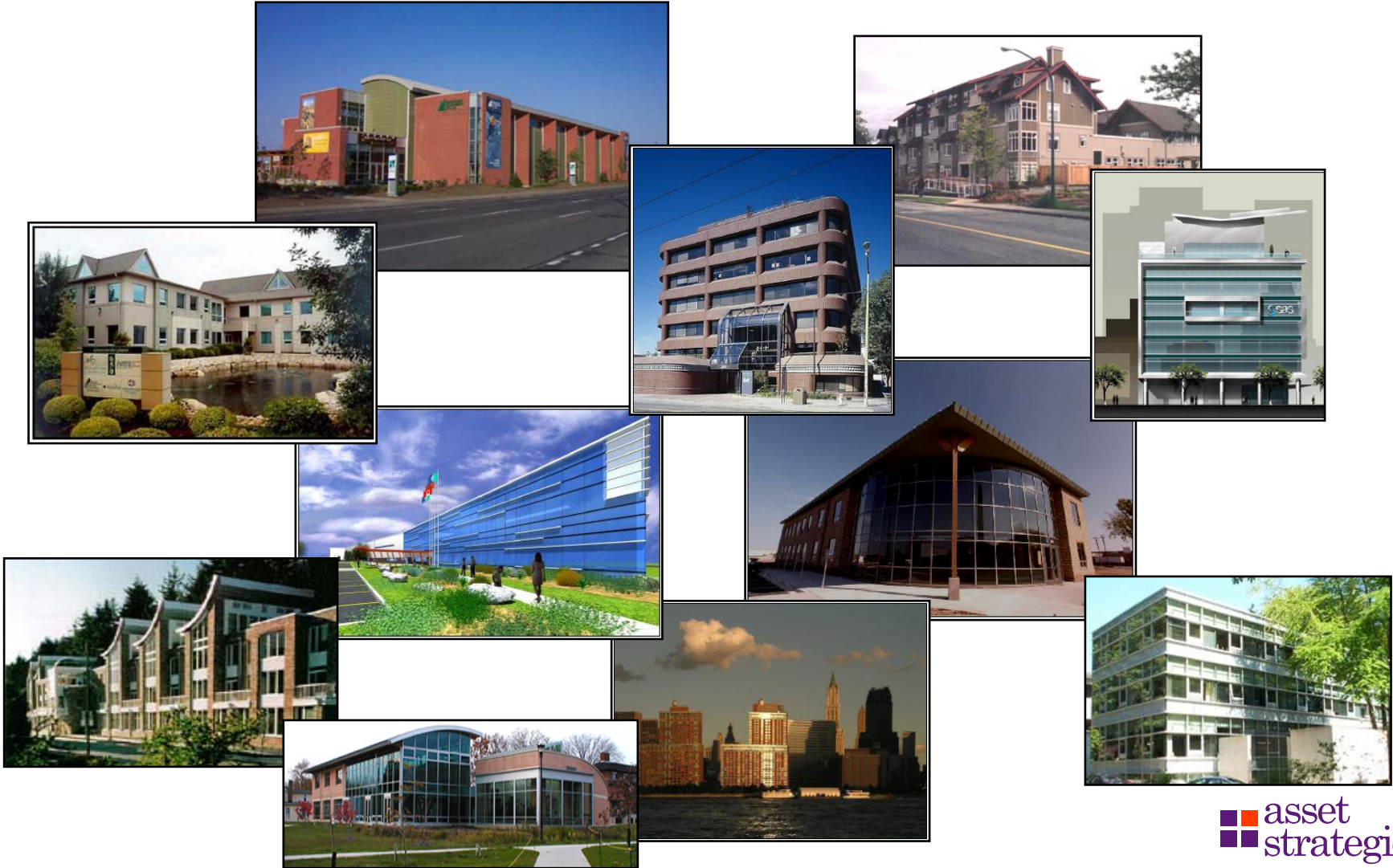


Green Value Summary

- Sponsors:
 - ♦ RICS
 - ♦ BC Hydro
 - ♦ Canada Green Building Council
 - ♦ English Partnerships (UK)
 - ♦ Greater Vancouver Regional District
 - ♦ Green Buildings BC
 - ♦ Natural Resources Canada
 - ♦ RealPac
- Others:
 - ♦ Canada Mortgage & Housing Corp., City of Vancouver
 - ♦ Team: Cushman Wakefield LePage, Busby Perkins+Will, BuildGreen, DTZ (UK)
- Best practices & literature review
- 18 project reviews in:
 - ♦ San Francisco, California
 - ♦ Minneapolis, Minnesota
 - ♦ Oberlin, Ohio
 - ♦ New York City, New York
 - ♦ New Westminster, Vancouver, Victoria, BC
 - ♦ Kitchener, Ottawa & Toronto, Ontario
 - ♦ Montreal, Quebec
 - ♦ 6 UK projects



Green Value Projects





Green Value Conclusions: The Positive Attributes of Sustainability

- Added value *can even exceed the value of the asset*
- The main property value advantages
 1. Increased productivity
 2. Improved risk, marketability
 3. Lower operation/maintenance costs
 4. Energy & resource savings
 5. Grants, subsidies, inducements etc.
 6. Attract tenants faster (i.e. absorption)
 7. Higher rents, investment/sale value
 8. Lower turnover/vacancy
 9. Reduced fitting-out costs (i.e. TI's)
 10. Lower internal move costs (i.e. churn)
 11. Faster, better public process



Vancouver Island Technology Park, BC



Green Value Study



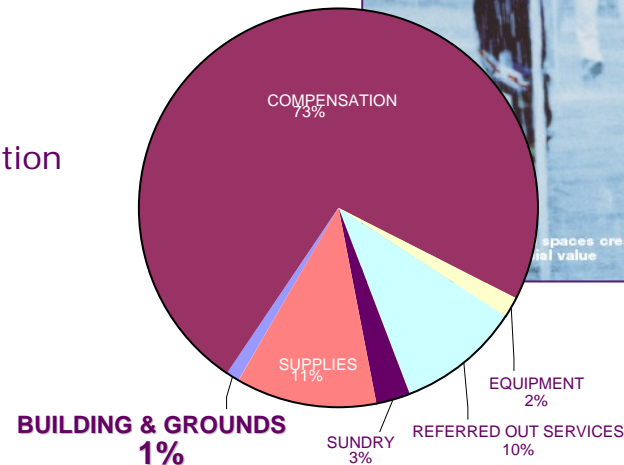
The Green Business Case

"A study by Sheffield University for NHS Estates compared patient outcomes in a newly refurbished orthopaedic unit at Poole hospital with those in a 1960s conventional ward.

The study found that patients treated on the refurbished ward required less analgesic medication than those on the older ward. **Patients** not undergoing operations were **discharged** significantly more quickly from the newer ward – after **6.4 days** compared with **8.1 days.**"

Math

8.1 days ÷ 6.4 days = 21% cost equivalent reduction
 BC Healthcare = \$11bn/year
 \$11bn x 21% = \$2.31bn savings/year!
 ...potentially.



Typical BC Health Authority, 2001-2



Examples of Green Value I

- Pennsylvania Power and Light conversion's power savings:
 - ◆ Traditional method : cost savings
4.1 yrs payback, **24% ROI**
 - ◆ Green Value:
69 days payback, **540% ROI**
 - Main difference: productivity benefits
- Reno Post Office upgrade:
 - ◆ Improved productivity gains paid for the \$500,000 renovation in under a year
 - ◆ Annual energy savings a 'free bonus'



Mountain Equipment Co-op, Montreal



Examples of Green Value II



The Solaire, New York

- Hyde Tools' new lighting improves quality control
 - ◆ \$1 savings = \$10 in improved sales
 - ◆ Retrofit worth \$250,000 extra sales annually
 - ◆ Value "far exceeding fuel savings"

- VITP LEED® Gold benefits
 - ◆ Project met traditional budget
 - \$25psf TI avoidance, 20% faster lease-up
 - ◆ Analysis shows 30% productivity increase

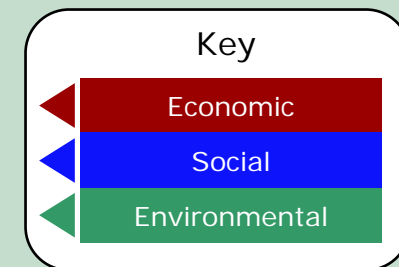
- City of Victoria Police
 - ◆ Staff suddenly falling ill
 - ◆ VOCs from Arena development closes offices
 - What's the cost ... just staff cost ... or crime?



The UK Model : Integrating Sustainability

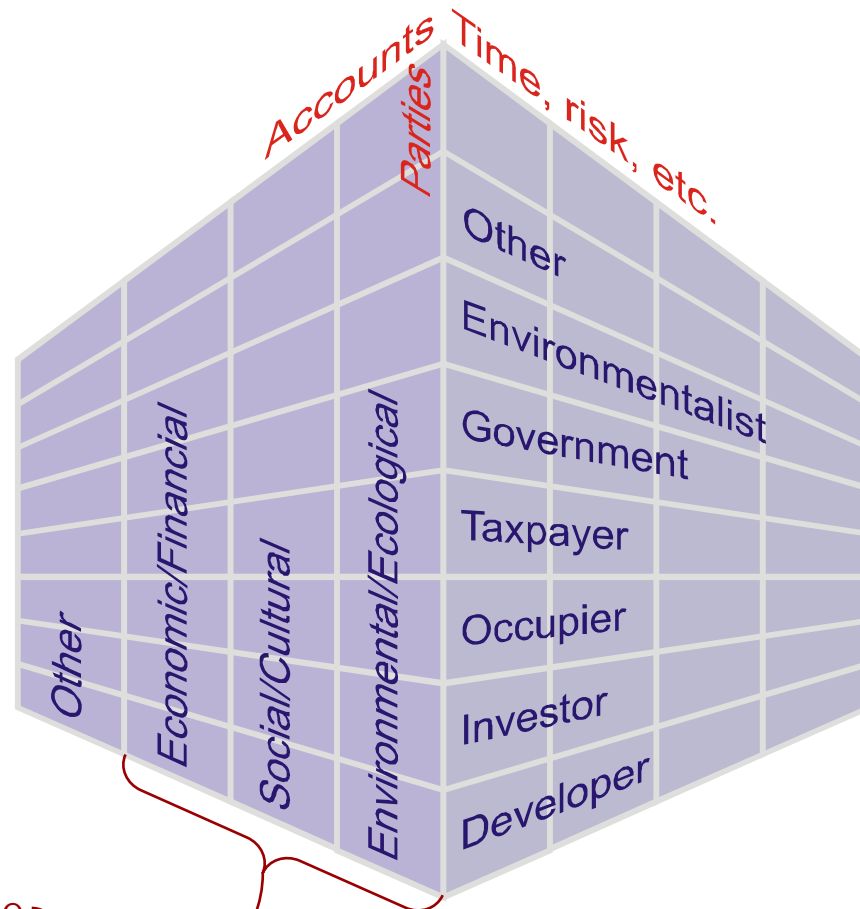
BOX 3: POSSIBLE OUTPUTS OF AN ECONOMIC APPRAISAL OR EVALUATION

- ❑ Business cases (either Preliminary, Outline or Full) consisting of:
 - ❑ Strategic Case;
 - ❑ Economic Case (or Option Appraisal);
 - ❑ Financial Case (or Affordability);
 - ❑ Commercial Case;
 - ❑ Programme;
 - ❑ Project Management Case (or Achievability).
- ❑ Regulatory Impact Assessment
- ❑ Health Impact Assessment
- ❑ Environmental Appraisal
- ❑ Health and Safety Impact appraisal
- ❑ Consumer Impact Assessment
- ❑ Integrated Policy Appraisal (IPA)²
- ❑ Evaluation and audit reports.





Three Dimensions of Sustainability Overview

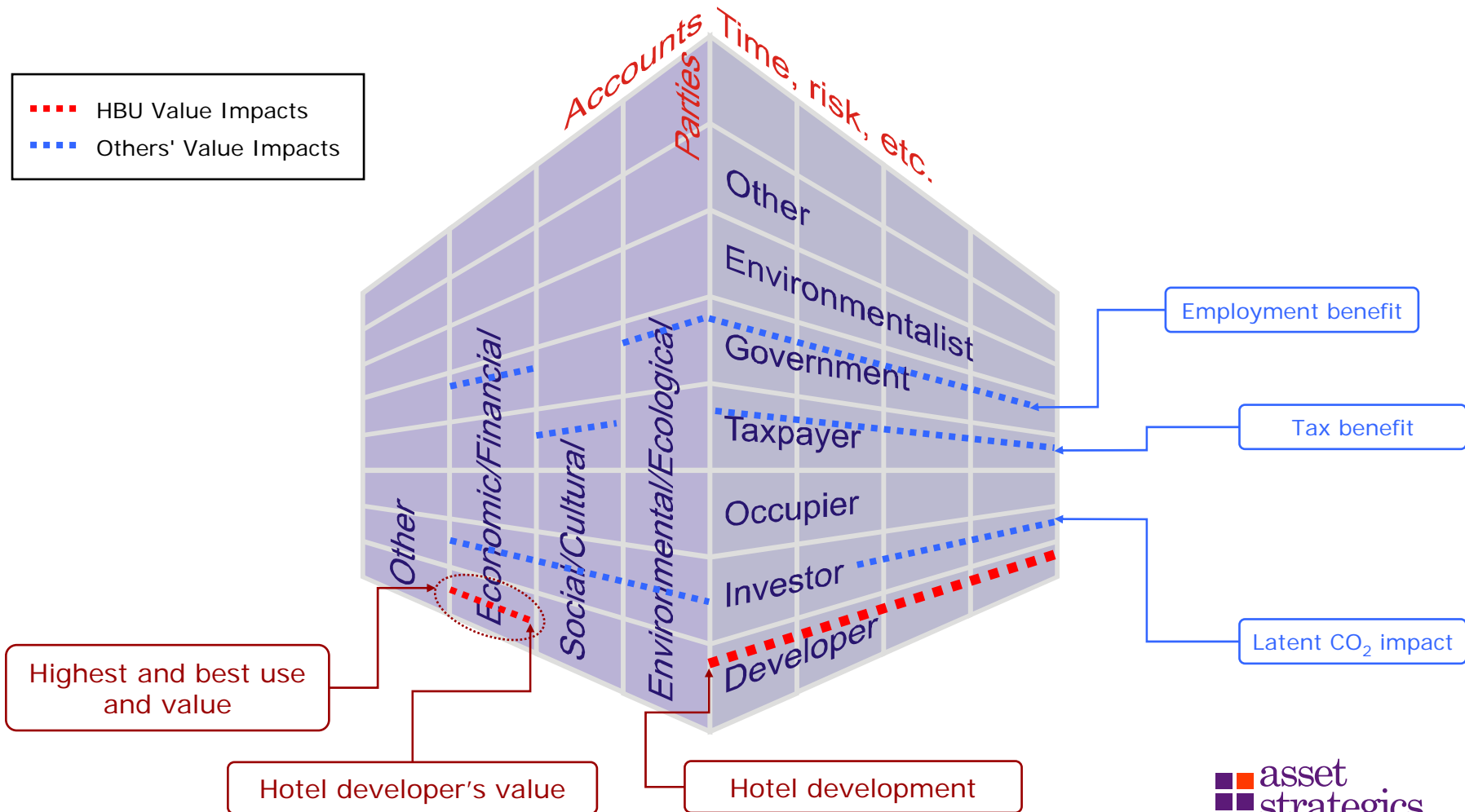


Triple Bottom Line



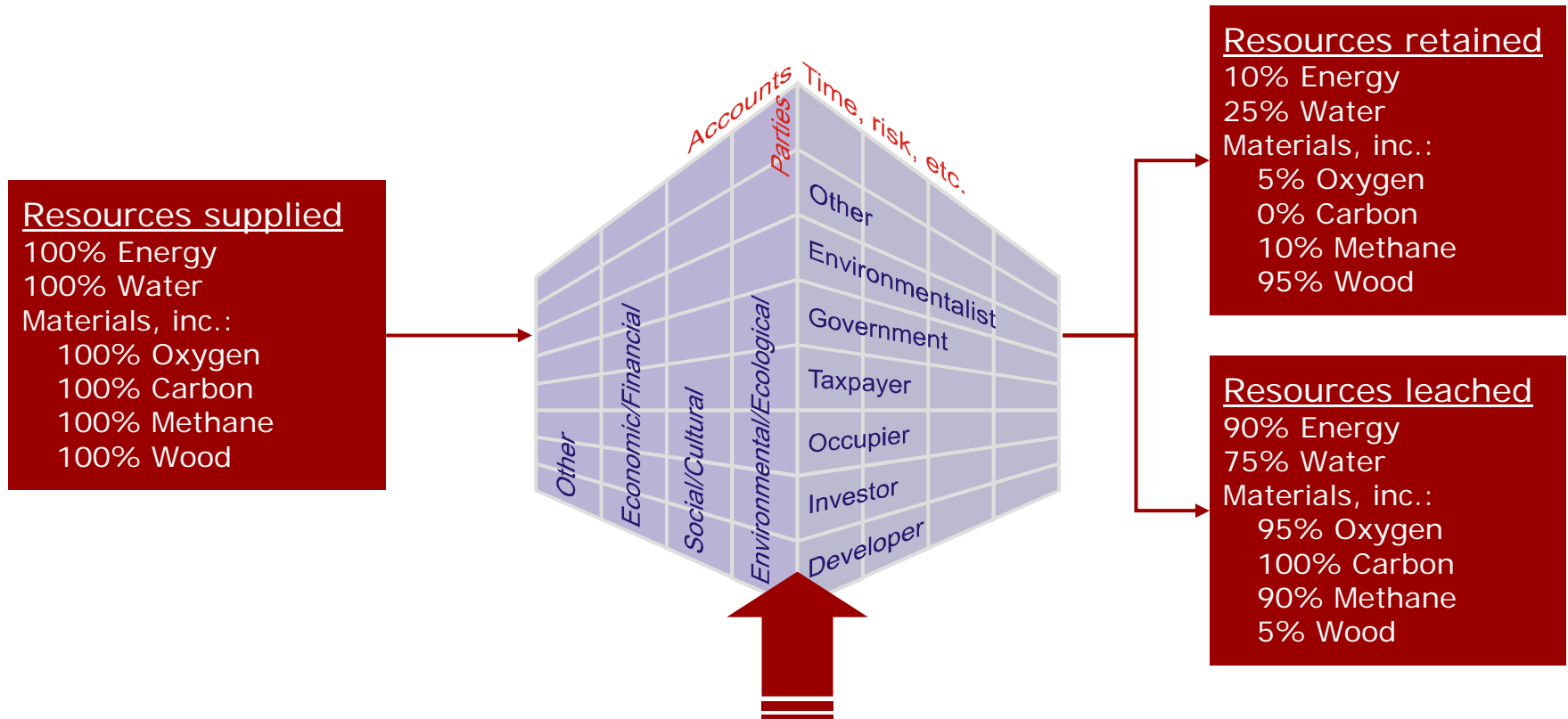
Three Dimensions of Sustainability

Example : A Hotel Development





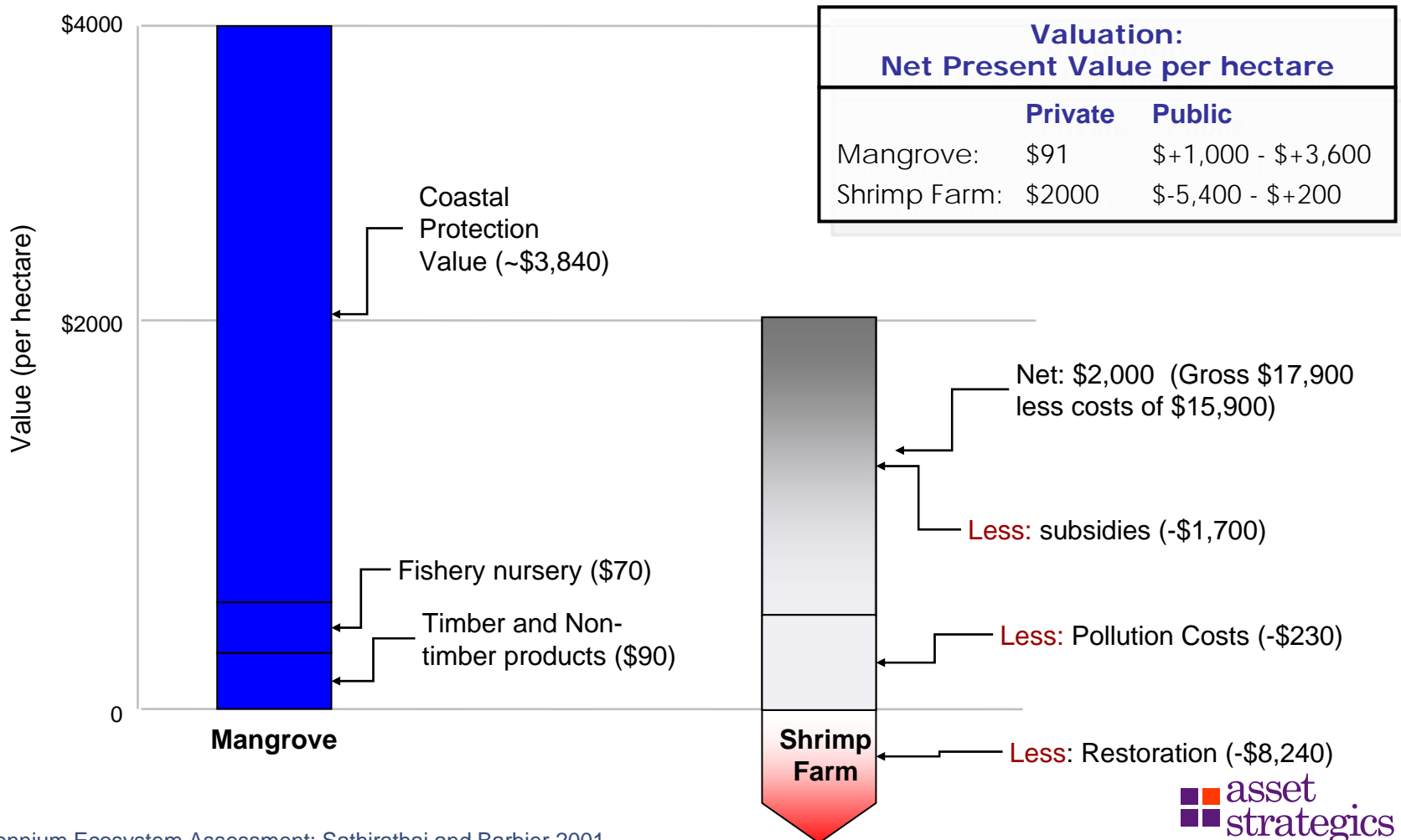
Sustainability's Fourth Dimension: Inventorying Earth's Resources



Bruntland:
*"Development that meets the needs of the present
 without compromising the ability of future generations
 to meet their own needs."*



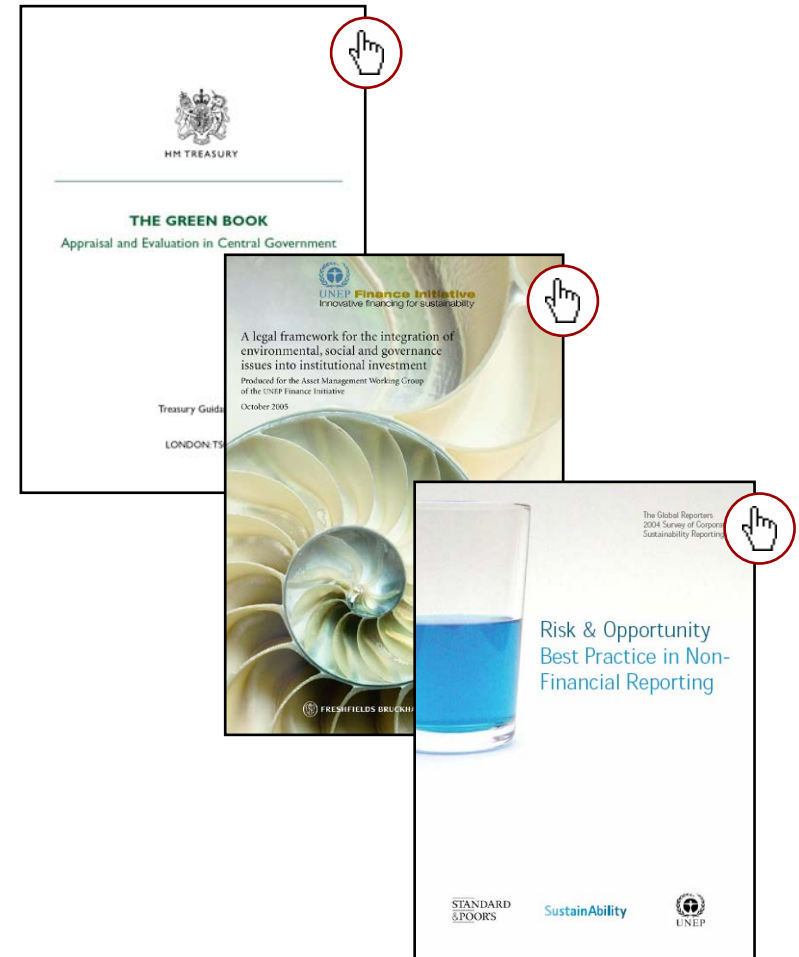
A Shrimp vs. Mangrove Analysis: "Holistic" Value [Public Interest Value]





Future : Change

- Private sector change
 - ◆ Accounting shift : IASB, FASB, CASB
 - ◆ Increased liability & risk impacts
 - ◆ Freshfields report: corporate liability extends impairment into sustainability
- Non-financial reporting & analysis
 - ◆ Public sector already familiar with this
- Link between sustainability, services & competitive position
 - ◆ Emphasis of matching service demand with supply alternatives
 - ◆ Focus on value not cost
 - ◆ Integrated, holistic, competitive





Questions?



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