Strategic Portfolio Planning
Linking Services, Property & Value

National Executive Forum on Public Property
St. John's, Newfoundland
24th May, 2007

Chris Corps MRICS
Principal, Asset Strategics Ltd.
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
"The 1992 collapse of the Newfoundland cod fishery cost ~$2bn in income support and retraining"

Source: Millenium Ecosystem Assessment
Threatened Fisheries

Year of Peak Fish Harvest

Source: Millennium Ecosystem Assessment and Sea Around Us project
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; Connelly Lodge $142/diem
  - **Operational Savings:** $1.7m/year for 20 beds
  - 30yr NPV @ 5% : over $31m

- Overall benefit
  - *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    - Existing services increasingly outdated, insufficient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
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

Current State:
- Services, programs, facilities reduced or lost

Future/Desired State:
- Services, programs, facilities changed, added or improved

System (IHA) Level:
- OHSA
- EKHSA
- KBHSA
- TCHSA

Program Level:
- Acute Care
- Corporate Services
- Continuing Care - Residential
- Continuing Care - Community
- Mental Health
- Public Health Services
- Primary Health Care

Human Resources
Technology
Facilities
Government System: Status Quo / Linear Planning

Demand

Program Planning

Demand for services

Program Delivery Strategies

Human resources

Technology

Facilities

Financial

Operating

Capital

Facility
The Underlying Role of Real Estate

Demand

Gap Analysis

Options Analysis

Resources

Staff

Insourcing

$ Capital

Technology

Outsourcing

$ Operating

Services

Risk

Assets

Life cycle

Other

Measurement

Financial & Non-financial

Outcomes not Outputs

Reporting & approvals

Real Estate Dept's Role

Past

Future

Existing Facilities

Existing Services

Future Facilities

Future Services

Procurement & contract management

Dispositions

Iterate to solve
Capital Asset Management Framework

Step 1: Planning

Service Plan

- Identify Supply & Demand Information (Capital Needs)

Strategic Options Analysis

- Alternative Service Delivery
- Public-Private Partnership
- Asset Disposal/Leveraging
- Traditional Procurement

Business Case

- Project lists Performance measures
- Capital Asset Management Plans

Consolidated Capital Plan (Finance)

Treasury Board Approval

Possible TB Decision

Possible Open Cabinet (Major Projects)
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
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
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.

Source: C Abe’s The Value of Good Design
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'
Examples of Green Value II

- 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 Solaire, New York*
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.

Source: "Green Book, Appraisal and Evaluation in Central Government" HMSO
Three Dimensions of Sustainability
Overview

Triple Bottom Line
Three Dimensions of Sustainability
Example: A Hotel Development

- HBU Value Impacts
- Others' Value Impacts

- Hotel development
- Hotel developer's value
- Highest and best use and value
- Latent CO₂ impact
- Employment benefit
- Tax benefit

- Economic/Financial
- Social/Cultural
- Environmental/Ecological

- Time, risk, etc.
- Accounts
- Parties
Sustainability's Fourth Dimension: Inventorying Earth's Resources

Resources supplied
100% Energy
100% Water
Materials, inc.:
100% Oxygen
100% Carbon
100% Methane
100% Wood

Resources retained
10% Energy
25% Water
Materials, inc.:
5% Oxygen
0% Carbon
10% Methane
95% Wood

Resources leached
90% Energy
75% Water
Materials, inc.:
95% Oxygen
100% Carbon
90% Methane
5% Wood

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]

Source: Millennium Ecosystem Assessment; Sathirathai and Barbier 2001
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
CEC "Bull's Eye"

- Today
- Economically viable
- Technically feasible
- 2030 Challenge
- Uneconomic, required, technically feasible
Questions?