# 10 Tips

## Top tips for reducing your real estate costs

**For most modern organisations, after their people, real estate represents their largest cost and biggest area for competitive advantage. Our experience shows that savings of 15–25% can be achieved in the cost of operating real estate when businesses critically assess their building related costs and activities.**

**Ensuring that your investment in buildings is optimised represents a significant challenge. It requires a combination of strategic and technical skills and an unrelenting focus on aligning the operation of your real estate with your business needs. Enclosed are some tips, to help you on your journey to reduce these costs, based on our work with LCMB clients:**

**Tip 1: Understand how much your real estate is costing you to help prioritise your actions.** This may sound obvious, but many businesses and organisation do not have an accurate picture of the total and opportunity cost of their real estate. The real cost is the sum of operating, managing and maintaining the existing real estate and infrastructure. Direct costs include management and staff, energy, consumables, 3rd party contractors and bought in services. Replacement costs due to wear and tear also need to be considered. The opportunity cost is the hidden cost associated with real estate which fails to match business needs. Examples include loss of revenue due to insufficient space or capacity and underutilised space which is not generating revenue but still requires heating, cooling and lighting. Once you understand the cost of operating your real estate you can:

1. Benchmark this cost against other organisations based on key metrics suitable for your sector,
2. Prioritise your focus on the areas of largest potential saving,
3. Identify areas where you have too much or too little capacity,
4. Identify areas within your assets where more organisational value can be realised and
5. Consider charging mechanisms for the use of space within your organisation, which will drive the behaviour required to reduce cost.

**Tip 2: Review your space efficiency and ensure you have a real estate plan that aligns with your corporate strategy.** The Royal Institute of British Architects has published the 1:5:200 ratio between capital costs, building-related costs and business operating costs to encourage building owners to focus on long term costs of ownership rather that initial capital cost[1]. This means that for each £1 of building capital cost, an organisation will incur £5 of building related cost and £200 of business operating cost per unit of space used. This empirically proven ratio demonstrates the cost impact for organisations of minimising space utilised.

To help minimise space, review your efficiency of usage, on at least an annual basis and ideally a quarterly basis, by looking at how frequently it is utilised during working hours. Underutilised space may offer potential for disposal, consolidation, alternate revenue generation or cost reduction. Also explore further revenue generation possibilities by considering additional uses for space outside of normal working hours. On an annual basis review you're net to gross space percentage, by benchmarking against construction industry norms, to identify buildings which may offer opportunity for increasing useable space.

**Tip 3: Re-examine the structure of your real estate teams.** In our experience most real estate teams tend to be organized along technical or geographic lines rather than in support of the corporate strategy and business plan. Try to ensure that teams are aligned to deliverables and metrics that make sense for the business, such as increasing the productivity of your staff through improved working environments, increasing the yield of manufactured product, reducing the downtime of customer or mission critical systems or services.

**Tip 4: Review bought in 3rd party services.** The Office of Government Commerce (OGC) has shown that aggregating 3rd party services can significantly improve value for money[2]. Over time lots of businesses end up with very inefficient 3rd party services, because the business needs change and the services originally procured remain the same. Look to consolidate bought in and contracted services, which will give you a reduction in cost. Also, where possible, look to procure services on an output specification basis. This means you define the

1 The long term cost of owning and using buildings, Royal Academy of Engineering, 1998

2 Procurement efficiency and Value for Money Measurement – OGC

3 The business of energy efficiency – The Carbon Trust

service levels you require from the contractor rather than the input you think you need (e.g. rather than define the number of cleaners required define the cleaning standards to be delivered). This approach encourages your service providers to be efficient, innovate and reduce your costs further during the tendering process.

**Tip 5: Examine your energy use and costs.** According to the Carbon Trust, large UK businesses are paying out more than £1.6bn too much on their energy bills every year, because many have yet to seize the full opportunity to cut bills by around 15% through energy efficiency measures[3]. To maximise the reduction in your energy costs you will need to review both your energy supply and demand. On the supply side, compare your unit costs for electricity, gas and oil to current quoted costs to identify if there is potential for negotiating a reduction or further flexibility from your utility suppliers. On the demand side, benchmark your energy usage across your estate, and externally with comparable organisations, to identify where the largest potential savings are likely to be. This information can be obtained from databases held by organisation such as CarboBuzz and SMEasure.

Review your hours of operation, consumption and control strategies for lighting, heating, cooling and small power systems to identify potential areas for saving. Consider the use of power factor correction and voltage optimisation to reduce your electricity consumption. Review building fabric and mechanical and electrical systems upgrades that can be applied to your building to improve their infiltration & thermal performance and part load efficiency. Review the efficiency of electrical equipment, particularly pumps, lighting and chillers.

Look at the potential for the application of combined heat and power and renewable technologies such as solar thermal heating, photo voltaic systems, ground source heat pumps etc.

**Tip 6: Review your maintenance programme.** Many organisations put in place a reactive and planned maintenance programme, then allow it to run for many years without questioning it, or the results delivered. It is worth starting a review of the planned maintenance regime by separating assets into business critical (e.g. customer centres, data centres etc.) and non-critical.

Examine the non-critical assets first and ask if the frequency of maintenance activity can be reduced to deliver the same outcomes based on performance or condition monitoring methods (these methods monitor the performance or condition of equipment and call for maintenance when required, for example when a motor's bearings are running hotter than their normal operating temperature and need some attention). The same exercise can be conducted for the business critical assets but clearly much more care needs to be exercised in the reduction of activity, because of the business impact of possible outage.

Seek feedback from your real estate users and customers on the efficiency and appropriateness of your real estate reactive maintenance provision. This will allow you to identify potential areas for cost reduction or revenue / quality improvement based on a more responsive or appropriate service.

**Tip 7: Engage your staff and end users.** Ensure that your staff understand and are trained in the efficient operation of the buildings and systems they will use. Explain to staff the behavior they can adopt when using facilities to ensure they are used efficiently (e.g. turning lights off when leaving buildings, selecting efficient white goods etc.). Measure and produce feedback for staff on their energy consumption and compare across the organisation. This will ensure that staff get positive feedback when they are making an impact on operational costs, energy usage and carbon production.

**Tip 8: Set qualitative targets**. Ensure that alongside your quantitative targets you have qualitative targets for you real estate team. For a commercial business or organisation they can be based on metrics such as m2 of real estate per £100k of profit. For other businesses and organisations they can be based on the key short and long term determinates of success such as clinical outcomes in a hospital or grades obtained in a school. This will ensure you squeeze more value out of your real estate investment.

**Tip 9: Challenge everything and stay flexible.** Constantly review what you are doing with your real estate to ensure it still makes sense for the organisation, particularly when there are major market changes or the organisation's strategy is amended. Ask yourself if it makes more sense, long term, for your organisation to own or lease property and self-deliver or outsource elements of your real estate management functions.

**Tip 10: Plan, Do and Review.** Ensure there are plans in place for the real estate function based on cost, energy and carbon reduction and value added measures (e.g. improved student feedback in an educational organisation, improved customer sales conversion in a retail environment etc.). Performance against this plan should be monitored and reviewed on at least a monthly basis and plans adjusted to ensure opportunities are grasped before the annual planning cycle.

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