January 2013

REMark: A survey into the performance of the Property and Asset Management Industry

The objective of REMark is to monitor the performance of property management by recording key variables on a regular basis and using these to establish a benchmark against which the performance of portfolios or managers can be set. Analysis of this data affords us insight into the structure of the industry and its performance over time. This is a summary of our findings.

For our last survey in 2010 we found that:

- Performance in the PAM sector was on average very poor – the average collection of rent and service charge at the quarter day was 65%, the worst recorded being 27%;
- The range of performance was so great that if an owner switched their average portfolio from the worst supplier to the best, they might save £75,000pa in interest charges alone;
- Jones Lang LaSalle were by far the largest service provider in PAM and the specialists – Workman, MJ Mapp, Broadgate etc. – were in the ascendency.

The 2013 edition is based upon responses from property managers, large and small, managing 34,000 properties with 164,000 leases in all sectors.

REMark portfolio coverage

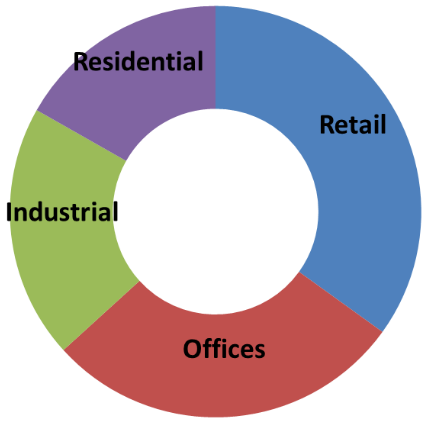


Figure 1: Coverage of the REMark survey by sector.

PAM market overview

Despite much market activity and both an increased service focus, and increasing competition, we have seen little significant change in the size and position of the key service providers over the past two years. JLL remains the largest provider of PAM services in the UK, boosted by the acquisition of King Sturge. Similarly CBRE and Savills have both strengthened their positions. Our review of staff moves shows that CBRE, Savills, and Cushman & Wakefield have invested most in PAM; Capita Symonds has lost the most key staff.

However, despite the positive outlook for innovation that stemmed from the 2010 survey, Remit research now shows that the length and depth of the recession, far from stimulating innovation in the sector, has deferred it. This is undoubtedly a matter of timing as it is difficult to invest in innovation when survival is taking priority.

> Much of the innovation anticipated by the 2010 survey has been deferred by economic circumstances.

Performance

Collection performance has improved significantly since our last survey. Rent collection at the due date is on average 78%, a rise of just over 20% since 2010, while service charge collection rates are just over 10% behind rent.

However impressive this improvement, there is still an unacceptable level of systematic inefficiency in the collection process. We have calculated that late rent collection costs the industry nearly £17 million per year in interest on delayed income. Raising the proportion of rent collected on the due date to 90% with knock on improvements at 7 and 14 days would more than halve this cost.

Efficiency

Overall the average number of leases handled by each surveyor is up 25% from the 2010 figure. However, the range of values for leases per capita is very large suggesting that more efficiency can be delivered in many PAM teams. Furthermore, our results show that larger teams have a smaller number of leases per surveyor – somewhat counter-intuitive given the assumed economies of scale.

Complexity of assets, range of services and quality of service will all influence the number of leases being handled. However, despite advances in the past few years, some firms still have potential to make significant improvements to their efficiency, lowering fees or boosting profits.

Clearly, the cost of staffing is a major component of overall property management costs and a key determinant of pricing. Using the RICS/ Macdonald survey and government research, it is possible to build up a picture of the cost of staffing Property Management.

Our analysis shows that the average staffing cost per lease is 2.5% higher than the average fee achieved for the work. Figure 2 overlays the average fees.

This reinforces the traditional view that Property Management is being used as a loss leader to attract fees from other service lines, therefore increasing the yield from each customer, something client interviews have shown to be one of the least acceptable sides to PAM.

It is clear that the pricing mechanism needs greater transparency if PAM service providers are to increase margins to an acceptable level.

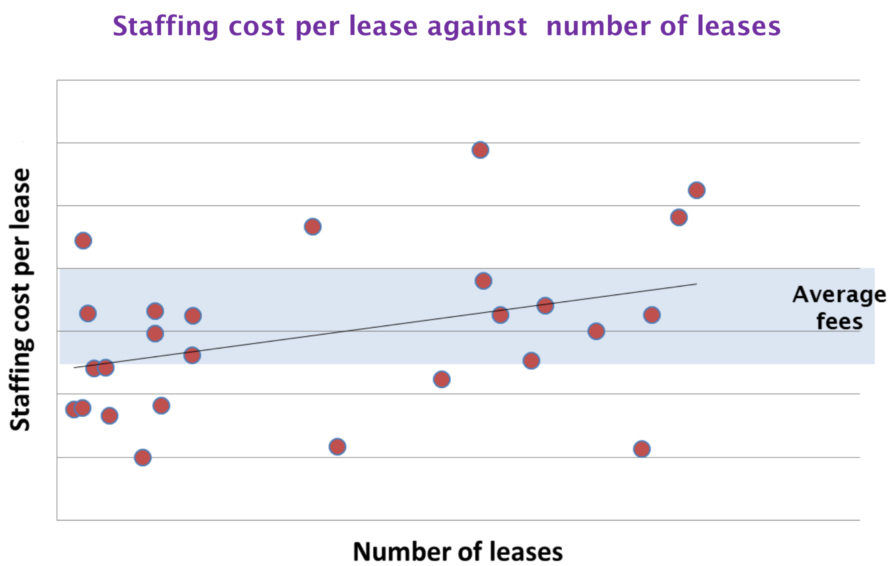
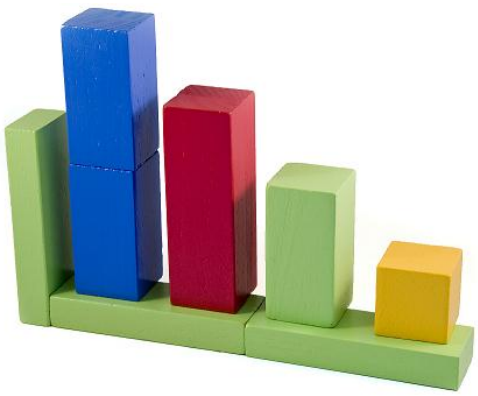


Figure 2: Staffing cost per lease plotted against number of leases. The average fee data is overlaid on top.

To participate in future research and receive a copy of the next REMark report in full, please contact Steph Yates using the details on the right.

Further research to be undertaken in 2013 will include work on client satisfaction.



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