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‘CINDERELLA’ PROPERTY MUST PLAY MORE IMPORTANT ROLE IN BUSINESS

PROPERTY....just why is it such a dirty word?

As a chartered surveyor I meet and deal with company directors, business support groups and politicians every single day of my working life.

Many of them are strategists, planning the future development of a business, a region, or a market sector.

But I never cease to be amazed by how often property does not feature in strategic development discussions.

In the past, and especially in the last decade, acquiring a property has essentially been all about obtaining and then growing an asset.

Once acquired, owning or occupying property has all too often then been seen as a 'means to an end,' a 'space' in which to do business.

And this means property's considerable role and benefits are totally excluded to the detriment of the business, **even though anecdotal evidence suggests that post recession a significant number of SMEs in Wales have plans to grow.**

It is why I describe property as the 'Cinderella of business strategy' because boards and owners just do not recognise the huge role it can play in the profitability and development of their company, and often, leave it out of their business plans altogether. [See figure 1]

All businesses have creeping priorities and their premises play a key factor in accommodating those priorities and enabling growth and development.

For example, many businesses will have taken a long, hard look at their costs over the past 18 months – but how many will have taken a look at potential savings offered up by their premises?

PROPERTY – THE CINDERELLA OF BUSINESS STRATEGY

As solid as the walls around them, many businesses perceive their property costs as immovable, despite it being the second highest cost to a business after salaries, and one that ties up significant financial capital.



Figure 1

Research by Roger Bootle of Capital Economics suggested that Welsh businesses waste £1 billion a year through inefficient use of property. [1]

Bootle also said that getting it right could boost gross profits by 13 per cent. [2] This sort of message resonates with me based on my experiences in the commercial property arena over the last 20 years.

As we emerge from this recession, 2010 is the year when businesses really should be ensuring that their properties are making a difference to the bottom line.

What do I mean by this? Let me give you some examples.

While the market is beginning to improve, the sector remains fragile as the availability of finance and confidence remain key issues.

This means substantial rent-free periods are available, as are reduced rents over the timescale of the lease – but it does depend upon knowledge and tactical negotiation.

I recently saved a client in excess of £300,000 on a lease negotiation with the landlord, as well as negotiating a nine month rent free period for another client.

PROPERTY – THE CINDERELLA OF BUSINESS STRATEGY

Similarly, I have also negotiated significant savings for clients by adopting a property strategy to mitigate their repairing liability.

These are just two of the types of opportunities which exist at this time.

However, there are many more, and now is an excellent time to complete a health check of your property position, and identify them.

These are some key questions which should be asked:

- What do you require from your property to support your business' strategic goals?
- Is the property in the right location?
- Is its size and composition still appropriate? After all, your business may look very different after the past two years.
- Have you got scope to grow the business within the existing premises?
- How is the space used, and is it used effectively?
- Is it functionally efficient for its purpose?
- Are the valuations appropriate and current?
- What is the cost to maintain?
- Are there any restrictive covenants or lease restrictions?
- What planning consents are there on the property?
- Are better tariffs available?
- What contracts are in place for the likes of insurance, cleaning, energy utilisation, landscaping etc, and are you paying the right price?
- Increasingly, you must also ask: are you meeting the needs of sustainable development?

Businesses miss many opportunities by overlooking some fundamental measures.

For example, surplus space could be sold or sub-let; space could be maximised through hot desking, while space per employee could be reduced.

On a broader level, a 10 per cent reduction in facility management costs would save UK businesses £1.3 billion a year, while rates appeals could save them £300m a year. [3]

There are also invisible benefits – the right working environment can lead to significant improvements in staff productivity.

In short, is the property supporting the business? If the answer is no, you have to ask yourself, why not?

But this is not just an issue for business owners or company boards.

Local authorities, business support organisations, business organisations, banks, solicitors, accountants and the Welsh Assembly need to properly understand the property dynamics I have identified above.

PROPERTY – THE CINDERELLA OF BUSINESS STRATEGY

In a 'knowledge economy', requiring greater innovation, Property should be playing a key role in helping the Welsh economy recover from the recession. Interestingly, David Frost of the British Chambers of commerce states:

'Thriving successful businesses are the lifeblood of prosperous communities. It has never been more important to support the next generation of wealth creating entrepreneurs – particularly in these challenging times'.

Allied to this statement, I suggest that property has a key role to play, and going forward, it must play an integral role in business strategy, ensuring that the 'Cinderella' of business planning really does get to the ball.

[1], [2], [3] 'The Missing Link' by Robert Chapman.

Additional reading:

'The Missing Link' - Robert Chapman.

'Property for Business' – Confederation of British Industry

'The Importance of Property Advice' – Robert Chapman

'Property in Business' – RICS

'Businesses Tackling Property Issues' – RICS

'Property Solutions – a Practical Guide for your Business' – RICS

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January 2010

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