Extended real estate management plan -  
An instrument to improved profitability  
A model suggestion  

Abstract  

This report gives examples of the contents in an extended real estate management plan and how the information in it can be collected. It will also give a view in:  
- how some real estate companies are working with their management.  
- what sort of information that can be included in an extended real estate management plan (economical, social, geografical, technical and organisatorical).  
- how the informationen can be used, for example in decisions about investing in or selling real estate, in decisions about renovation, in investigations where there is potential to raise the rent or what type of tenants that is preferable.  
- how the documents in such an extended management plan can be designed. (Swedish)
FÖRORD OCH SAMMANFATTNING

Detta examensarbete har utförts vid Lantmäteriutbildningen vid Lunds Tekniska Högskolan.

Hittills har förvaltningsplaner förknippats med ekonomiska redovisningar och nyckeltal. Flera fastighetsbolag har dock upptäckt att man måste ha ytterligare information om hyresgästerna, fastigheten och dess omgivning, för att kunna fatta rätt strategiska, taktiska och operativa beslut.

I detta examensarbete ges exempel på vad denna ytterligare information kan bestå av och var den kan hämtas. Med hjälp av litteraturstudier, företagsintervjuer och egen kunskap har ett modellförslag arbetats fram på hur en sådan fördjupad förvaltningsplan kan se ut.

Genom detta examensarbete får läsaren en inblick i:
- hur några fastighetsbolag arbetar med sin förvaltning.
- vilken information som kan ingå i en Fördjupad Förvaltningsplan (ekonomisk, teknisk, geografisk, social och organisatorisk), samt var denna kan hämtas.
- hur informationen används, till exempel vid beslut om vilka fastigheter som ska köpas respektive säljas, var det ska satsas på renovering, var det finns potential till hyreshöjningar eller vilka hyresgäster som ska prioriteras.
- hur dokumenten i en Fördjupad Förvaltningsplan kan se ut.

 Slutligen vill jag tacka min handledare John Sandblad för kloka råd och kommentarer, samt Jan Aldosson på Byggnadsekonomi och Fredrik Hjort på Hälsingborgshem för att de tog sig tid att läsa igenom och ge synpunkter på mitt arbete.

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EXTENDED REAL ESTATE MANAGEMENT PLAN: 
A WAY TO IMPROVED PROFITABILITY

INTRODUCTION
The purpose of this report is to, with the help of literature studies, interviews with some companies and my personal knowledge, present a model suggestion of an extended real estate management plan (EREMP) regarding the design and contents.

BACKGROUND
During the end of the 1980’s the market values principally daily increased and the real estate companies’ interest on the management economy was not the primary subject. This led to negative economical payment- and operating net, during the time of the ownership, not was taken into consideration. The only consideration was the final profit, at the time of the sale of the real estate.

In the beginning of the 1990’s, the economic recession started to be more noticeable. The demand for premises and dwellings decreased, which automatically led to decreased market values.

This development implies that the real estate companies, in a different way than before, have to be more observant on the tenants needs, and also effectively manage and plan their real estate stock in a cost effective way.

The real estate management plans have so far been associated with economical accounts and production of keynumbers. A higher demand must be required of the contents in the plans to notice the condition, standard and location of the real estate, as well as its tenants and its environment.

The analysis can be simplified with the help of an extended real estate management plan on each subject. In this it is possible to systematically gather and store extended information about the real estate and its environment.

THE DEVELOPMENT TOWARDS AN EREMP
The economical planning and follow-up of the costs have earlier been the primary strategy, however the management companies have to re-think and concentrate their economical activity of increasing the operation net. With this new strategy, the rent income and consequently the tenants will play a bigger role.

To find the right way, the real estate companies have to look upon the housing market as a system of constant alterations and to identify section markets, tenant groups and individual tenants. The section markets and the tenants must be placed in relation to the real estate stock that already exists in the company or to candidates of purchase. One can then ask what market position the real estate have and what level of service that shall be maintained. For example:

- What are the specific advantages of this real estate compared to other competitor properties?
- What category of tenants are preferable?
- How good is the location of the real estate?
- In which way and how long shall the real estate be managed?
- How will the real estate fit in with the company’s other business interests?
- Is it a complement to the existing stock by being a possibility to offer an alternative location or flat?

THE CONTENTS IN AN EREMP
To make the general view easier, the information will be classified into a number of different information plans. There are no fixed standards for what an EREMP should look like or what it should contain. It is the users themselves that decides about the level of informations and the grade of details.

I have, together with Fredrik Hjort of Hästingborgshem, discerned five different information plans that could be part of an EREMP, they are:

- The Economical information plan: describes the economical and financial status.
- The Technical information plan: describes the construction, condition and age.
- The Geographical information plan: describes the location and means of communication.
- The Social information plan: describes the economic industrial life and the structure of the population.
- The Organisatorical information plan: describes the company organisation, the controller’s function, the tenant documentation and the role of the personnel.

THE DISPOSITION IN AN EREMP
The first two parts of the plan contains general information about the real...
estate. The initial suggestion shows a photo of the real estate be scanned as a memory support. This part also contains a table of contents of the documents in the plan.

The next part contains an eclectic classification of the real estate where status and the financial risks are specified. In this part it is also possible to specify strategies and eventual measures of alteration for the real estate or the site of the dwellings. The reason this information is placed here, is because it should be considered as early as possible. This will make it easier for the decision makers not to have to go through the whole plan.

The Economical information plan contains information of investments, rent income, management- and maintenance costs, market values and acquisition costs for a longer period, 5-10 years. This plan is drawn up for every specific unit. For private companies it means one plan for every estate and for municipal owned companies one plan for every area of dwelling.

- A system for diagnoses and prognoses.
- A cash flow analysis.
- Different sorts of key numbers.

The plan forms programs for future deeds and is instrumental in investment analysis, operative activity and financing. It also gives informations about the financial profitability, the progression of the capital and the liquidity of the company.

The Technical information plan is used when the company wants to estimate the future management- and maintenance costs. To do this structured and accessible information is demanded about the real estate, its condition and the alterations that have been done. The technical information plan can be divided into three different registers:
- The real estate register.
- The building register.
- The dwellings and/or the premises register.

The Geographical information plan describes the local market and circumstances that are important to the real estate and its environment. The information is collected from inventories.

A problem that could appear is in the area demarcation. To use the boundaries of the municipal or the city are suggested, as the statistics, mentioned later and used in the Social informations plan are based on this subdivision.

The Social information plan contains information to inform about the real estates and the environments social status. This information could be collected from Statistiska Centralbyran, UMDAC, Svensk Fastighetsindikator, NITEK, the county councils, the unit of the economic life in the county administration, Länsarbeternämnden, the municipality and personal interviews.

Some of the informations could be received on the real estate level (number of tenants and their ages), while some more sensitive informations, because of secrecy, are only available on a block level (social allowance, sick absence, income and so on). These informations constitute help at the yearly rent negotiations, where it serves as a support for the classification of the residential area, considering the tenants ability to pay and the area status. This classification is then used to get a differentiation in increasing the rent in various areas.

For the EREMP to be most helpful an effective and clearly defined organisation is demanded. By making the Organisatorical information plan it is possible to document the company's organisation as well as possible changes.

The organisatorical information plan describes the company's organisation and which person who has the authority to add information to the plan and what this information may include. The plan will also make it easier for the personnel because everyone knows their responsibility. By making this plan the directors can obtain information about the resources to manage some other more real estates within the organisation.

FIELD OF APPLICATIONS FOR AN EREMP
The management plan can be used in several different ways, for example:
- Grade the existing real estates.
- Forming an opinion of the risks in a new investment.
- Constitute an instrument of communications within the company and towards the tenants.
- Constitute a support for the setting of the rent, strategies and improvement on the estate.
CONCLUSION
Before one starts to use an EREMP it is of importance to make clear what ambition level one wants to attain, and also how and when alterations should be done. If the ambition level is too high there is a risk not to have the strength to fulfill the work. It is better to evaluate at regular intervals, instead of doing everything at one time, see Figure 1. It is otherwise easy happened that the plan loses its importance and will become a paper (data) tiger. Similar can happened if the alteration work will require too much time.

To make the alteration work easier is it therefore advisable that the information is connected to a database program, as the information only have to be stored at one place. This is however a truth with modification as companies with a small stock easy can manage the real estate by having the documents in a word- or a calculation program (Word respectively Excel). More suitable would be for these programs to be used initially and later to be changed to a database program (for example Access).

The extended real estate management plan should be seen as a help and a tool for operating to, and following-up, expressed goals and strategies. At the same time must the goals and the strategies be clear, else can the plan give an vague, ambiguous and meaningless information.

It is also important that the plan not will become an end in itself, so to say that the plan is made just to show what level the real estate management have right now. The plan should be an instrument that state what the level and direction the management should have reached within a fixed time horizon.

If the above is made clear, I am of the opinion extended real estate management plan will constitute an important instrument to increase the profitability of the companies. This, in the future, when vacancies and the importance of the tenants will gradually become more important for the real estate companies to take into consideration.

Figure 1 Overdone ambitions can make more damage than advantage.