

'Rock the Foundation' 2010

Property Council of Australia - Operations & FM Diploma
Sydney, 11 October 2010

**Property Due Diligence:
what?, why?, when? & how?**

Stephen Ballesty
Director | Head of Advisory, Rider Levett Bucknall
Chairman, IFMA Foundation
Chairman, PCA's Building Quality Grade Committee
Co-author, RICS's Technical Due Diligence Guidelines (2009)
Industry Reviewer, Aust. Govt.'s ESD Operations Guide (2009)

RLB Rider Levett Bucknall

Professional Development

IFMA FOUNDATION
The Voice of Leadership

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'Rock the Foundation' 2010



Other supporting organizations:
Property Council of Australia, BCA Academy (Singapore) and the IFMA Chapters of Central Illinois, Central Iowa, Central Ohio, Indianapolis, Madison, Mid- Michigan, Minneapolis / St. Paul, Nebraska, Northern Illinois, Northern Ohio, Southeast Michigan & Southeast Wisconsin; and EuroFM

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Technical Due Diligence

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What is Due Diligence ?

- Types of inspections
- Taking instructions & third party appointments
- Main components of the Technical Due Diligence Report
- Interpretation of the Report

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TDD Scoping

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- Due diligence as a noun and a verb
- One size does not fit all – tailored solutions are required
- Key inclusions, need to understand
 - ✓ 1. Compliance status
 - ✓ 2. Benefits or values
 - ✓ 3. Risks or liabilities
- ‘Caveat Emptor’ – Woodcock v’s CDG (2004)

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Not just at sale!!


- Acquisition
- Occupation
- Disposal
- Development
- On-going




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 **TDD Scoping** RLB Rider Levett Bucknall

- Legal, technical, valuation and financial / accounting
- Discovery, quantification and reporting
- Identification of impacts - return on investment and user satisfaction
- Requirements, levels of assessment and staged reporting
- Risk Management – transactional v’s whole of life operations



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Technical Due Diligence

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Do we need Due Diligence?

- Fiduciary responsibilities
- Caveat Emptor – *'let the buyer beware'*
- Performance and compliance requirements
- All buildings have challenges




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TDD Delivery Models

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1. Inhouse resources
2. Inhouse or project management of specialists
3. External Consultancy with internal team of specialists
4. External Consultancy utilising a customised mix of internal and external specialists



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Technical Due Diligence

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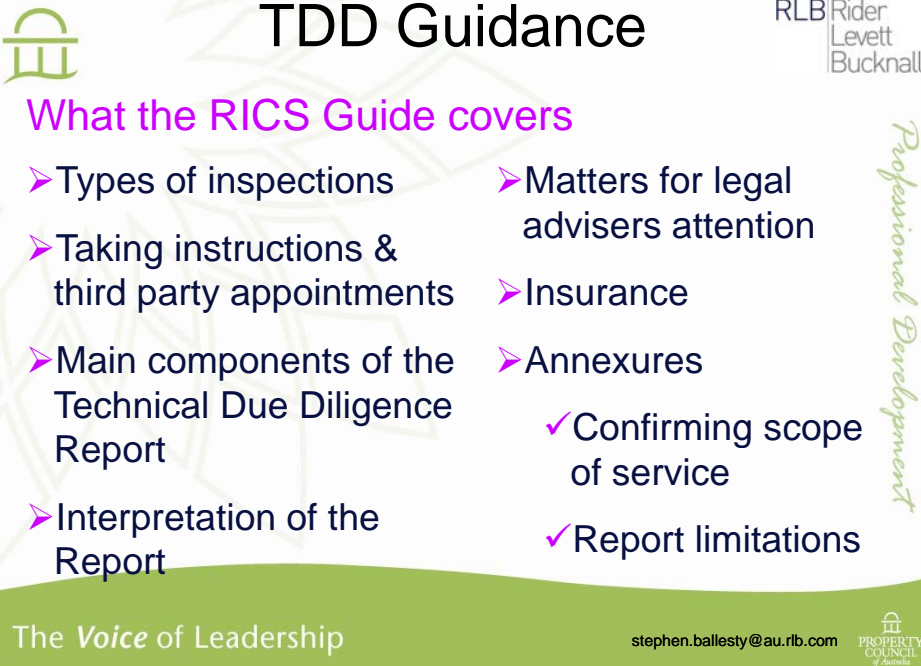
- RICS Best Practice Guidance on Technical Due Diligence (2009)
- Provides a 22 page “guide”, not an instruction manual or standard
- Risk mitigation, value enhancement & opportunity identification
- Structure and language

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TDD Guidance

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What the RICS Guide covers

- Types of inspections
- Taking instructions & third party appointments
- Main components of the Technical Due Diligence Report
- Interpretation of the Report
- Matters for legal advisers attention
- Insurance
- Annexures
 - ✓ Confirming scope of service
 - ✓ Report limitations

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Technical Due Diligence RLB Rider Levett Bucknall




- Why bother ?
 - Fiduciary responsibility, compliance and caveat emptor
 - Discovery and Analysis of obligations and opportunities
 - Risk mitigation and prioritisation
 - Value enhancement and optimisation
 - FM performance audits, Relifing, CAPEX and Life Cycle drivers



*Technical Due Diligence, demonstrates real value in the pursuit of **Quality***

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TDD Outputs RLB Rider Levett Bucknall



What could a TDD report cover ?

- Sustainability
- Structure & Fabric
- Building Services
- Statutory Compliance
- Environmental
- External Areas
- Town Planning
- Heritage
- Floor space ratio
- Identification Surveys
- Tax Depreciation
- Reinstatement Cost
- CAPEX & OPEX
- Risk Analysis

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TDD and expenditure



CAPEX, OPEX and perceived value


- Due diligence for life = FM Audits
- Fully co-ordinated and costed reporting
- Prioritisation by timing and risk profiles
- Life expectancies and obsolescence
- Economic life and “financial interests”
- Quality expectations and FM performance
- Costs v's Values

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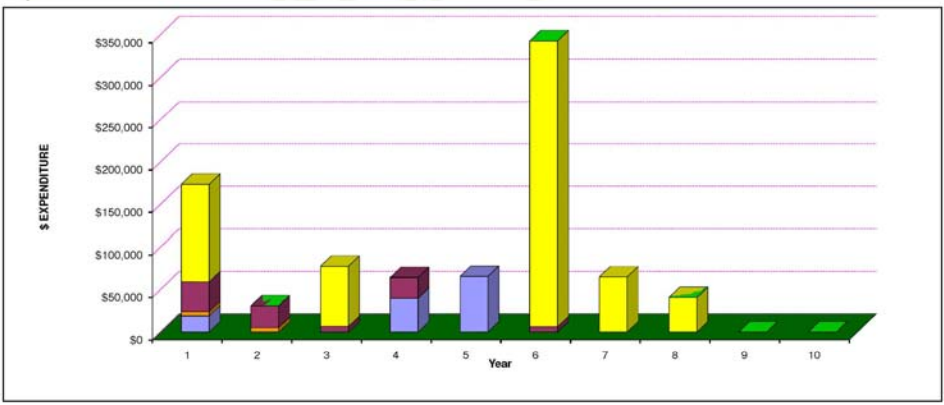






CAPEX Forecasts





CALENDAR YEAR	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
BUILDING FABRIC & FINISHES	\$19,000	\$0	\$0	\$39,900	\$65,600	\$0	\$0	\$0	\$0	\$0
STRUCTURAL & FAÇADE ENGINEERING	\$5,900	\$5,200	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
BUILDING SERVICES ENGINEERING	\$35,300	\$25,700	\$5,600	\$24,500	\$0	\$5,200	\$0	\$0	\$0	\$0
BUILDING REGULATION COMPLIANCE	\$114,400	\$0	\$71,000	\$0	\$0	\$335,500	\$65,100	\$40,800	\$0	\$0
ENVIRONMENTAL ISSUES	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
TOTAL EXPENDITURE FORECAST	\$173,700	\$30,900	\$77,600	\$64,400	\$65,600	\$342,700	\$65,100	\$40,800	\$0	\$0
Cumulative Expenditure Forecasts	\$173,700	\$204,600	\$282,200	\$346,600	\$412,200	\$754,900	\$820,000	\$860,800	\$860,800	\$860,800
Grouped Expenditure Forecasts	\$173,700	Short		Medium				Long		

Asset Life Cycles

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Life cycle is "the time interval between a product's recognition of need or opportunity and its disposal"

Source: AS/NZS 4536:1999

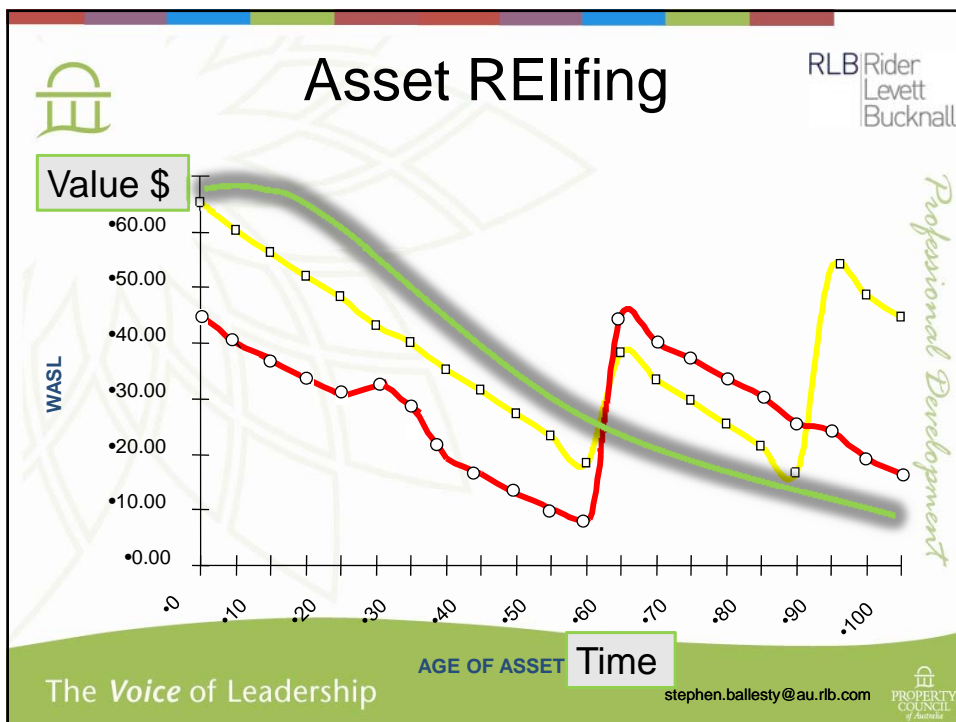
The diagram consists of five vertical bars representing stages, connected by arrows pointing from left to right. The stages are: **AQUIRE** (light blue), **MAINTAIN** (dark blue), **RELIFING** (green), **MAINTAIN** (dark blue), and **DISPOSE** (light blue). The 'RELIFING' bar is highlighted with a green background.

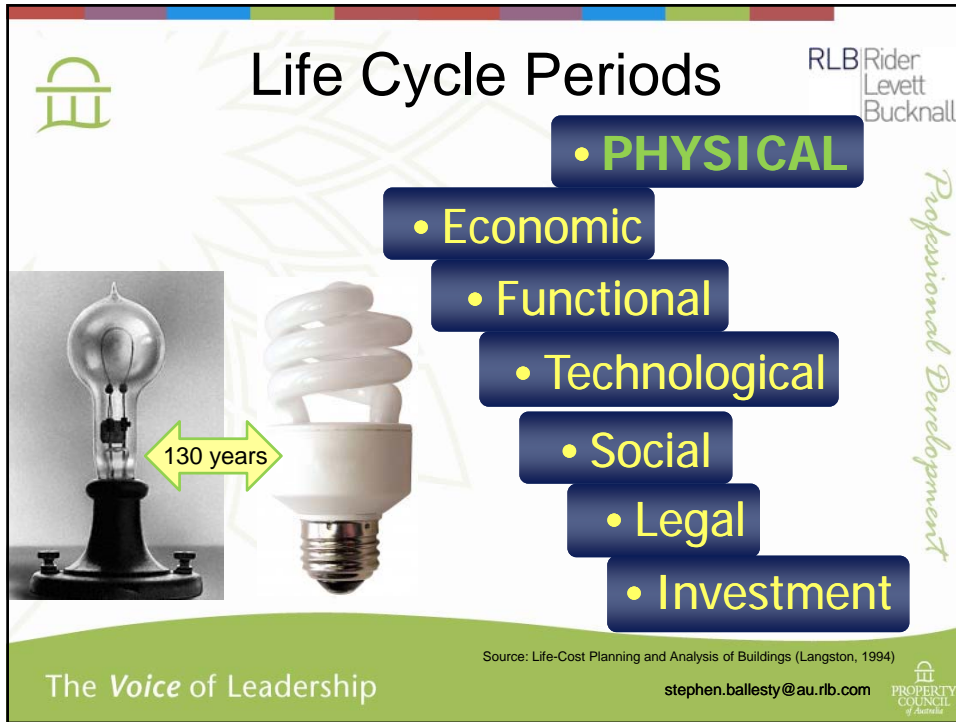
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Life Cycle Periods

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- **PHYSICAL**
- Economic
- Functional
- Technological
- Social
- Legal
- Investment

130 years

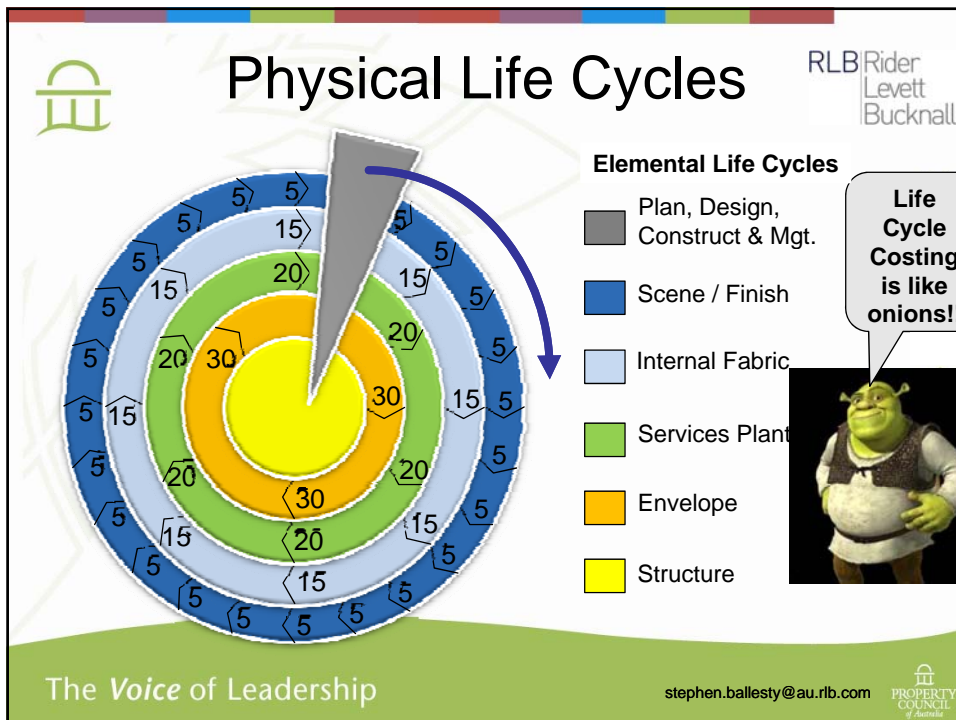
Source: Life-Cost Planning and Analysis of Buildings (Langston, 1994)

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Detailed description: This slide features a central graphic of two light bulbs. On the left is a traditional incandescent bulb, and on the right is a modern compact fluorescent bulb (CFL). A double-headed arrow between them is labeled '130 years', indicating the time taken for the CFL to replace the incandescent bulb. To the right of the bulbs is a vertical stack of seven blue boxes, each containing a life cycle period: PHYSICAL, Economic, Functional, Technological, Social, Legal, and Investment. The slide includes the RLB logo, the text 'The Voice of Leadership', the email 'stephen.ballesty@au.rlb.com', and the Property Council of Australia logo.



Physical Life Cycles

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Elemental Life Cycles

- Plan, Design, Construct & Mgt.
- Scene / Finish
- Internal Fabric
- Services Plant
- Envelope
- Structure

Life Cycle Costing is like onions!!

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Detailed description: This slide shows a circular diagram representing the layers of a building's physical life cycle. The diagram consists of concentric rings with a central yellow circle. The rings are color-coded and labeled with numbers: Structure (yellow, 30), Envelope (orange, 20), Services Plant (green, 20), Internal Fabric (light blue, 15), Scene / Finish (dark blue, 5), and Plan, Design, Construct & Mgt. (grey, 5). A blue arrow points from the outer rings towards the center. To the right is a legend for the 'Elemental Life Cycles' with corresponding color swatches. A speech bubble from the character Shrek says 'Life Cycle Costing is like onions!!'. The slide includes the RLB logo, the text 'The Voice of Leadership', the email 'stephen.ballesty@au.rlb.com', and the Property Council of Australia logo.

Risk Management

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➤ Risk analysis combines the concepts of consequence and likelihood, with qualitative and quantitative methods

Source: AS/NZS 4360:2004

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Risk Management

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Risk Ratings per AS/NZS 4360:2004* associated capital and operational (CAPEX and OPEX) expenditure forecasts;

- E Extreme risk; immediate action required
- H High risk; senior management attention needed
- M Moderate risk; management responsibility must be specified
- L Low risk; manage by routine procedures

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LIKELIHOOD	CONSEQUENCES				
	Insignificant 1	Minor 2	Moderate 3	Major 4	Catastrophic 5
A almost certain	H	H	E	E	E
B likely	M	H	H	E	E
C moderate	L	M	H	E	E
D unlikely	L	L	M	H	E
E rare	L	L	M	H	H

* Also refer AS/NZS ISO 31000:2009

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TDD and RElifying



Existing building strategies and value


- Aligning asset management planning to business drivers
- Whole of life performance, maintenance planning to overcome obsolescence and identifying refurbishment opportunities
- Moving beyond compliance and re-positioning existing assets to be innovative, efficient, productive and sustainable




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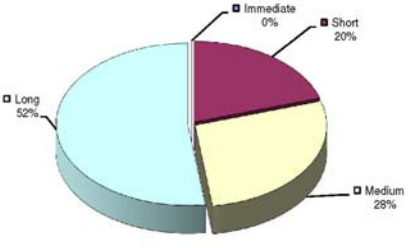




CAPEX Forecasts

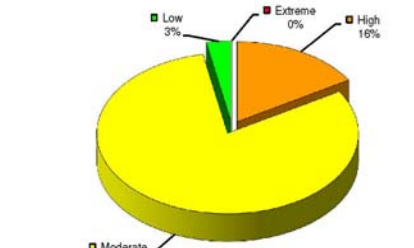


Forecast Capital Expenditure Priority Profile



Based on our current assessment, allocations by value (in current cost terms) of priority time periods for the Total Forecast Capital Expenditure.
Immediate = n/a, Short = 2007.
Medium = 2008 to 2011, Long = 2012 to 2016


Forecast Capital Expenditure Risk Profile

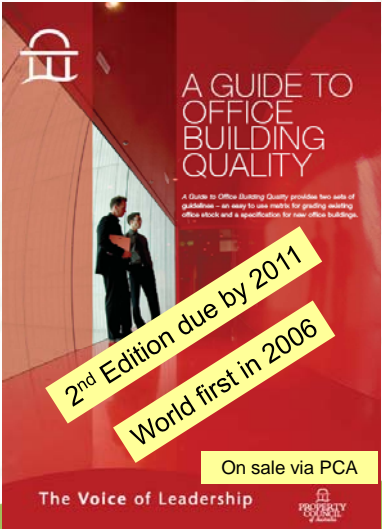


Based on our current assessment, allocations by value (in current cost terms) of risk for the Total Forecast Capital Expenditure.
Risk classifications as per AS/NZS 4360:2004


Priority Rating	Total Cost (\$) (Escalated)
0% Immediate	-
20% Short	173,700
28% Medium	238,500
52% Long	448,600
Total	\$ 860,800

Risk Rating	Total Cost (\$) (Escalated)
0% Extreme	-
16% High	140,300
81% Moderate	694,500
3% Low	26,000
Total	\$ 860,800

 **Benchmarking Quality** RLB Rider
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- Property Council of Australia (PCA) 36 pages (2006)
- Recognised for the first time the use of Green Rating tools linking sustainability to quality
- a Guide in 2 parts
 - ✓ Grading matrix for **existing** offices
 - ✓ Specification for **new** offices

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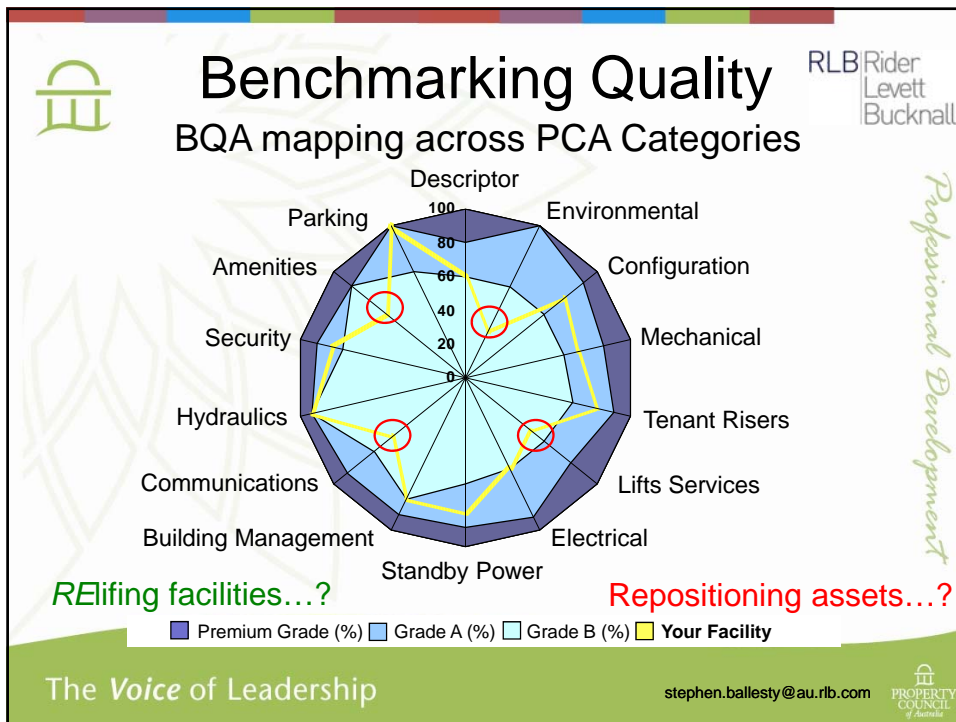
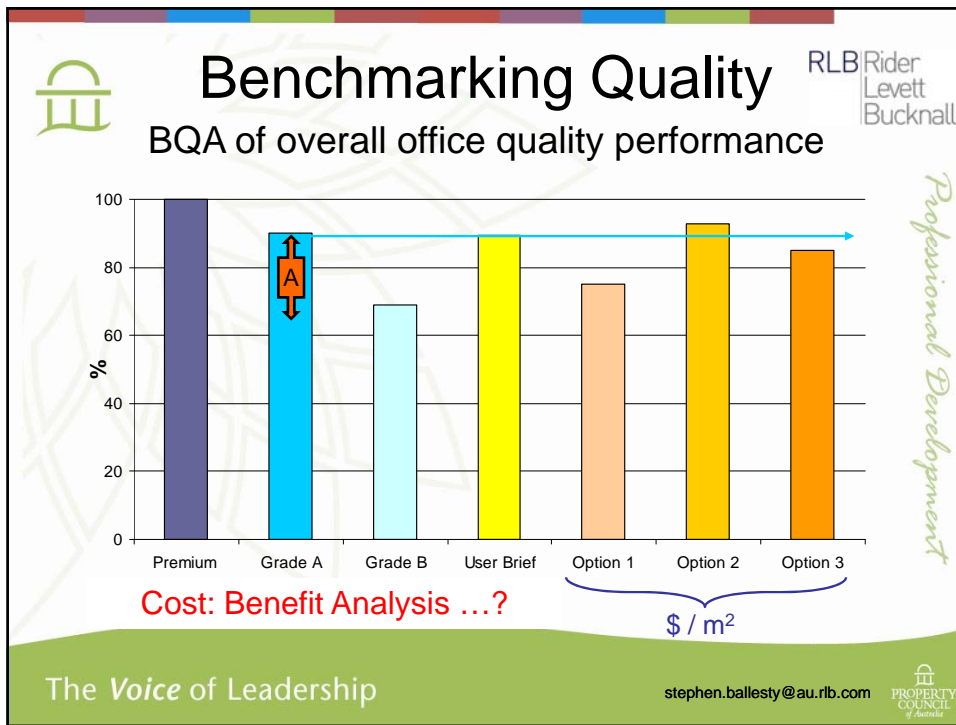
Five PCA Quality Grades

- Premium – landmark & prestige
- Grade A – high quality
- Grade B – good quality
- Grade C – average quality
- Grade D – poor quality

Both **existing** and **new** offices



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Sustainable Operations

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Released August 2009

- Australian Government's new 94 page Guide to impacts on **quality of life**
- Recognises and links FM, good design and effective **life cycle performance**
- Cost-effective pathways to environmental performance in **existing buildings**

Free Download www.environment.gov.au/settlements/government/publications/esd-operations-guide.htm

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Integrated FM Solution

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Asset strategy
Alignment between business drivers, services provided and asset dependency

Management and collaboration
Multi-dimensional asset management; business alignment, performance alignment and information alignment

Business Drivers

Results and services

Asset service dependency

Total Asset Management plan

- Three research themes:
 - Digital modelling
 - Services procurement
 - Performance benchmarking
- Integrated FM solution

1. **Function** (attributes, risks, performance)
2. **Condition** (priorities, lifecycles, liabilities)
3. **Maintenance** (practices, obligations, presentation)
4. **Utilisation** (targets, restrictions, opportunities)
5. **Sustainability** (ESD, energy, water, waste, carbon)

Metrics (/ m2, / rise, / period, / task, / user)

Integrated FM solution
Information – Services – Benchmarking

Free Download 'FM as a business enabler' - <http://construction-innovation.info/index.php?id=53>

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Technical Due Diligence


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- Know your Asset
- Scope of Services
- Degree of Outsourcing
- Identify Best / Good Practice
- Performance Benchmarking
- Enhanced Service Delivery
- Productivity & Sustainability



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Technical Due Diligence


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- TDD is about “Discovery & Analysis” ~ value identification and risk mitigation opportunities
- Responsibility, performance & compliance
- Publications provide practice guidance
- Technical Due Diligence scope ~ function ~ utilisation ~ condition ~ maintenance ~ costs ~ sustainability ... to manage your **Risk** ~ **Quality** ~ **Value**
- Briefing + Scoping + Reporting = Outcomes

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Building the Future of FM for 20 Years

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“To expand our knowledge of the **Built Environment** in a changing world through scholarships, education and research”



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FM Research Resources

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www.ifmafoundation.org for “FREE” downloads, if of some value then please donate something ... ‘every dollar counts’ !!

← 2010 white papers

→ 2010 sustainability ‘How To Guide’ series



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