

Real Estate Initiative



Commonwealth of Virginia

June 2004

Call for Real Estate Reform in the Commonwealth

- Governor's Executive Order 75 (2004): Managing the Commonwealth's Real Estate Holdings
- Governor Warner's Management Agenda, May 2004
- Governor's Commission on Efficiency and Effectiveness 2002
- Phase I Study, CB Richard Ellis, December 2003
- Legislation
 - State Asset Management Review Act, Chapter 750, HB985 (2004)
 - Surplus Real Property, Chapter 997, HB1124 (2004)
- Real Estate Portfolio Management
 - Federal Government Late 1990's
 - Other States
 - Private Sector

Governor's Management Objective

- Implement a consolidated and fully integrated system for the state's real estate management, resulting in a 15% - 20% decrease in total leased office space

Real Estate Issue

- Commonwealth's real estate process is atomistic and disjointed
- Result:
 - Inefficient and ineffective business practices
 - Increased total leasing costs
 - Over-leasing of total space
 - Time delays in other real estate transactions (purchases, sales and easements)

Tremendous Opportunity with Decisive Action



- Adapt best business practices to government
- Install new customer-oriented approach to real estate management in state government
- Generate significant savings
- *Involves* all secretariats and agencies

Current Real Estate Approach

- Regulatory Model

- Each agency negotiates its own deals

- Wide variations in approaches and staff expertise in real estate

- DGS reviews real estate deals only at end of process, just before submission for Governor's final approval



- DGS often suggests improved terms AFTER the parties have reached agreement

- DGS' last minute review too late to add value without being disruptive

- Systemic disconnect = perpetual irritation and frustration among DGS, agencies and the public



Examples

- Collocation Opportunities
 - Richmond: 6 state agencies in one building with separate leases, terms and costs
 - Hampton Roads: 7 state agencies in one office park with separate leases, terms and costs
- Acquisitions
 - Based on several bad appraisals (improper licenses, etc.) agency agreed to purchase large parcel at double the value assigned by lowest licensed appraisal

Examples, cont'd

- **Best Business Deals**
 - Substantial savings often produced when DGS requires renegotiation of agency-generated leases
 - Recent case: \$1 M saved over 5 year term
- **Legal Terms and Conditions**
 - Noncompliant real estate transactions frequently proposed from agency-owner negotiations
 - Not comply with state law, state Constitution, or otherwise provide prudent protections for the Commonwealth
 - OAG and DGS spend lots of time correcting errors and omissions

Difficulties with Current Approach

- Excess and vacant space (leased and owned)
- Collocation opportunities lost
- Odd and widely varying appraisals
- Delayed transactions
- Widespread inefficiencies
- State office space allocation 25% ABOVE federal space average per employee
- Real property data and information widely dispersed

Real Estate Initiative



- ① Portfolio Management
- ② Process Redesign and Culture Change
- ③ Organizational Reengineering
- ④ Data Integration and MIS Upgrade

1. Portfolio Management

- Comprehensive portfolio system for leased and owned property
 - Strategic planning, transaction management, project/construction management, lease administration, facilities and space management
- Customer-oriented and business-based
- Focus on enterprise-wide uses vs. specialized facilities
- Quarterly status reports to Governor beginning September 1, 2004

Portfolio Management Benefits

- Economies of scale and market leverage in leasing and contracts
- Reduce redundant support areas
- Better space utilization
- More productive use of staff
- More consistent quality

2. Process Redesign and Culture Change

- Develop integrated real estate portfolio management system
- Establish enterprise-wide perspective and goals
- Values of new management system
 - Customer service
 - Collaboration, facilitation, joint problem-solving
 - Performance standards and measures
 - Cost savings and efficiencies

Process Redesign: Agency Roundtable

- Essential: Collaboration and participation of secretariats and agencies
- Agency Roundtable
 - Chaired by Secretary of Administration
 - Major state leasing agencies
 - Representatives of smaller leasing agencies
 - Consultants
- Role of Agency Roundtable
 - Articulate needs of customer groups
 - Provide input on alternative methodologies and systems of real estate management

3. Organizational Reengineering

- Restructure Bureau of Real Property Management
- Advertise and hire new manager
- Reconfigure management process
 - Transform from regulatory approach to customer focus, service delivery and enterprise-wide performance standards
 - Redesign positions, systems, procedures and guidelines
 - Develop comprehensive change management strategy
 - Staff training and recruitment

4. Data Integration & MIS Upgrade

- Upgrade and consolidate databases and other information systems in collaboration with users and VITA
- Examine redundancies
- Provide essential integrated portfolio management system
 - Support pro-active management
 - Maximize efficiencies and savings

Opportunities

- Over 200 lease expirations in 2004
 - Close scrutiny
 - Avoid locking in for long time period with no flexibility
- Extensive collaboration across secretariats and agencies

Next Steps

- Distribute agency surveys and questionnaires
- Convene Agency Roundtable
- Begin agency collaboration
- Compile data received from agencies
- Conduct initial lease analysis
- Conduct follow-up interviews and sessions with individual agencies
- Review alternative real estate management systems and methods
- Develop draft specifications for integrated data system