Eight ways to boost state and local government real estate performance
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A new era has begun in state and local government real estate—and it’s leaner and more infused with a sense of urgency than ever before. Faced with looming pension liabilities, possible federal funding cuts and potential negative press coverage related to real estate mismanagement, government executives—many with private sector experience—are flipping the script. Leaders are finding new ways for buildings to serve constituents more effectively, while achieving significant cost reductions that help avoid cutting a state’s mission-critical services or staff. They are turning a liability and cost center into an opportunity to streamline and serve.

While the path to progress is different for every state and community, here are eight real estate best practices forward-looking state and local governments are often using to help solve their most profound and urgent challenges.

1. Enlist champions for change
2. Earn a seat at the strategic planning table using real estate information
3. Clarify and unify real estate portfolio management
4. Prioritize real estate user satisfaction and communication
5. Tackle deferred maintenance and improve the capital planning process
6. Align contracts with service providers
7. Tap investor capital using public-private partnerships to finance ambitious projects
8. Establish a strong governance program
Enlist champions for change

When real estate changes, it can feel to those impacted like “everything is changing.” Thoughtful change management can make transformational activities more welcome within the organization. With the right plan and advocacy program in place, it will be easier to realize campaigns that improve occupancy strategies, advance capital planning, implement technology solutions and shape offices that attract and retain valued employees. The process can be viewed as an opportunity, but many government employees are conditioned to fear change. You or your colleagues may have seen real estate mismanaged in the past, experienced the bad press, and fear unemployment, undesirable relocation, or worse.

To dissuade people of their fears of change, it’s critical to be strategic about gathering support for your plan before rolling it out in full. In your role as a change agent, you should act early to enlist passionate advocates within the government for your initiative. Depending on your organization, those influencers could be the governor, an influential mayor, a chief of staff, agency head or other people with significant persuasive appeal. These powerful and knowledgeable individuals can help advance the changes you propose, and also help you anticipate obstacles along the way.

Avoid bad press and advance-manage employee and constituent concerns by putting your passionate advocates in place via a thoughtful and proactive change management plan. Ideally, your plan will include clear, consistent communications that address stakeholder concerns before, during and after the proposed change.

The most effective starting point is to document a strong business case for change and secure executive sponsorship at the top, including the governor and key stakeholders in the executive and legislative branches.

With the advocacy of these leaders, your plans will stand a better chance of winning the endorsement of the state legislature, the media and the general public.

By bringing insights to the table that can help improve service to constituents or help solve budget challenges, the real estate function becomes more than a cost center. Instead, it contributes meaningfully to the executive agenda.

Use real estate information to earn a seat at the strategic planning table

Big Data offers big potential to governments—for cost savings, improved service and occupancy insights. You can transform your real estate information into valuable recommendations for top elected officials, administrators and the public about how facilities are being used, how efficiently they operate, and to identify potential liabilities and opportunities in advance.

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Additionally, centralized information can bring clarity to a complex portfolio of multiple sites, building types and oversight. For many governments, seeing the whole picture is an enormous challenge because facilities may be centrally owned and managed or leased by individual agencies and departments. A centralized data management system can reveal insights that save money and suggest new ways to serve constituents, as well as inform traditional buy, sell, lease and occupancy decisions. Predictive analytics can predict future scenarios, such as correlating real estate needs with projected headcount growth or reductions resulting from public policy initiatives.

Determining where different departments and employees will be most productive and collaborative is another common challenge. Big Data insights can reveal the potential advantage of co-locating agencies that serve the same constituents or operations. For instance, rather than separating procurement and accounts payable on two different floors or even two different buildings, why not place these functions more closely together? For example, one particular state used restacking and other data-driven strategies to eliminate more than one million square feet of vacant and under-utilized space—without compromising the employee workplace experience or undermining productivity.
Clarify and unify real estate portfolio management

For many governments, real estate management and usage is managed by multiple entities, or may be best described as “all over the place.” Some state and local leaders are streamlining portfolio management by centralizing some or all aspects of it.

Centralized management does not always make sense. For example, state colleges and universities have specialized facilities and usage hours, requiring facility management capabilities that are different from those needed for an office-based government agency. However, aggregating real estate information across your entire jurisdiction allows you to negotiate volume discounts for supplies; offer consistent benchmarking guidance and standards to educational institutions and agencies—without removing agency or institutional autonomy; and provide a consistent level of service and quality to all end-users.

One way centralized management can directly impact performance is benchmarking. By comparing your portfolio data with that of other governments and private sector organizations, you can better position your real estate assets while achieving significant cost savings. Benchmarking can also help you communicate opportunities and results achieved, as you engage with your many stakeholders.

For instance, the average office size in private-sector white-collar industries has shrunk from between 500 and 700 square feet in the 1970s to about 150 square feet today. How do your office standards compare? Through better alignment of functions and facilities, you can reap the cost reduction and efficiency of higher occupancy density.

Prioritize real estate user satisfaction and communication

Unappealing and poorly maintained government offices are a big downside when a government is seeking to attract and retain millennial workers—and they don’t delight constituents, either. A government’s workers and visitors should be treated like their customers as well. Focusing on employees and constituents can infuse a sense of purpose throughout real estate decision-making, from interior office build-outs, to lease versus sale decisions.

One place to start is by measuring end-user satisfaction with surveys and metrics—because you can only manage what you measure. Establish key metrics, such as response time for service requests, task completion or satisfaction with the workspace, to drive continuous improvement in service.

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Lease administration is another rewarding, but challenging, area where centralization can move the needle for government real estate organizations. Many governments continue to manage leases with spreadsheets.

And those that have invested in lease administration technology may find it under-utilized if employees lack experience or training resources. Consider all your options before investing in a system; lease administration systems typically require resource-intensive implementation of various modules, which is one reason some agencies have begun to use third-party lease administration services.

In addition to centralizing lease data, lease administration services proactively identify opportunities to renegotiate lease terms and rental rates, ensure that key dates are not missed and reveal timely opportunities to consolidate or dispose of underused assets.

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For example, one state used surveys to determine needs, and then assessed its responsiveness to requests for services and repairs and concluded that some buildings were higher priority than others. At the state capitol the facilities team established the key performance indicator (KPI) of responding to service requests in 30 minutes or less. In contrast, the facilities team established a less-ambitious KPI of responding to requests within two working days at less-critical facilities in more remote locations.

Some onsite teams were transformed into mobile engineering units that can address building issues dynamically using an online work order system with on-the-go access. Rather than being dedicated to a single facility that may not actually need a full-time resource, the mobile team can respond as quickly as a full-time resource while freeing up budget that can be invested in highly trained team members able to solve a broad range of technical problems—resulting in fewer service calls. The mobile team also avoids the expensive service call charges from contractors having to travel from the closest city.
5 Tackle deferred maintenance and improve the capital planning process

If your real estate portfolio is like most others in the public sector, deferred maintenance is a painful fact of life that only becomes more costly over time. To avoid ballooning deferred maintenance costs amidst budgeting pressures and competing priorities, some state and local agencies are adopting a more strategic approach to capital planning that includes both facilities assessments and a consistent year-over-year method for assessing capital projects.

Facilities assessments are becoming more common, as governments seek to identify potential capital liabilities at all or some of their owned facilities. A typical assessment covers all aspects of a facility and provides estimated costs for remediation projects along with an overall score for the facility’s condition. In aggregate, the facility assessments provide a clear picture of maintenance requirements and suggest a roadmap for funding near- and long-term priority capital projects. Benefits also include the ability to anticipate possible future equipment failures, thus avoiding expensive emergency repair costs, and improved employee and visitor satisfaction from well-maintained facilities.

Facilities assessments also identify regulatory, health and life safety issues that must be prioritized. Thus, the assessment can help a state or local government stay “in business” and avoid federal regulatory fines and lawsuits related to non-compliance—as well as the negative media coverage that usually results in such cases.

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6 Align contract goals with service provider compensation

Vendor contracts can be an enormous pain point with employees, constituents and the media, spurring talk of mass layoffs, or government waste on “expensive consultants.” One way governments are increasing transparency, driving cost savings and keeping real estate service providers aligned with taxpayer goals is by aligning service provider compensation with the interests of the government and its constituents.

Paying for performance, typically via a fee-at-risk service contract focused on specified goals, ensures that the goals of the service provider and the client organization are aligned. The key is for the client and service provider to jointly identify achievable outcomes and key performance indicators (KPIs), defined in a contract that stipulates base fees plus fees-at-risk for achieving target goals.

With this structure, the service provider is assured payment for baseline work, while being incentivized to achieve specific outcomes. Examples of goals include reducing total portfolio costs by 5 percent in year one and 10 percent by the end of year two, reducing annual building energy spend by 5 percent or responding to 95 percent of state capitol building service requests within 30 minutes. These goals lend themselves easily to metrics and KPIs to be tracked over the life of the contract.

KPIs also can include people-focused outcomes. In many agreements, for example, it is not unusual for a client to stipulate that its service provider hire and retain a high proportion of formerly in-house employees, providing those employees with career opportunities and ongoing training not typically available within a government organization with a broader mission to accomplish. People-focused KPIs ensure that “the right people land in the right seat on the right bus,” during any transition.
When public sector budgets are tight, the private sector can be tapped for funding, via public-private partnerships (P3s). Used successfully for decades for infrastructure and highway development, P3s are gaining popularity with state and local agencies to finance real estate projects. When thoughtfully executed, a P3 can reduce the need for public debt while also supporting a valuable community project, boosting economic growth and creating local jobs. P3s also can provide more efficient project delivery than can be achieved through typical bureaucratic government procurement processes.

More than 30 states have modernized their governance laws to allow broader use of P3s. Florida, for example, expanded its P3 procurement law to include not just state transportation projects, but also seaports and rail structures; parking garages; oil and gas pipelines; and recreation, medical, cultural and sports facilities, among other “qualifying projects.”

States and cities are using P3s for ambitious economic revitalization projects, with promising results. Chattanooga, Tennessee, created a downtown destination through strategic public and private redevelopment investments for a renovated museum along with new civic and commercial space. Similarly, public and private partners are collaborating in a major housing/hotel complex development in Columbus, Ohio.

Other public sector entities, particularly airports and universities, are also using P3s. In New York, a private investor group is undertaking a $3.6 billion redevelopment project at LaGuardia Airport with Port Authority of New York and New Jersey.

Likewise, in a recent agreement, California State University Channel Islands completed one of the largest P3 property modernizations to date. Anticipating a threefold increase in student enrollment, the university sold a property comprising a 328-unit apartment building, more than 29,000 square feet of retail space and 58 units of student housing to a private developer for $81 million, while retaining ownership of the underlying land. The university is also leasing an adjacent 32-acre site to the developer for additional housing development.
Case Study

State of Tennessee pioneers facility management outsourcing

The State of Tennessee wanted to reduce its real estate costs, while improving conditions of its workplaces through modernization of space plans and increased utilization across a 10-million-square-foot portion of its portfolio of leased and owned facilities.

The State assessed all of its owned facilities, tracking conditions, needed repairs and energy usage. It created a capital project pre-planning process to prioritize projects and created the business case for each budget request. Among other findings, the assessments revealed potential operating expense savings that could be achieved with limited equipment upgrades and better energy management.

Perhaps most significantly, the State took the bold step of outsourcing all integrated facility management services for a 10-million-square-foot portfolio of 603 leased and owned properties—something no state had previously done. Over the first three years of the contract, the State avoided $19.4 million of operational costs. Of the State’s facilities team members that transitioned to JLL at the initiation of the contract, the majority continue to work on State facilities.

In addition, outsourcing enabled the State to implement a comprehensive energy management program and a preventive maintenance program of all building equipment, estimated to save the State millions over time. Service improvements include a Web-enabled work order system and around-the-clock call center so State employees can conveniently request service at any time. Vendor contracts have been renegotiated to produce estimated savings of $13.6 million over the life of the contract. Also, the JLL-State partnership identified and corrected 681 potential OSHA code violations, improving workplace safety.

The State and JLL are working toward cost avoidance in excess of $40 million over the life of the contract, and continuing to improve customer satisfaction.

For the most recent fiscal year ended June 30, 2016, the percentage of employees who were “satisfied” or “highly satisfied” with their real estate service had reached 97 percent, far beyond the industry standard of 85 percent.
About JLL Public Institutions

JLL is the premier provider of strategic real estate advisory for local, state, national and federal governments as well as public and higher education institutions. Its national team covers the entire real estate lifecycle from strategy, public private partnerships, facilities management and sustainability services to transaction and project management. JLL brings both the experience and expertise to convert real estate portfolios into working assets that meet operational and occupancy requirements while generating revenues and reducing cost. us.jll.com/publicinstitutions

About JLL

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