A 21st century Domesday Book

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Governments around the world would gain much from consolidating their commercial real estate, suggest Dag Detter and Stefan F?lster

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A family owning a portfolio of properties would not lose sight of what assets they own, its value or how much money it yields each year. A private company failing to publish its financial accounts would face serious legal implications.

In many countries, the government is the biggest owner of properties. The Greek central government is often cited as owning almost 100,000 properties and the government of the Ukraine almost a million. Although most of these are now theoretically consolidated under a single management, many properties are still not fully registered, with vital information missing. In fact, despite efforts lasting several years, the National Land Registry in both countries included only a fraction of the total land available, private or public.

There is not a single government in the world that can truthfully say it knows exactly what real estate it owns. If property rights are one of the basic pillars of democracy, then surely a national cadastre is the obvious framework and a national land registry the institutional body for safeguarding these rights. Why is there a deafening silence from the media, capital markets and investors about public commercial assets?

Public commercial assets ? able to generate an income, if managed properly ? are not a trivial wealth segment globally. Their value, not including roads (unless toll roads), national forests or historic buildings, is estimated to exceed $75 trillion (Detter and F?lster, 2015). This is well in excess of global debt. The lion?s share of these assets is real estate. A relevant improvement in yield from these public commercial assets could be used both to finance infrastructure investments and lower taxes.

Uncovering real estate wealth

Starting in the 1970s, corporate raiders and the threat of hostile takeovers pressured corporations to monetise their hidden fortunes, including vast real estate portfolios forgotten on their balance sheets. Properties were split off from operations and consolidated in an independent holding company, uncovering considerable wealth as well as making the core operations much more cost efficient.

The US federal government owns more than a quarter of the real estate in the country and some individual states control as much as four-fifths of their land. Along with all this land, the federal government holds buildings with a book value of $1.5 trillion. In addition, state and local government assets amount to 4 times these federal holdings, or a book value of $6 trillion, according to a cautious estimate by the International Monetary Fund.

The US General Accounting Office (GAO), the US government spending watchdog, found that:

many federal assets are in an alarming state of deterioration

noting that the federal government has many assets it does not need. These include billions of dollars? worth of excess, or vacant buildings. The federal government spends billions of dollars each year maintaining excess facilities in the Departments of Defense , Energy , and Veterans Affairs .

Despite being in possession of such wealth, the US federal government is still unable to consolidate and manage the ownership of this wealth segment in a transparent and professional way.

National register

A proper consolidation of the government portfolio under a single ownership, creating a national register of its assets would more openly reveal the market value and potential for alternative use, as any professional private sector asset manager would. Also, with a cost attached to use of public real estate, it would include looking at the use per square metre/feet, energy and maintenance efficiency. Taking a more consolidated perspective on asset management would also allow for centralised procurement of services and goods that would have a substantial effect on the bottom line.

The UK, the pioneer among privatisers and perhaps one of the most efficient governments in managing its real estate, publishes the Whole of Government Accounts (WGA). In this, HM Treasury is aggregating audited accounts of around 4,000 organisations across the public sector to produce a comprehensive, accounts-based picture of the financial position of the UK public sector. WGA is based on International Financial Reporting Standards. The accounts are independently audited by the Comptroller and Auditor General and puts the value of the government?s total assets at ?1.3 trillion ($2 trillion), of which 60% is real estate, infrastructure and other property, plant and equipment; and some 40% being trade and other receivables, loans and deposits with banks, and other assets.

This value might correspond to around 70% of GDP. Given that the fragmented ownership of assets in the UK is preventing a proper consolidated central cadastre or register for public assets, the question remains whether the government really has been able to capture all assets owned by governmental bodies, be it central, local or regional? Furthermore, if not centralised and consolidated under a single management responsible for both monitoring and ownership, is the data coherent enoughto be able to assess a potential market value?

Transparency is mainly focused on operational efficiency instead of value

Currently, the Treasury has to ask the various line ministries about their assets in order to be able to assess the portfolio. Furthermore, transparency is mainly focused on operational efficiency instead of value. It is not unlikely that the market value of UK public commercial assets owned by the central government exceeds public debt if properly consolidated and accounted for.

Although the UK, along with Sweden, Australia and New Zealand are some of the most transparent countries in the world in terms of their public sector real estate, the various efforts in these countries would not compare well with what is required in the private sector or to professionally manage such a portfolio.

In the private sector, it would be self-evident that the portfolio should be brought together under a single holding company, or National Wealth Fund, and professionally managed to realise all the possible cost efficiencies available to a properly incentivised management.

Also, when suitable, the holding company would buy and sell assets to maximise value for the shareholder, as well as to optimise the operational use of the properties ? not be subject to fire sales. As with National Wealth Funds such as Temasek in Singapore, ?IAG in Austria nd Solidium in Finland, which manage industrial assets, a number of governments have reated specialised holding companies for some of their real estate assets, including Senate n Finland and BIG in Austria, while Temasek to some extent is active in both asset classes. ll of these demonstrate an ability to produce a healthy rate of return.

Two models

The holding companies for public real estate come mainly in two models ? fragmented and consolidated. The fragmented model, represented by Sweden, is where each ministry vests only its own real estate assets into a separate holding company. This has created a number of specialised holding companies in segments such as real estate related to higher education, railways or the defence segment. The consolidated version, represented by Senate in Finland, is where the central government has consolidated real estate segments from a wide range of ministries in the government under one single holding company.

From a financial perspective, the consolidated model is preferable, as the resultant diversity and scale would have two benefits. The scale allows for improved access to and reduced borrowing cost from the international capital markets for financing infrastructure projects or other commercial ventures or assets.

Aggregating a previously fragmented portfolio enhances the ability to produce an integrated business plan and create relevant asset classes across ownership boundaries that would not only give flexibility to maximise value and act on any potential divestiture at the individually most advantageous timing, but also reduce transaction cost and operational costs.

The main purpose of using a private sector framework is to leverage existing accounting methodologies and corporate structures to improve transparency through a complete register of the assets and an understanding of market value in order to at least enable an assessment of the potential alternative use of each property. Such transparency is an important ingredient of well functioning democracy.

Seen as an enterprise, the government, taxpayers and society would gain from consolidating as much of its commercial real estate under a centralised holding company. This would avoid financial and operational inefficiency through incoherent transparency or suboptimal management. Developing real estate, including selling and acquiring assets and contracting developers, benefits greatly from professional management and a private sector structure able to incentivise the appropriate management to maximise value for the government and society as a whole. In fact, such an approach would also be an excellent way of freeing public resources for more infrastructure investments, which most countries sorely need.

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Further information

- Related competencies include Corporate real estate management , Strategic real estate consultancy
- This feature is taken from the RICS *Property journal* (July/August 2015)