

Municipal Real Estate of Nijmegen

Unlike commercial real estate, the key goal with municipal real estate is to obtain added value on a social level for the community. This type of real estate is often associated with deficits in the exploitation, which are covered with tax money. A large proportion of real estate with social value is controlled by non-profit organizations such as educational or healthcare institutes, housing corporations and municipalities. In this article the governmental point of view is shown by Carel Sweens, Strategic Advisor Real Estate of the municipality of Nijmegen.



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As a senior government official Carel Sweens has over forty years of experience at municipal real estate. His main focus was the realm of public entrepreneurship and cooperation between government and commercial/community organizations. A large part of his working life he has been controlling public-private partnership contracts (PPS). Currently, he works as the strategic advisor real estate of the municipality of Nijmegen, where his main concern is to manage the municipality's real estate portfolio addressing its social revenues.

Nijmegen, past bricks alone

Like most of the Dutch municipalities, the municipality of Nijmegen has got a real estate portfolio, containing welfare properties, youth-, sports and recreational buildings or properties which combine some of these functions. The latter is sometimes called multifunctional accommodations (MFA) or facility centers (voorzieningshart). These MFA's have free access for citizens during the entire day and they are significantly emerging since 2000. They offer space to childcare, cultural and social activities and supporting catering services. Other examples of municipal real estate are theaters, concert-halls, libraries, swimming pools and playgrounds.

Well thought programming and facilitation should lead to synergy between the services offered in the building. The collected supply of services offers citizens a timesaving 'one-stop-drop' and gives a neighborhood a central location around which most activities are focused. The municipality Nijmegen is the only owner of multifunctional accommodations within its territory and also controls the programming, facilitation, management and operations of the accommodations.

Other forms of social relevance for real estate

Other types of buildings owned by the municipality of Nijmegen are buildings which are not suited for alternative functions, such as churches and mills, or objects which represent a significant amount of emotional value e.g. monuments or characteristic buildings. The portfolio of most municipalities also contains commercial real estate; the governmental officials need to be housed, and sometimes policy prescribes to control the supply of parking lots and bicycle parking space. This can no longer be defined as real estate with social value, but is indispensable for the functionality of the municipality.

In such a compound portfolio, the following definition is commonly accepted: buildings are regarded as municipal real estate when:

- it is held in the interest of the housing of its bureaucracy. Buildings with great emotional value are not excepted from this.
- it is an added value to the market;
- it has got financial or political benefits for the municipality such as profitable offices or parking lots.

In addition, the management scheme of municipal real estate is vastly different than one would expect. The municipality of Nijmegen has chosen for further decentralization, which means that the funds which are offered by the higher authorities are passed through to 'players in the field' such as educational

institutes. The institutes are granted an amount which should make it possible for them to fulfill their housing needs and control the interest of every participating institute.

Benchmarking – the next level

Municipal/social real estate is in the spotlights at the moment, because of the large capital locked up in bricks and the former non-transparency of the portfolio of various municipalities. The total book value is estimated at more than 20 billion Euros and covers 45 million square meters*. Following the current market developments, in both fields of commercial real estate and housing corporations, a benchmark certified by the Dutch Property Foundation (ROZ) is used and delivered by the Investment Property Databank (IPD).

This benchmark offers new methods to provide insight in the value of the Dutch municipal real estate total portfolio. The composition of real estate portfolios, as well as the total expenditures and incomes generated from social real estate is made clear. Dutch municipalities participate in this benchmark by offering data is steadily growing. Currently, the real estate portfolio's of all participating municipalities represent a value of 5 billion Euros and needless to say, there is a lot of catching up to do.

The municipality of Nijmegen has cooperated from the beginning, but to be able to join this benchmark, one has to have insight in their own portfolio in order to be able to offer the data needed. Key to gaining this insight was the foundation of corporate real estate management on a governmental level. Administrative and official control of the portfolio of the municipality of Nijmegen is centralized and focused on the portfolio as a whole. Certain data had to be obtained, valuation for tax purposes versus administrative value, maintenance levels, market renting prices and cost-renting prices.

“Nijmegen is past thinking in bricks alone.”

Management and Maintenance

The management of real estate doesn't necessarily imply that municipalities need to administer all the associated responsibilities themselves. The municipality of Nijmegen outsourced its directing management and maintenance for a period of five years. This was also due to the insight it had in its portfolio, otherwise it couldn't have outlined the contract to DHV – a leading international consultancy and engineering firm.

The benchmark focuses on municipal real estate that the municipalities want to keep. The strategic ownership of certain properties isn't included in the benchmark, mostly because it is transferred to a development company and is part of the urban expansion or restructuring program. Such strategic objects aren't aimed at preservation but transformation.

Effects of modeling and measuring performances

The key questions are how much municipal real estate a municipality should hold and who should be accountable for development, realization of projects and management of the current portfolio. To answer these questions, first the social need for real estate and the manner a municipality can contribute to the demand should be measured. Municipalities have to realize that stakeholders in the public domain contribute with tax money and that it is very important to maximize the results with the available funds. They should decompartmentalize and look beyond their working fields.

Aside from the public demand or the goal of its own organization, together with public-private initiative or with a directing role for the municipality, the playfield should decide the desired number of facilities in facility centers. This approach starts with a structural plan for facilities and gives insight in the optimal partnerships between public and private entities and/or the responsible actor.

Development and realization of municipal real estate from the programming point of view consists of planning, management and maintenance, but on the other hand, it deals with the unsalable part of social real estate. The project and program of requirements is aligned to the first users and it is uncertain if the property still meets current demands after a few years in use.

The social value is a rather complex variable and the municipality of Nijmegen together with consultancy firm Berenschot, have come up with a model which provides municipalities more insight in the social revenues of accommodations and portfolios. This model splits up the social revenue in two components; first the factor in which the accommodation succeeds to achieve the target groups in a given area, second the contribution to the political goals. A framework had to be developed to measure the performance and it provides us with valuable data in three levels.

- The framework is guiding when there is a decision point for the administrator/manager to choose a new tenant. It shows which of the targeted renters provides the highest social revenue. Subsequently the framework gives an indication of the revenue of the accommodation as a whole and a large period of time.
- If the framework is applied to current portfolios, it gives a detailed view of the results of these portfolios. Underperforming properties can be prevented and the framework gives guidelines to optimize the portfolio a/o terminate certain properties or change its destination.

Future results can be linked with indicators of neighborhoods such as safety and livability to complete the whole information package. Currently this approach is tried out in the sportssector, together with BMC (a consulting and management bureau that supports governments to solve complex problems), and it provides much needed results and indications on how different objects perform within the portfolio of the municipality of Nijmegen. This undoubtedly leads to a better use of opportunities and reduce costs and tax money.

Conclusion

In short, the recent interest for municipal real estate and the financial and social importance require accelerated professionalizing from all the contributing stakeholders. The municipality of Nijmegen has made large improvements by centralizing its real estate data, further decentralizing the responsibilities of towards the playing field and outsourcing its directing and maintenance. By combining all the available knowledge and skills, the municipality has proven to be also capable of working out the TCO – total costs of ownership. The knowledge developed by years of experience is used in new projects (hardware) and customer service, customer satisfaction research and policy development (software). A shift in focus shall occur in the near future when municipalities target the question how a social property fulfills a certain social need, which participants should join the project and which one has to be held responsible and further control of the whole real estate cycle, including measuring the revenue of its portfolio.

*source: Bert Teuben, researcher at Investment Property Database