Real estate as a public asset

The harmony in trade-offs in the Dutch Central Government real estate portfolio

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Content

I. Introduction
II. Research proposal
III. Research findings
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I - Introduction
Dutch real estate market has high vacancy rates, it reached its all
time peak equivalent to 9,2 million square meters.
Vacant portfolio Central Government Real Estate Agency (2.8 million sqm)

Office buildings  penitentiary  Court buildings  Barracks

Top 25 office owners

(source: OfficeRank)
II - Research proposal
‘Maatschappelijk rendement koppelen aan financieel rendement bij de afstoot van Rijksvastgoed’

“Connect social return to financial return by the disposal of government real estate"

(Minister Blok, Symposium: Diversity of Vacancy, 2014)
Case CBS

Context:
I. Portfolio
II. Financial return
III. Collaboration process
Main research question

In what way can the Central Government Real Estate Agency dispose vacant real estate while incorporate social return?
Delineation: Social return

I. **Social return** (the added value) of real estate properties is defined as the ratio between social performance and the required financial investment (De Gruis et al., 2011).

II. **Social return** is the ratio between the required investment in people and/or resources (input) on one hand and the society effect (outcome) on the other hand (BZK, 2011).

III. **Social return** is a concept which should be targeted in its own value, this is thus not directly related to money. **Social return** is a set of measures to be taken versus a desired outcome (De Kam, 2008).
Main research question

In what way can the Central Government Real Estate Agency dispose vacant real estate while incorporate public values?
Supporting questions in three determinants

Context

II. Portfolio
III. Financial return
IV. Collaboration process
Conceptual model – Theory (2)
Conceptual model – Theory (3)
Research objectives

- Define public values in real estate
- Examine how public values can be incorporated in a disposal process (of the CGREA)
Research design

Desk research

Literature study
- Public values in real estate
- Context determinants in policy documents

First definition of public values

Field research

Interviews
- Public values (perceptions, interests, policies)
- Employees CGREA
- Real estate professionals
- Context determinants
- Financial return (perceptions, interests, policies)
- Categorisation possibilities of the portfolio and characteristics
- Process of disposal and sales procedure

Case studies
- Public values in disposal process and decision-making
- Indicators public values in disposal process and decision-making

Final theory public values and recommendations

Workshop/Discussions
- Workshop to present definitions to focus groups and get feedback in order to establish a broad definition for public values.
- Discussion to create consensus and evaluate the different perceptions and interests in the disposal process and the view on public values in the disposal of government real estate.

Broad definition of public values and indicators
III – Context

P.I. Overmaze, Maastricht
Further research
Context:

I. Portfolio
II. Financial return
III. Collaboration Process
I. Portfolio

- Property instruments: VPS, Disposal strategy, ABC-scan (Broad Values Assessment), Sales approach
- Categorisation portfolio
### Categorisation

#### Categorisations

<table>
<thead>
<tr>
<th>Provincial analyses</th>
<th>Disposal strategy</th>
<th>ABC-scan</th>
<th>Sales approach</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>2. Conversion</td>
<td>2. Redevelopment</td>
<td>2. Temporary use</td>
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<td></td>
<td>3. Complex conversion</td>
<td>3. Experiment</td>
<td>3. Conversion and sale</td>
</tr>
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<td></td>
<td></td>
<td>5. Demolish</td>
<td>5. Area development</td>
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</tbody>
</table>

#### Categorisation Public portfolio

<table>
<thead>
<tr>
<th>Market</th>
<th>Positively marketable</th>
<th>Reasonably marketable</th>
<th>Ambitious marketable</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Limited competing supply</td>
<td>Competitive supply</td>
<td>Declining real estate market</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Demand for adaptive reuse</td>
<td></td>
</tr>
<tr>
<td>Location</td>
<td>Good location, close to key cities</td>
<td>Good location within municipality or secondary location within key city</td>
<td>Declining region</td>
</tr>
<tr>
<td></td>
<td>Function complements its environment</td>
<td>Need in changing zoning plan</td>
<td>Poor location</td>
</tr>
<tr>
<td></td>
<td>Future use according zoning plan</td>
<td></td>
<td>Need in changing zoning plan</td>
</tr>
<tr>
<td>Building</td>
<td>Offers potential return</td>
<td>Physical characteristics offer potential for adaptive reuse</td>
<td>Limited possibilities adaptive reuse</td>
</tr>
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<td></td>
<td>Attractive architecture</td>
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</table>
II. Financial return

- Important decision variable in the disposal is the valuation of the property
- ‘A property's value is a function of its expected use.’ (Lusht, 2002)
III. Collaboration process

- Focus on collaboration with provinces and municipalities
  - MIRT
  - SOK
- Private developers
Conclusions

- Intern
- Extern
Public values in a public portfolio

- Organisation CGREA
- Definition public values

- Sociaal Maatschappelijk
- Vastgoed Economisch
- Cultuur (historisch)
- Natuur (ecologie)
Definition public values in real estate

“Real estate contributes to public values in the built environment when it has a vital function in its environment, contributes to an economic position and the building meets the sustainable use of resources and materials.”
Measurement public values

- Vital function: long-term use, flexibility, reassure the value of cultural-heritage, strengthen identity, openness and safety.
- Economic position: creation of employment and strengthen diversity.
- Sustainable use: durability of use, stimulation of adaptive reuse and environmental sustainability.
<table>
<thead>
<tr>
<th>Collaboration, participation and empowerment</th>
<th><strong>Identify negative changes due to disposal</strong></th>
<th><strong>Identify positive changes future development</strong></th>
<th><strong>Outcome</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Stakeholder identification and participation</td>
<td>What are the negative consequences for stakeholders?</td>
<td>Are there positive externalities in stakeholders identification and participation?</td>
<td>Future possibilities</td>
</tr>
<tr>
<td>Development and engagement of vision</td>
<td>What are the negative consequences for the future vision of the context?</td>
<td>Are there positive externalities for a development of future vision?</td>
<td></td>
</tr>
<tr>
<td>Existence of future demand of stakeholders</td>
<td>What are the negative consequences for demand for stakeholders? Public/Private</td>
<td>What are the positive opportunities for stakeholders? Public/Private</td>
<td></td>
</tr>
<tr>
<td><strong>Vital function in its environment</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long-term use</td>
<td>Are there negative externalities for the long-term use of the property?</td>
<td>Are there positive externalities for the long-term use of the property?</td>
<td></td>
</tr>
<tr>
<td>Flexibility</td>
<td>Are there negative externalities for the flexibility of the property?</td>
<td>Are there positive outcomes regarding the flexibility?</td>
<td></td>
</tr>
<tr>
<td>Reassure the value of cultural-heritage</td>
<td>Are there negative externalities for the value of cultural heritage of the property?</td>
<td>Are there future developments possible that can reassure the value of cultural-heritage?</td>
<td></td>
</tr>
<tr>
<td>Strengthen identity</td>
<td>Are there negative externalities for the identity of the property in its context?</td>
<td>Are there future developments possible that will strengthen or keep identity for context?</td>
<td></td>
</tr>
<tr>
<td>Spatial quality</td>
<td>Are there negative externalities for the spatial quality of the surroundings?</td>
<td>Are there positive developments for the spatial quality?</td>
<td></td>
</tr>
<tr>
<td>Openness</td>
<td>Are there negative externalities for the openness?</td>
<td>Are there developments possible that secure openness?</td>
<td></td>
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<tr>
<td>Safety</td>
<td>Are there negative externalities for the safety?</td>
<td>Are there developments possible to reassure openness?</td>
<td></td>
</tr>
<tr>
<td><strong>Economic position</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employment</td>
<td>Does the disposal result in a decline of employment?</td>
<td>Does the disposal result in a decline of employment?</td>
<td></td>
</tr>
<tr>
<td>Strengthen diversity</td>
<td>Does the disposal result in a declining diversity for the context?</td>
<td>Are there future development possible to strengthen diversity in the context?</td>
<td></td>
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<tr>
<td><strong>Sustainable use</strong></td>
<td></td>
<td></td>
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<tr>
<td>Durability of use</td>
<td>Are there negative externalities for the durability of use?</td>
<td>Are there future developments that reassure the durability in use?</td>
<td></td>
</tr>
<tr>
<td>Stimulation of adaptive reuse/regeneration</td>
<td>Are there negative externalities for adaptive reuse of the property?</td>
<td>Are there positive future developments possible concerning adaptive reuse?</td>
<td></td>
</tr>
<tr>
<td>Environmental sustainability</td>
<td>Are there negative externalities for the environmental sustainability?</td>
<td>Are there positive externalities regarding environmental sustainability?</td>
<td></td>
</tr>
</tbody>
</table>
Public values

**Collaboration, participation and empowerment.** Taking into account local circumstances on the real estate market. Creating opportunities and empowerment for public institutions, private developers and communities.

**Vital use in environment.** Stimulate future function that fits within the regional demand. Maintain the spatial quality for a city and sustain the identity of the building for the city.

**Economic vitality.** It is not only about selling a property but as well creating opportunities for future business purposes. Real estate is more than the value of the bricks, it needs to have a function and stimulate a feasible business plan.

**Sustainable use.** Stimulate smart solutions in the redevelopment of a property. To create a feasible project for the real estate that ensures the durability of use. Not a focus on real estate as a financial asset but as a public asset, that is a social capital for the environment.
Multiple case studies

3 case studies to reflect on public values and intern and extern instruments used in current disposal.

Criteria

1. Sold last three years
2. A property that has to be converted to accommodate a future function
3. Use of property instruments: ABC-scan, Sales approach
Conclusions connection intern and extern with public values:
- Process and collaboration important in defining public value.
## Collaboration, participation and empowerment

<table>
<thead>
<tr>
<th>Hembrug area - Zaandam</th>
<th>P.I. Noordsingel - Rotterdam</th>
<th>Spinhuiswal - Den Bosch</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stakeholder identification and participation</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Development and engagement of vision</td>
<td>✗</td>
<td>✔</td>
</tr>
<tr>
<td>Existence of future demand of stakeholders</td>
<td>✗</td>
<td>✔</td>
</tr>
</tbody>
</table>

## Vital function in its environment

| | Hembrug area - Zaandam | P.I. Noordsingel - Rotterdam | Spinhuiswal - Den Bosch |
|------------------------|-------------------------------|------------------------|
| Long-term use | ✗ | ✔ | ✗ ✔ |
| Flexibility | ✔ | ✔ | ✗ ✔ |
| Reassure the value of cultural-heritage | ✗ ✔ | ✔ | ✗ ✔ |
| Strengthen identity | ✔ | ✔ | ✔ |
| Spatial quality | ✔ | ✔ | ✗ ✔ |
| Openness | ✔ | ✔ | ✔ |
| Safety | ✔ | ✔ | ✔ |

## Economic position

| | Hembrug area - Zaandam | P.I. Noordsingel - Rotterdam | Spinhuiswal - Den Bosch |
|------------------------|-------------------------------|------------------------|
| Employment | ✔ | ✔ | ✔ |
| Strengthen diversity | ✔ | ✔ | ✗ ✔ |

## Sustainable use

| | Hembrug area - Zaandam | P.I. Noordsingel - Rotterdam | Spinhuiswal - Den Bosch |
|------------------------|-------------------------------|------------------------|
| Durability of use | ✔ | ✔ | ✗ ✔ |
| Stimulation of adaptive reuse/regeneration | ✔ | ✔ | ✗ ✔ |
| Environmental sustainability | ✔ | ✔ | ✗ ✔ |
IV – Research findings
Conclusions public values

- Public values in disposal can be controlled in two ways. In the process (by involving the right parties at the right time) and in the sales (by stimulating interventions for long term benefits).
Ambitious
Marketable
Reasonably
Marketable
Positively
Marketable

Policy goals
Private development

Private development
Collaboration, participation and empowerment
Stakeholder identification and participation
Development and engagement of vision
Existence of future demand of stakeholders

Vital function in its environment
Long-term use
Flexibility
Reassure the value of cultural-heritage
Strengthen identity
Spatial quality
Openness
Safety

Economic position
Creation of employment
Strengthen diversity

Sustainable use
Durability of use
Stimulation of adaptive reuse/regeneration
Environmental sustainability

Most important drivers for future development of property or area.
Map of future public values for property.
Multiple functions are possible in property. Market demand for adaptive reuse and new functions.

Property can accommodate policy objectives. Private developers are able to develop this. CGREA facilitates and illustrates opportunities.

Property is difficult to convert. No regional demand for adaptive reuse. Policy objectives may relate to considerations to develop the property by public institution.

Property is difficult to convert but sufficient to accommodate a new use. Regional demand is minimum.

Multiple functions are possible in property. Market demand for adaptive reuse and new functions.

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Property is difficult to convert but sufficient to accommodate a new use. Regional demand is minimum.
V - Concluding
In what way can the Central Government Real Estate Agency dispose of vacant real estate and incorporate public values?

I. What are public values in the built environment?

II. How are public values incorporated in the process of disposal?
Research question

- Public values in disposal can be controlled in two ways. In the process (by involving the right parties at the right time) and in the sales (by stimulating interventions for long term benefits).
- Categorisation of marketability to allow for choices concerning public values and financial return.
- Constantly reflecting between different scale-levels of the built environment, taking into account the context.
Recommendations

- More transparency about the process and primary objectives for public values and not just transparency about the financial return
- Categorisation marketability
- ABC-scan to much policy, to make it efficient in the primary process

Further research

- Practical categorisation for portfolio
- Policy objectives translated to real estate CGREA