The other 60 percent

When we open Assets magazine, we find pictures of roads and bridges, railroads, pipelines, generating stations, and airports. Where are all the pictures of office buildings, schools, hospitals, apartments and football stadiums?

The answer is that they are coming. The service sector in the UK, or what is often called the commercial sector in the USA, accounts for 60 percent or more of the economy – even after we take out transportation and public utilities.

The history of asset management is built on infrastructure service issues and failure risks related to asset-intensive industries, such as oil and gas, mining and power generation.

The commercial sector, where asset expenditures are normally around five percent of the annual budget, is well below the traditional horizon in terms of asset intensiveness. Nor does this sector appear terribly risky. A patron slipping on a wet floor in the supermarket is not the same as a train derailment or an oil spill. Commercial asset systems are fairly straightforward, even in large office buildings, and they are nearly always redundant.

Real estate prices are often seen as driven by speculation, rather than underlying value, and commercial space management is often outsourced – to the lowest bidder.

So why should we care about commercial real estate and operations? And why should we bother applying asset management principles and systems to a sector which seems – on the surface – to show little need or benefit?

The first answer is in the sector-level view of the UK economy. No matter how you slice the pie in Figure 1, commercial activity is the largest contributor. This is also true of the USA and the rest of the developed economies. Even if physical infrastructure is a small part of the balance sheet of each individual enterprise, the aggregate impact is significant.

The second answer is in the relationship between commercial facilities and infrastructure. Buildings in the USA, for instance, account for 40 percent of all energy use and are a primary driver of electricity demand, through air conditioning. Office, retail and residential uses also drive transportation. It is normally much easier to add a few floors to an existing building than to add new infrastructure to a dense urban area. Yet infrastructure quality and capacity may ultimately determine how useful a building can be. Increasing density of apartments and offices can overwhelm transportation assets, leading to over-crowded platforms and subway trains and above-ground gridlock. Looking at buildings and infrastructure together provides a clearer picture of the commercial world’s asset intensiveness.

The third answer is that physical assets, while a small part of the balance sheet, are often the face of the enterprise. Many retail organisations realise this implicitly – as do entertainment enterprises and some office buildings. Remember that our original bank buildings, which were designed to give a look of solidity and security, have provided some classic structures, which we find ourselves inclined to preserve.

Our new definitions of asset management focus on value. And value is continuously changing.
The allotment of office space per worker, which used to be 30 square metres (m²) or more per person, is now less than half of that, and the standard office operating hours have gone from 50 per week to more than 100. We spend a lot of committee time arguing about what to use as a base for operating hours in order to create benchmarks, but given a global economy and a mobile workforce, the only really useful measure today is 24x7.

Retail space is shrinking as well, as evidenced by the amount of vacant space and the rapidity of its conversion to other uses. Many retail spaces are becoming showrooms for the online buyer and the size, location and configuration of the space will change accordingly.

Though the British Open University pioneered the idea of distance learning, other colleges and universities are now beginning to engage seriously in online education. As this happens and spreads down to secondary education, space usage in one of our most conservative sectors will also change. Entertainment complexes are changing as well, influenced by home entertainment and online gaming. Healthcare has been moving towards convenient, rapid service in outpatient clinics for some time. A video-conferencing studio or a roll-about unit in the jail is replacing the county courthouse, and my neighbour the defence attorney often works from home. The City of New York recently held a contest for architects and students to design a sub-37m² apartment. One of the winning entries was about 25m², which is small even by European standards. An apartment building housing a large number of these units would have a significant impact on the neighbourhood.

Although the commercial sector has seemed to be relatively risk-free, changes in our global society and environment are intervening. Homeland security is not just a phrase; it is a government agency with plans and programmes to protect vital commercial services such as banking and food distribution, along with utilities and industries. Stadiums and terminals and other public gathering places have long had security plans, but these are becoming more important as the severity of the risk increases. Reliable asset data and effective asset management provide the foundation for effective planning and security management.

When asset managers get together they often start their conversation by comparing the physical size or dollar value of the assets they manage. By this measure any individual commercial asset, outside of a terminal or stadium, may seem small. But the aggregate impact of commercial space is enormous. A recent study of sea level changes put the value of flood-vulnerable real estate in the US East Coast at US$1.6 trillion. This is significantly larger than the value of all the oil platforms in operation today.

The majority of the members of ISO/PC251, the committee responsible for ISO55000, represented utilities and infrastructure, with a sizable minority from the extraction industries (oil and gas and mining), and a handful of members from the commercial sector. The resulting standard, with its emphasis on value, risk and integration, provides a very useful vehicle for all sectors. It's time to begin including commercial infrastructure as a major player in our discussions of asset management.

Figure 1: UK gross domestic product – composition by sector
Source: Royal Geographical Society, 2012 (est.)

Building housing a large number of these units would have a significant impact on the neighbourhood.

Thomas W. Smith, MS is a Program Director in the Department of Engineering Professional Development, University of Wisconsin-Madison. He served as a US delegate and task group leader for the ISO Standards Committee on Asset Management and is a member of the IAM Faculty. Among a number of papers and articles on asset management, Thomas is the author of the summary chapter on ISO55000 for the New Handbook of Physical Asset Management.