Facility and Property Management – Find the Differences or the Points of Convergence

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It is not a secret to any real estate professional – there is some confusion regarding the contemporary identity and functions of Facility Management (FM) and Property Management (PM). In public discourse and daily business interaction the differences and similarities among these management professions are blurred and unclear, which sometimes lead to wrong end user or client expectations and interpretations.

I had been asked frequently "What are the differences between Facility Managers and Property Managers?" or "Where is the borderline between Property Management and Facilities Management?"

The modern business is irreversibly global and highly competitive. In this aspect, the popular saying by Covey sounds logical, that **"Strength lies in differences, not in similarities".** In real estate business, I would go a step further and say that,

We must value the differences, but also be aware of similarities and then learn from one another to excel in business.

In this analysis, we will focus on the practical comparison between FM and PM. Adding Asset Management to the equation is a very important perspective but it would be more effective to be addressed in another comparative article.

The differences and the common ground between Facility Management and Property Management are presented in Table 1.

Facility Management vs. Property Management, *Table 1*

	Facility Management	Property Management
Level	• Strategic, tactical and operational	• Tactical and operational, limited strategic
Content	• Aligning real estate strategy with productivity strategy • Implementation of real estate strategy and productivity strategy	• Implementation of real estate strategy
Scope	• All buildings, facilities, infrastructure which support the primary business	• All buildings, facilities, infrastructure which are the primary business itself
Perspective	• Production perspective • Real estate as instrument for service provision • Focus on end user and occupier needs	• Investment perspective • Real estate as profit generating instrument • Focus on Owner/Tenant relations management to assist maximizing cash flow and return
Authority	• Facility Manager represents the Tenant/Lessee or the property Owner, who are Occupiers and whose primary business is not real property	• Property Manager acts as a trustee of the property Owner or Landlord, whose business is the real property itself
Impact	• Individual objects, international, regional	• Individual property assets, international, regional
Sector	• Private sector • Public sector– central, regional (state) and local government	• Private sector • Limited application in public sector
Objectives	• Continuous and cost effective supply of optimized work environment in	• Profit and cash flow generation

	order to improve productivity and effectiveness of the primary business	• Increase shareholders value by operating the building/s, enhance value and yield through operation
Performance Indicators	• Financial indicators, qualitative indicators, environmental indicators, normative indicators, productivity indicators, technical indicators • Target indicators - Costs/Quality, TCO, Satisfaction Level	• Financial indicators, qualitative indicators, normative indicators, environmental indicators • Target indicators – Net Yield, IRR, Cash on Cash Return
Horizon	Real Estate operation throughout the whole asset life cycle	Real Estate operation throughout the planned business cycle

A. Primary Business and Support Business Processes

According to The European Committee for Standardisation (CEN) in EN 15221-1 (2006), Facility Management is defined as: **"Integration of processes within an organization to provide and develop the agreed services, which serve to support and improve the effectiveness of the primary processes of the organization."**

In other words, FM is the professional management of all technical, infrastructural and commercial tasks within the **secondary processes** of an organization in order to improve the productivity of the primary business activities.

In general, all organisations, whether public or private, use buildings, assets and services (facility services) to support their primary activities. FM coordinates these assets and services, its material/immaterial Infrastructure with the aim to adapt to the variety of changes in the organisation's environment and market conditions.

PM provides professional services to clients who view the real property as their primary business. For the Facility Manager the building is a means to an end; for the Property Manager the building is an end in itself.

B. The Client Perspective

Property Managers work for investors who own real estate for the cash flow from operating income and for the gain in value during their ownership term. Owners may consist of individuals, developers, private equity funds, REITs, or a variety of trusts.

Facility Managers work for the users of real estate who either own or lease their properties. Users typically consist of private corporations, educational institutions, healthcare institutions, central and local governments, NGOs. While many of these entities want to maintain and increase real estate value, most of them own and lease properties to support the primary business or core functions of their organizations, which differ from real estate investment for profit gains.

C. Priority of Client's Goals

Investors prioritize their goals as follows:

1. Income – maximize income from operations
2. Value – increase the value of the property
3. Customer relations – maintain tenant relations to help maximize occupancy and cash flow
4. Operations – efficiently maintain the property in order to achieve the first three goals

Users prioritize their goals in almost reverse order as compared to investors:

1. Operations – maintain the property in support of the occupier's core business units and end users, with an emphasis on ensuring that assets fulfill their useful lives and that interruptions to the primary business process are eliminated
2. Customer relations – ensure that FM services are optimal cost/quality ratio and geared toward supporting high productivity of business units and end users
3. Value – preserve and maintain the value of the property in the event that it becomes surplus and available for disposition
4. Income – not a priority, unless subletting of surplus space is needed – not primary business activity

D. Owner vs. Occupier Perspective

The stakeholders in property management process are the property owners or investors, on one side and the tenant or occupier on the other side. Investors, by definition, are interested in the return that a property or asset has to offer. This differs significantly with an occupier who would most likely be concerned with the utility and benefits that can be derived from occupying an asset (Ricker). For this reason, investors will often approach real property in a quite different manner from those occupying the asset. The differing agendas of the investor and occupier collide in the context of asset lifecycle management and capital investment levels. Here are some examples:

1. Essentially, the occupier will be looking for long term occupation, which is financially sustainable and predictable, while the investor is driven by changing real estate market return rates and lease levels that determine more flexible, thus shorter term tenancy.
2. The owner of a shopping center will look to reduce costs as much is possible without affecting the tenants, whereas the occupier/tenant would ideally like the owner to invest as much capital as possible into the shopping center in order to differentiate and position itself against rival retailers.
3. The property manager of a shopping center who is the owner's trustee establishes and maintains a tenant mix that results in the highest possible profit - owners will let go tenants who are not beneficial to delivering adequate returns.
4. Another instance is related to the potential impact that an occupier might have on property worth that affects the relationship between them and the investor. A tenant with

a high profile and an inferior reputation might reduce the liquidity of an asset by reducing demand from other investors; this would most likely manifest in an increased yield and therefore lower capital values of properties. On the other side, property yield and liquidity are not the facility manager's priority, rather his/her major goal is the continuous and cost efficient supply of optimized work environment in order to improve productivity of the end users.

There is a middle ground and the road to it lies in the balance maintained through mutual compromises. One thing that both parties agree on is the need to build and occupy a highly functional, usable and desirable building at the optimal cost/quality ratio. That is why the definition of BOMA[1] stresses that "Property Management is the process by which an owner and/or service provider maintains and creates value in real property consistent with the owner's objectives through the efficient **balance of tenant/owner relations,** …" However, it must be highlighted that boardrooms and shareholders are at first place, mostly interested in the bottom line objectives and then in the commitment to occupiers needs for optimal workplace and productivity gains.

E. Operations

Property Managers manage all aspects of income and expense for their investor/owner clients. On the income side, they work closely with leasing agents and brokers to guarantee maximum occupancy rate of the leasable area at market rent levels and then collect these rents and additional charges as per the leasing contract. On the expense side, Property Managers contract for and pay for all operating expenses. Expenses are deducted from the collected rents, and the surplus is credited to the client.

Facility Managers manage the expense side of the budget with a focus on ensuring that the assets are in optimal condition to support the core business operations. They also manage the optimization of space utilization by establishing key performance indicators, such as number of net floor area in m^2 per 1 working place or per 1 user, or percentage of utilization rate of working stations. Property Managers are targeting **maximum occupancy** rate of the property in order to maximize rent revenues. Unlike Property Managers, Facility Managers target **optimal occupancy** that will meet certain cost/quality ratio and satisfy productivity standards of the employees and production standards of the specific primary business unit. ***Example:*** FM employs space management techniques as hoteling, hot-desking and virtual offices to maximize utilization of usable office space, thus reduce leased floor area, while PM is more interested in ensuring maximum gross leased area per 1 tenant.

The Common Ground

The daily operations and maintenance in FM and PM is overlapping to a very significant extent. On operational level they manage a myriad of services in the areas of maintenance, hospitality, accommodation, safety and security, logistics, technical infrastructure, workplace, ICT, cleaning and waste management, open grounds. Both Property and Facility managers use alike management and analytical techniques; methods; procedures; IT solutions. They perform

[1] BOMA – Building Owners and Managers Association

corresponding management functions as risk management, service management, financial planning and control, performance management, quality management, people and change management, outsourcing, benchmarking etc.

The differences lie the priorities, goals, hierarchy of tasks, approaches to end users, to clients and customers; separation of primary and support business processes. Also, differences are identified in:

- degree of consideration of FM and PM by strategic and tactical levels of management;
- whole lifecycle of assets vs. planned business cycle
- roles of the FM and PM in the implementation of specific corporate or organizational policies;
- degree of application of FM and PM in private and public sectors.

All these roles and specifics will be addressed in another, forthcoming article, where it will be more productive if we consider also Asset Management in the equation.

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