



BACK TO
PROPERTY
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Staying ahead in the change game

The only constant in today's business environment is change and managing change has become an industry in itself. Sue Robinson explores this phenomenon and how it affects the property industry.

Is the business model of our property industry obsolete? Well-known management consultant Rodney Timm believes so.

Timm, who recently left his post at Ernst & Young to run consultancy Property Beyond, says the property industry is undergoing a major change in perspective, one which redefines core business. He says the current view of the industry – we own and manage the product (buildings), which generate income (rent) – is already obsolete.

"The industry is going to have to focus more and more on the customers who sit in those buildings and what their business objectives are," Timm says. "You've got to own demand, not own the buildings."

With emphasis on the tenant, many property companies would have to expand their skills base, to be sure to offer the right services.

But what if your company's structure gets in the way?

Adapting effectively to such change means staying in control. There is no one formula. "Change can be managed, but the process has to be very malleable to fit the circumstances," says Timm. "There's not a set change management procedure."

But he says there are some elements essential to all successful change management: "Very clear communication, both externally and internally; very clear objectives of where you need to get to. You've got to have the imprimatur of the executive. Actions must be articulated in terms of achieving your objective outcomes. It must be seen to have the stamp from the very top. It's got to be adaptable, because you know you're going to get hijacked along the way. You've got to be responsive, so if things happen, you don't wait two weeks while you decide what to do."

Timing matters too. "Do you go in there and do all of the change in one fell swoop and make it a major change and work towards that using your best change management techniques?" asks Timm.

"Or do you accept that it's a complex organisation with well-entrenched culture, processes and management and for the best results, rather implement a change management strategy around incremental changes? The latter assumes you've got more time to play with."

Your timing depends on the speed of market change and financial circumstances. "There is an upfront cost and market opportunities to be lost. The third aspect of that is executive resources. Executives are pretty busy people running the business on a day-to-day basis and change takes a lot of wherewithal and a lot of commitment from your key executives to make things happen."

Investing

Nearly four years ago, Australand acquired Walker Corp creating a major change in its portfolio range and size. That change, according to MD Brendan Crotty, was carefully planned and is still being managed. He explains.

"As early as 1998 Australand decided that eventually it would need a comparatively high level of recurrent income from investment property if it was to succeed on a long-term basis. We recognised at the time that there would be too much money chasing too few income-producing assets and that the only way to establish an income-producing portfolio cost-effectively was to do it organically. That is, build your own.

"We recognised then that our cost of capital was too high to allow us to go out and either acquire property trusts or existing income-producing assets and this, as well as a number of other factors, influenced Australand to acquire Walker Corp.

"Among other things, such as a reasonably successful apartments division, they had the delivery capacity, especially in the industrial sector, that Australand lacked. At that stage it was very clear to us that the only two classes of income producing assets that would meet our rate of return and yield criteria were suburban/CBD fringe offices and industrial buildings."

Undeveloped Walker Corp holdings and those which didn't fit the Australand expansion plan were "not taken, or developed or sold".

"Australand has formed wholesale property trusts which hold income-producing properties with an aggregate value of about \$930 million and we hope to expand the group's income-producing asset base at the rate of about \$200-250 million per annum for the foreseeable future.

"The first two property trusts formed by Australand were stapled to Australand in November 2003 and these trusts hold income-producing assets with an aggregate value of about \$374 million."

The stapling split each Australand share into one share and one property trust unit, "which reflects our medium-term objective of having recurrent income slightly higher than development net income," says Crotty. "And we should achieve that milestone by late 2006, early 2007."

Crotty is pleased with the staff management part of the change in which, he says, the combined staff created an overarching culture that picked up the best of both companies. About 85 per cent of Walker Corp staff stayed with Australand. "Within six months of the merger we basically thought of ourselves only as Australand."

Success, he says, was also due to detailed pre-planning dating from 1998, which reduced the unexpected during implementation. "Once the plan was set in place, it was really a matter of 'don't take your eye off the ball and execution, execution, execution'. The reason it's worked as well as it has is that we had a very clear idea of what we wanted from day one and we never lost sight of that strategic long-term objective."

Expanding

Since Matthew Quinn was appointed MD for Stockland in 2000, the company's asset base has expanded from around \$2 billion to \$6 billion. The company has also diversified – expanding geographically across Australia, adding industrial and expanding residential. Staff were re-trained and added, with numbers growing from 200 to around 650.

The expansion was carefully planned, both before and during the process. "The basic philosophy was that if you are going to expand you put the structure in first and have the key people in place as part of that process," says Quinn. "It's not something you can do afterwards as a reaction. Lots of things came up along the way and part of the philosophy was to look at all the different scenarios and expect the unexpected. Our whole process of growth has been quite seamless probably because of the planning we'd done along the way."

Stockland's growth is not over yet. "We've got various areas that we're currently looking at in terms of our future expansion and we weigh everything up quite strategically in terms of how we grow," says Quinn. "And everything is based on the bottom line in terms of shareholder value. It's not necessarily about size."

Like Timm, he sees success in the future relying on tenant orientation. "I think it's a wider issue as well. It's simply about customer relationship management rather than building management." It is, he says, a people game "and the people are vital to your success".

Starting again

When Greg Paramor sold Paladin to Deutsche he kept PA Property Trust, which had a market capitalisation of \$60 million. In November 2001, he used this as the basis for building a much larger, diversified business, the James Fielding Property Group, with market capitalisation of around \$400 million and gross assets or funds under management of \$1.8 billion. The group also manages external property portfolios worth around \$1 billion, and includes a development business with around \$2 billion of commercial, industrial and retail projects.

"The business itself has about nine different operating divisions, all pretty much designed to feed off each other," says Paramor. These divisions were added progressively during the first year. The FM group manages 70-odd internal properties and those owned by external clients. There's also a property syndication business, an infrastructure arm, a hotel funds management business and a property securities funds management business.

He says success was a matter of building on strength. "We've managed our own properties over the years so it's not a divergence from what we're doing. We're doing it for other people as well as ourselves. It's a matter of leveraging the intellectual property we have from looking after our own property and, frankly, getting a better deal for ourselves."

He also stresses the importance of having the right people and of planning. "Knowing where you want to go is very important," as is, he adds, a well defined philosophy and approach. "It's all been supported by people. I've been blessed. It's a team business. If you've got the right team you can climb quite high mountains because you've got someone to help you to the next ledge."