



CITY OF LOS ANGELES

Asset Management Organizational Design Review



PA Regional Office:
PA Consulting Group
One California Plaza,
300 S. Grand Avenue, Suite 3840
Los Angeles, CA 90071
USA
Tel: +1 213 689 1515
Fax: +1 213 486 4801
www.paconsulting.com

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EXECUTIVE SUMMARY

The City of Los Angeles is performing a review of its asset management function in order to identify areas for improvement and focus. PA Consulting (PA) worked with the City Team specifically focusing on the way people, processes and systems are utilized to manage the City's real estate assets. As part of this work, PA has reviewed the current organization structures and processes and identified potential improvements leading to a more desirable future state.

This report summarizes PA's observations from interviews with the following key stakeholders:

- The General Services Department's (GSD) Real Estate Division (RES)
- The Bureau of Engineering (BOE)
- The Office of the City Administrative Officer (CAO)
- The Office of the City Attorney
- The Office of the Chief Legislative Analyst (CLA)
- Mayor's office

All the stakeholders involved with this assignment provided constructive input, identifying RES' strengths and areas for enhancements, and suggesting changes for a more efficient and streamlined organization. PA also searched the literature for "best practices." Based on the interviews and our search of the literature, which took place between May 2013 and October 2013, PA proposes a set of recommendations which we hope will help the City's Real Estate function.

This document provides an overview of the RES organization current and desired states and puts forward recommendations based on PA's review of budgets, organizational charts, and interviews with RES staff and stakeholders. Tables ES-1 and ES-2 below summarize the findings / issues related to 11 key recommendations.

Table ES-1: Summary of General Findings / Issues Related to Recommended Solutions

Concerns	General Findings / Issues	Recommended Solutions
<p>Real Estate Asset data management</p>	<p>Lack of effective asset management and data management systems</p>	<p>Rec 8 – Purchase a data management system (that is, an Asset Management System) and implement data management practices</p>
	<p>Data gaps and inconsistent data management practices</p>	<p>Rec 11 – The City should adopt the proposed “Non-Profit Lease Subsidy and Real Property Sale Policy” (published April 16, 2010)</p>
	<p>Accuracy, transparency, coordination, maintenance and retrieval of asset data are not sufficient to meet core needs</p>	
	<p>RES’ lack of record or data management system causes (1) mismatch between property lists and widespread inefficiencies, (2) inability to query properties in a timely manner and accurately account for occupants and floor plans, and (3) sub-division managers to focus on updating property lists rather than focusing on managerial roles</p>	
<p>Capacity</p>	<p>Many lease contracts are either in a month-to-month state or currently expired</p>	
	<p>RES staff do not always have the technical skills required to perform space optimization</p>	<p>Rec 5 – The Floor Plan functions and Space Optimization functions should be transferred to BOE. BOE should decide whether to procure services to manage floor plan updates to a on an as-needed basis</p>
	<p>Inadequate provision of RES administration and accounting support</p>	<p>Rec 7 – Create an administration and accounting position in RES dedicated to provide administrative and accounting support</p>
	<p>Slow processing of real estate contract drafts and long average cycle-times for approval from the Office of the City Attorney</p>	<p>Rec 9 – Create an additional dedicated real estate City Attorney position within the Office of the City Attorney to streamline all real estate requests</p>
	<p>Inadequate Customer Service</p>	<p>Rec 10 - Create three positions in CAO AMSP to perform special projects and manage large ad-hoc projects for the City</p>

Table ES-2: Summary of Area-Specific Findings / Issues Mapped to Recommended Solutions

Area of Concern	Area-Specific Findings / Issues	Recommended Solutions
Acquisition and Appraisal	Shifting priorities	Rec 6 – Procure acquisition and sale services on an as-needed basis and maintain internal staff for ongoing acquisition and sale
Leasing	Time-consuming and inefficient process (minimal use of standardized templates)	Rec 1 – Procure leasing services to manage City contracts and increase RES capacity
	Significant amount of workload devoted to non-profit properties	Rec 2 – Create a Vendor Contract Manager position to be the point of contact with respective third party brokers. Rec 11 – The City should adopt the proposed “Non-Profit Lease Subsidy and Real Property Sale Policy” (published April 16, 2010)
	Insufficiently disciplined and documented processes and procedures within the leasing function	Rec 4 – Implement a lease renewal process, and develop and maintain an inventory of all leasing-related projects undertaken Various recommendations (creation of new sub-divisions & positions, outsourcing of leasing functions)
	Lack of City Attorney staff to write new leases	Rec 9 – Create an additional dedicated real estate City Attorney position within the Office of the City Attorney to streamline all real estate-requests
Tenant Services	Inefficient handling of real estate requests (for example, Tenant Services processes contain multiple hand-offs with Leasing)	Rec 3 – Create a Senior MAI position, classification to be determined by the City, to manage City-owned and occupied buildings Rec 5 – The Floor Plan functions and Space Optimization functions should be transferred to BOE. BOE should decide whether to outsource floor plan updates to a third party contractor on an as-needed basis. Rec 8 – Purchase a data management system (that is, an Asset Management System) and implement data management practices
	Institutional knowledge gap due to retirement of Division’s head	Rec 1 – Procure leasing services to manage City contracts and increase RES capacity Rec 6 - Procure acquisition and sale services on an as-needed basis and maintain internal staff for ongoing acquisition and sale

Table ES-2 continued on the next page

Table ES-2 (continued): Summary of Area-Specific Findings / Issues Mapped to Recommended Solutions

Area of Concern	Area-Specific Findings / Issues	Recommended Solutions
Portfolio	Poor or non-existent building records	Rec 5 – The Floor Plan functions and Space Optimization functions should be transferred to the BOE. BOE should decide whether to procure services to manage floor plan updates on an as-needed basis Rec 8 – Purchase a data management system (that is, an Asset Management System) and implement data management practices
	Portfolio division administers and pays LADWP bills	Rec 8 – Purchase a data management system (that is, an Asset Management System) and implement data management practices
City Attorney	Lengthy contract / lease approval process	Rec 9 – Create an additional dedicated real estate City Attorney position within the Office of the City Attorney to streamline all real estate-related requests
Processes, Policies, and Procedures	Inadequately disciplined and documented leasing processes	Rec 4 - Implement a lease renewal process, and develop and maintain an inventory of all the projects undertaken Rec 11 – The City should adopt the proposed “Non-Profit Lease Subsidy and Real Property Sale Policy” (published April 16, 2010)

See Figure ES-1 below for an overview of the chapters of this document.

Figure ES-1: Structure of “Asset Management Organizational Design Review” document



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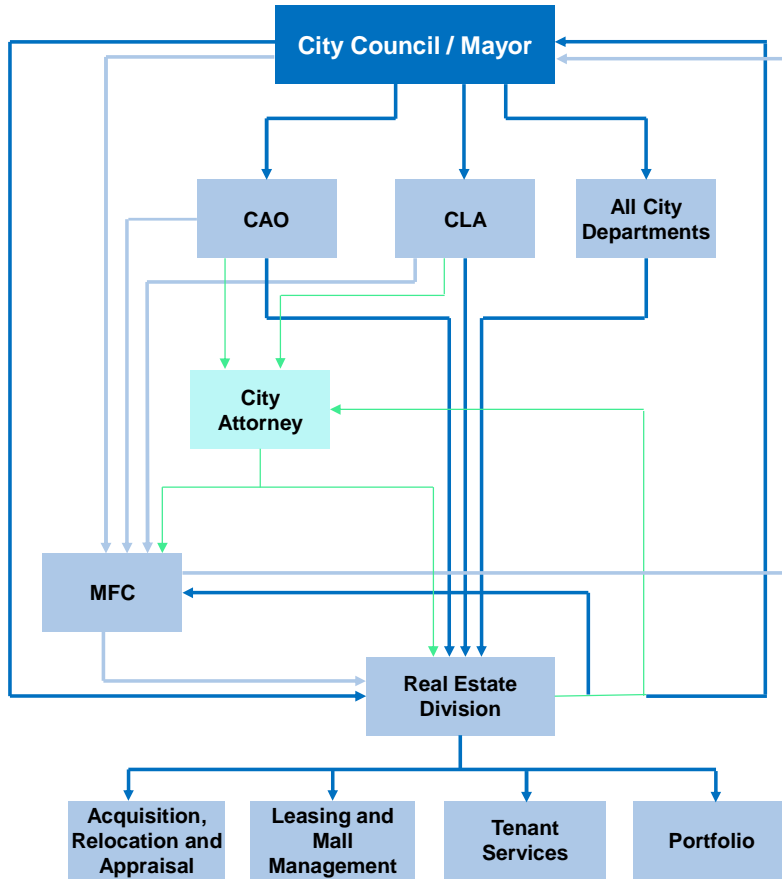
1 OVERVIEW OF THE CITY'S REAL ESTATE FUNCTIONS

1.1 Current Real Estate Function

There are multiple opportunities to improve the current Real Estate function and organization. However, many complicating factors act as barriers to meaningful change:

- **Large number of requests and changing priorities:** Multiple real estate requests and decisions flow down from all divisions and departments within the City (City Council, CAO, CLA, MFC and others) directly to RES for tactical implementation and execution. Prioritization of requests either does not occur or changes frequently.
- **Complications due to deficient systems and data:** RES is struggling to perform its core functions due to heavy workload, staff attrition, competing priorities, lack of effective systems, inaccurate and incomplete data, and manual processes for its leasing function. This leads to dissatisfaction with current service levels.
- **Loss of subject matter expertise:** Due to a loss of real estate subject matter experts (e.g., retirement and reduced staffing levels), the Office of the City Attorney is not able to process contracts at the speed desired for efficient transaction and lease execution.
- **Use of Consultants:** The use of subject matter experts and outside resources could be increased to bring the City in line with best practices. However, efficient knowledge transfer to City staff could prove very challenging without strong information systems in place.

Figure 1-1: Current Real Estate Function Diagram



1.2 RES Division Function

The scope of the RES charter is apparently broad and deep. There are four key areas of focus as shown below in Figure 1-2.

Figure 1-2: Current Real Estate Services Function Diagram

Acquisition, Relocation and Appraisal	Leasing and Mall Management	Tenant Services	Portfolio
<ul style="list-style-type: none"> • Performs the appraisal and acquisition / sales process • Executes the disposal of surplus properties and acquisitions • Creates title reports for acquisition and surplus properties • Nuisance abatement • Managements vacant properties • Executes REOs and other bank-owned real estate transactions 	<ul style="list-style-type: none"> • Negotiates City leased properties and makes payments • Updates leasing property lists (which includes the non-profit leases) • Manages LA Mall • Issues Request for Proposals (RFPs) for retail and non-profit leases 	<ul style="list-style-type: none"> • Manages City owned property leased to third parties (including the Figueroa and Public Works buildings) <ul style="list-style-type: none"> – Receives Payments – Handles Leasing budget • Deals with office space needs for all City Departments • Drives Space Optimization Plan • Modular furniture program 	<ul style="list-style-type: none"> • Maintains the Building Book • Audits and reconciles utility bills • Updates and re-creates floor plans • Provides division administrative support

2 RES CURRENT STATE AND MAIN CHALLENGES

The Real Estate Services' mission statement is:

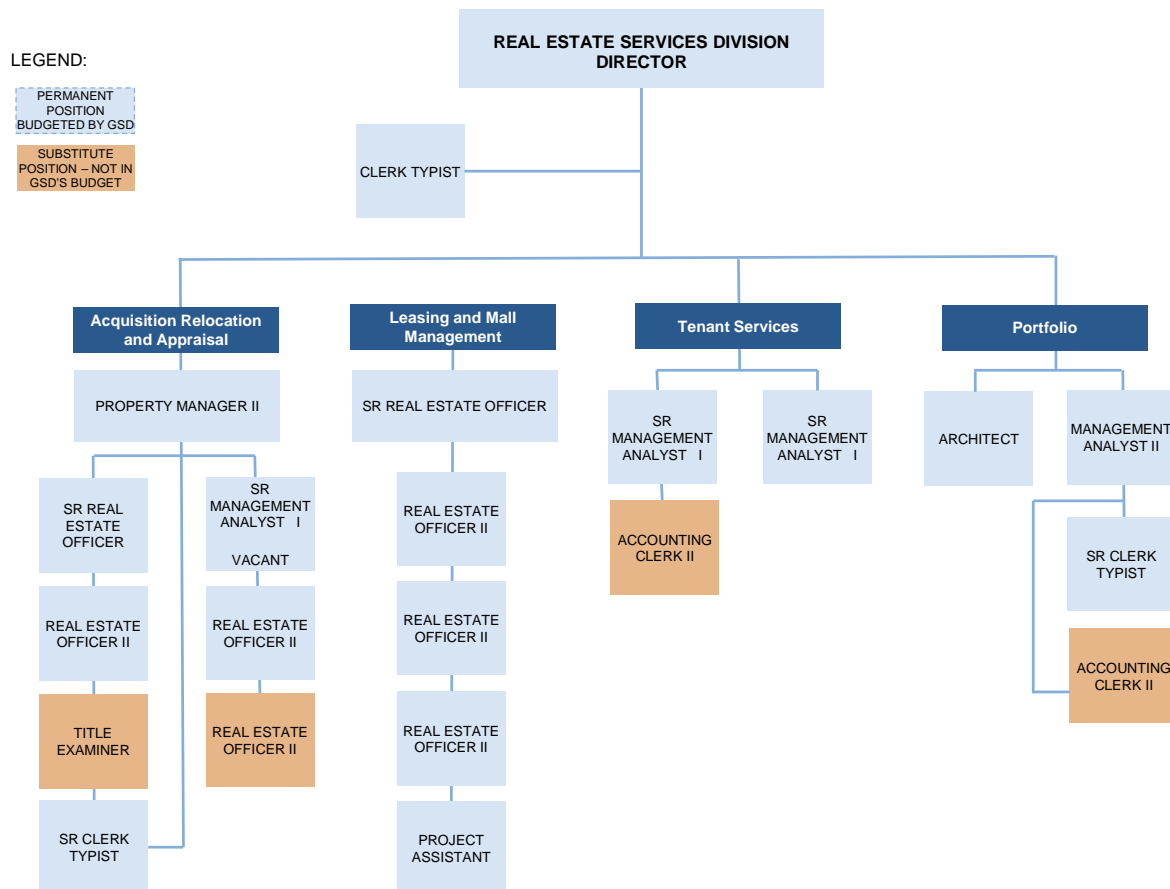
"...to ensure optimal use of all Council-controlled City owned vacant and improved properties and maximize the value of each of these assets. The City relies heavily on the expertise of Real Estate Division in the following areas: acquisitions, appraisals, sales, relocations, leasing, title research, negotiations, property management, energy conservation, and Real Estate Division is committed to providing exemplary services to its customers."

For the RES to fulfill this mission going forward it needs to modernize its systems, reorganize and adopt new processes and policies for its leasing function. Aligning people, processes and technology will enable the City to follow a roadmap to a more efficient and effective Asset Management end state.

2.1 RES Organization Structure As-Is

Figure 2-1 below represents the current RES Organization structure.

Figure 2-1: Current RES Organization Chart



The RES Organization Structure above contains the following headcount and budget information:

- Total Head Count in GSD's Budget: 18
- Total Substitute Positions: 4
- Total Headcount: 22
- Total 2012/2013 Budget: \$25,122,212*
- * Does not include "Related Costs". The total budget including "Related Costs" is \$25,762,219.

2.2 RES Budget and Headcount during Last 5 years

Table 2-1 below represents a generally decreasing budget and headcount for RES during the past 5 years. For example, RES headcount decreased from 28 to 18, and total budget decreased from \$30.4 million to \$25.7 million, during those 5 years. Of the \$5 million in budget reductions, \$3 million is attributable to reduced lease cost expense.

Table 2-1: RES Budget and Headcount during the Last 5 Years

		2008/09	2009/10	2010/11	2011/12	2012/13
Head Count*		28	24	18	18	18
Acct No	Account Title					
1010	Salaries, General	2,480,912	1,699,786	1,352,260	1,589,100	1,701,220
1070	As Needed	77,890				
	Related Costs	970,042	588,806	421,364	444,153	639,489
1090	Overtime	10,385				
Total Salaries		3,539,229	2,288,592	1,773,624	2,033,253	2,340,709
2120	Printing & Binding	1,410	1,410	1,410	1,410	1,410
3040	Contractual Services	9,584,397	9,571,813	8,984,134	8,984,134	8,984,134
3310	Transportation	702	702	702	702	702
4050	Marketing	19,442	19,442	19,442	19,442	19,442
6010	Office & Administrative	18,731	18,731	18,731	18,731	18,731
6020	Operating Supplies	7,896	7,896	7,896	7,896	7,896
6030	Leasing	17,250,433	17,045,111	15,795,111	15,204,211	14,389,195
Total Expense		26,883,011	26,665,105	24,827,426	24,236,526	23,420,992
Total Budget**		30,422,240	28,953,697	26,601,050	26,269,779	25,762,219

* As provided by RES; does not include Substitute Positions (Status Authority)

** Includes Related Costs

2.3 Overview of Findings

2.3.1 General Themes

- The RES function is severely hampered by a lack of effective information technology and data management system (or Asset Management System (AMS)).
- Due to staffing cuts, the Office of the City Attorney is not able to address drafting and approval of contracts in a timely manner. Further complicating this issue are the incomplete documentation/reports provided by RES to the Office of the City Attorney.
- Factors including the volume of requests received by RES, staff attrition, time consuming data retrieval processes due to lack of an AMS, competing priorities as well as manual processes are resulting in very long response times and lack of efficiency that consequently lead to client dissatisfaction.

- The leasing function of RES does not perform at desired levels due to a variety of factors, which in some instances are out of the control of RES. For example, the majority of the leased portfolio is in a month-to-month state due to lack of direction, staff attrition and deletions, and landlords who refuse to negotiate renewals.
- Accuracy, transparency, coordination, maintenance and retrieval of asset data are not sufficient to meet core needs.
- The mix of internal subject matter experts and outside professionals for the leasing function could be improved. Note that RES has already made significant efforts to extend its collaboration with outside professionals. For instance, the most valuable leases are already being managed by private brokers.
- The majority of the issues raised in this study are the result of multiple factors including heavy workload coupled with staff attrition caused by the Early Retirement Incentive Program (ERIP) and the recent economic downturn.
- In summary, breakdowns in the core areas of systems, manual processes, and human resources are limiting the City's ability to effectively manage its real estate assets and achieve its strategic goals.

It should be noted that RES has identified and implemented efficiency improvements. For instance, RES has implemented the Expired Lease Work Program aimed at streamlining the leasing process. The recommendations provided in this study are expected to accelerate and streamline this change process.

2.3.2 Acquisition and Appraisal

- Acquisition and Appraisal is performing well under the circumstances, despite being hampered by systemic impediments such as data gaps, lack of a true asset management system, shifting priorities and insufficient legal support.
- Within RES this area makes the best use of external contractors and subject matter experts.
- Improvements in processes, data systems and legal support will further increase performance.

2.3.3 Leasing

- Due to multiple factors, many of which out of RES' control, leasing management performance is not up to the level that the City should expect or desire.
- Negotiation of new leases, and renegotiation or cancellation of existing leases, are by nature time-consuming and are further hindered by the limited availability of City Attorney staff.
- Regarding non-profit leases, the City's Commission on Revenue Efficiency (CORE) reported that the City should track leasing information more carefully: "there was no available information on lease terms, insurance, non-profit status, etc. In brief, the listing pointed to the fact that the City has done a very poor job of tracking the properties, the tenants and the leases the majority of leases are currently expired (now on a month to month contract) creating vulnerability for the City. Also, in some cases, a lease does not exist or a record of one cannot be found."¹
- Non-profit leases, according to the City's CORE Commission, account for approximately 30% of the unit's workload despite lease terms that shift responsibility to the tenant for maintenance and upkeep. This is a major concern for RES since they lack sufficient staffing to absorb the workload that

¹ The City's Commission on Revenue Efficiency (CORE), "Transmittal: Failure to Manage City Properties Leased to Non-Profits" on March 22, 2012.

supposedly has been shifted to the non-profit tenants. Non-profit tenants could be held more accountable should the Mayor and City Council approve and adopt the pending “Non-Profit Lease Subsidy and Real Property Sale Policy”²

2.3.4 Tenant Services

- Tenant Services and Leasing perform related functions, and thus are recommended to be merged. See Section 4 RES Future State and Recommendations.
- Stakeholder interviews indicated that presentations to the MFC do not follow a common format. The process and format for MFC presentations should be standardized.
- In addition, the departure of the RES division head has left a large management and institutional knowledge gap which will be challenging to be fulfilled by others.

2.3.5 Portfolio

- The division’s architect has to re-create floor plans from scratch. In addition, RES stated that the connection with BOE has been lost over the years and it is now difficult to obtain updates/recent floor plans. This results in poor or non-existent records of buildings, specifically floor plans.
- The Portfolio section currently administers and pays all LADWP bills.
- This section would greatly benefit from a new AMS, which GSD submitted for funding in the FY 2014-15 budget.

2.3.6 Data Management

- RES currently has no effective system of record or data management system. This creates a continuing mismatch between property lists and widespread inefficiencies when responding to real estate-related requests.
- The lack of an effective data system also creates the inability to query properties in a timely manner and accurately know occupants of properties, headcount and floor plans.
- The absence of a data management system often prevents sub-division managers from focusing on their managerial roles because they must manually update and keep track of property lists.

2.3.7 Office of the City Attorney

- Due to staffing cuts, the contract / lease approval process suffers from process bottlenecks. As a result of these bottlenecks, the contract/lease approval process is far too lengthy, creating a backlog of real estate requests and dissatisfied internal customers.
- The City should consider an additional City Attorney position to work closely with RES to eliminate the current backlog and prevent future backlogs from occurring.

² The City’s Commission on Revenue Efficiency (CORE), “Transmittal: Failure to Manage City Properties Leased to Non-Profits” on March 22, 2012.

3 THE CITY'S REAL ESTATE FUNCTION – FUTURE STATE AND RECOMMENDATIONS

3.1 Recommendation for the City's Real Estate Function

In 2012, the responsibility for developing and managing the City's real estate strategy was transferred to the CAO, leaving responsibility for implementation of those decisions in either GSD RES or the newly established Economic and Workforce Development Department (EWDD). The diagram in Figure 3-1 below interprets these recent changes in the real estate functions within the City and puts forward a guiding model for the implementation of the strategic Real Estate Department functions.

Figure 3-1: Strategic Real Estate Department Functions Diagram

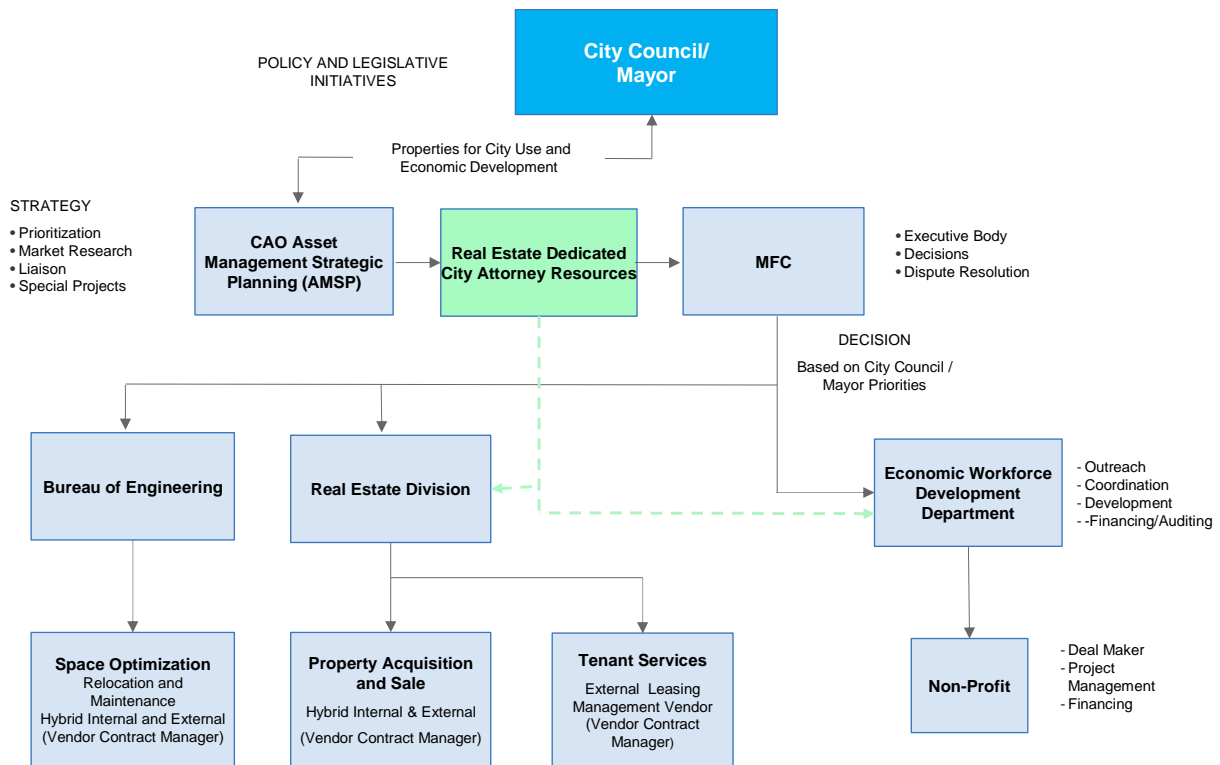


Figure 3-1 above outlines the following recommended real-estate related responsibilities:

- **City Council and The Mayor's Office** create the policy and legislative initiatives/agenda that act as the overarching direction for the management of real estate properties.
- **CAO AMSP** provides the strategic plans, initiatives and prioritization for properties and makes recommendations on what properties are necessary for City Operations and what can be used for economic development purposes, based on City Council/Mayor priorities. This unit will also perform special projects and manage large ad-hoc projects for the City.

- **Municipal Facilities Committee (MFC)** serves as the executive decision making body on City property, lease, and space utilization matters. Decisions made by the MFC should be based on City Council/Mayor priorities.
- **EWDD and Non-Profit Organization** perform the outreach, development and coordination of properties designated for economic development.
- **GSD RES** focuses on tactical execution and management of outside service providers for the City's Real Estate projects, acquisition / sales and leasing.
- **Real Estate Dedicated Office of the City Attorney Resources** streamlines legal support with standardized contracts, outside support for routine or unique transactions and dedicated City Attorney resources with real estate subject matter expertise.
- **BOE** is in charge of Space Optimization.

3.2 RES versus EWDD Responsibilities

Properties which are evaluated by the CAO AMSP and determined by the MFC as being necessary for the City's operations should be managed by the re-organized GSD RES.

Properties which are evaluated by the CAO AMSP and determined by the MFC as potential economic development opportunities should be managed by the EWDD and its Non-Profit Organization. In particular, the Non-Profit Organization will address the following functions:

- Market Phasing
- Deal Structure
- Complex Financing
- Interaction with the Development Community
- Mixed-Use Development.

4 RES FUTURE STATE AND RECOMMENDATIONS

GSD RES has been impacted by staffing reductions and very limited systems investment, resulting in perceptions of poor performance, lack of transparency, and sub-optimal coordination with other groups. Internal improvements in RES should be made in concert with revitalized support from the Office of the City Attorney in order for the needed changes to be effective.

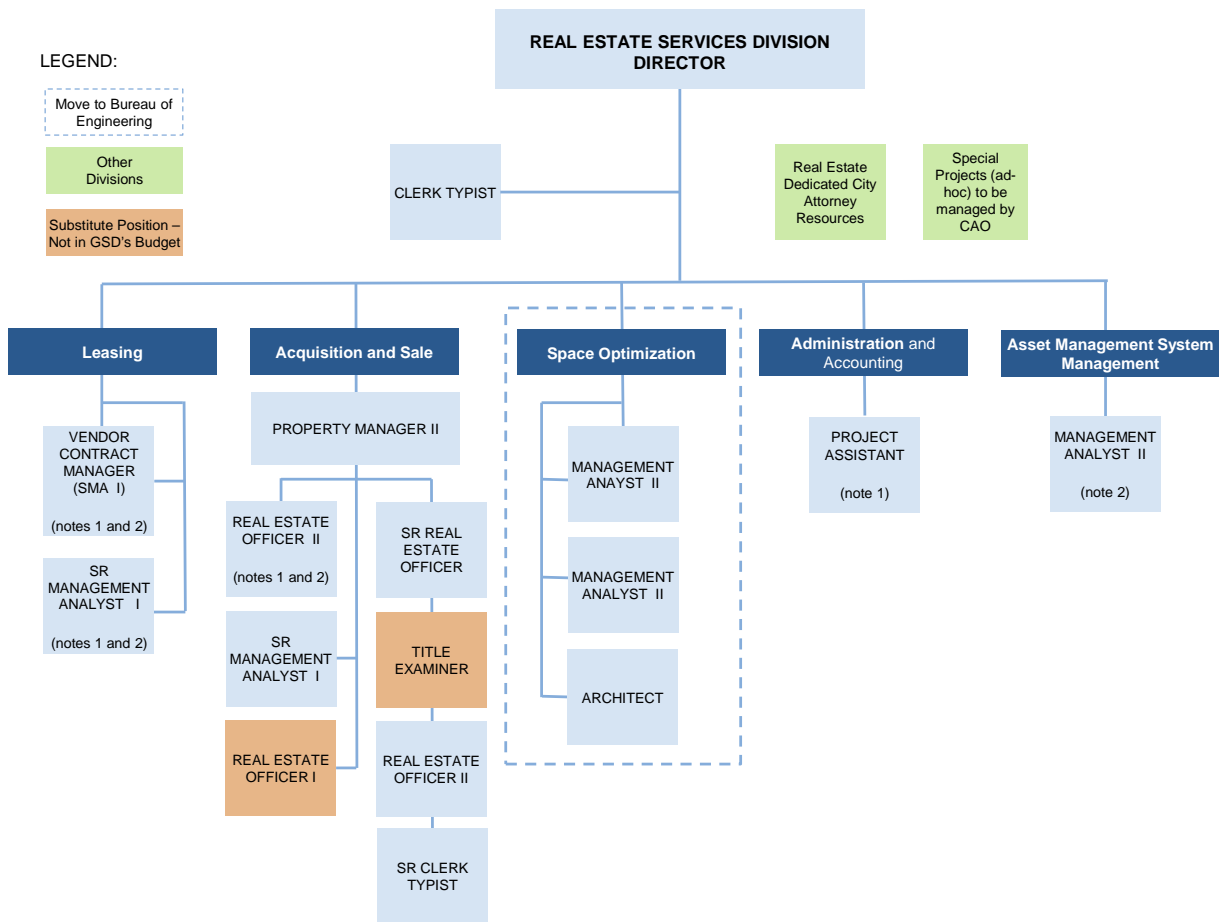
4.1 General RES Recommendations

While PA has been contracted to review real estate management, people, operations, assets and systems, our recommendations in this section focus primarily on organizational aspects. If implemented, the proposed future state for RES should:

1. Create clear processes and procedures for the leasing function
2. Streamline all real estate requests through dedicated City Attorney resources
3. Improve customer service
4. Continue to make use of external contractors and subject matter experts for the leasing function
5. Separate administrative roles from real estate functions, so that real estate staff can focus on higher value-added activities
6. Ensure real property information is updated and maintained

Figure 4-1 below depicts PA's proposed, future organizational structure for RES. PA's recommendations should be viewed as guidance since the eventual resource numbers and types will depend on 1) which AMS that the City selects and 2) how the City decides to implement the AMS. The CAO will likely work with GSD to identify the appropriate classification for each approved role. PA assumes that GSD will need some flexibility in implementing a challenging and important scope of work.

Figure 4-1: Recommended RES Future State Organization Structure



Note 1: Specific classification to be determined by the City

Note 2: Number of resources to be determined by the City based on the specific AMS procured

4.2 RES Recommendations by Function

4.2.1 Leasing

RES should consider procurement of leasing services to manage all City lease contracts (City landlord and City tenant). A third party broker would manage and represent the City in all negotiations and execution of real estate leasing activities. PA suggests that properties be “bundled” to create commercial attractive groups of properties, to minimize costs to the City.

Further procurement of leasing services would facilitate getting the City lease contracts re-negotiated. In its new state, the Leasing division has an internal vendor contract manager dedicated to managing the leasing brokers and one Sr. Management Analyst I dedicated to managing City-owned and occupied buildings such as Figueroa Plaza and the Public Works Building. The duties of these two positions will also include the preparation of MFC reports (2 FTEs).

The City may opt to implement the leasing services procurement on a pilot, rolling basis to reduce the risk. The City may wish to begin by selecting a leasing segment (or two) such as new lease creation, lease

administration, lease abstraction, or lease audit. This pilot project would be designed to prove the feasibility and value of leasing services procurement.

Procurement of leasing services, if implemented carefully, would be expected to create the following efficiencies:

- Cost reduction or neutrality with increased performance
- Increased transparency and information flow
- Improvement of quality of services provided through the use of Subject Matter Experts
- Optimal utilization of City properties

4.2.2 Acquisition and Sale

RES should maintain internal staff for ongoing acquisition and sale and only procure the services of a third party broker on an as-needed basis. The Acquisition section will continue to deal with routine acquisition and sale.

4.2.3 Administration and Accounting

Recognizing that RES performs a number of support and administrative functions, as well as lease management, capacity is created for RES to maintain this support activity. (1 FTE)

4.2.4 Asset Management System Management

RES should create a position dedicated to the management and use of the new AMS. Functions will include: retrieve and compile data, create and update reports and perform portfolio analysis. This position should be filled by a Management Analyst II (1 FTE). The City will ultimately add the resources needed to implement and maintain AMS, depending on the specifics of the system ultimately procured.

4.2.5 Floor Plans and Space Optimization

- All floor plan related functions should be consolidated under the management of the BOE, which currently manages most of the City's floor plan data using modern and efficient technology solutions, such as Computed Aided Design and Drafting (CADD) systems. The floor plan update and design functions currently performed by RES should therefore be transferred to BOE. This will solve the communication challenges that currently exist between the two Departments and will facilitate the consolidations of RES' and BOE's floor plan data under one unique AMS. BOE should decide whether to procure services to manage floor plan updates on an as-needed basis (1 FTE)
- In order to be performed efficiently, the Space Optimization function requires constant access to accurate and up to date floor plan data. Given that BOE is currently responsible for the majority of the floor plan data and that PA recommends the transfer of RES's current floor plan functions to BOE, RES' Space Optimization function should also be moved to BOE. Such organizational structure should appropriately prepare the Space Optimization team to effectively and efficiently leverage the Space Optimization module of the City's future AMS (2 FTEs)
- Under this organization, all requests with regards to space optimization should be sent directly to BOE and RES should not serve as a liaison.

4.2.6 Dedicated Real Estate City Attorney Resources

The City should create one additional dedicated real estate City Attorney position to streamline all real estate asset management requests and help reduce the current backlog (1 FTE).

4.2.7 Special Projects

The CAO AMSP should perform special projects and be dedicated to managing large ad-hoc projects for the City. This will ensure that such projects get the appropriate amount of attention, and are completed in a timely manner, within the approved budget.

In addition, the duties of these positions may include the screening and prioritization of all Departmental and City Council data requests. Note that these functions are currently not performed by RES (3 FTEs).

4.2.8 Vendor Contract Manager Role

RES should create a Vendor Contract Manager role to manage the point of contact with respective third party brokers. The person to occupy this position within various sub-divisions (leasing and acquisition) should have mid-level real estate experience and ability to liaison and oversee various processes between the broker and the City. Such liaison positions are necessary to ensure a high level of performance from the City's contractors. The City will work with RES on the classification of this role.

4.2.9 Client and Data Requests

- The CAO AMSP should evaluate and make recommendations to MFC on all Departmental and City Council requests. The MFC will prioritize Departmental and City Council requests and assign the request to the appropriate City departments such as GSD RES, EWDD, or any other City department. This recommendation should significantly streamline RES' current data request answering process and free up some RES resources to focus on their respective real estate management tasks.
- In order to reduce calls and e-mail volume, data which is requested on a regular basis by the City departments and the City Council should be consolidated in standardized reports by RES and updated on a regular basis in the new AMS. These reports should be easily accessible by selected stakeholders across the City.

4.2.10 Data Management

RES should purchase a data management system and determine criteria for completeness of data records based on property relevance and importance. The purchase of a new data management system is a necessary step towards accurate and reliable real estate data and an efficient real estate organization.

4.2.11 Training

RES should provide personnel training to allow employees to continue to develop new skills.

4.2.12 Policies and Procedures

- Lease renewal process:
 - The CAO AMSP should be responsible for any changes and priorities.
 - Changes and priorities for major projects (above a certain threshold) should be presented to MFC.
 - The new AMS should flag all leases due for expiration within the next 12, 6 and 3 months, and provide accompanying reports.
 - Three months before the lease expiration, a report should be sent to MFC notifying that action must be taken.
 - A report identifying and describing the leases which have been in an expiring state for at least 60 days should be created.
- Project management templates:
 - The CAO AMSP should develop a standardized project template that will be used by RES for all the presentations made to MFC.
 - RES should be involved in the process.
- Lease review process:
 - Requests for new leases or lease renewals should be integrated into the budget process, where possible, and submitted on an ad hoc basis only in unforeseen situations.
- RES should develop and maintain an inventory of all the projects they undertake. RES should provide a status update on this inventory at each MFC meeting. The inventory should include at least:
 - A description of each project
 - Their status (completed, in-progress, queued)
 - Their priority (high, medium, low)
 - Any change in priority since the last MFC meeting
 - Their position in the queue
- Further policies and procedures decisions may be necessary during the implementation of the new AMS, depending on the functionality of the system.

4.3 Recommended Position Changes

4.3.1 Description of Position Changes

RES is currently funded for 18 positions; however 4 additional supplemental employees support the department, bringing the total headcount to 22.

We recommend the following changes (further detail provided on the next page):

- Real Estate Division Director – no change
- Acquisition and Sale – no change
- Clerk Typist (Front Desk) – no change
- Leasing and Tenant Services – these groups, whose work is closely related, are consolidated. As part of the consolidation RES works to increase the level of broker / outside service provider support, and transitions space optimization and floor planning activities to BOE.
- Portfolio – The update and creation of floor plan function should be moved to BOE's space optimization function. The Audit and reconciliation of utility bills will be automated by the new system, and the Building Book maintenance and update is transferred to the new Asset Management section.
- Administration and Accounting – Recognizing that RES performs a number of support and administrative functions, as well as lease management, RES needs additional capacity to maintain this support activity.

4.3.2 Summary of the Number of Position Changes

Table 4-1: Summary of Position Changes (includes supplemental positions)

City Department	Function	Current State	Future State	Change	Comments
RES	Real Estate Services Division Director	1	1	0	Unchanged
	Acquisition and Sale	8	8	0	Unchanged
	Clerk Typist (Front Desk)	1	1	0	Unchanged
	Leasing and Tenant Services	8	2	-6	Greater use of outsourcing, and transition of space optimization services to BOE.
	Portfolio	4	0	-4	Transition of space optimization to BoE. The audit of utility bills is automated by the new system, and the Building Book maintenance and update is transferred to the new System Management position
	Administration and Accounting	0	1	+1	Maintenance of administrative support and addition of financial/accounting skills to RES.
	Asset Management System Management	0	1	+1	The Management Analyst II position in the portfolio group is now in charge of the new System.
TOTAL RES		22	14	-8	
BOE	Space Optimization and Floor Plan Functions	0	3	3	The Space Optimization and Floor Plan Functions are moved to BOE.
City Attorney	City Attorney	0	1	1	Added one position to help reduce the backlog and streamline the leasing process.
CAO	Special Projects to be moved to CAO in addition to screening and prioritization of data requests	0	3	3	Added 3 positions within the CAO to handle special projects and manage large ad-hoc projects for the City*.
	TOTAL OTHER DEPARTMENTS	0	7	7	
	TOTAL	22	21	-1	

*In addition, the job description of these positions may include the screening and prioritization of all Departmental and City Council data requests.

4.3.3 Estimated Cost-Benefit Analysis

There are two key aspects of PA's organizational recommendations which will affect the City's budget: 1) the change in headcount numbers and position re-classifications, and 2) the procurement of the leasing services.

1. In Table 4-2 below, PA estimates the change in headcount numbers and position classifications to be limited to a cost increase of less than \$16k per year:

Table 4-2: Net Cost Change due to changes in headcount numbers and position re-classifications

Position	Annual Salary	Overtime/ Bonus	Benefits	Pension Costs	Annual Cost of Position	# of Position(s) Eliminated	# of Position(s) Created	Savings from Positions Eliminated	Additional Costs from Positions Created	Net Change (Additional Costs minus Savings)
Sr. Real Estate Officer	\$105,882	\$0	\$12,220	\$29,710	\$147,812	1	0	\$147,812	\$0	-\$147,812
Real Estate Officer II	\$97,405	\$0	\$12,220	\$27,332	\$136,957	3	0	\$410,871	\$0	-\$410,871
Project Assistant	\$61,930	\$0	\$12,220	\$17,378	\$91,528	1	1	\$91,528	\$91,528	\$0
Sr. Management Analyst I	\$101,594	\$0	\$12,220	\$28,507	\$142,321	2	5	\$284,643	\$711,606	\$426,964
Management Analyst II	\$87,132	\$0	\$12,220	\$24,449	\$123,801	0	2	\$0	\$247,602	\$247,602
Accounting Clerk II	\$68,265	\$0	\$12,220	\$19,155	\$99,640	2	0	\$199,280	\$0	-\$199,280
Sr. Clerk Typist	\$64,643	\$0	\$12,220	\$18,139	\$95,002	1	0	\$95,002	\$0	-\$95,002
Real Estate Attorney (at Deputy City Attorney III level)	\$142,067	\$0	\$12,220	\$39,864	\$194,151	0	1	\$0	\$194,151	\$194,151
Architect	\$115,278	\$0	\$12,220	\$32,347	\$159,845	0	0	\$0	\$0	\$0
Total						10	9	\$1,229,135	\$1,244,887	\$15,752

2. Costing the procurement of leasing services requires a detailed scope of the services to be provided to the City in addition to a comprehensive list of all the leases to be negotiated by outside brokers. In the absence of such scope of work, the City could use as a reference point the cost of the 5 positions within RES Lease and Mall Management group. In Table 4-3 below, PA estimates this cost to be approximately \$650k per year and the City should expect the outsourcing costs to be significantly lower than this threshold.

Table 4-3: Estimate of the cost of the 5 positions within RES Lease and Mall Management group

Position	Annual Salary	Overtime/ Bonus	Benefits	Pension Costs	Annual Cost of Position	# of Positions	Total Cost
Sr. Real Estate Officer	\$105,882	\$0	\$12,220	\$29,710	\$147,812	1	\$147,812
Real Estate Officer II	\$97,405	\$0	\$12,220	\$27,332	\$136,957	3	\$410,871
Project Assistant	\$61,930	\$0	\$12,220	\$17,378	\$91,528	1	\$91,528
Total						5	\$650,211

PA's organizational recommendations represent a phased strategy focused on improving performance as opposed to a cost cutting exercise.

4.3.4 Brokerage Firm Selection Process

When selecting a brokerage firm, the City should consider the fact that real estate services are relationship driven, i.e. best service and pricing will arise from an exclusive relationship with the selected firm.

Therefore, PA recommends the City issue an RFP for an exclusive contract with a single firm for a fixed period of time. In exchange for all of the city's leasing business in that timeframe the City would get the best service through account advisors who would harness all of the resources of the selected brokerage firm and any necessary sub consultants.

4.3.5 Summary of Recommendations

Leasing Function – RES should:

1. Procurement of leasing services for all of the City lease contracts
2. Create a Vendor Contract Manager position to be the point of contact with respective third party brokers
3. Create a Senior Management Analyst position to manage City-owned and occupied buildings
4. Implement a lease renewal process, and develop and maintain an inventory of all leasing-related projects undertaken

Floor Plans and Space Optimization Functions:

5. The Floor Plan functions and Space Optimization functions should be transferred to the BOE. BOE should decide whether to procure outside services to manage floor plan updates on an as-needed basis

Acquisition and Sale Function – RES should:

6. Procure services for acquisition and sale only on an as-needed basis and maintain internal staff for ongoing acquisition and sale

Administration and Accounting Functions – RES should:

7. Create an administration and accounting position dedicated to providing administrative and accounting support

IT – The City should:

8. Purchase a data management system (that is, an AMS) and implement data management practices (see Projects (c) and (d) in the 2014 Strategic Real Estate Plan)

Dedicated Real Estate City Attorney Resources – The City should:

9. Create an additional dedicated real estate City Attorney position within the Office of the City Attorney to streamline all real estate-related requests

Special Projects and CAO AMSP – The City should:

10. Create three positions in the CAO AMSP to handle all Departmental and City Council requests, as well as to manage large ad-hoc projects for the City

Non-Profit Leases – The City should:

11. Adopt the proposed “Non-Profit Lease Subsidy and Real Property Sale Policy” published April 16, 2010. This report would not only sets minimum viable requirements for available information on lease terms, insurance, non-profit status, etc. but also establishes consistency in issuance of subsidies and in holding non-profits accountable. RES cannot bear the large burden, at current staffing levels, of tracking the properties, tenants and leases without the foundation of firm City policy related to Non-Profit Leases

4.3.6 Summary of Findings mapped to Recommendations

Table 4-4: Summary of General Findings / Issues Mapped to Recommendations

Concerns	General Findings / Issues	Recommendations
Real Estate Asset data management	Lack of effective asset management and data management systems	Rec 8 – Purchase a data management system (that is, an AMS) and implement data management practices
	Data gaps and inconsistent data management practices	Rec 11 – The City should adopt the proposed “Non-Profit Lease Subsidy and Real Property Sale Policy” (published April 16, 2010)
	Accuracy, transparency, coordination, maintenance and retrieval of asset data are not sufficient to meet core needs	
	Real Estate Division's lack of record or data management system causes (1) mismatch between property lists and widespread inefficiencies, (2) inability to query properties in a timely manner and accurately account for occupants and floor plans, and (3) sub-division managers to focus on updating property lists rather than focusing on managerial roles	
Capacity	Many lease contracts are either in a month-to-month state or currently expired	Rec 1 – Procure lease services for all City lease contracts to increase RES capacity Rec 2 – Create a Vendor Contract Manager position to be the point of contact with respective third party brokers
	RES staff do not always have the technical skills required to perform lease space optimization	Rec 5 – The Floor Plan functions and Space Optimization functions should be transferred to BOE. BOE should decide whether to procure services to manage floor plan updates on an as-needed basis
	Inadequate provision of RES administration and accounting support	Rec 7 – Create an administration and accounting position dedicated to provide administrative and accounting support
	Slow processing of real estate contract drafts and long average cycle-times for approval from the City Attorney's Office	Rec 9 – Create an additional dedicated real estate City Attorney position within the Office of the City Attorney to streamline all real estate-related requests
	Inadequate Customer Service	Rec 10 - Create three positions in the CAO AMSP to handle all Departmental and City Council requests, as well as managing large ad-hoc projects for the City

Table 4-5: Summary of Area-Specific Findings / Issues Mapped to Recommendations

Area of Concern	Area-Specific Findings / Issues	Recommendations
Acquisition and Appraisal	Shifting priorities	Rec 6 – Procure acquisition and sale services on an as-needed basis and maintain internal staff for ongoing acquisition and sale
Leasing	Time-consuming and inefficient process (minimal use of standardized templates)	Rec 1 – Procure lease services for all City lease contracts to increase RES capacity Rec 2 – Create a Vendor Contract Manager position to be the point of contact with respective third party brokers
	Significant amount of workload devoted to non-profit properties	Rec 11 – The City should adopt the proposed “Non-Profit Lease Subsidy and Real Property Sale Policy” (published April 16, 2010)
	Insufficiently disciplined and documented processes and procedures within the leasing function	Rec 4 – Implement a lease renewal process, and develop and maintain an inventory of all leasing-related projects undertaken Various recommendations (creation of new sub-divisions & positions, procurement of leasing services)
	Lack of City Attorney staff to write new leases	Rec 9 – Create an additional dedicated real estate City Attorney position within the Office of the City Attorney to streamline all real estate requests
Tenant Services	Inefficient handling of real estate requests (for example, Tenant services processes contain multiple hand-offs with Leasing)	Rec 3 – Create a new Senior Management Analyst position, classification to be determined by the City, to manage City-owned and occupied buildings Rec 5 – The Floor Plan functions and Space Optimization functions should be transferred to the Bureau of BOE. BOE should decide whether to procure services to manage floor plan updates on an as-needed basis Rec 8 – Purchase a data management system (that is, an AMS) and implement data management practices
	Institutional knowledge gap due to retirement of division’s head	Rec 1 – Procure lease services for all City lease contracts to increase RES capacity Rec 6 - Procure acquisition and sale services on an as-needed basis and maintain internal staff for ongoing acquisition and sale

Table 4-5 is continued on the next page

Table 4-5 (continued): Summary of Area-Specific Findings / Issues Mapped to Recommendations

Area of Concern	Area-Specific Findings / Issues	Recommendations
Portfolio	Poor or non-existent building records	Rec 5 – The Floor Plan functions and Space Optimization functions should be transferred to the BOE. BOE should decide whether to procure services to manage floor plan updates on an as-needed basis Rec 8 – Purchase a data management system (that is, an AMS) and implement data management practices
	Portfolio division administers and pays LADWP bills	Rec 8 – Purchase a data management system (that is, an AMS) and implement data management practices
City Attorney	Lengthy contract / lease approval process	Rec 9 – Create an additional dedicated real estate City Attorney position within the Office of the City Attorney to streamline all real estate-related requests
Processes, Policies, and Procedures	Inadequately disciplined and documented leasing processes (see Project (j) in the 2014 Strategic Real Estate Plan)	Rec 4 - Implement a lease renewal process, and develop and maintain an inventory of all the projects undertaken Rec 11 – The City should adopt the proposed “Non-Profit Lease Subsidy and Real Property Sale Policy” (published April 16, 2010)

4.3.7 Conclusion

The proposed future state recommendation for RES organizational design is intended to create efficiencies within the division by allowing for the use of external contractors, constructing processes and roles that will streamline the Office of City Attorney and other functions, improve customer service, and lastly, ensure real property information is updated and maintained.

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A ASPECTS OF INDUSTRY BEST PRACTICE FOR REAL ESTATE ASSET MANAGEMENT

A.1 Introduction

The following is a selection of guidelines and examples that describe and demonstrate several key aspects of what would be considered “industry best practice” in Real Estate Asset Management.

The following includes:

- Elements of an Asset Management Model and planning for implementing such a model
- Risk reduction considerations
- Case studies
- Additional examples of best practice activities

While this is not considered to be exhaustive, it provides an overview of what would be considered as fundamental guidelines for developing a framework that supports the implementation of a best practices Asset Management capability.

A.2 Elements of an Asset Management Model

A well-developed local government real property asset management model should clarify and define the contents of their real property portfolios, as well as to monitor and control their functional and financial performance. Local governments will be able to manage their property assets effectively and efficiently only if they adopt key elements of private sector asset management practices:

- Site based management, accounting, budgeting, and operations
- Relevant and regularly updated databases on physical, operational and financial characteristics of properties
- Annual reviews and reporting
- Private market benchmarks, including market value of all alienable properties
- Financial tools and performance standards used in the real estate market (such as return on investment and capitalization rate calculations)
- Introduction of effective competition to leasing, sales, and sourcing of services and materials
- Culling of smaller properties through sale to improve portfolio management efficiency

A.3 Planning to Implement a Successful Asset Management Capability

The following are examples of steps that should be taken and activities to consider when planning to design and implement an Asset Management model for your organization:

- Designation of an intermediate body that will lead on asset management improvements during the initial stage

- Introduction of a database/inventory system for individual real property units
- Property classification
- Improving relationship between local governments and their public enterprises and providing basis for better public services delivery
- Property-Related Public-Private Partnerships (PPPs)
- Improving land management
- Real estate and business appraisals
- Property accounting and financial planning (operating statements for properties or portfolios)
- Intensive financial analysis of portfolios, properties, and investment projects
- Deregulation of business rentals and improvement of rental practices
- Quantifying and monitoring direct and indirect property-related subsidies obtained by tenants and users of local government real estate
- Reporting on property
- Management Consolidation
- Developing a Comprehensive Asset Management Plan

A.4 Reducing Risk - Private Approaches, Policies and Incentives

Asset management modernization often is a part of a broader effort to improve government financial management. This asset management modernization is usually spearheaded by a Department of Finance or Treasury.

One of the key premises of modernized asset management at governments is that it uses many efficiency seeking approaches utilized for asset management by private non-real estate corporations. Modernized asset management also uses policies and incentives as a key instrument:

- Canada's asset management is framed by the Policy Framework for the Management of Assets and Acquired Services.
- Australian reform in 1996-1997 was based on "whole-of-government" property management principles applied to all Commonwealth organizations other than government business enterprises. These principles were later replaced by a set of other policies

A.5 Reducing Risk - Separation of Ownership from Management

The degree of separation varies widely from government to government, from departments granting private firms short-term service contracts such as for cleaning or security, to long-term concessions of governmental properties, to full privatization.

Privatization can take many forms, from public-private partnerships to sell/lease-back arrangements. Two common and distinctly different models are employed:

Public-Private Partnership: assumes a government retains direct ownership of property assets and delegates asset management functions to another entity, usually by contract.

Sell/Lease Back: property assets, along with asset management functions are allocated to a separate legal entity owned by the government. In such a case, the corporation, not the government, owns the assets, while the government owns or controls the corporation.

Source: Managing Government Property Assets, Urban Institute Press

A.6 Key Questions:

- To whom is the entity accountable?
- What kind of legal and regulatory framework is needed to establish such entities?
- What document defines the working relationship and mutual rights and responsibilities of the government and the special entity?
- What reporting requirements and regulations apply?
- What powers reside within the entity?
- What risks can it incur and does it have the capacity to mitigate these risks?
- On whose balance sheet—the government's or the managing entity's—should assets be kept?
- What are the requirements for valuing its assets?
- Who are the shareholders and what do they receive? If government owns the entity, can it withdraw capital or receive dividends?

A.7 Case Study: Government of Canada

Canada provides an example of how the formula Policy + Incentives can turn a situation with surplus property around. In 2000, the Treasury Board of Canada adopted a new policy that authorized sharing 100% of net proceeds from the sale or transfer with custodian departments on the condition that:

- The department has a strategic investment framework, including a long-term capital plan,
- Approved by the Treasury Board;
- The proceeds are reinvested in real property, consistent with the strategic investment framework; and
- The departments meet the reporting requirements to the centralized Directory of the Federal Real Property.

This revenue-sharing initiative represented a significant change in the real property management system over previous decades and reflected a fundamental shift in how governments view real property in relation to the delivery of services and programs. It became the policy that the Canadian federal government properties that were no longer required for program purposes be disposed of by sale or transfer at market value. Introduction of the above policy, along with institutional provisions on how sales should be handled, led to the brisk identification and sales of federal surplus properties across the country.

A.8 Case Study: City of New York

HPD (Department of Housing, Preservation, Development) became more proactive in monitoring project performance, addressing issues before they became serious. HPD focused on (1) financial stability, (2) physical viability, and (3) regulatory compliance. Various asset management functions across HPD were consolidated into one department. Data collected underwent a deeper analysis to help asset managers identify which projects needed their attention.

- **Group projects by owner (sponsor) rather than by program or funding source.** One housing owner may have projects that utilize multiple local government programs. Reviewing an owner's complete portfolio will help identify broader problems. The owner has one point of contact and does not receive multiple or inconsistent messages from the agency.
- **Work with other investors and stakeholders in projects to collect information and respond to issues.** HPD has worked with the National Equity Fund and Enterprise to reduce the burden of information requests on housing owners.
- **Create a system for categorizing projects based on performance.** Asset managers must be able to quickly identify and prioritize projects with more serious issues.
- **Analyze financial information and create benchmarks.** HPD has an increasing ability to analyze project information and determine performance benchmarks that can quickly identify troubled projects and that can then help project owners improve management.

A.9 Case Study: Partnership Procter & Gamble and Jones Lang LaSalle

Procter & Gamble, the world's largest consumer packaged goods company in the world and Jones Lang LaSalle, the World's 3rd Largest Real Estate Services Company.

- Focus on the "what" not the "how". Buyers need to tell suppliers the outcome they are looking for and let the supplier come up with finding better solutions.
- Agree on clearly defined and measurable outcomes. Both parties should be explicit in defining the outcomes the client paid for and the value that its solution delivers, rather than the transaction itself.
- Oversight structure should provide insight, not just oversight. Oversight is part of a larger stewardship role in procured service relationships that balances controls, risk management and supplier management with a focus on the end business results. Oversight starts with excelling on the fundamentals. Relationship management formulates and supports joint policies and a collaborative working environment.
- Optimize pricing-model incentives for cost / service trade-offs. A complex procured services relationship should have a pricing model that balances risk and reward for both parties.
- Focus on the outcomes, not activities. Strategic partnerships are successful when we focus on outcomes, processes and programs while balancing individual actions.

A.10 Additional Examples of Best Practice Activities from Around the World

- Consolidation of agencies in a smaller number of buildings (UK/USA)
- Moving to cheaper locations (UK)
- Consolidation of not only accommodation, but some other elements, such as procurement, as a part of “shared service” concept (Canada, UK)
- Moving agencies together not only horizontally (the same level of government) but vertically as well (central and local government, UK)
- Reduction of space needs (telecommuting, space redesign, “hoteling” employees in government offices)
- Disposal of surplus properties (US: 14,000 identified, 1,400 sold)
- Sustainability of the portfolio (“greening” government properties)
- Moving back in government-owned buildings, away from leased space (UK, the Netherlands)
- Performance management and benchmarking for buildings and facilities (space per employee; the total cost of operation and maintenance per sq. foot and per employee; administrative cost per sq. foot, etc.) (Australia, Canada, the UK)



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Corporate headquarters
123 Buckingham Palace Road
London SW1W 9SR
United Kingdom
Tel: +44 20 7730 9000

United States headquarters
45th Floor, Chrysler Building,
405 Lexington Avenue,
New York, NY 10174
Tel: +1 212 973 5900

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