Public Real Estate Management—Adapting Corporate Practice to the Public Sector: The Experience in Cleveland, Ohio

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Abstract. **This paper addresses the issue of public real estate management, focusing on the potential to adapt corporate management practice to the public sector. The research begins with a review of the survey literature on real estate management practice and decisionmaking among American non-real estate corporations and public agencies in Sweden. The paper also reports the preliminary results of a survey of twenty-one suburban municipal property managers in the Cleveland, Ohio Metropolitan Area. The current public real estate management practice is described and compared with available survey results on private sector management. Topics include organization of the real estate function, information management, decision rules and policies and development activities. The feasibility of applying selected private real estate decisionmaking and management practices to the public sector is explored. Initial results show that while the municipalities surveyed participate in many real estate practices such as leasing and joint development, they often do not have the decision framework to financially evaluate these activities. One approach to enhancing the way public agencies deal with real property is set forth. The paper closes with suggestions for future research.**

Introduction

Ever since local zoning and development process review procedures were initiated, the public sector has been a participant in real estate development as a regulating body or through national financial markets. Recently, there has been an increasing trend for governments to enter directly into the real estate development as an equity player, loan guarantor or developer, through use of government-owned lands. Local public real estate development has been particularly active in California (Chesler et al., 1991).

A familiar argument for government real estate activity has been to stimulate economic development in the community by using real estate as an economic development tool. One justification for government involvement is the public capital hypothesis, where investment in public lands and infrastructure is believed to be associated with job and income growth in the private sector (Tatom, 1991). In declining growth markets where different jurisdictions compete for industrial plants with land and financial subsidies, successfully attracting certain types of real estate projects can be important for maintaining the employment and property tax base.

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Many local governments are also facing budget shortfalls in light of the recession and reduction in federal subsidies. Given tight financial times, another main reason for public real estate development is to capitalize on property location and value to generate cash income for the community. Efficient cost-minimizing management of government-owned property for internal operations in leasing decisions and reduction of maintenance costs through disposal of surplus properties also could ease budget shortfalls. Recycling surplus or foreclosed properties for socially desirable uses such as housing, industrial and commercial development could increase social benefits to constituents. These goals can be achieved more efficiently by reducing government expenditures through more centralized property management. Finally, for the rare exceptional property with substantial development potential, governments can gain financially by using real estate as a revenue-producing asset.

This paper focuses on the potential to adapt private corporate real estate acquisition, management and disposal practices and centralized institutional structure to the public sector property problem. The latter includes revenue generation, efficient internal operations and the encouragement of socially desirable activities. Because governments have stepped up their role in encouraging growth by implementing development of surplus properties, government managers need to know how to deal with developers as partners, not just regulatory agents. This requires that government real estate developers know their own financial objectives. Do governments have the expertise to deal with these evolving trends? In particular, what are government practices with respect to acquiring, managing and disposing of real estate, and how do they compare with private sector real estate management practices? Is current knowledge of public real estate managers sufficient to assure efficient development of public lands? This paper seeks to shed light on these issues. Preliminary results from this research suggest that suburban communities in greater Cleveland are engaging in many of the same real estate activities as larger non-real estate corporations, but often without formal financial analysis tools. This implies that there may be a need to further educate public property decisionmakers regarding real estate practices.

This paper is organized in eight separate but related sections. In general, for each topic, available data from the private and public sector literature are presented, followed by available survey data on management practices. A comparison is made between private and public sector approaches on each issue. The topics are:

- sources of survey data on management practices of private non-real estate firms and public management;
- description of exploratory survey results of public real estate managers in the Cleveland, Ohio metropolitan area;
- organization of real estate within the corporate entity;
- real estate information management and accounting practices;
- presence of explicitly stated objectives, decision rules and written policies;
- portfolio approach to real estate;
- real estate development activities; and
- past municipal experience in real estate management and an approach to organizing a public real estate department.

The paper concludes with suggested areas for further research.

Sources of Survey Data on Real Estate Management

Corporate Real Estate Management

Five recent articles contain analysis of survey results regarding the real estate management practices of private non-real estate firms. The most ambitious of these survey reports presents the results of a comprehensive 1987 MIT mail survey of corporate real estate executives conducted by Veale (1989). The survey had a 15% response rate, with 284 usable returns out of 1,898 sent.[1] The survey addressed organization of the real estate management function, performance evaluation, inventory and accounting, role of the real estate executive, decision rules. Results of the MIT survey were compared with an earlier study conducted by Harvard Real Estate, Inc. in 1981.

Similar topics of interest to corporate real estate resource management were explored by Gale and Case in a smaller sample of thirty major U.S. companies in the same year (1989). Executives were asked about their attitudes regarding real estate, organization of the real estate function, real estate activities, information systems, and decision rules. Both authors found that corporate real estate assets were undermanaged, and that the importance of real estate was increasing. Real estate management is seen to be an emerging discipline.

Pittman and Parker conducted a mail survey of corporate real estate managers among large non-real estate firms (1989). Their results were based on 105 completed surveys, a 24% response rate. The focus was the executives' perceptions of the importance of organizational and operational factors and their association with effective corporate real estate management.

Another study by Redman and Tanner employed a mail survey of 500 U.S. corporate real estate managers, which generated 92 responses. This work provides useful insights into the property acquisition and disposition practices of a wide range of firms (1989). The authors conducted a second write-in survey of corporate real estate officers regarding real estate financing, leasing and disposition decisions. This research was based on 218 completed responses, an 18.2% response rate (1991).

To summarize, the extant literature on corporate real estate management addresses organization of the real estate management function, performance evaluation, information management, role and effectiveness of the real estate executive, real estate inventory and activities, and property acquisition and disposition decision rules. The concensus is that corporate real estate assets are generally undermanaged. Real estate management is seen to be an emerging discipline. Results from the five surveys allow comparison between corporate and public sector real estate managers in greater Cleveland.

Public Real Estate Management

A recent study in Sweden included a mail survey of both Swedish public property managers from municipal, county, and public housing corporations and private non-real estate corporations (Lundström, 1991). Response rates were high; over 44% for private entities and in excess of 61% of public agencies responded. The survey addressed the organizational status and information systems of Swedish property managers. Because the role of the public sector in Sweden is much larger than in the U.S., and due to the important role of real estate in provision of public services, one could expect Swedish public sector real estate managers to have highly developed systems for dealing with real estate issues.

A survey of real estate management practices in large acute care non-profit hospitals in the midwestern U.S. was undertaken by Potter (1992). The response rate was low, with 14 usable responses (8%) out of 200 mailed out. The study inquired about size of real estate holdings and facility utilization patterns. Of those hospitals responding, 28% reported having a real estate manager.

An in-depth case study of the real estate management practices of three southern cities (Athens and Atlanta, Georgia and Mobile, Alabama) was conducted by Cowart (1990). The research addressed the role of real estate within the institution, presence of formal documents and policies, real estate inventory and MIS, and acquisition and disposition activities.

Where relevant, the experiences of Swedish public sector real estate and those from the southern U.S. are compared with those from greater Cleveland.

Preliminary Survey Results of Public Real Estate Managers in the Cleveland, Ohio Metro Area

In January and February 1992, personal interviews were conducted with self-identified municipal property managers in twenty-one suburbs in the greater Cleveland, Ohio area. The interviews were conducted by the Public Management Program in The Urban Center (TUC) at the Levin College of Urban Affairs at Cleveland State University in Cleveland, Ohio. The communities surveyed had 1990 populations ranging from 10,000 to 60,000. A list of these Cuyahoga County communities and their population figures is provided in Exhibit 1.

The survey focused on the acquisition, management and disposition of municipally owned property. Because most communities did not have a single person in charge of real estate assets, two persons were usually queried. Total interview time was about two hours. The survey included questions on types of services provided, organization of property management and education of real estate decisionmakers, real estate inventory, accounting procedures, financial decision rules, and development activity. Demographic data were added after the interviews were completed. Several of the fifty-four questions on the survey were designed to allow direct comparison with responses of corporate real estate executives from the survey literature (Gale and Case, 1989; Pittman and Parker, 1989; Redman and Tanner, 1989; Veale, 1989).

One shortcoming of this paper's comparative approach is the "apples and oranges" nature of the groups being compared. The corporate entities are generally large companies, while the communities surveyed in greater Cleveland are suburbs with much smaller budgets.

Organization of Real Estate within the Corporate Entity

Two of the private sector surveys provide data on subjects pertaining to organization of the real estate function within the corporate entity (Gale and Case, 1989;

Exhibit 1
Communities Surveyed

Community	1990 Population
Bay Village	17,000
Beachwood	10,677
Bedford Heights	12,131
Berea	19,051
Brecksville	11,818
Brook Park	22,865
Cleveland Heights	54,052
East Cleveland	33,096
Euclid	54,875
Fairview Park	18,028
Garfield Heights	31,739
Lakewood	59,718
Lyndhurst	15,982
Parma Heights	21,448
Rocky River	20,410
Shaker Heights	30,831
Solon	18,548
South Euclid	23,866
Strongsville	35,308
Warrensville Heights	15,745
Westlake	27,018

Source: U.S. Department of Commerce, Bureau of the Census *1990 Census*

Veale, 1989). Further, a statistical analysis of the benefits of selected corporate real estate management practices revealed that perceived effectiveness was positively associated with a centralized, profit center-oriented real estate department that was well integrated into the overall corporate structure. The corporate real estate department head should ideally report directly to the CEO. The ratio of real estate staff to value property under management should be large (Pittman and Parker, 1989). Exhibit 2 compares the results of available survey data on organization of real estate within the corporate entity.

Very few communities (5%) in Cuyahoga county had a separate real estate department. This compares with 84%–86% of private corporations and 50% of Swedish public agencies (Lundström, 1991). Typically, the suburban property function was divided among two or more departments, including housing management programs. The lead role is taken by public works/service (62%), city planning (14%), or finance (10%). Property maintenance decisions are nearly always made by city staff (91%). However, acquisition and disposition decisions were only made by professional staff, notably the public works director or planning director, one third of the time. Elected officials were the primary decisionmakers on these matters in more than 70% of the suburban communities surveyed. The most common educational level attained by the primary real estate respondent was a bachelor's degree. Only 19% of municipal property managers had attained a graduate degree.

Whereas in the private sector it appears that the head of the real estate division or department would have centralized control over corporate real estate assets, the

Exhibit 2
Organization of Real Estate Within the Corporate Entity

Question	Private Corporations	Cuyahoga Co. Suburbs
Is there a separate or centralized real estate unit or department or division?	84%, 86%	5%
Is it organized as		
a profit center?	38%, 22%*	10%
a cost center?	93%, 47%*	55%
both?	na, 25%*	20%
Percent manager's time allocated to real estate	na, 100+%	30%**
How real estate time allocated (%).		
managing personnel:	na, 14%	40%
managing property:	na, 12%	28%
transactions	na, 40%	16%

Sources: (in order of presentation) Gale and Case 1989; Veale, 1989; TUC
*of those firms responding and making a separate evaluation
**estimated from midpoint of ranges

communities surveyed portray a more decentralized approach. Only 65% of municipal real estate decisionmakers had control over property management in all departments and functions. Hence, institutional barriers in the form of functional fiefdoms created by decentralized property decisionmaking in numerous departments, each with its own real estate needs, may be contributing to undermanagement of overall municipal real estate assets.

Real Estate Information Management and Accounting Practices

This section addresses the quality of information available about real estate, including the presence of a property inventory, state of a computerized management information system and selected accounting practices. These factors are important to efficient management of real estate assets.

The vast majority of private firms have a real estate inventory, compared with 81% of Cuyahoga municipalities having at least part of the inventory, usually buildings from insurance records. Computerized property management information systems are relatively uncommon in the private sector (26%–50%), and even less common in the Cleveland suburbs (26%). Therefore, most public property managers do not possess

Exhibit 3
Real Estate Information Management and Accounting Practices

Question	Private Corporations	Cuyahoga County Suburbs*
Do you have a centralized property inventory?	90%, 74%	81%
Is the inventory computerized/MIS? (%) yes	50%**, 26%	26%
Do you know the market value of your real estate? (%) yes	44%, 76%	30%
Evaluate/account for real estate on a property-by-property basis?	63%, 51%	35%

Sources: (in order of presentation) Gale and Case, 1989; Veale, 1989; TUC

*Partially centralized, Building inventories are typically available, but a much smaller percentage of communities had both buildings and land. Usually only parts of the inventory are computerized.
**approximate

key information resources found to be important to efficient corporate real estate management (Pittman and Parker, 1989). This experience is consistent with the case studies of southern cities, where the property inventory was typically partly computerized. None of the three cities had an MIS system (Cowart, 1990).

Another main factor in tracking property performance, market value, was known by 44%–76% of private firms. 30% of municipalities were able to place a current value on *some* (not all) of their holdings, usually recent acquisitions and development properties.

Financial analysis of property performance is dependent on several pieces of information, notably property value, costs and revenue. While about half of the firms tracked property on an individual basis, only 35% of municipalities did. 60% of municipalities did track cash revenue on a property-by-property basis, usually for park and recreation functions. Accounting by functional class (62%) was a more common accounting approach among municipalities.

The apparent lack of data can be partly explained by limited access to reasonably priced market information. Private firms pay property taxes and have their properties valued by the county tax assessor on an ongoing basis. Because nearly all municipally owned property is tax-exempt, market value figures are not usually provided by the tax authorities, hence depriving municipal real estate managers of a valuable piece of market information. If managers knew a property's market value, calculating financial performance would be much easier.

Formalized Objectives, Decision Rules and Written Policies

Objective Functions

The objective of private firms in dealing with their real estate is driven by the profit motive, maximizing the leveraged after-tax rate of return based upon financial and imputed flows. Properties held for internal use may be evaluated on services delivered as a factor of production, using a cost-minimizing framework. The real estate managers are ultimately responsible to the shareholders for their activities. Effectiveness of corporate real estate management in achieving their objectives is enhanced by the presence of a strategic business plan (Pittman and Parker, 1989).

The public sector's objectives are more complex. The public sector is non-profit and recognizes both efficiency and equitable distribution of resources as important objectives. Public decisionmakers may exhibit bureaucratic behavior and act to maximize budget, rather than provide services efficiently (Niskanen, 1975).[2] Very few of the properties held in the public sector produce cash revenue. Another main public objective is to generate a social return to its constituency, which does not appear on the public budget.[3] Despite the difficulty in measuring social return, 67% of the suburban communities surveyed in Cuyahoga County include social return in the decision locus on real estate matters. Social returns are often handled in a non-quantitative manner, however. Finally, the public sector decision process is complicated due to the constant reelection pressures faced by elected officials. To some degree, real estate may be used to provide short-term social returns popular with voters, which may not always be consistent with long-term cost minimization of municipally owned property. Municipal officials also face periodic budgetary concerns.

Exhibit 4 shows results of survey data on questions related to formalized objectives, written policies and decision rules. A substantial portion of corporate real estate managers (87%) use formal decision rules for capital budgeting, acquisition or disposition of property. Only 15% of Cleveland area public managers do the same. The difference is almost as large with respect to use of a discount rate: well over half of corporate managers use one, but only 22% of Cleveland area public real estate managers use a discount rate in making property decisions. This last figure is generally lower than Swedish public managers, 16%–35% of whom used a discount rate (Lundström, 1991). None of the three southern cities formally used present value analysis in their real estate decisionmaking (Cowart, 1990).

The lack of use of discounted cash flow analysis and absence of a discount rate may be partially attributable to the short decisionmaking time frame preferred by elected officials concerned with getting reelected: longer term benefits which could accrue to the community over many years may not be considered in real estate decisionmaking.

With respect to a formal property management or development plan, 54% of private sector managers had one in place, compared with 19% in Cleveland suburbs. Many municipal real estate decisionmakers appear to be left out of the process of making acquisition and disposition decisions: elected officials made key property decisions, often without consulting professional staff (city council—85% and mayors—71%).[4]

An important factor in evaluation of ongoing return is explicit consideration of imputed benefits derived from real estate as a factor of production in the form of

Exhibit 4
Formalized Objectives, Written Policies and Decision Rules

Question	Private Corporations	Cuyahoga County Suburbs
Have explicit financial objectives for property? (% yes)		
profit maximization?	38%*, 22%*, na	10%
cost minimization?	93%*, 47%*, na	55%
Employ formal capital budgeting, acquisition or disposition rules?	na, 33%**, 87+%	15%
Have a discount rate or hurdle rate of return?	88%, na, 58%***	22%
Have a written Real Estate, Management Plan?	na, na, na	
Policy/Development Plan? (% yes)	54%, 25%–54%, na	19%
Systematically evaluate underutilized properties? (% yes)	60%–74%, 69%, na	52%
Include imputed/internal rents?	68%, 67%, na	15%
Include social return?	na, na, na	67%

Sources: (in order of presentation) Gale and Case, 1989; Veale, 1989, Redman and Tanner, 1989; TUC

*reflects profit or cost center responses
**14% capital budgeting, 13% acquisition, 6% disposal
***most popular technique used—represents minimum %

internal rent. Accounting for internal rent was the practice among two-thirds of corporations, but very uncommon among municipal property managers (15%), despite the fact that most publicly held properties are held for the use of the municipality and are not expected to be revenue generating. Formally dealing with internal rents is a necessary ingredient to ongoing property evaluation. While about two-thirds of private managers systematically evaluate properties to determine if they were underutilized, only 52% of municipal property managers did this.

Two thirds of municipal managers acknowledged social return in making real estate decisions. However, very few attempted to place financial value on the social return.

One key issue is whether government real estate managers employ the cost-minimizing approach because it better meets their needs, or because they cannot or do not have the information or expertise to evaluate either the market value of the property or the ongoing return on the asset. Having current market value assessments is an essential ingredient in calculating rates of return (Miles et al., 1989). Public real estate managers generally do not pay property taxes, hence are deprived of a readily available estimate of property market value.[5] The absence of utilizing a discount rate or hurdle rate of return is also a concern: real estate appears to be treated like a public good, as in Sweden (Lundström, 1991).

Portfolio Approach to Real Estate Assets

Portfolio issues include recognizing individual properties as belonging to a group, monitoring group performance over time, considering risk as well as return, and considering the potential benefits to the overall risk-adjusted rate of return from diversification of the portfolio both within real estate activities and between real estate and other asset types.

In the private sector, the majority of corporations do at least some of these activities. For example, 64% consider portfolio aspects and diversifying assets within the real estate function (Veale, 1989), and 54% reportedly evaluated the performance of pools of properties (Gale and Case, 1989). The notion that real estate can be addressed within a portfolio framework is not familiar to public managers: only 5% stated that they evaluate the performance of their properties over time.

Real Estate Development Activities

All the entities surveyed held real estate for their own use, but what of other ancillary activities which may assist them in more efficiently using their real estate capital to further corporate or agency goals? These activities include but are not limited to leasing property, sale-leaseback, property exchanges, and joint development with other corporate or public entities. For public agencies, another likely activity is parcel assembly or land banking for economic development, housing or other public purposes.[6] Exhibit 5 shows comparative results for selected development activities.

Leasing of property or land was undertaken by a large portion of corporate real estate departments (41%–91%, depending on which group). The activity reported among the Cleveland suburbs was similar: 48%–52% are engaged in leasing activities. Sale-leasebacks (39%–49%) and property exchanges (39%) were fairly common among corporations, but were scarcely utilized among public sector managers: only 10%–29% reported this activity.

The response on joint development was affirmative for 24%–31% of private corporations and 29% of suburban municipalities. Despite the potential for substantial public budgetary and economic benefits from joint development, there is little information available on either the process or results of joint development efforts. This mismatch could be a major concern for public managers because they do not appear to have a comparable level of information, about either the performance of their own properties or financial analysis, to that of the developers with whom they must negotiate. This concern about a "level playing field" implies that public property decisionmakers should acquire more real estate skills. Some notable exceptions in

Exhibit 5
Real Estate Development Activities

Question	Private Corporations	Cuyahoga County Suburbs
Have you engaged in the following activities (% yes).		
leasing property or land to or from others?	41%, 62%, 91%	48%–52%
sale-leasebacks?	na, 39%, 49%	10%
property exchanges?	na, na, 39%	29%
joint development?*	31%, na, 24%	29%
parcel assembly/ land banking?	na, na, na	38%–57%

Sources. (in order of presentation) Gale and Case, 1989, Redman and Tanner, 1989, 1991; TUC

*For private firms, this may be with other private or public partners. For public agencies, public/private joint ventures are most common.

plugging the expertise gap include a "how-to" book for public managers on the steps required to manage the joint development of surplus public real estate (Roberts and Basile, 1990). Another source discusses joint real estate development for metropolitan transit agencies (National Council, 1989). Additional research is needed in this area to guide public real estate managers in joint venture activities.

Approaches to Organizing a Public Real Estate Department

The results of the survey reveal that suburban communities in greater Cleveland are close to square one in efficiently utilizing municipal real estate assets. If they were to begin organizing a professionally oriented real estate management function, what should the steps be?

Several communities in the United States, notably the City and County of Denver and Los Angeles County have made substantial progress in establishing public real estate departments. Despite the fact that Denver and Los Angeles are large central cities and the subject communities are smaller suburbs, many aspects of their experience could serve as a model for other communities, as the approach professionalizes the municipal real estate function by incorporating many of the desirable aspects of corporate management practice. Attractive features include providing written policies and objectives, compiling a centralized property inventory, organizing the real estate function primarily as a revenue rather than cost center, accounting for rates of returns for different types of uses, considering market rents and ongoing asset management (Los Angeles County, 1991; Pittman and Parker, 1989; Utter, 1989).

City and County of Denver

Denver created its Office of Asset Management in 1986. It hired a professional asset manager with a finance background to head the Office. Initially, primary activities included setting up an asset management policy, conducting an inventory of properties, planning and analysis, project management, executing transactions, and developing additional in-house real estate expertise. A key element undertaken early in the process was to classify properties both by use and by potential use (see Exhibit 6). Denver employs a four-category scheme: city use, financial investment, social investment, and surplus. Each use has a different asset management goal (Utter, 1989).[7] Classifying properties has the important advantage of reducing information requirements for property management and evaluation of ongoing performance.

Los Angeles County

Since late 1988, Los Angeles County's Citizen's Economy and Efficiency Commission has been developing a formal policy document intended to guide the County's real estate management and development activities. This report was approved by the County Commission in January 1992.

The document recommended setting up an economic-based real property management system with a formal policy statement, including objectives and a monitoring system. An initial inventory of County properties is to be improved and centralized.

Exhibit 6
Categories of Municipal Property

Category	Financial Goal	Example of Activity or Property	Financial Information Needs*
City use	maximize efficiency cost minimization charge internal rent	city hall, fire or police stations, sewage treatment plant	costs internal rent, market value
Financial investment	maximize financial return	land lease fee parking lots	costs, cash revenue, market value
Social investment	quantify and minimize the subsidy	housing, parks economic development	costs, subsidy, units of social value, market value,
Surplus or underutilized	maximize financial return	small parcels buildings. Sell or lease	costs, cash revenue market value

Sources: Utter, 1989; TUC

*Note that the information requirements for each class of property may be different.

A key component of the L.A. plan is to initiate a market-based rental system for internal rent and leasing of County space. Department heads are to be given incentives to improve performance of their real estate assets.

Two Caveats: Ethical Conflicts and Efficiency

Prior to presenting an approach to more efficient real estate management, it is appropriate to note several concerns regarding an expanded public role in certain aspects of real estate, especially joint development. The debate set forth in the city planning literature addresses the potential conflict of interest and other ethical issues that may arise when city planners and other public agents engage in real estate development (Frieden, 1990; Peiser, 1990; Urban Land Institute, 1990). While these studies generally support training city planners in the financial analysis of real estate projects as to better evaluate incoming development proposals and negotiate with private developers, some see a conflict of interest in some deal structures, especially where the city has an equity position. These issues should be addressed in municipal real estate policy.

Another important concern is doubt regarding potential efficiency gains, given the costs of reorganizing the information systems and obtaining appropriate data. A recent working paper attempts to quantify some of the public benefits, such as direct financial and fiscal returns, resulting from private development of surplus public real estate among eleven cities in California (Chesler, 1991). Other summary evidence shows that only a small portion of city-orchestrated real estate deals are paying off (Urban Land Institute, 1990, p. 3). More research needs to be done to determine a reasonable break-even point under which it may not be beneficial for public managers to expend large resources to upgrade their real estate information systems.

An Approach for Setting up a Real Estate Function

Based upon the experience in existing public property departments (Cowart, 1990; Los Angeles County, 1991; Lundström, 1991; Utter, 1989), as well as findings from the corporate sector (Gale and Case, 1989; Pittman and Parker, 1989; Redman and Tanner, 1989, 1991; Veale, 1989), and results from this survey, some initial steps for improving use of municipally owned real estate include:

- set up a centralized real estate authority within the organization with overview or direct control over acquisition, management and property disposition functions, including special development activities for parcels with substantial market potential. The unit should be managed by a real estate development professional with planning and finance experience;
- devise policies and decision rules for acquisition, management and disposition of property, as well as the strategic role of real estate in attaining municipal goals;
- conduct a detailed inventory of existing real estate assets, including property characteristics and market value;

- initially classify each property, as per Exhibit 6 or an alternative scheme;
- create a property-by-property accounting system that tracks the necessary variables for each category, including, ongoing market value, costs, internal rent, revenues, and social benefits (or user units) attained, as needed. It is key that real estate be considered an asset capable of producing a mix of measurable and difficult to measure returns (including social benefits), rather than a public good. If a meaningful rate of return cannot be established due to difficulty in measuring social benefits, a reasonable alternative would be to rank each property's performance ordinally. This is key for ongoing evaluation of underutilized properties. Create an MIS system to service the accounting function.
- develop the in-house expertise to derive maximum financial return from the real estate assets that have development potential.
- evaluate and manage municipal real estate holdings like a portfolio, analyzing returns over time. Consider both risk and return.

Further Research

The survey of municipal real estate practices should be expanded to other types of governmental agencies including school districts, counties, and regional agencies. The geographic scope of the study should be expanded. Once the data set is large enough to ensure adequate variation among observations, statistical analysis should be performed to provide determinants of professionalism based on such variables as community size, growth rate, development activity, and form of government.

A reasonably low-cost public MIS/accounting system for ongoing management of real estate should be set up in a public agency with relatively complex real estate problems. The basis of how to organize information should be sensitive to potential efficiency gains and could be based on simulation analysis. The ability of an MIS system to increase efficiency should be evaluated over time as a case study and compared to the experiences of other public real estate departments.

Notes

[1]A total of 197 of the surveys, about 11%, were sent to public agencies. However, Veale's results do not directly address public management practices.

[2]This research provides anecdotal evidence that municipal managers are acting as bureaucrats in increasing the number of properties under their control. For example, in 1990, the communities surveyed acquired about twice as many properties as they disposed of.

[3]For example, social returns may include providing affordable housing to low income residents. Another common social goal is economic development through creation of jobs in the local economy. Both these activities may provide an intangible and difficult to quantify return on public monies.

[4]There is anecdotal evidence that the property practices under the city manager form of government are more professional than the strong mayor form. For example, both of the communities with professional managers responded affirmatively to the key discount rate question, compared with only 16% of the communities with a strong hands-on mayor.

[5]Although in some jurisdictions outside Cuyahoga County property tax valuations are often not reflective of current market value, they are still useful because they may provide an indication of property trends. Property tax valuations represent an improvement over no property valuation data.
[6]Not all of the suburban communities in this survey have special-purpose redevelopment agencies. For central cities and larger suburbs, the real estate activity of these agencies should be distinguished from development of land held by the city for internal use or revenue generation.
[7]This approach contrasts sharply with the experience of suburban Cleveland municipalities. When asked if they classified their properties in any way, most responded in the negative.

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