Can data drive down COMMERCIAL PROPERTY RISKS?

Safe as houses, goes the old saying, but if a client owns commercial property to run his or her business from, or as part of his or her investment portfolio, he or she is probably aware of the myriad risks involved.

Managed properly, none of these risks should be particularly threatening, but because there are so many, an all-encompassing strategy is indispensable to ensure your client is not caught off guard.

The first course of action

Every property has inherent risks, so the first course of action should be to get your client the appropriate insurance in place. But insurance is only the first step in commercial property risk management. If you have not operated in this space before, the associated daily running costs could be surprising. Addressing seemingly minor shortcomings could turn into a massive cash flow event.

Unless the client is putting money away that is ringfenced particularly for important aspects such as renovations, he or she may wake up two years down the line and realise that all the piping of his or her fire sprinklers needs to be replaced, for instance. If these instances are not properly costed into the ownership model, it can catch your client unexpectedly.

More recently, ever-increasing municipal charges have added an extra burden on maintaining a building. New valuations may be implemented without warning. In our own portfolio, we have had valuations suddenly double, with a related increase in costs. Unless the relationship with the municipality is carefully managed, it can result in a significant increase in monthly cash outflows.

Other aspects to consider

There are also other aspects of the utilities bill that your client needs to manage. If he or she simply pays what is owed every month, without carefully looking at every line item on his or her bill, the client may not notice that for five months estimates were used. When the actual readings come in, the client may be consuming considerably more than was estimated.

This can be especially true if he or she has a major water line leak that goes unnoticed for a few months. On the client's personal property, that may mean a bill of R20 000 to R30 000, but this escalates exponentially on a large commercial property. Recently, a leak on one of our properties saw us face a bill of over half a million, and the municipality refused to take responsibility because they only have to take an actual water reading once every six months.

This means that checking utilities personally has to be part of the business plan and where high usage is detected, action needs to be taken. For this reason, we have developed technology in-house that monitors usage remotely, which allows us to put early warning systems in place to manage this risk.

But this is just the start. Unless your client can visualise all the data properly, he or she does not actually know what is going on. Even if the client has a meter, if he or she cannot clearly see what its normal amount should be, he or she will not be able to recognise any risk.

Making the data visual

This is why the extensive use of data visualisation is critical, because not only can it be used as a tool to measure performance, but it can also be used to manage the risks in commercial property portfolios.

Making the most important metrics visible for all to see and flag where exceptions have occurred is part of the process. A typical example can be on a utilities meter where you can see an expected amount visually versus an actual amount. You can see in real time when something goes wrong, instead of six months down the line.

Other stats that are visualised include solar panel performance to alert us when they need cleaning, rent rolls that remain unpaid, overheating transformers and generator checks. By making the data visual, you can drive down nasty surprises and increase the overall profitability of our commercial property portfolio.

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