

GOVERNMENT NATIONAL RENTAL OFFICE ACCOMODATION

2013/14

BACKGROUND

Government departments lease much of their office accommodation from private landlords, with national departments incurring around R3 billion a year in rental expenses.

INSTITUTIONAL CONTEXT

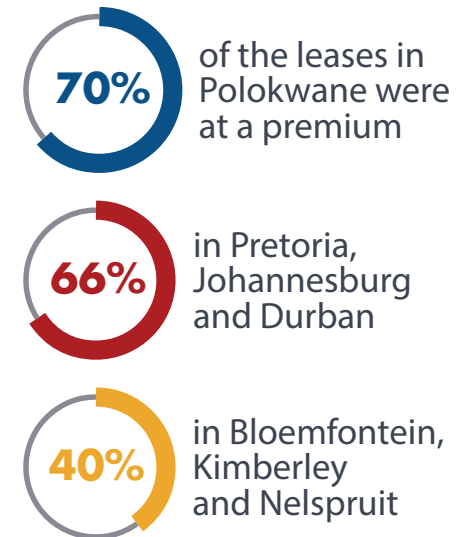
- The DPW has limited capacity to negotiate with highly specialised property management professionals.
- The poor quality and limited coverage of the market data used by the DPW reduces negotiators' effectiveness.
- The DPW's database is inadequate for managing lease agreements properly.

PERFORMANCE

THE PER REVIEWED A SAMPLE OF NEARLY **1000 LEASES** MANAGED BY THE DPW ON BEHALF OF OTHER NATIONAL DEPARTMENTS IN 2013/14

THE LEASES WERE WORTH **±R1.9BILLION** IN 2013/14
↑ A FIGURE EXPECTED TO RISE TO **R2.4BILLION** IN 2016/17

THE STUDY'S MAIN FINDING IS THAT **±60%** OF THE LEASES WERE AT ABOVE-MARKET RENTS WITH AN AVERAGE PREMIUM OF **45%**



COSTING MODEL

SAVINGS OF BETWEEN **R20MILLION & R2.2BILLION** COULD BE REALISED OVER A THREE-YEAR PERIOD IF CHANGES ARE DONE TO THE LEASES

IF CHANGES COULD BE EFFECTED IMMEDIATELY **REDUCTIONS RANGING FROM R1.6BILLION & R2.3BILLION** MIGHT BE ACHIEVED

IF CHANGES TO LEASES COULD ONLY BE EFFECTED AT THE EXPIRY OF THE EXISTING ONES THE RANGE OF POTENTIAL SAVINGS OVER 3 YEARS WOULD BE BETWEEN **R20MILLION & R360MILLION** OF TOTAL ANTICIPATED COSTS **0.3% TO 6%**

FINDINGS

Government spends considerable sums on rented accommodation but does not appear to use its market position effectively to secure maximum value for money in lease agreements.

Reducing the perceived risks of public sector tenants would also strengthen government's hand in renegotiating leases.