

**MIKLÓS ZRÍNYI NATIONAL DEFENCE UNIVERSITY**

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**Analysis of real estate management practice in the  
Hungarian Home Defence Forces and methods of  
increasing efficiency in the modern estate market  
environment**

**PhD thesis**

**AUTHOR'S REVIEWER**

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## **Formulation of scientific problem**

Both the Hungarian estate market and the attitude of its players have been dramatically changed during the last one and half decade.

According to my hypothesis the real estate business of the Hungarian Ministry of Defence (HMoD) - with special highlight - is part of the general estate market. Its rules are concern to the military used estate as well.

After the change of political system and joining NATO meaning of many terms has obtained different meaning in both military and civilian life.

I found very important in my research to identify and formulate terms “real estate management” and its application “defence real estate management” and to find its right place and content in system of military tasks.

It would be false to state that there is no real estate management in the HMoD at all, since it was obliged to produce income selling out surplus estate in the researched period and this service first started adaptation to the new challenges of the market, like outhouse operation of estate. But there is a question about the efficiency of estate management and utilization of surplus estate. Has the principal change of view taken place in this area? Is it possible to measure and how to increase efficiency of estate management?

How can the political and military decisions be followed and conducted in infrastructure and guaranteed best interests of both the military and the owner (state)?

What methods can be applied for use and disposal of estate in market economy?

In the light of raised problems I have found reasonable to research the topic and to give scientific analysis of new challenges and formulating practice.

## **Aim of this research**

- a. To assess definition of real estate management and to create it for defence estate.
- b. To identify and define the role and place of estate management in the military and administration system of the HMoD. To recommend HMoD what role should be considered desirable in estate market.
- c. To prove the thesis -highlighting its specifics- that management of defence estate is a part of the general estate market.
- d. To analyse estate management practice in the HMoD and recommend possible methods for increasing efficiencies of it.
- e. To recommend optimum structure of organization responsible for military estate management, that is able to guarantee required quality of both military accommodation service and management of state property.

While achieving the aims of research beside the usefulness for national economy I count to be important criteria the ability to provide facilities for military accommodation and to guarantee fulfilment of host nation support obligations against coalition forces.

### **Applied methods of research**

The applied methods of research were determined by the object of research, since the "what" had more import role than the "how". After the object of research I highlighted the interdisciplinary character of the chosen topic. The real estate management is an applied science; it has no exact place in the taxonomy of sciences. It might be classified as technical or arts science. According to military approach it is somewhere between military technical sciences and military sciences heavily influenced by technical, economy and legal sciences.

The applied research is the most appropriate to this topic. While adapting theory and procedures of other fields in my research I have looked for possible use of applicable results of above listed sciences and looked for answer to the questions I had put.

I have described efficiency of military estate management in the chosen research period by analysing empiric data. For development of evaluation method I have analysed the rate of estate exploitation, the utilization practice, the legal background and the HMoD utilization practice through a case study.

Based on defence political principles and evaluation method I have worked out, the identification of HMoD's long term infrastructural requirements and possible methods of economical management became predictable.

As a result of analysis and synthesis I have given practical recommendations to HMoD how to increase efficiency of estate management in both military and financial field.

### **Description of research by chapters**

**In chapter one** I have given an overview on term, definition and specifics of estate management. I have examined and analysed the object of management, the real estate itself and given answer to the question: what definition is more applicable to the modern or at least the changing and developing Hungarian market environment: the classic or the new one?

I have introduced the place and specifics of military estate among all national estate, especially as a special form of corporate estate. I have analysed the market environment and its specifics, since the market and its players are as important as the object of management, the real estate.

According to the aim of this research I have assessed definitions of estate management and created one for defence estate management. I have given recommendations for possible methods of measuring its efficiency. Created and introduced a new term of "security yield".

Having theoretical base for defence estate management I firstly have identified and stated the functional areas of it and what organizations are do or should do this management activity. I have identified the proper place and role of estate management in both military and administrative structure of HMoD and recommended what role they should fulfil in the estate market.

**In chapter two** my goal was to explore specifics of HMoD estate, first of all to introduce the legal, principal organizational and economic frames and to analyse the estate portfolio. I have proved my thesis that the management of defence estate is a part of the general estate market. It can be handled by the general rules and methods, with underlining its specifics, like special management goal, presence of security yield, special purpose of the estate, special legal environment.

The main specifics of HMoD estate are the property handing right that is practically a limited free holding right depending on Treasure and Ministry of Finance (MoF). These estates are titled as “State Territory I.” in the national land registry system. They would have market price and could be sold only after cancellation of title “State Territory I.” and assigning a real cultivation category to the land.

The principal structure of estate management organizations must follow the general rules, so there must be identified three different sides: strategic management, operational management and occupier side, which dictate the requirements for defence estate. Any harm to this three sided structure may lead to economical and administrative problems. That’s why I have suggested HMoD to create, keep and run organizations built this way. The role of HMoD in the estate market should shadow the three sided organization structure. The occupier troops and organizations act as “tenants”, the strategic management side in HMoD acts as “owner” and “law maker” while the operation management side acts as “professional consultant” between the owner and implementing companies. This role can be outsourced and controlled by the owner.

The HMoD has no real estate management strategy. It is necessary to develop one in order to support decisions on portfolio and investment decisions, to establish organizational and working frames of operational management and to regulate occupation and use of estate.

As a result of portfolio analysis it become known, that the land-built facilities ratio by accounting value was 50-50 %. The average age of built facilities was 35-40 years. More than 2/3 of them are 15-50 years old, so they are needed to be renovated. In many cases they technical conditions are less than 50 %. In market environment it is worth to consider demolishing those buildings and develop a new one. This is especially true for surplus estate that is in extremely bad condition.

The proper identification of task and purpose of defence estate valuation causes many problems in practice. I have given guidance to values in this work how to approach this task.

**In the third chapter** my goal was to identify possible methods to increase efficiency of real estate management in the HMoD. I have analyzed estate demand in HMoD for the future years and estimated amount of surplus estate.

The analysis of estate management in this chapter I have limited to its part, to utilisation. I have analysed the practice in utilisation of surplus military estate in period between 1990 and 1998 and compared it to the foreign practice as well. In order to prove my findings I have conducted a case study.

Based on my findings I have summarised my answers (recommendations) to the research's questions: how to increase efficiency of real estate management in the HMoD and what should be done for achieving that.

- To work out a new system of regulations for military real estate management based on scientific achievements and valid in market economy environment. HMoD is to be able to identify aim of military estate management, its place and functional areas, methods for evaluation and measurements of efficiency.
- To work out the missing MoD estate management strategy that makes closer and partly integrated military estate management to the general estate market. The strategy must be able to guide forming the portfolio and investment decisions and to answer basic questions on operative management, occupation and use.
- To form and operate an organization structure that applies to the three sided logical operation. HMoD is to identify role of players and rules of their engagement in the market. To be considered outsourcing the whole operation management.
- To identify scope of surplus estate in parallel with creating a portfolio of needed military estate. To accommodate military organizations and units in concentrated way to estate operated cheap and efficiently. It is necessary to know the real operational costs and development needs of each estate.
- All surplus estate is to be prepared for the market continuously. This work will take at least 5-10 years.
- The time needs for disposal is to be kept in a realistic time frame. HMoD is to establish and keep visible and predictable legal framework of estate disposal in middle term.
- To increase efficiency of sort term utilisation (rent). To guarantee HMoD keeping and using rental income after charges by law. HMoD is to establish budgetary feasibility of paying owner's charges from incoming rental fee and making financial balance per estate. To establish a workable and materially interested organization (probably outsourced) for conducting of whole process.
- To make legal framework of selling surplus estate less complicated for higher efficiencies of the process, for quicker, more flexible and predictable the decision making process. To make legal regulations of rural land utilization more clear. To make the estate registration procedure be able to support the final intent both legally and practically. To establish an estate utilization and development group of qualified experts. HMoD is to hire experts that familiar with military estate and specifics of governmental procedures for valuation and selling surplus estate. It is essential to work out a communication and marketing plan.
- To work out legal background for middle and long term joint developments and utilizations, like PPP or use of state property for business. To work out and run two or three side projects on the base of common advantages (HMoD, HMoD owned company – local government – developer).

- To further develop the structure and widen the type of data in the HMoD estate registry for better preparation of decisions. To integrate different types of databases, like land registry, facility management, budgetary and users' databases.
- To provide a qualified, but independent from the estate managers organization for identification and formulation of user's demand and securing the user's value of estate operations and developments. It must be a part of logistics.
- To handle appearance of contracted and disappearance of conscripted solders as a serious change in the estate demand to be developed in details. To plan and prepare the middle and long term estate development project for barracks in the lights of changed demands and needs before making any decision on development or reconstruction of any building in barracks (Barrack Infrastructural Development Plan). This helps to minimise the number of developments/reconstructions that seems useful today but may became useless in the future.
- To extend the scope of the contract bounded to operate estate toward facility management. HMoD is to introduce a new approach to the estate operation (facility management), to increase risk of contractors and make them interested to prefinance and complete cost saving developments/reconstructions.
- To increase resources for housing by increasing house privatization income (it means also decreasing house operating costs), increasing support of private solutions, involving private resources (PPP), decreasing number of second time demands that appears again.

**In the fourth chapter** I have summarised and formulated my recommendations that can lead to increase efficiencies of HMoD real estate management. **Summary of conclusions:**

1. My research proves the thesis that management of defence estate is a part of general estate market. It can be handled by the general rules and methods, while underlining its specifics, like special management goal, presence of security yield, special purpose of estate, special legal environment. The efficiency of military estate management can be measured by created, used or saved financial resources and by the social and security yield.

The HMoD estate management is very similar to the Hungarian non military corporate estate management. The play in the estate market starts not with decision to sell any property but earlier. Each phase of estate management like procurement, development, exploitation and disposal closely related to the market companies. This relation will become closer in the near future. This process leads to the integration of military estate management to the general estate management and development market. It requires employing well prepared experts by state that are understand the market and able to communicate with newly formed experts in the Hungarian market.

2. My research and analysis of the HMoD estate portfolio proves the statement that armed forces are one of the biggest estate owners/handlers in each country. The new security policy transforms armed forces from main estate occupiers also to estate sellers.

The research shows that the HMoD possess significantly more estate than it needs. Surplus military estate will be offered to the market utilization continuously in the

following decade. They will be offered for sale/joint development directly or through local governments.

3. A military estate management strategy would help to integrate utilization of surplus military estate with local and regional planning and development process. The strategy merges long term plans with a concept of use and utilization and their control. It would be able to handle changes and form and optimize a flexible portfolio and to promote further identification of surplus estate and increase joint use of estate. It means concentration on small units to multifunctional bases, where operation of facilities is more cost-effective.

My research supports the assumption that the consolidation of structure and dislocation of HMoD will take more than half a decade. Finalization of estate portfolio can not be concluded before.

4. Analyse of utilization practice proves my statement, that the estate market is not interested in military estate utilization while there are similar development potential is available, because the selling process too long, complicated, uncertain and bureaucratic.

The current or previous use of estate is irrelevant for the potential occupiers or developers. Lack of green fields but presence of infrastructure and qualified labour can make former military estate interesting for developers.

5. The utilization practice of HMoD prefers the quick fix solutions. Selling any estate it is preferred to get the highest price as quick as possible. Since the object of business is a state property the highest common wealth should be achieved, that might be different from the highest price. This question is very closely related to the local and regional economic development and unemployment policy, what is a government's responsibility. In some cases it would be more reasonable for government to provide subsidies for decontamination and redevelopment of estate instead of obligations to get income by selling the property. This kind of solution would recreate lost working places in region. Unfortunately this thinking is not recognized in the Hungarian practice yet, although the sell out solution is more positive decision than to simply abandon or keep them.

Close cooperation of HMoD and local governments is essential in order to find the optimum way to develop surplus estate in interest of the society and both organizations.

### **New scientific achievements**

I have assessed as a new scientific result of current research as follows:

1. I have assessed term and definition of real estate management and extended it for defence estate. Created and introduced definition "security yield" and "defence estate management".
2. I have firstly identified and defined role and place of estate management in both military and administration system of the HMoD, defined functional areas of infrastructure management organization, which is responsible for estate management and recommended HMoD its desirable role in estate market.

3. I have proved the thesis that management of defence estate is a part of general estate market, taking into account its specifics. There is nothing special to handle it separately.
4. I have firstly analysed estate management practice in the HMoD and recommended possible methods for increasing efficiencies of it.
5. I have recommended optimum structure for organization that is responsible for military estate management and able to guarantee required quality of both military accommodation service and efficient management of state property.

### **Recommendations and suggestions**

I have recommended HMoD to consider and implement the following tasks in order to enhance efficiency of its estate management practice:

1. To update existing and develop new documents and regulations adapting latest theoretical and empirical results in field of estate management.
2. To establish and stabilize work of the three sided organization structure I have suggested. It is essential to regulate areas of responsibility, competence and coordination among them.
3. To establish planning benchmarks based on results and conclusions of Strategic Defence Review and develop and publish a HMoD Estate Management Strategy. To find legal and procedural solutions to involve HMoD or other appropriate state organization to a joint development with local governments, developers and investors. HMoD is to organize conferences on topic, possibilities and procedure.
4. To develop a HMoD Estate Management Plan based on HMoD Estate Management Strategy. HMoD is to select and provide categorization of estate as for development and as for permanent or temporarily utilization. The plan must be built on different norms to be created based on detailed local assessment.
5. The HMoD is not responsible and not a suitable organization to utilise, especially to sell properties. It is necessary to work out a legal and practicable solution for outsourcing the estate utilization process, or may be the whole operational management of real estate. This can be even a HMoD owned company

Primarily use of present work is that I have tried to establish contact between the defence estate sector to the general Hungarian estate market, to close them and made suggestions how to act HMoD in future.

This work contributes to the establishment of common language between the military estate people and the newly formed estate expert's community. This would be an asset in future for developing common value. Scientific results of this research help experts to be able to account for taxpayers about public resources used by military.



Results of this research may help HMoD to formulate its estate management strategy and to establish proper organization structure that is able to fulfil both military and administration requirements.

I have suggested National Defence University to use my dissertation in education process. It can also serve as a useful base for further researches of military estate management or infrastructure related topics.

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