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Title of Paper: **<u>Corporate Real Estate Asset Management, just an extension of facilities management or are specific skills and competencies required ?</u>**

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Abstract: This paper will investigate the rapidly changing role of corporate real estate asset management. In carrying out this, an overview of the following current issues in Corporate Real Estate Management (CCREM) will be covered: CREM skill and competencies and the decision making processes for CREM.

Corporate real estate management practices will also be studied having regards to strategic CREM in comparison to property management, facilities management, and asset management roles and functions.

The outsourcing of CREM will be investigated in relation to the concept of the value adding process. Many corporate functions have been outsourced adding to the bottom line profit, can this be done with CREM ?

The main question to arise is, 'do firms make the most of their corporate real estate, both in the asset value sense and the management function sense ?'

1.0 INTRODUCTION.

The areas of corporate real estate and corporate real estate management have been fairly widely discussed over the past decade. Even so it is still an emerging, evolving and ever changing property area.
What corporate real estate (CRE) and corporate real estate management (CREM) are have been well defined, but where they sit in relation to company structure and what skills and competencies are required to manage them is still in debate.
The role of corporate real estate in a corporation is crucial, but has often been pushed into the background by the more high profile units, such as marketing, finance and information technology. No corporation can function without property and it will definitely appear somewhere on the balance sheet. (But at what figure?).
The corporate real estate management units' place in the corporation structure becomes important when linked to the long term strategic planning of the corporation. This together with the functions and practices of the CRE unit must be defined to add value to the corporations' bottom line. To help add this value, outsourcing was and to some extent still is seen as a good cost saving mechanism. Today the reasons for outsourcing have changed somewhat. With the emergence and recognition of specific CRE units, the skills and competencies required of CRE unit managers and members have changed.
Are CRE unit managers and members just glorified property and facility managers?
Do these CRE people need skills and competencies at an upper management level to function in the corporate environment?
In response to the above this paper will discuss these issues, placing the CRE unit in the corporation structure, detail the functions and finally investigate the skills and competencies of CRE unit members.

2.0 Corporate Real Estate Management Defined.

Corporate real estate management was defined by Zeckhauser & Silverman (1983) as, the management of the real estate assets and related personnel of those organisations whose primary area of business is other than real estate.
Kooymans (2000) described corporate real estate as a term that is generally used in a broad sense to refer to real estate owned by a corporation, whether it is for investment or not. This included freehold and leasehold real estate that is used by an organisation for its own productive purposes, whether or not the corporation also considers the same real estate to be an investment.
Kenley et al., 2000 described it as management of real estate by an organisation which incidentally holds, owns or leases real estate to support its corporate mission (from Rondeau 1992:1, Bon et al. 1998:209, Brown et al., 1993).
The statement is also made by Kenley et al., that,
'The primary value to the organisation is not the investment value of the property but is contribution to the way it does business'.
The definition of corporate real estate does not include corporations or organisations that hold real estate as the main portion or part of their investment strategy. That is Property Trusts (Real Estate Investment Trusts), Superannuation Funds (Pension funds). For the purposes of this paper it does not include public real estate.
Adendorf & Nkado (1996), go further in classifying corporate real estate into 6 sub-groups These, perhaps give a clearer picture of what corporations include on the balance sheet and refer to as part of their real estate asset holdings.
'Buildings: the cost of buildings included in the company's property plant and equipment account.
Construction in Progress: The capitalised amount of plant and equipment and construction that has not been completed.
Land: The cost of land used in the production of revenue.
Leases: The capitalised value of leases and leasehold improvements included in property plant and equipment.
Natural Resources: The cost of irreplaceable natural resources including mining properties, oil fields and timber lands.
Other: Additional components of property, plant and equipment that cannot be placed in any of the foregoing categories.

They (Adendorf & Nkado) go on to comment that:
'Most corporations list real estate holdings in the property, plant and equipment part of the asset section of the corporation balance sheets. They are accounted for at their historical acquisition and financing costs, a valuation that is not a true reflection of their current value'
Preliminary research indicates that the balance sheets vary from country to country with differing approaches and standards for accounting practice that makes the role of the CREM unit even more important.
Although comments have been made by those who have been surveyed, such as, 'we are not in the real estate business', it becomes apparent that no firm can function without real estate, either leased or owned. It is how the real estate is used and the management of it, to the best advantage of the corporation that is of prime importance.

3.0 The Role of Corporate Real Estate.

The percentages of corporate real estate that comprise an organisations assets seem to vary greatly. Again, as early as 1983, Zeckhauser & Silverman identified that between 25% and 41% of corporate assets were real estate. (North America). In 1992, Flegel estimated that between 20% & 35% of all US corporations assets were real estate.
In Britain, in 1989, a survey of 800 corporations concluded that 30% of corporate assets were real estate (Adendorf & Nkado, 1996 p.69).
In 1991, indications in Australia were that of the top 500 companies, 15% of their assets were in real estate.
Schaefers, from Germany in 1999, stated that early in the 1990's real estate represented between 10% & 40% of total assets of corporations.
Veal (1989) also noted that occupancy costs of corporate real estate space represented some 10% to 20% of operating expenses or 41% to 50% of corporate net operating income.
Schaefers (1999) noted that in Germany occupancy costs can range between 3% & 10% of revenue, or between 5% to 10% of total costs.
The most recent evidence from Australia by Kenley et al (2000, p.20) stated that,
'On average Australian organisations own a higher proportion of their real estate (65%) than European and North American organisations (49%). Therefore, in Australia property costs make a higher proportion of organisations' annual operating costs. However the share of the property in total company assets is virtually identical with Europe and North America. This suggests that European and North American organisations are managing their CRE more efficiently and with greater profit than Australian organisations, and is further evidence that there is less use of CRE tools in Australia.
The average time horizon for long term planning in Australia (4.9 years) is very similar to Europe and North America (4.6 years).'

What does all of the beforementioned really tell us? It simply means that real estate, like it or not, is an integral part of any corporations' business and sometimes a large part of it. The most important fact to emerge is that the real estate assets must be managed properly and fit in with the overall corporation strategy. Ultimately, the effectiveness of the corporate real estate function relies upon connecting real property transactions to the overall corporate strategy aided by an explicit corporate real estate strategy. (Nourse & Roulac, 1993).
To undertake this, the Corporate Real Estate unit (or CRE unit) becomes an essential part of any corporation.

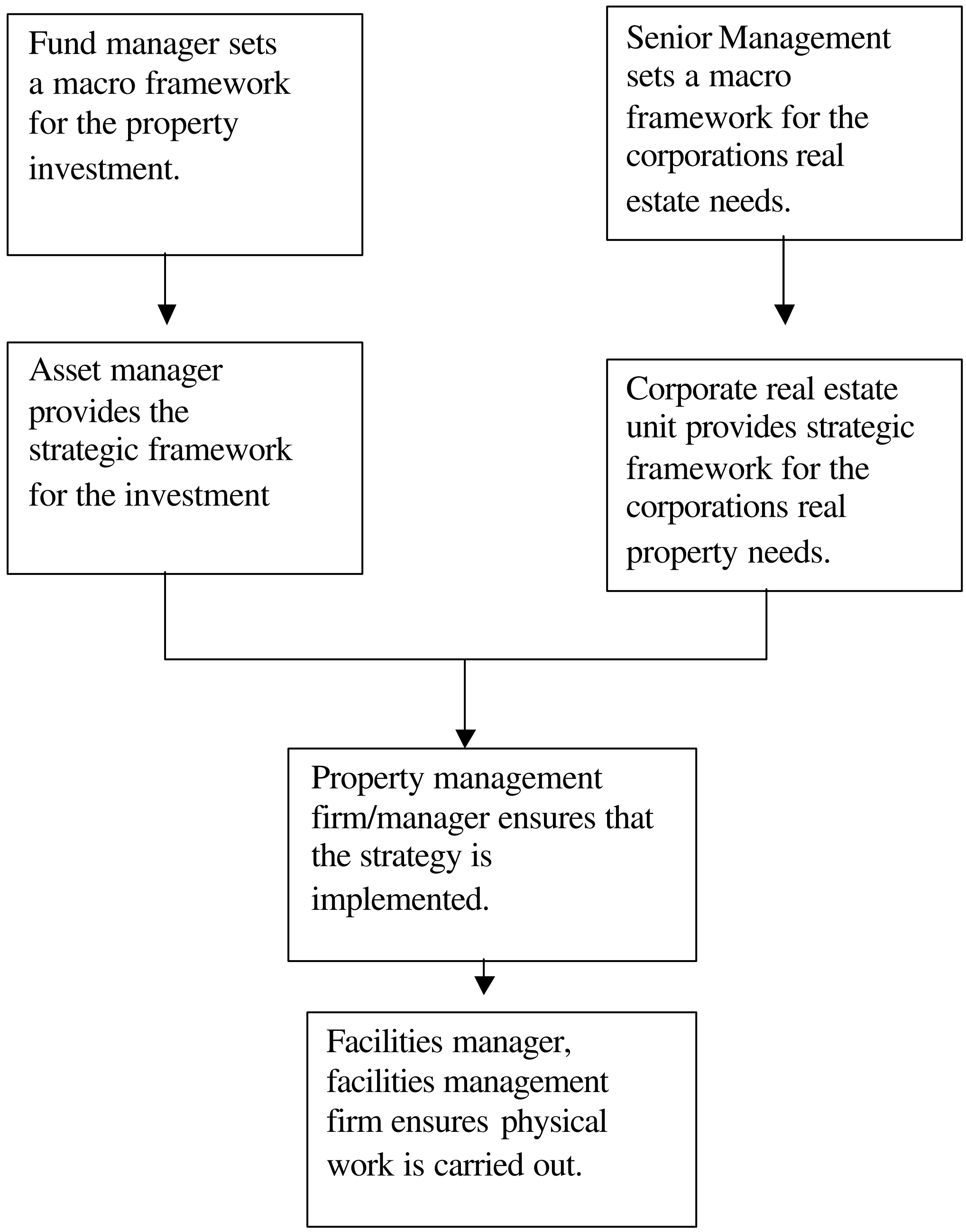
4.0 Corporate Real Estate Management Unit.

Many national, international and multi-national corporations have set up specific CREM units in the last decade. Where these units are placed in the management structure varies, but an overall picture can be gained through the following diagram. This diagram is based on those put forward by Bentley (2000, p.9) and Kenley et al., (2000, p.8).

Diagram 1.

Property/Real Estate Investment Trusts. Superannuation and Pension Funds.

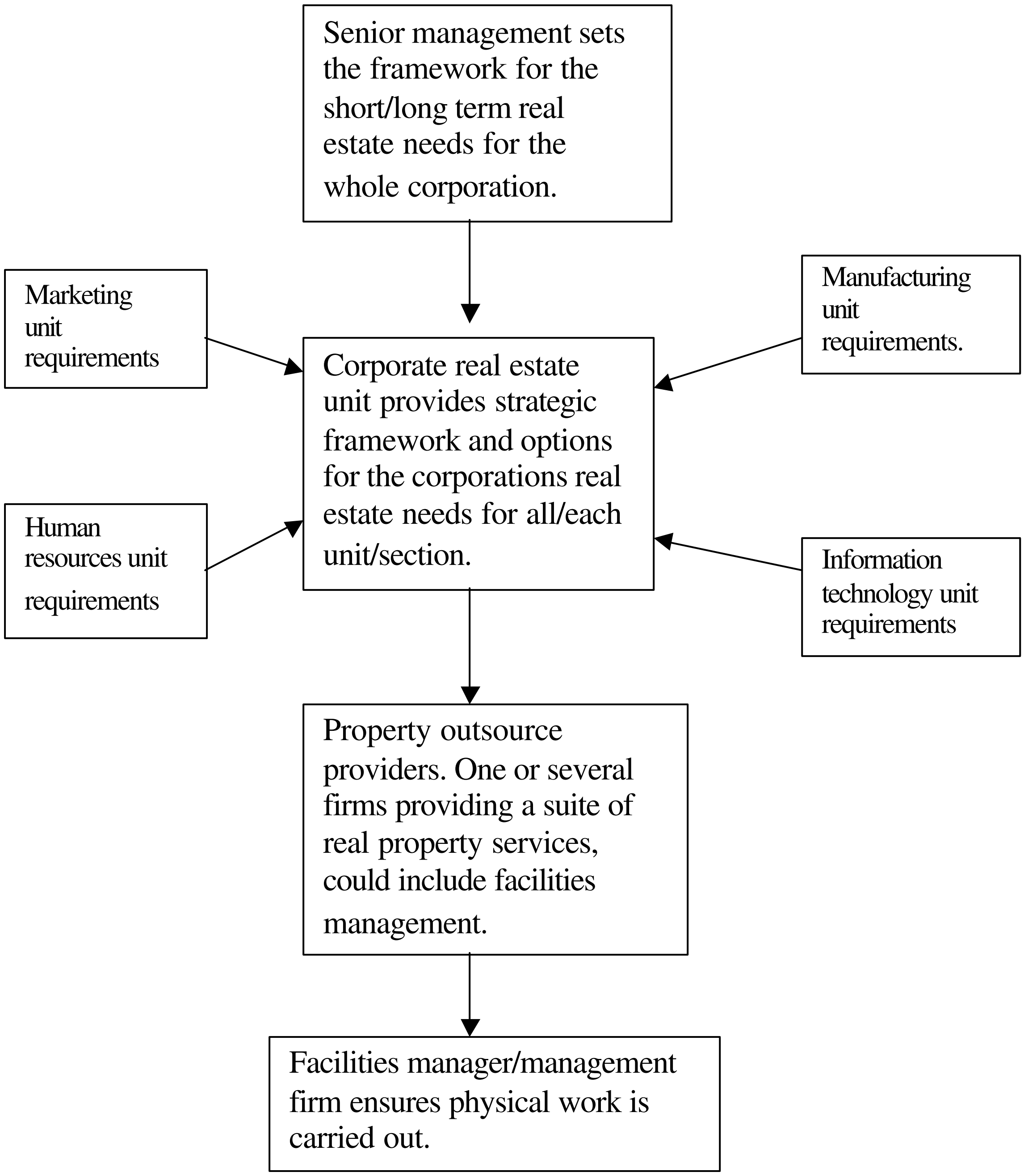
Corporate Real Estate Asset Management.



Before discussing the functions and practices of the CRE unit, it might be helpful to further explore its place in the corporation structure, on a more detailed basis.

Diagram 2.

Example.



The preceding diagram centralises the CRE unit to show its overall importance in the corporations' operations. The effectiveness of the corporate real estate units' function relies upon connecting real property transactions in each of the units. The flow or information and planning (real estate) needs is crucial. This requires more effectively aligning the CRE function with corporate objectives and the goals of business units during a period of rapidly changing business practices. (Manning & Roulac, 1996).
It becomes quite apparent that the corporate real estate strategy of a large corporation is ever changing and therefore the functions and practices of the CRE unit must be able to adapt for success. The long term planning periods mentioned earlier, do not leave a large horizon for adjusting real estate strategies.

5.0 Function of the CRE Unit.

Many papers have included sections on the functions of the CRE unit. Papers by McKellar (1998), Manning, Rodriguez & Ghosh (1999), Cam, Black & Rabianski (1999), Schaefers (1999) and Gibson & Lizieria (1999) detail many of these functions. Viewing these function gives us the first indication of the competencies needed by members of the CRE unit.

- Repositioning for alternate use.
- Selling (Disposition/Disposal).
- Analysing site/locations.
- Reporting of real estate information (current markets).
- Joint venturing.
- Swapping.
- Securitisation.
- Sale & leaseback.
- Revenue generation.
- Acquisition.
- Construction.
- Utilisation analysis.
- Space allocation.
- Property management.
- Design.

(See also annexure 1: Kenley et a. 2000).

It becomes obvious from the above list that some of the functions should not be carried out by the CRE unit, but could be outsourced, as they fall in that operational level of management.
The members of the CRE unit must have the skills to understand reports on any of the above matters in relation to the strategic goals/framework of the corporation.

How the CRE unit is set up depends upon the company structure, but Krumm (1999), suggested, after a preliminary study, that two possible scenarios existed.
Firstly, the centralised scenario. There is one CRE unit responsible for all real estate matters (country wide/world wide).
Secondly, geographically centered CRE units. Each area (state, region, country) has a CRE unit. They may or may not report back to the centralised CRE unit.
Krumm went on to state that the second scenario had many advantages in that 'the local, state and country laws differed greatly and local knowledge of these matters and the prevailing market was essential to add value to the corporations' bottom line'.

Kenley et al (2000, p.9) set up similar scenarios on a centralised basis, viz.,

- Centralised-global: the firm is organised as global functional business units (global in terms of world geography as well as global in the sense of being organisation wide).
- Centralised-geographic spread: the CRE unit is centralised in an organisation that has geographically based units as well as business functional units.

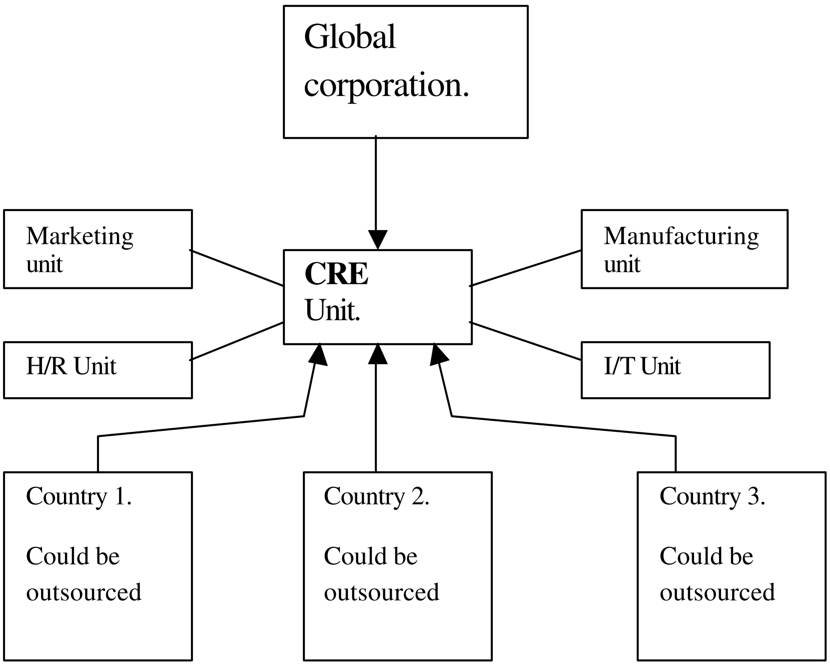
- Separate property company.

Examples of possible scenarios follow. (based on Kenley et al 2000).

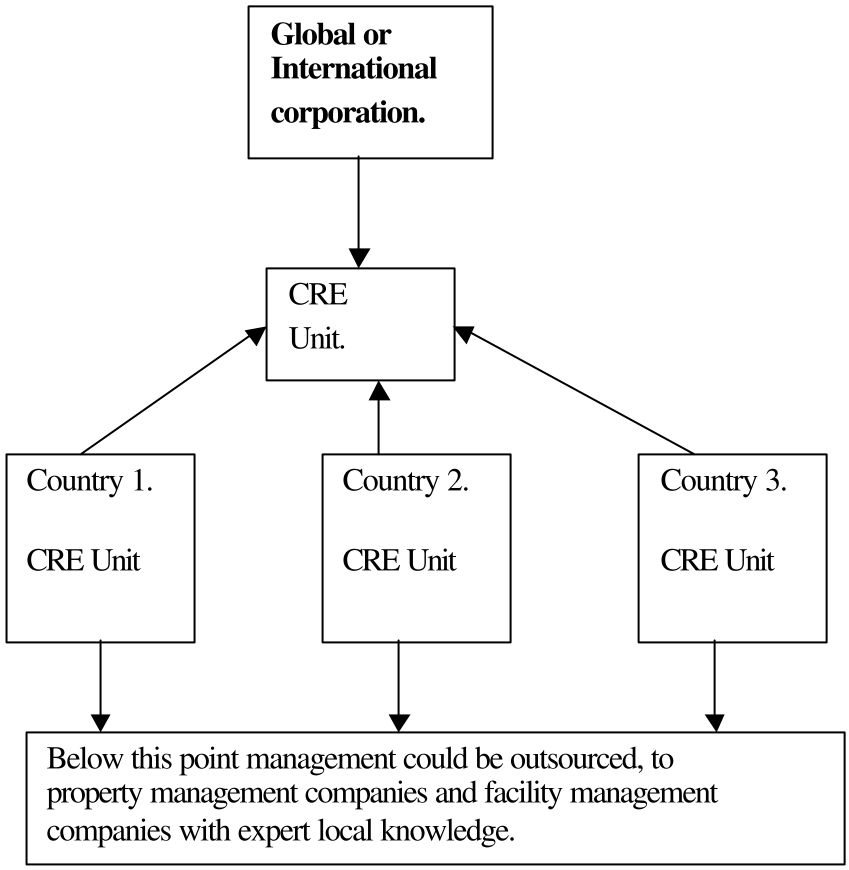
Diagram 3. Examples of management scenarios.

(Partly based on Kenley et al, 2000 p.10).

Scenario 1.



Scenario 2.



The scenarios put forward become more important when considering outsourcing.
Even back in 1990, Raney (p.15) stated that it is important internationally to have local real estate talent familiar with local laws, markets and business operations, supported by the greater expertise and information capabilities of a centralised CRE unit.
This may indicate that it is better to have small regional CRE units, with detailed local knowledge and rely on outsourcing for the majority of the CRE day to day functions.

6.0 Outsourcing of CRE Practices.

Outsourcing has been stated by Kooymans (2000) to be (for the purposes of his survey),
'the partial or total contracting out of a business task, function or process to an external service provider. It involves replacing the internal provision of services with the external provision of those services and includes out-tasking, strategic alliances and partnership arrangements. It can encompass all applications - from the provision of a single task, to the total supply of the infrastructure necessary to operate a business'.
This definition gives a good description of the concept of outsourcing.

Since the early to mid 1990's more corporations have been outsourcing their real estate requirements and the providers of these services are being forced to increase their staff size.
As early as 1993 corporate executives realised that as real estate showed up as a number-two or a number-three line item cost, they started looking for ways to reduce the real estate cost (Walton, 1993, p.26).

This process, or so it was thought, of just reducing costs, also allowed more focus on the core business. The concept of outsourcing was also referred to by many, as, right-sizing, out-tasking, downsizing, re-engineering, and delayering.
This did not mean closing the corporate real estate unit, it meant that real estate staff had to remain to carry out the planning strategy and overseeing the process, rather than be involved in implementing of the day to day activities.
These day to day tasks would be outsourced. The survey by Kimbler & Rutherford, (1993), found that corporations are outsourcing more of their real estate requirements and that the providers are having to increase their staff size to meet the increased demand for a variety of services.
Manning & Roulac (1996, p.383) state that most corporate real estate executives have been overwhelmed with dynamically changing service delivery arrangements (outsourcing) and concern for their survival.
In 1997, Manning, Ridriguez & Roulac (p.2) indicate that the degree of outsourcing, depends on the company's industry, size, locations and business strategy. They felt it was generally true that property specific real estate services (brokerage, construction and property management), could be more efficiently performed through outsourcing vendors, but it was also true that strategic company-wide real estate process management responsibilities can be better performed by in-house executives.
This re-enforces the model of the centralised CRE unit and the management models exhibited earlier.
Again the question arises of what can and should be outsourced?
McKellar (1998, p.35) also emphasises that most organisations today have substantially reduced their corporate real estate operations and opted for a combination of headquarters (centralised) control and outsourcing.
A survey carried out by McDonagh & Hayward and reported on in 2000 (p.9), indicated that the extent of outsourcing was not dissimilar to figures revealed earlier by Kimbler and Rutherford in 1993. For 43% of organisations outsourcing was now more common than 5 year ago, whereas 7% were outsorcing less, leaving 50% with an unchanged level.
One area that is constantly commented upon is that of the quality of services (hence staff) offered by the outsource providers. Many respondents (corporations) have indicated through various surveys that they were now more concerned with the quality of services than the price. In the early 1990's cost reduction and hence the cost of the service provider seemed to be the driving force behind outsourcing of corporate real estate functions. By the mid 1990's the emphasis shifted to quality service and the building of long term relationships with the service (outsource) providers. The concept of adding value to the corporate real estate asset also became more of a focus.
Walton (1993, p.27) stated that in an interview with Brophy (from USG Properties), they were more interested in adding value to the real estate function as saving money in the short term on outsourcing.
Whether the corporation or CRE unit likes it or not outsourcing is here to stay.
It appears that companies are now looking toward building long term relationships with quality service providers.
To build the long term relationships the corporate real estate goals and objectives (and strategies) must be known in detail by the CRE unit, so that the appropriate strategies can be coordinated (Addendorf & Nkado, 1996 p.71).
Kimbler & Rutherford (1993, p.257) found that corporations prefer to work with providers they know, that the quality of the employee who will be assigned to the project is important and that long term relationships become important to both the service providers and the corporate managers.
McDonagh & Hayward (2000, p.11) found that there is a clear indication that access to skills, technology and best practice not available in the organisation are the main outsourcing reasons for most organisations and that, contrary to popular belief, cost savings are now relatively unimportant.

7.0 Corporate Real Estate Managers Skills and Competencies.

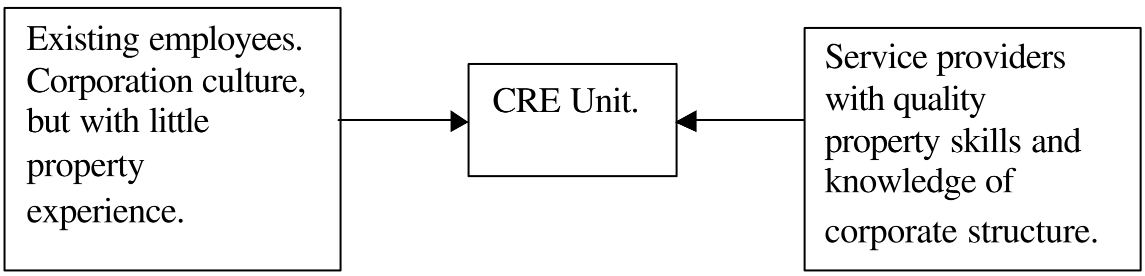
Kooymans (2000, p.12) states 'that, some outsource service provider executives could see no difference between corporate real estate management and property management'.
What does become obvious is that outsourcing is here to stay and the skills required to be an outsource provider have changed and the skills to be in the CRE unit are definitely different. (more advanced).
Each corporation will have different goals, objectives and strategies but the CRE unit will require more sophisticated outsource service providers.

The availability of quality staff with the required skills may be a problem for these service providers. For many years (decades), property companies (real estate service providers) have regarded the property management section (and that is how many service provider companies view their employees giving CRE unit support) as a low paid stepping stone department, in the real estate profession.
To help determine what skills and competencies are required by CRE unit management staff it is important that the required practices are identified. Kenley et al. (2000, p.31)
list some of the practices as follows:

- Strategic management of CRE
- Organisation of CRE function
- CRE holding practices
- CRE financing practices
- Site selection practices
- Alternatives workplace practices
- Use of IT in CRE management
- Measuring CRE performances

As early as 1993 (Walton quoting Wynn from IBM, p.26), it was noted that there was a high turnover in real estate functions. These were not prime activities for which these large corporations were known and when you applied for a job at IBM, you did not want to operate buildings. Employees in non-core business functions want to move on. This way of thinking in many companies has probably not changed a great deal over the last 8 years.
An interesting comment was made by Kenley et al. (2000, p.28), that many interviewees expressed, that, historically people were assigned to property roles because they might be detrimental to company performance in other portfolios. People were assigned there (to property roles), because it was felt that they could do the least amount of damage in such a role.
This type of thinking, again, is still probably prevalent in many companies.
The CRE unit needs people who can add value to the corporation, that is, have a definite effect on the bottom line. The questions are where do these people come from and what attributes do they need?
It is quite possible that CRE unit members and managers will come from two sources.
Firstly from within the corporation and secondly from outside firms. (More than likely service provider firms).

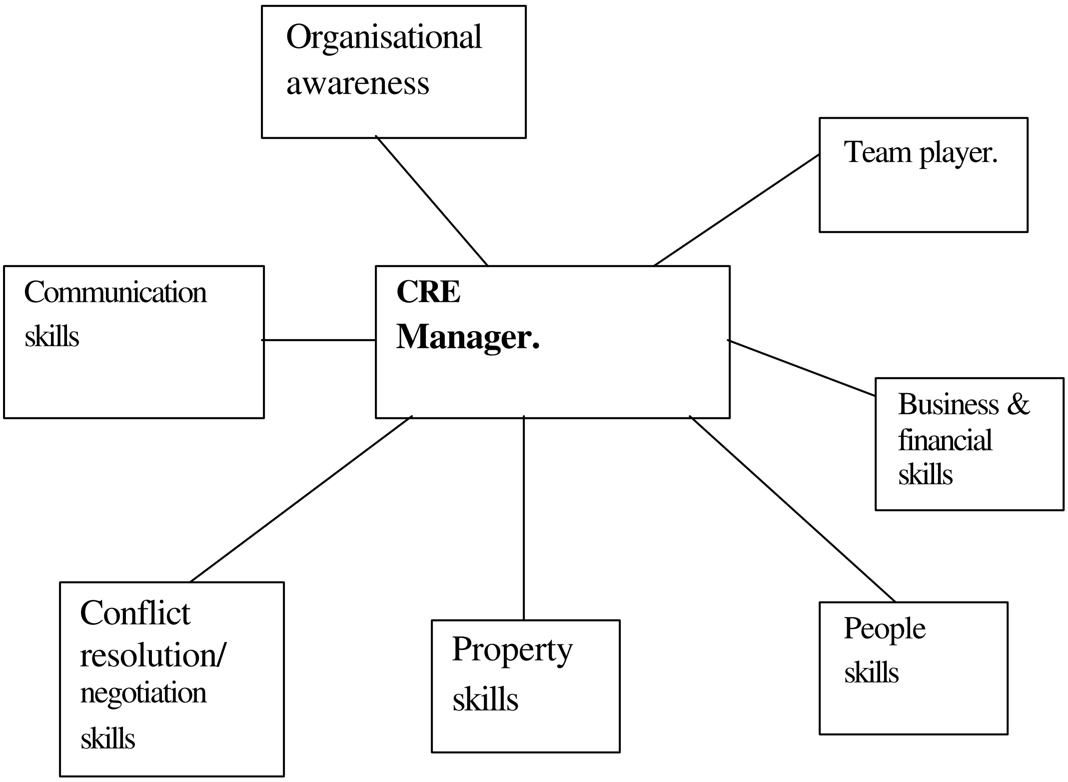
Diagram 4.



Kenley et al. (2000, p28) also state that 'a thorough working knowledge of property management (valuation, project management, leasing, zoning, legislation etc), and the property market is imperative.
These property skills will only come from those people who have the right training and experience. This really starts to point toward the service providers as being the source for future CRE staff. This also opens a career path for those in the property industry. In today's job market 'head hunting' is common and if the rewards are there, both in job satisfaction and in monetary terms, this movement will definitely occur.
It may not be that the corporation will take someone from their own service provider that is working with them, it will mean that there is a bigger, better pool of qualified people to draw from.

At this upper end of corporate management many firms may feel the need to have people with MBA or other Masters qualifications, so that they know they will have the necessary theoretical skills as well the practical (people) skills. This is especially true of the CRE unit.
Kenley et al (2000, p.29) set up a diagramatic representation of the CRE managers required skill.

Diagram 5.



Source: Unleashing Corporate Real Estate. Getting Ahead of the Pack. Property Council of Australia & the Department of Infrastructure, 2000.

This diagram may give a good indication as to the areas in which a CRE unit manager would need detailed knowledge. The question does arise, that if the CRE manager is expected to have an MBA qualification, what MBA course offers a property subject as a core or elective?
Existing undergraduate and postgraduate courses in property equip their graduates with the necessary skills to enter the corporate real estate area, but most MBA programs seem to view the fact that corporations can function without real estate.

8.0 Conclusions.

No corporation can function without real estate, whether it is leased or owned. This real estate component is tangible and affects the bottom line of the corporation. It is an integral part of the corporation but for many years was overlooked as a value added asset.
The corporate real estate must be managed by the CRE unit to fit in with the overall corporation strategy. The CRE unit must identify the most effective, efficient and practical ways of maximising the property value.
As all corporations change, their strategies change and the CRE unit must be able to adapt rapidly to them. New working practices, such as tele-working, home offices, office intensification etc., will cause a major upheaval in the need for business space (real estate).The CRE unit needs good communications with all corporation units to plan for this. The placement of the CRE unit in the corporation structure and the strategy it adopts are crucial for success. It appears the centralised CRE unit, with geographically spread units, with specific local knowledge is the preferred model.
To cope with this rapidly changing role many day to day tasks must be outsourced. Outsourcing is here to stay and it is a growth area. The service providers need quality staff to establish long term, profitable, relationships with the corporations. As has been stated, cost is no longer the primary driving factor behind choosing a service provider, rather the quality and comprehensiveness of services offered is paramount. To meet this demand for services the staff, of both the CRE unit and the service providers, need o be well trained. Educational courses must be available to meet this.
There is now a clear hierarchical management structure for property management staff and the roles they undertake become just as clearly defined.
The future for all those wishing to enter the corporate real estate management profession is looking assured. The rewards are there in job satisfaction. The question is, are the monetary rewards commensurate to this complex upper management task?

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