Abstract
Strategic management of Australian Corporate Real Estate (CRE) is identified as a key issue in an enquiry into competitive practices in Australian corporate property management. Focus groups were used to identify current and future Australian CRE issues. Separate groups were formed from corporate organisations and from, predominantly, local government. While each group emphasised different strategic issues in CRE management, a common listing of issues is possible. This synthesised listing, through its collective nature, enlarges understanding of the wider issues for each of the respective organisation types.

The strategic environment of CRE management is identified as having 5 aspects – Capital requirements of the organisation, financing CRE, the customer (or retail) interface, service provision and governance of the organisation. These 5 aspects provide a dynamic environment for making CRE decisions. An emphasis on the strategic nature of real estate assets challenges the presumption that it is best practice to move them off the balance sheet. Also, an awareness of the strategic importance of CRE management dictates that strategy setting for CRE is retained in-house regardless of what other CRE management is outsourced.

Keywords
Corporate real estate, corporate property, focus groups, local government property, strategic management

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Introduction
Financial issues and the role of real estate as an investment have typically dominated research into property. In recent years, however, property has come to be seen as a facilitator of an organisation’s operations. In line with this new role increasing attention has been given to property with the development and adoption of new management techniques. Some of these techniques are operational. Some techniques are due to seeking to align the provision of property with corporate strategies.

Corporate Real Estate (CRE) management refers to the management of property that is incidentally held, owned, or leased by an organization to support its corporate mission (Rondeau 1992, 1; Bon et al. 1998, p209; Brown & Rhodes 1993). As such the primary
value of CRE to the organisation is not its investment value but rather how it contributes to business operations. Management techniques to derive operational benefits from property include site selection, facility design, and space utilisation (Manning & Roulac 1999, 268).

An awareness of the value of property to support business operations dates from the early 1980s. Zeckhauser & Silverman (1983) identified that between 25% and 41% of corporate assets are real estate. Subsequent research (Veale 1989) showed that property occupancy costs make up 10-20% of operating expenses, or 41-50% of net operating income. Since the early 1980s much research has been carried out in Europe (predominantly the UK) and North America (predominantly the USA). The European studies include an ongoing comparative study of European and North American CRE practices and attitudes to CRE management (Bon 1996; Bon & Luck 1998; Bon & Luck 1999), management tools (Lopes 1996), a meta-model for CRE management (Lopes 1997), the value of CRE management (Krumm et al. 1998), changing office needs (Dent & White 1998) and flexibility in property suppliers meeting changing corporate requirements (Gibson & Lizieri 1999). In the USA, significant studies include managing real estate to provide value (Apgar IV 1995), information technology (Johnson et al. 1997), benchmarking performance (Noha 1993), outsourcing (Bergmann 1994; Manning & Roulac 1997). In a recent article, Manning & Roulac, (1999) document and summarise the status of CRE research, particularly that carried out in the USA. Carn et al. (1999) have recently used a Delphi research method to examine current and future issues in CRE management from a corporate organisational and operational perspective.

The strategic implications of CRE in business performance are an emergent field of research. Whilst the strategic implications of CRE were identified as early as 1986 (Roulac 1986); (Roulac & Cameron 1987), it was only in 1990s that they gained recognition alongside other operational management concerns (Joroff et al. 1993); (Nourse & Roulac 1993); (Duckworth 1992); (Weatherhead 1997); (O'Mara 1999).

Interest in CRE research has also increased in Australasia in recent years (Teoh 1993; Adendorff & Nkado 1996; McDonagh 1999; Kooymans 2000). In Australia, this interest has been driven by domestic demand for attention to be given to the needs of CRE in organisations.¹

Aim

This study explores current attitudes and beliefs about CRE management in Victorian based organisations. This research investigates the relevance of issues identified in international CRE research to the Australian context. Understanding attitudes of key property managers to financial and business management, as well as their more familiar property management domain, is an important step in understanding the role of the CRE unit in the organisation. This paper presents findings relating to the strategic issues in corporate property management. Different issues were emphasised in each group as part of a larger, more general catalogue of strategic issues. Other, related strategic issues in corporate property management are also presented.

¹ Evidence of this is the Victorian Department of Infrastructure together with the Property Council of Australia (Victoria) and Australia Post providing funds supporting a collaborative research project in conjunction with the Australian Research Council (ARC) exploring issues in Australian Corporate Real Estate.
Method
In order to understand the current attitudes and practices of industry leaders in CRE management, this study used a focus group process. Focus groups were selected as the research method because they yield qualitative, contextual data appropriate to the examination of complex issues. The groups were a purposive sample drawn from CRE experts in Victorian based Australian organisations. Participants were familiar with strategic CRE management and were from organisations with substantial property portfolios.

Corporate organisations have traditionally been the focus of research into CRE and therefore made up one of the focus groups (corporates sector). However, government organisations also hold significant property portfolios, and thus a second group was assembled from Local and State government organisations (government sector). Table 1 summarises the sampling outcomes with regard to organisational type and participant numbers.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Approached</th>
<th>Agreed to participate</th>
<th>Participated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporates</td>
<td>15</td>
<td>8</td>
<td>6</td>
</tr>
<tr>
<td>Government (Local &amp; State)</td>
<td>16</td>
<td>7</td>
<td>4</td>
</tr>
</tbody>
</table>

While the recommended number of focus groups is between 3 and 5 and the recommended number of participants ranges between 6 and 12, fewer groups are acceptable where there is a limited diversity of opinion and smaller groups are very suitable where the participants are experts in the topic being examined\(^2\) (Morgan 1998, 71-7).

Prior to conducting the focus groups, a structured guide was prepared, which included trigger statements to prompt discussion. The trigger statements were organised in the following topic areas:

- Making CRE more strategic
- Organisation of CRE within the firm
- Performance measurement
- Financing CRE
- View of CRE within the firm
- CRE decision processes
- Skills needed by CRE managers in the future

During the sessions a further question was put to the groups examining

- Governance within the organisation and the relationship to CRE.

Data capture
The groups were recorded with 2 omni-directional mikes recording onto a 2-track digital tape via a mixing deck. The digital recordings had their signal strength adjusted and background noise masked prior to being transferred to analogue audiocassettes.

\(^2\) A parallel study carried out by the CREAM research group at the University of Melbourne compared the international and Australian take-up of CRE practices. That study identified that the pool of available CRE experts in the potential sample population was not extensive therefore justifying the sample size for these focus groups.
Transcripts were prepared from the cassette tapes, checked to ensure fidelity of transcription and revisions made to match the transcripts with the audio recording.

**Analysis**

Based on guidelines recommended for focus groups (Krueger 1998) it was decided to analyse the focus groups’ transcripts using qualitative analysis coding techniques. Initially a categorisation process was used to identify the transcripts’ broad conceptual themes (Miles & Huberman 1994, 55-69; Burns 1997, 339-342). The categories were developed from the trigger statement topic areas and the titles of groupings of CRE practices from other research into CRE practices. These categories were assigned master codes with sub-codes related to specific topics grouped under the master codes. The sub-codes were developed from the trigger statements and the practices from the research into CRE practices. The categories and codes were manually applied to the transcripts of both groups.

**Discussion**

The analysis identified many issues in Australian CRE practice. Some were raised in both focus groups and may be considered generally relevant. Other issues were raised in only one focus group. While specific to a particular organisation type (corporate or government) they collectively enlarge our understanding of the issues.

The organisational types participating in the focus groups have diverging strategic outlooks. While both start from the premise of applying strategic management to their property portfolios they emphasise differing priorities when it comes to their detailed strategic management practices. Corporates emphasised the necessity for property to contribute to the organisation’s financial outcomes, while the government sector group was more concerned with benefit to the local community through service delivery.

**Corporates**

The corporate focus group recognised that acknowledging property’s significant worth to the organisation, through property’s influence on the organisation’s ability to delivery its business aims, was the basis of property’s strategic importance. As property is strategically important its management to meet organisational strategic ends is required. However, the focus group noted that support for strategic corporate property management was required from high levels within the organisation if its adoption was to be successful.

The focus group participants represented CRE units that could broadly be characterised as centralised. There were a number of operational benefits from this in terms of providing consistent practices across the organisation and consistent relationships with client business units, but a significant benefit was that it allowed property to be located close to the organisation’s financial strategies through reporting to high-level operational or financial executives, such as the CEO. This proximity to the management core of the organisation facilitated the alignment of corporate and business strategies further increasing the likelihood of successful strategic corporate property management.

The corporate group identified that the strategic management of property required the coordination of business and property strategies. Achieving this requires consideration of 3 aspects each with distinct and dynamic strategic implications for the organisation. The aspects were:

- That property assets are part of the organisation’s capital and therefore compete with other assets for allocation of the organisation’s capital finance;
• Property financial criteria, consisting of both the financing methods available to provide property and property’s investment value; and

• The customer interface through a retail outlet or some other means of providing service to customers.

Focus group participants identified property as part of the organisation’s capital considerations. The consequence of this is that property strategies need to be coordinated with the organisational capital strategies. This is achieved through several mechanisms. Firstly, property returns on capital can be measured against the returns on capital from other capital investments. Secondly, through a very traditional method, property capital can be used to underpin finance of other activities through security of borrowings. Thirdly, assessment of a property’s strategic value to the organisation may influence decisions to retain an asset on the balance sheet as a capital item.

Corporates constrained by strategic requirements for specific properties and tight capital measures are now examining non-traditional financing methods to gain operational benefits from the property without committing capital to property. Property as a ‘real’ asset with potential income streams allows a variety of property specific non-traditional financial and ownership methods. The corporate focus group identified several methods:

- Property trusts (listed and unlisted);
- Securitisation of income;
- Debt/equity risk and reward sharing;
- Build, Own, Operate, Transfer (Boot) schemes; and
- Recycling of existing property assets through development for new organisational uses or development for use by others, which are then on-sold.

Focus group participants identified that strategic property management required consideration of the customer interface. Through selection of the right location and design for this interface, either a retail outlet or some other form, the organisational bottom line is increased through revenues rather than through reducing costs.

An emphasis on the strategic nature of real estate assets challenges the presumption that it is best practice to move them off the balance sheet. The present, orthodox, view is that property assets do not belong on a corporation’s balance sheet, as they are not core business. It is thought that they lock up large amounts of capital that would be better deployed in core activities. The corporate focus group challenged this orthodoxy. Rather, simply removing property assets was identified as short-term reactive thinking that was at odds with strategic approaches to corporate property. Furthermore, a strategic approach that emphasises how property provides benefit to the organisation would consider each of the 3 strategic aspects identified above.

**Governments**

The move to strategic management of corporate property in Victorian government organisations has arisen from the recent municipal amalgamations, privatisation of government business units and government legislation requiring market testing of organisation’s service delivery through mechanisms such as compulsory competitive tendering and, now, best value analysis.

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3 This is a very traditional method that may be applicable in some parts of the economic cycle
Government organisations have very different strategic and operational environments from the corporates. While having the common aim of meeting the organisation’s needs, government organisations identified that, for them, the return on property assets is the derivation of community benefit, rather than the creation of organisational wealth. However, they also identified that high level organisational support was required for the successful application of strategic corporate property management.

Recognition of the different strategic and operational environments led the government focus group to present a much greater organisational awareness than the corporate group. For instance, the history and culture of the organisation was recognised as important in influencing its strategic direction. There was, also, more discussion of organisational integrity in reference to outsourcing issues which is discussed below.

The fact that the organisation implemented the outcomes of political processes brought greater consideration of accountability and governance aspects, as well as an awareness that the political processes did, on occasions, override the best intentioned strategic planning. Political processes also lead to cyclical changes in the organisations’ needs and expectations from their property and infrastructure assets with a consequential need to adjust strategy accordingly.

Strategic management of government property was identified as requiring a vision of where the organisation was going as well as knowledge of the current strategic position. The adoption of business planning to the property provision has brought a longer-term perspective. The introduction of accrual accounting into local government was also identified as instrumental in the implementation of strategic property management.

Strategic government property management was identified as consisting of the following aspects:

- Financial, or cost criteria;
- Community benefit, or service delivery from the asset; and
- Governance, including good management of the asset and accountable decision making incorporating balancing the first two elements.

This required balancing of:

- Community and operational requirements;
- The availability of existing, or new, facilities; and
- Ongoing facility management.

That property should have financial viability was identified as a key corporate objective. This involved reviewing and checking that the assets are still effective in meeting the organisation’s objectives, not just holding the asset. The importance of good information for this assessment was noted as the foundation of being more strategic with government property holdings. This information included factors such as valuations and all costs, including long-term maintenance projections. It also necessitated the transfer of property knowledge carried in people’s heads, particularly long-term staff, into external databases and management systems.

The focus group identified a variety of methods to provide their property requirements while discussing the methods of financing property. It was noted that there were instances where the investment value and revenue streams were useful, but commercial gain was not the prime objective. Rather, the commercial gain needs to be seen in light of obtaining a community benefit as well. The principle of deriving community benefit drove the decisions regarding the actual financial method used.
The financing methods considered included:

- Self-funding through revenue from asset;
- Internal organisational ‘loans’ to fund development with payback on completion from revenue or proceeds received;
- Private sector joint venturing through a developer funding a community benefit project in return for the development of the site that provides economic benefit to the developer; and
- Build, Own, Operate, Transfer (Boot) schemes.

In addition, several ways of deriving greater financial and community benefit from existing assets were identified. These include:

- Sales of surplus property assets with conditions attached of providing community benefit;
- Development of surplus assets, by others, with the process expedited by the government organisation through facilitating approvals;
- Sale of development rights, like air rights, with retention of ownership by the organisation; and
- Developers’ contributions provided as part of development approvals may be converted to a community service obligation rather than being provided in monetary form.

There were some limitations on financing methods actually employed due to political decision-makers’ fears about loss of control of community benefit from the assets. The use of joint ventures was noted as particularly susceptible to these fears. This meant that there was some reduction in maximum benefit available as a result, but provided a more palatable outcome for the decision-makers.

The customer aspects of government property had 2 parts – facilities that meet community needs and service delivery measures including the provision of general community benefit. It was noted that service delivery measures are now being included alongside the traditional reliance on financial measures and are also considered in terms of the strategic aims of the organisation. The community and political agenda setters frequently have different expectations of what constitutes service. In order to gather more information as to community expectations ‘customer’ satisfaction surveys are now used in assessing service delivery from property assets.

Governance and, more particularly, transparent, accountable decision-making were identified as an important part of strategic property provision. Accountable decisions were noted as being based on good information for decision makers. This was discussed above in discussing the financial considerations, but is equally as important in the governance context as a more sophisticated community requires the organisation to have better quality information as the basis of making property decisions. It was felt that policy setters needed reminding from time-to-time that maintenance of the asset is a governance responsibility.

**Comparison of corporate and government groups**

The two focus groups seem to have identified quite different issues in strategic property management. However, there is some overlap between the issues that each identify. These seeming contrasts between corporate and government organisations can be summarised in tabular form showing the similarities and differences between the different organisational types (Table 2).
### Table 2

<table>
<thead>
<tr>
<th>Capital issues</th>
<th>Government</th>
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</thead>
<tbody>
<tr>
<td>Property as capital</td>
<td>Cost of property provision</td>
</tr>
<tr>
<td>Cost of capital</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial issues</th>
<th></th>
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<tbody>
<tr>
<td>Property as an investment</td>
<td>Property valuations</td>
</tr>
<tr>
<td>Property financial methods</td>
<td>Cost of property (including maintenance)</td>
</tr>
<tr>
<td></td>
<td>Property financing methods</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Customer interface</th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Retail interface</td>
<td>Community benefit</td>
</tr>
<tr>
<td></td>
<td>Service delivery</td>
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<table>
<thead>
<tr>
<th>Governance</th>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Accountable decisions</td>
</tr>
<tr>
<td></td>
<td>Good asset management</td>
</tr>
</tbody>
</table>

This table shows a continuum of strategic aspects that enables the derivation of a common listing of strategic CRE aspects (Table 3).

### Table 3

- Capital issues, consisting property as capital and cost of capital,
- CRE financial issues, consisting of property as investment and property financial methods,
- The customer (or retail) interface,
- Service provision, and
- Governance of the organisation.

Due to the emphasis on financial outcomes corporates naturally weight their strategic issues towards the financial aspects at the top of the table. Government organisations with concerns about public accountability and community benefit from property emphasise the accountability aspects at the bottom of the table. However, in the middle of the table are issues that are common to, or at least analogous between, organisation types. The detailed enactment of strategy may differ but they represent variations of common issues rather than markedly different aspects. This common listing provides a larger perspective of the range of strategic CRE issues than each organisation type was able to provide on its own. It is valuable because while organisation types emphasise their own key issues, the others on the list are not irrelevant. For example, corporate groups need to be aware of governance issues in authority levels for making decisions and in accountability of decisions to senior management and shareholders, and government CRE managers do need to be aware of the overall financial impact of property as an asset, as represented by capital accounting, on the organisation.

Discussion of outsourcing by organisations also saw both focus groups identify a need to retain strategic property planning capabilities in-house. There were dissenting views to this position; with a minimalist position being all that was required was to retain in-house contract management to manage outsourced contracts. However, the integrity of the organisation as an entity was questioned if the capability of strategy setting was lost as an in-house competence. The government group, who have recently addressed these broad organisational issues during a period of amalgamation and restructuring, discussed the issue of organisational integrity at some length.
Further, both groups questioned the availability of strategic skills and awareness from service providers. Apart from the issue of organisational integrity this lack of availability raises doubts about the success of outsourcing the strategy setting for corporate property. The tasks required may be outsourced but not the establishment of the strategic parameters.

Through an awareness of the strategic value of property to the organisations, both focus groups identified that property units can contribute to the broader organisation. With their knowledge of strategic asset management derived from property management there was an educative role in the organisation regarding other strategic assets, as well as capacity to manage other strategic activities, such as branding and procurement.

Conclusion

This paper explores the current attitudes and practices of Australian industry leaders towards the strategic aspects of CRE management. Corporates organisations emphasised financial aspects and government groups emphasised service delivery and governance aspects. Tabulating them as a common listing of strategic issues provides an enlarged understanding of strategic corporate property management. While each organisational type will concentrate on one, or the other, end of the spectrum the collective listing describes the dynamic strategic dimensions of corporate property decisions.

A strategic approach to property management requires property to property to meet operational strategic ends. This challenges the assumption that property assets must not be on an organisation’s balance sheet. It also challenges property managers to obtain greater service delivery from property assets.

Outsourcing of management activities is also required to meet strategic ends while still maintaining the integrity of the organisation. For this reason it may be difficult to outsource the development of corporate property strategy.

References


