ABSTRACT

1. Introduction

The paper discusses whether alignment between corporate real estate strategy and corporate strategy exists for non-property companies listed on the Johannesburg Securities Exchange, and alignments effects on the firms' financial performance. The presence of alignment and its effects on the firms' performance is an unresolved phenomenon in the South African context. The purpose of this study was to determine if alignment exists and the effects of its presence or lack thereof on the firms' financial performance.

2. Methods

The study was both qualitative and quantitative in nature and conducted on South African firms, with a specific focus on non-property firms listed on the Johannesburg Securities Exchange. The firms had to be listed on the exchange as of 15 August 2015 with a full year of audited financial statements, domiciled in South Africa, with their financial information reported in South African Rands. 140 firms met these criteria. The qualitative part of the study involved the interpretation of the firms annual reports to determine the presence and use of corporate real estate strategies and their alignment to corporate strategy, and collection of financial indicator data. The quantitative portion of the study involved the use of multivariate analysis, which used the results obtained from annual report analysis to distinguish and quantify the relationship, if any, between corporate real estate strategy and the identified financial performance indicators. To develop the regression model, the independent variables were the corporate real estate strategies employed and share price the dependent variable. The methods used in this study have been applied before in European and Asian studies, this assisted in ensuring that validity and reliability was achieved.

3. Results

This study finds that the most employed strategy by firms (47%) is that which facilitates production, operation and service delivery. Alignment is also found as 82% of the firms have a corporate real estate strategy based on their annual reports and firms operating

decisions. The Consumer Goods, Healthcare and Telecommunications sectors illustrate the highest level of alignment at 100%.

Return of Shareholder Funds has a significant correlation with share price (0.867, $p < 0.01$). With an R^2 of 24%, F-statistic of 4.21, a positive b-value of 3.67 and a t-value of 4.24, Return of Shareholder Funds has the highest explanatory power and positive relationship of all of the financial indicators considered. Strategy S2 – Flexibility has a positive regression coefficient, which indicates a positive relationship with share price and is significant at $p < 0.01$.

4. Conclusions

The application of corporate real estate strategy in the firms' corporate strategy formulation has the ability to enhance shareholder value. This research adds to the South African corporate real estate body of knowledge as this phenomenon has not been explored in the South African context before. The main contribution being the linkage between corporate real estate strategy and financial performance of the firm. Real estate developers and owners will be required to better understand the strategic requirements of corporates in order to ensure that the solutions they provide are linked to maximizing shareholder return or they could find themselves competing with corporates for developing and owning property.

Although consistent with results of studies conducted in Europe and Asia, the results of this research cannot be applied to privately held non-listed firms, government and state-owned enterprises. This could be a point of departure of determining if the same hypothesis holds to those entities.