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Methods of providing corporate real estate management services: an overview of South African corporations

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Methods of providing Corporate Real Estate Management Services: An overview of South African corporations.

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A research report submitted to the Faculty of Engineering and the Built Environment, University of the Witwatersrand, in partial fulfillment of the requirements for the degree of Master of Science in Engineering.



School of Construction Economics and Management
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Declaration

I declare that this research report for the degree of Masters in Building at the school of Construction, Economics and Management, faculty Built Environment and Engineering, University of Witwatersrand hereby submitted, has not been submitted by me or anyone else for a degree at this or any other university. That this research is my own work and the contents herein have been properly referenced and acknowledged.

…….

Rirhandzu Lerato Maluleke

……..day of……year……..

Abstract

The purpose of the study was to investigate ways of providing corporate real estate management services in the South African context. The data collection process started with a pilot study using a questionnaire. A qualitative approach was used with semi-structured interviews of six Corporate Real Estate managers from companies of various industries in Johannesburg in March 2014.

The larger organizations prefer to have a formalized Corporate Real Estate unit that is situated at headquarters and have no links with core business. These companies refer to their corporate real estate units as facilities management, property management and workplace management, the actual term “corporate real estate” is not used in South Africa. The companies that have the formalized Corporate Real Estate units own their Corporate Real Estate or are triple net leasing their Corporate Real Estate.

Respondent companies prefer to manage strategic aspects in-house and outsource the operational activities, because real estate is not their core business. Some of the respondents did not experience challenges with either outsourcing or in-house management. Respondents that experienced challenges with outsourcing had problems with performance issues, lack of knowledge and experience by service providers, the quality of the service and the lack of performance measurement tools. The challenges experienced with managing in-house included performance issues, lack of accountability from internal staff, lack of flexibility, and lack of skill and experience on the part of internal staff. South African practice may appear to match international best practice; however, more studies might be needed to validate the results.

Key words: South Africa, corporate real estate management, outsourcing, in-house management

Dedication

I dedicate this research report to my late grandparents and great grandfather; you still inspire me even from the grave. Thank you for everything.

Acknowledgements

I would like to thank God for providing me with the knowledge, wisdom, and strength to complete this research report. I did this through Christ who always strengthens me.

To my parents Victor Maluleke and Ntswaki Madumo thank you for the love and support you have given me. Thank you for guiding me and teaching me everything I know about life. To my friends and classmates thank you for the help and encouragement. Thank you to Gcina Matsebula for being there for me when I wanted to give up and no longer had the energy to carry on with the research. Your love and support is a blessing to me.

To my supervisor Prof Samuel Azasu, you have played a role of a supervisor and more. Thank you for the support, care and the spiritual guidance. You have taught me a lot about life in a short space of time. May God continue blessing you to do the wonderful work you do.

To everyone who participated as respondents in my pilot study, thank you. To the six company respondents thank you for your time and allowing me to interview you. My data collection would have not been possible without your help. May the good Lord be with you.

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List of abbreviations

CRE	Corporate Real Estate
CREM	Corporate Real Estate Management

Chapter One

1. **Introduction**

1.1 **Background**

Corporate real estate (CRE) is defined by Ali, McGreal, Adair & Webb (2008) as the real estate that is either owned or leased by corporations to conduct business. Real estate makes up a large percentage on corporate balance sheet (Ali et al, 2008; Hiang 1999). According to Hiang (1999 p.329-330), in the US, real estate contributes one-quarter of corporate wealth and in the UK, real estate represents 150 per cent of the net assets, 30-40 per cent of total assets and 100 per cent of capital for industrial corporations balance sheet.

Corporate real estate represents about one quarter of the corporations wealth and the operating cost to maintain the real estate is significant, these maintenance cost of the assets are second to human resource cost (Veale, 1989).However the real estate is neglected by most of the corporations as real estate is a non-core business for the corporation's (Ali et al, 2008; Stadlhofer, 2010). The decision makers make uninformed decisions on how to manage the real estate therefore the assets are not managed to their full potential, furthermore many corporate real estate managers do not keep record of their real estate assets, therefore the performance of the real estate cannot be accessed (Veale,1989) as well as the operating costs increases or decrease of managing the real estate assets.

Rodriguez and Sirmans (1996) citing Ambrose (1990), p.14 states that if corporations managed their real estate properly and in return increase the shareholders return, the corporation would not be a takeover target. There should be a link between the corporate real estate strategy and the corporations overall business strategy as the management of the corporate real estate impact on the value of the corporation (Rodriguez and Sirmans, 1996).

Companies are seeking competitive advantage in an increasingly competitive environment (Matsham and Heywood, 2012). There is a positive correlation between the strategic planning of the real estate and the company's performance, if the company strategically plans its corporate real estate it could benefit from the real

estate and increase performance (Sarasoja et al, 2004 citing Miller & Cardinal, 1994 p.4).

CREM services include; property acquisition, leasing, developments, property development, facilities management (Ali, u.d). Corporations can either outsource or in-house their corporate real estate management services. Corporations that operate in multiple lines of business have lower values than corporations that focus on one line of business, moreover each corporation needs to evaluate its current situation and use theory led research (Gibler and Black, 2004). Therefore the decision as to how to manage the CRE is important and each corporation should have knowledge on ways to provide CREM service, evaluate its business to make the decision.

1.2 Problem Statement

According to a report from Jones Lang LaSalle 2012, South Africa has a large office stock totaling about 168 million square feet located in Cape Town, Durban, Pretoria and Johannesburg. Moreover, more than 500 companies in South Africa own corporate real estate, including international companies (Jones Lang LaSalle, 2012).

However, in spite of its size, it appears prior research may have failed to discuss which strategies characterize corporate real estate management in the South African context.

Most corporations are not in the business of real estate and do not have real estate knowledge and therefore do not have a real estate strategy. This leads to corporations making uninformed decision about their corporate real estate and negatively impacting on their enterprise overall business strategy (Nouse and Roulac, 1993). Furthermore linking real estate strategy to the overall business strategy will help the corporation realize overall business objectives (Nouse and Roulac, 1993).

1.3 Importance of the problem

Due to the economy, companies are seeking competitive advantage and finding ways of adding value, increasing performance and adding wealth in their business. Corporate real estate is a necessity for all corporations, and ways of managing the corporate real estate could affect their performance and competitive advantage.

The research report is focused on corporate real estate management services, ways of providing CREM services, the advantages and disadvantages of each strategy, and challenges faced with each strategy. This research report will provide the companies in South Africa who either own corporate real estate of lease the corporate real estate, with the knowledge of both outsourcing and in-house CREM services and these companies will be at a position to make the correct strategic choice on selection which method to use for their company.

1.4 Aim and Objectives

The purpose of this study is to investigate both outsourcing and in-house management of CRE within the South African context. It seeks to establish which companies outsource or manage in-house, the factors which influence the decisions, challenges and problems faced with either strategy.

The study aims at achieving the following objectives:

- To investigate the determinants of outsourcing and in-house management
- To assess how South Africa compares to the rest of the world in terms of the reasons for outsourcing and in-house management
- To identify the challenges of both outsourcing and in-house management

1.5 Research questions

- Which companies manage in-house and which companies outsource?
- What reasons do they give for either choice?
- For those who only partly outsource, which functions do they manage in-house and which functions do they outsource?
- What challenges are faced with either in-house or outsourcing?

1.6 Scope and Limitation

The research report will only investigate companies in South Africa that either own or lease the CRE .The research survey method only includes interviews.

1.7 Assumptions

South African companies create a strategy in which they align real estate to fulfil the companies' objectives.

1. 8 Chapter Layout

The first chapter is the introduction of the study; second chapter will cover the literature review. The third chapter will outline the research methodology chosen for the study. The fourth chapter will present the findings of the survey. The fifth and last chapter will discuss the findings, conclusions and recommendations of the investigation.

2. Chapter Two

Literature Review

2.1.1 Corporate Real Estate

Corporate real estate (CRE) refers to the real estate either owned or leased by a corporation to achieve corporate objectives and perform business activities (Ali, McGreal, Adair and Webb, 2008). Kooymans (2000) further states that CRE can either be owned for investment purposes or not. Liow and Ingrid (2008) define CRE as both the land and buildings owned by a corporation which its core business is not necessarily real estate and therefore these corporations view the real estate as a space for production. Moreover, the space needs are influenced by the growth of the activities, the best location, the type of industry, corporate image and the availability of the property (Oladokun, 2011). Merely owning properties is not ample for CRE activities; the real estate needs to be managed and maintained properly (Ali et al, 2008).

Corporate real estate management (CREM) is the discipline of managing a corporation's real estate (Ilsjan, 2007). Ali (u.d.) defines corporate real estate management (CREM) as the management of the corporate real estate (CRE) which includes:

- Property acquisitions,
- Leasing,
- Developments,
- Property management,
- Facilities management, and
- Asset management

In the tables below, Ali et al (2008) demonstrate that CREM is a broader aspect of real estate management which includes the day to day management of the real estate and the higher-level long term CRE strategic planning.

Table1. *Summary of Differences between Property Management and CRE (Ali et al, 2008, p.9)*

Scope	Property Management	CRE
Objectives	Building maintenance	Strategic real estate activities to support the business operation.
Activities	Day-to-day tasks; administrative management, marketing and physical management.	The management of all aspects of real estate; acquisition and development, disposition, property management, financial analysis, surplus property, and miscellaneous activities such as leasing and brokerage.
Users	Building occupiers/tenants	Stakeholders
Management	Property manager	Corporate real estate manager
Skills	Property specialist, business administration and engineering.	Property specialists with financial and management background.
Level of management*	Tactical or operational	Strategic or tactical

Source: Ali et al, 2008

Note: * Depends on the structure of the organization

Table2. *Summary of Differences between Facilities Management and CRE (Ali et al, 2008, p.10)*

Scope	Facilities Management	CRE
Objectives	Provide quality working environment to support the business operation.	Strategic real estate activities to support the business operation.
Activities	Acquisition and disposition, physical upkeep, record keeping, and reporting tasks to CRE owner.	The management of all aspects of real estate; acquisition and development, disposition, property management, financial analysis, surplus property, and miscellaneous activities such as leasing and brokerage.
Users	Staff and workers in the organization	Stakeholders
Management	Facilities manager	Corporate real estate manager
Skills	Professionals with architectural, construction engineering, industrial engineering and operation management skills.	Property specialists with financial and management background.
Level of management*	Tactical or operational	Strategic or tactical

Source: Ali et al, 2008

Note: * Depends on the structure of the organization

2.1.2 Benefits of Corporate Real Estate Management

The advantage of a corporate firm owning property is that they have the control over the property; there are no rentals payments especially at economic turndowns when property rentals increase and the property asset can be used as collateral for loans, and owning property can provide the corporation with tax benefits. The

disadvantages of owning property include the management of the property if the corporation is a non-real estate firm (Hill, 2001).

Oladokun (2011) researched the relevance and usefulness of CREM, he concluded that business executives are concerned on how the CRE asset can impact the productivity, contribute to achieving overall business objectives and cutting costs. Furthermore the CRE team needs to have the skills and knowledge of making strategic decisions and therefore aligning the CRE activities with business strategy in order to add value to the business (Oladokun, 2011).

For an asset to be valuable, it needs to be maintained properly, maintenance for the building keeps up its structural integrity, water-tightness and aesthetic appearance (Yik and Lai, 2005 p.65). Furthermore if the building is not properly maintained, the rent will decrease but if the building is properly maintained the cost of providing operational and maintenance will decrease relieving the building owners (Yik and Lai, 2005).

Most senior executives perceive the role of real estate assets as merely providing a space to operate the business and this should be for the least space costs, most corporations view real estate assets as cost centers rather than profit centers (Ali et al, 2008). In order to achieve the aim of adding wealth to the investors or owners of the real estate, the corporations need to set out strategic goals for its business activities (Sarosoja et al, 2004).

Real estate adds value to the business in many ways, below is a table of the elements of added value of real estate.

Table 3. *Elements of added value of real estate (Sarosoja et al (2004) citing Jonge 1996 in Krumm 1999 p. 66)*

1. Increasing productivity	-Offering adequate accommodation -Site selection -Introducing alternative workplaces -Reducing absence of leave
2. Cost reduction	-Creating insight into cost structure -More efficient use of workplaces

	-Controlling costs of financing
3. Risk control	-Retaining a flexible real estate portfolio -Selecting suitable locations -Controlling the value development of the real estate portfolio -Controlling process risk during (re)construction -Controlling environmental aspects and labour conditions
4. Increase in value	-Timely purchase and sale of real estate -Redevelopment of obsolete properties -Knowledge and insight into real estate market
5. Increase in flexibility	-Organizational measures (working hours, occupancy rates) -Legal/financial measures (mix own/rent/lease)
6. Changing the culture	-Introducing workplace innovations
7. PR and marketing	-Selection of branch locations -Image of buildings -Governing corporate identity

2.1.3 Methods of providing CREM services to corporations

Real estate is not a core competency for corporations that either own or lease corporate real estate, and therefore the corporations are faced with the decision to either, manage their CRE in-house by establishing an in-house real estate department or outsource the CREM service to a real estate service provider (Gibler and Black, 2004). Corporations have an option of both outsourcing some functions and keeping other functions in-house (Glagola, 1999).The decision to outsource or manage CREM services in-house is an important decision for these corporations as this has financial implications (Gibler and Black, 2004).

2.2.1 Outsourcing CREM services

Outsourcing is employing a service provider to perform a function on your behalf (Kooyman, 2000). Property is an essential to production and real estate requires a specific skill to manage it which is different from running business profitability (Hwa, 2003). Furthermore the operational and maintenance of a building include complicated elements such as air-conditioning, lighting, electricity and gas supply, fire detection and protection, water supply and drainage (Yik and Lai, 2005 p.65). Moreover the health and safety of the building and the occupants need to meet regulatory requirements (Yik and Lai, 2005)

Outsourcing CREM services has emerged as a method to cut cost or increase the level of expertise in the management of corporate real estate (Kimbler and Rutherford, 1986). Gibler and Lindholm (2012) suggest that corporations compete based on the heterogeneous resources they own or control and therefore exploit the corporate real estate resource to strategically contribute to their competitive advantage. Moreover corporations may decide to retrench, cut costs during an economic recession; therefore outsourcing of CREM service seems to be the best solution (Gibler and Lindholm, 2012).

However Gibler and Black (2004) suggest that outsourcing could stimulate an increase in short-term returns, however but this could result in lower investment developments for the corporation’s long-term competitive advantage as the skills are outsourced the internal staff may not benefit by acquiring these skills. Outsourcing decreases the control of the real estate and outsourcing can be successfully achieved when the corporation and the service provider work closely to ensure that the interests of both parties are met (Gibler and Black, 2004).

2.2.2 Advantages of Outsourcing CREM Services

Outsourcing of corporate real estate management has been researched throughout the world and the reasons to why companies outsource have remained constant; cost control, competitive advantage, risk sharing, and access to skills, technology and best practice (Matsham and Heywood, 2012). The corporations that outsource their CREM services outsource them for different reasons. Matsham and Heywood (2012), through their research compiled a table of reasons for outsourcing CREM services through the research conducted previously, there are, cost saving, access to skills, technology and best practices, organizational restructuring, business process re-engineering, legislation and policies. In addition Matsham and Heywood (2012) through their research identified the functions that are commonly outsourced which include, portfolio management, financial analysis, facilities management, property management and building operations and maintenance and repairs.

According to Bryce and Useem (1998), when outsourcing is well designed and well managed, outsourcing reduces operating costs, enhances competitive strategy and enlarges shareholders value. The corporations are able to free up resources by outsourcing the CREM services and therefore cut costs as the real estate requires a specific skill to manage (Hwa, 2003; Kooyman, 2000). Kremic, Tukel and Rom (2006) argue that outsourcing for cost reasons can also occur when suppliers cost are low enough that even with added overhead, profit, and transaction cost , the service providers can still deliver a service for a lower price, however there are no guarantees that expected cost savings will be achieved.

With outsourcing the specialized service provider is able to provide the service at a more cost effective manner than the internal staff (Gibler and Black, 2004). Yik and Lai (2005) state that because the contractor is specialized in providing the operational and maintenance, they will provide the service at a lower cost due to their comparative advantage cover in-house operational and maintenance teams and therefore the outsourced service provider can organize and manage the work more efficiently than the in-house team. With outsourcing the risk is shared with the specialized service provider who is seemed to be able to manage the risks due to their specialty (Matsham and Heywood, 2012; Kooyman, 2000; Gibler and Black, 2004).

2.2.3 Challenges of Outsourcing CREM Services

Kimbler and Rutherford (1986) in their study identified issues and problems associated with the outsourcing of corporate real estate, from both the corporate manager's and service provider perspective. The findings were that the service providers do not understand the company culture and the service provider do not listen and communicate well (Kimbler and Rutherford, 1986). However Gibler and Black (2004) argue that the service provider is not part of the internal day to day informal communication which occurs within the company and therefore is limited in understanding the corporate culture. Furthermore the lack of agreement between the company and the service provider may cause a problem where the service provider may believe due to its specialist knowledge enables them to make decisions for the client without the client's knowledge or approval; this could lead to the service provider making its own decisions which may not be preferred by the client (Gibler and Black, 2004).

An issue that was identified by Kimbler and Rutherford (1986) is the lack of knowledge and experience by the service provider staff. *"Property skills are vital but the industry remains conservative and protectionist. Outsourcing management skills are equally important, but its leading expert organizations are still relatively young"* (Jones, 2000). Most corporations outsource corporate real estate management services due to their lack of skills in real estate; the specialized service provider can provide the corporate real estate services at a more cost effective manner than internal staff members can (Gibler and Black, 2004). Therefore if the service provider does not provide the expected service the corporation does not benefit.

Gibler and Black (2004 p.139), states that agency theory is based on the relationship between the principal (client) and the agent (service provider) who is provided a mandate to act on behalf of the principal. The client hires the service providers as they are the expert in the field and have specialized skills that the internal staff does not possess. When the client hires an outside service provider, the firm is hiring the agent's (service provider's) knowledge, skills and labour to complete the task. However there are problems experienced with services providers such as poor communication, the monitoring and control of the service provider by a non-specialist corporate (Gibler and Black, 2004; Yik and Lai, 2005). The principal who does not possess real estate knowledge, does not know what standards of practice to apply to

measure the performance of the service provider and therefore the cost of monitoring the performance is high (Gibler and Black, 2004).

Rollins-Hinkle (2001), discusses what service providers should do, to be a top service provider. Service providers need to, add value to the corporations and communicate the value added. Furthermore service providers need to understand the corporation's history and culture, the short term and long term goals and the competitive environments the corporations are in (Rollins-Hinkle,2001). This will help the service provider when making decisions on behalf of the corporation to meet the corporation's objectives. Clients are looking for a service provider that is professional and their ethics and values align with the corporation's ethics and values. Outsourcing comes with the risk of losing control over the outsourced activity (Liapopoulosa and Moshurisb, 2013 citing Barthélemy, 2003, p.35), which can lead to a decreased performance, increase in costs, and reduction of service and quality level (Liapopoulosa and Moshurisb, 2013).

2.3.1 In-House Management of CREM Services

As companies grew, real estate management functions were established and the CRE activities were based at the headquarters and they did not have a link with core business (Kadefors and Brochner, 2004). In-housing takes place when the corporation establishes a real estate department by employing staff to internally carry out the CREM functions on behalf of the corporation. The reasons to provide in-house CREM service is that a corporation would like to be able to have control of their asset which is not enjoyed with outsourcing. Matsham and Heywood (2012) found that the sub-functions that are mostly managed in-house are strategic planning, client relationship management and acquisition, leasing and development.

2.3.2 Advantages of In-house management

In-house CREM service is a good idea for corporations as the management team understands the business goals and objectives of the company and has the experience and resources to meet the objectives, therefore achieve the desired results for the corporation (Slack, 2003). However in-house CREM services requires more staff resulting in higher costs and expenditure as more time needs to be allocated with a larger property portfolio, furthermore in-house CREM requires a strong management team to oversee the operations (Slack 2003). The decision to in-house the CREM services is an opportunity for the corporation to develop the staff skills and knowledge instead of hiring an external service provider Rodger Communication staff learned on the job, the company hired strong professional leadership who then trained the other staff members (Knowels, 2004).

Corporations that choose to keep their building operations and maintenance in-house are not inconvenienced with the time, resources and funds of preparing tenders, negotiating contracts between the building owner or tenant and the contactor (Yik and Lai, 2005). External service providers provide a service according to their skills and knowledge, however the client being the building owner of tenant do not possess real estate knowledge and therefore it is difficult to measure the performance of the external service provider and corporations that keep their management in-house do not have to deal with the performance of external service providers (Yik and Lai, 2005).

2.3.3 Challenges of In-house Management

The most critical factor is the level of service; if this can be measured and quantified the question would be if the in-house staff can maintain the level and how much outsourcing might be involved in maintain that level (Miller ud). As much as performance management is a challenge with outsourcing (Gibler and Black 2004; Yik and Lai 2005), accountability is a problem with in-house as the staff are permanently employed unlike outsourcing where the company, if performs poorly may lose employment opportunity and reputation that takes hard work and time to achieve (Miller ud).

In-house staff may find it difficult to adjust to any business changes, such as facility closings, production realignments, and cost-cutting initiatives can be traumatic, requiring retraining and redeployment or, in the worst case, layoffs, which tend to be perceived negatively by both investors and local communities (Maechling and Bredeson, 2005). Operating an in-house management limits the synergy with industry specialist as the staff is in-house and there is a lack of flexibility (Glagola, 1999).

Many outsourced firms work in conjunction with an in-house real estate department, however in-house corporate real estate departments is coming to an end as corporations are finding it more beneficial to outsource the services to a service provider who is often on site (Rollins-Hinkle, 2001)

2.3.4 Example of In-house Management of CRE

Knowels (2004) conducted a case study on Rodger Communications, a large telecommunications business that owns a real estate portfolio of over 5000 sites and manages its portfolio in-house. The in-house services include site and asset acquisitions and disposition, administration, payables and receivables, facilities management, construction and space planning. Real estate is the second largest operating expense for the company, however the sites that Rodger communication own, provide competitive advantage as they are superior and therefore the real estate is a key strategic asset and is vital to the success of the operating units. The benefits of in-house management for Rodger Communications are that the assets are closely monitored to maximize returns, the control and accountability for the real estate assets ensure that the sites are managed and maintained to uniform standards, the service contracts are standardized to save costs.

2.3.5 Corporate Real Estate in South Africa: Literature Gap

South Africa is recognized by the World Bank as one of the upper middle income countries in Africa and South Africa is perceived as a catalyst for growth within the African continent (Jones Lang LaSalle, 2012). South Africa has prime quality commercial real estate stock, which has been developed to international standards (Jones Lang LaSalle, 2012). Due to the world standard of South Africa's commercial real estate, international corporations are establishing themselves and expanding their presence in South Africa (Jones Lang LaSalle, 2012).

With the economic meltdown that took place in 2007/2008 affected the property industry. As a result of this property owners are more selective in deciding who should manage their assets and corporate real estate managers are expected to do more than collect rent, handling tenant complaints and maintain the property's appearance (Slack 2003). Property owners expect property managers to improve the property's financial performance (Slack 2003).

Corporate real estate management is well known internationally and has been researched worldwide. However it seems as though not much research has been conducted within South Africa. It is not know who prefers to outsource their corporate real estate management services and who prefers to manage in-house, and the reasons to these decisions.

3. Chapter Three

3.1 Research design and methodology

Given the little amount of research conducted in South Africa on Corporate Real Estate Management services, this research report has attempted to adapted what has been researched internationally to investigate the status of Corporate Real Estate Management services within the South African context, furthermore to examine what the companies prefer in terms of outsourcing or in-house CREM services. The research report has attempted to answer the following research questions:

- Which companies manage in-house and which companies outsource?
- What reasons do they give for either choice?
- For those who only partly outsource, which functions do they manage in-house and which functions do they outsource?
- What challenges are faced with either in-house or outsourcing?

Answers to these questions are partly descriptive and partly analytical, affecting the choice of research design; the data was collected by means of semi-structured interviews.

3.2 Methodologies applied in previous similar studies

Matsham and Heywood (2012) in their research adopted the qualitative approach using semi-structured interviews of six senior CRE managers from major corporations in Melbourne, a qualitative approach was appropriate to explore the factors, issues and challenges faced by the individual organizations. Aggregating the results provided a view on the status of the current practice in the field. Furthermore the qualitative research interviews sought to describe and investigate the meanings of the themes of the subject (Matsham and Heywood, 2012 citing Kvale, 1996, p.5). The primary data was analyzed by and inductive analytical process and thematic analysis, this is used in qualitative research to identify recurrent patterns that emerge as being important to the description of the phenomenon (Matsham and Heywood, 2002 citing Daly et al., 1997, p.5).

Kimbler and Rutherford (1993) conducted a survey to identify the problems that reduce the effectiveness of the corporate real estate managers' use of outside real estate services. The survey was a questionnaire that was sent out to executives of real estate service providers and real estate mangers of CRE departments. The recipients were all members of the Industrial Development Research Council (IDRC) an international organization of corporate real estate and Facility Planning Executives (Kimbler and Rutherford, 1993).

3.3 Research Design

The purpose of research is to describe and explain the complex social science phenomena (Bhattacherjee, 2012). Scientific research paradigms are conceptual frameworks, "a set of linked assumptions about the world which is shared by a community of scientists investigating the world" (Healy and Perry, 2000 citing Deshpande, 1983, p.101). There are four paradigms: positivism, critical theory, constructivism and realism, each with three elements; ontology, epistemology and methodology. Ontology is the "reality" that the researchers investigate, epistemology is the relationship between the reality and the researcher and the methodology is the technique used by the researcher to investigate the reality (Healy and Perry, 2000).

Research design is the planning of the methods to be used for collecting data and techniques to be adopted to analyze the data collected, keeping in mind the

objectives of the research and the availability of staff, time and money (Kothari 2004).

This research report adopted the method used by Matsham and Heywood, 2012. Initially a questionnaire was sent out to 200 listed companies, however after three weeks only one company had responded. Purposive sampling was then used as a sampling method. Purposive sampling method is an informant selection tool used worldwide and is a sampling method that is nonrandom, the researcher deliberately choices the respondents due to the qualities the respond possesses (Tongco, 2007). Purposive sampling allows the researcher some control rather instead of being at the mercy of selection bias in pre-existing groups (Barbour, 2001). The researcher decides the information needed and the finds the people who are willing to provide the information by virtue of knowledge and experience (Tongco 2007 citing Bernard 2002, Lewis and Shepard, 2006, p.1).

The study's aim was not to study the entire population but rather get a snap shot of how South African companies deal with managing their corporate real estate. Six companies were chosen. Qualitative approach was used with semi-structured interviews of six CRE managers of different companies. The companies selected were both listed and unlisted, the companies ranged from small to large companies in size. The industries include were; finance, insurance, construction, tax and advisory, professional services and government department. This method is appropriate as it is not known, who is outsourcing, and who is managing in-house in South Africa, what reasons they give for their decisions and what challenges are faced with either strategy of managing CRE. As suggested by Matsham and Heywood (2012), the aggregated results across multiple companies provide a snapshot of the current practice in South Africa.

3.4 Survey Research

The survey method is when data is collected from a large sample through methods such as questionnaires, interviews or published statistics and the data is analyzed using statistical techniques (Gable,1994), moreover questionnaire surveys are preferred by some respondents, and survey research is economical in terms of researcher's time, cost and effort compared to experimental and case research (Bhattacherjee, 2012) . Surveys research has notable strengths than other research

methods; surveys are great at measuring people's preferences, traits, attitudes, beliefs, behaviours or factual information (Bhattacherjee, 2012).

3.5 Data collection

The data collection process started with a pilot study using a questionnaire. The questions were focused on CREM services, ways of providing CREM services and challenges faced with the different methods. The questionnaire also included the question of leasing versus owning and reasons for the decision. The reason to include this question was to find out if there is any connection with companies owning or leasing their CRE and how the CRE is then managed.

A pilot study was conducted as it is important to test the reliability and validity of the measurement instrument to be used to collect the data and can be concluded in preparation for the main study (Hundley and Teijlingen, 2001).The aim of the pilot study was to check if the questions were relevant to the study, the adequacy of the survey method and to test if the questions would be understood by the respondents. The pilot study was sent out to CEO, portfolio manager and asset manager.

From the pilot study the questionnaire was reworked to be a semi structured interview. The interview covered the major areas of CREM services, being outsourcing and in-house management. Due to the low response rate six companies, listed and unlisted, from a variety of industry sectors were selected to participate in the survey. Some of the companies were South African branches of international companies and others had presences in the rest of Africa.

3.6 Reliability and validity

The quantification of human behavior is an important part for social science research and the measurement instruments that are used to observe human behavior must be valid and reliable (Drost, u.d p.105).

"Reliability is the extent to which results are consistent over time and an accurate representation of the total population under study is referred to as reliability and if the results of the study can be reproduced under a similar methodology then the research instrument is considered to be reliable",(Golafshani 2003 citing Joppe 2000 p1.).Drost (u.d) defines reliability as the consistency of the measurement; the measurement is stable and will remain constant in different conditions. They are

three aspects to reliability; equivalence, stability and internal consistency (Miller, u.d).

"Validity *determines whether the research truly measures that which it was intended to measure or how truthful the research results are. In other words, does the research instrument allow you to hit "the bull's eye" of your research object? Researchers generally determine validity by asking a series of questions and will often look for the answers in the research of others"* (Golafshani 2003 citing Joppe 2000 p1.).

One of the challenges of conducting research is how to conduct studies efficiently and effectively while retaining validity (Zang, u.d). The response rate of the survey is an indication of the time and effort put into a study, furthermore when the survey response rate is low it may be a concern for non-bias (Fohlich, 2001). Response rate is a measuring tool whether the survey is successful or not (Fohlich, 2001).

It has been researched that the response rate of managerial participation in business research has decreased (Forhlich, 2001, citing Kamakra and Wedel, 1997). Self-administered mail questionnaires can affect the response rate; research has raised concerns that the administration conditions may affect the validity of the data (Jones et al, 1982). The administration that increases the response rate can degrade the validity of individual responses (Jones & Lang, 1982). Maximizing the response rate is important, when the non-response rate is high there is a risk of the data being biased, moreover in managerial research when the response rate is low the data be bias as it only reflects successful companies, the higher the response rate it reflects the relevance of the study (Fohlich, 2001).

3.7 Data analysis and interpretation

Qualitative descriptive analysis is the analysis of verbal and visual data that is summarized and quantitative descriptive analysis, the researcher systematically applies the existing pre-set codes to the data (Sandelowski, 2000, p.338).The thematic analysis was used to provide a snapshot of the state of CREM in South Africa.

3.8 Ethical considerations

Ethical considerations should be considered thought the research report. University of Bradford, School of management u.d citing Saunders, Lewis and Thornhill (2003, p. 131) summaries issues that need to be considered:

- *The rights of privacy of individuals*
- *Voluntary nature of participation – and the rights of individuals to withdraw partially or completely from the process*
- *Consent and possible deception of participants*
- *Maintenance of the confidentiality of data provided by individuals or identifiable participants and their anonymity*
- *Reactions of participants to the ways in which researchers seek to collect data*
- *Effects on participants of the way in which data is analyzed and reported*
- *Behavior and objectivity of the researcher transport.*

The interviews were designed for the use and purpose of the study. The respondents and companies involved have not been identified. The data collected from the study will be protected and solely used for this research report. The research report has adhered to the framework and policies of the School of Construction Economics & Management, University of the Witwatersrand

4. Chapter Four

Results

4.1 The respondents

The six organizations that participated in the survey are from different industries and company profiles are outlined in Table 4.

As per the literature, supporting the findings of Kadefors and Brocher (2004), company 1, 2, 3 and 6 are the “bigger” organizations in terms of revenue and number of employees. These companies prefer to have a formalized real estate departments situated at the headquarters which have no contact with core business. Company 4 due to the small company size and space occupied, having a formal CRE unit is not viable. Companies 4 and 5 have less than 50 employees and their company revenue is less than R50 million, prefer not to have a formal CRE unit.

However the companies with a formalized real estate unit do not call the unit as “corporate real estate” except for company 3 which is a South African branch of an international company. Company 3 has a global corporate real estate unit. The South African companies with formal real estate units called the units facilities management, property management and workplace management. The companies that have a formalized real estate unit, the unit has not been in existence for more than 10 years.

Table 4- Respondents Profile

Organization Profile						
	1	**2**	**3**	**4**	**5**	**6**
	Financial	**Insurance and Financial Services**	**Assurance, Tax, Advisory and Transaction advisory services**	**Professional Services**	**Construction**	**Government Department Providing Financial services**
BEE Status	2	2	2	2	2	2
Operation	South African Company with operations in other African countries (10) Not listed on the stock exchange	South African Company with operations in other African countries Listed on the stock exchange	A South African branch of an international company Listed on the stock exchange	A South African branch of an international company Not listed on the stock exchange	A South African company with only local operations Not listed on the stock exchange	A South African company with only local operations Not listed on the stock exchange
No. of employees	470	>5000	>1000	<50	<50	>300
Annual revenue	R50million-R250million	More than a billion	More than a billion	Less than R50 million	Less than R50 million	More than a billion
Formal Real Estate unit	Yes	Yes	Yes	No	No	Yes
Name of Real estate unit	Facilities management	Workplace management	Real Estate	N/A	N/A	Property Management
Job title of real estate unit head	Facilities manager	Workplace manger	Director of Operations	N/A	N/A	Property manager and Facilities manger
Real estate unit head reporting line	Chief Financial Officer	Head of Accounting	Chief Operations Officer	N/A	N/A	Chief financial officer
Duration of unit being in existence	5 to 10 years	Less than 5 years	6 months	N/A	N/A	5 to 10 years

4.2 Leasing versus owning

In Table 5, the respondents were asked whether they own or lease the corporate real estate and the reasons to the decisions. Company 1 owns 50% of the building and is triple net leasing the building. Under the lease terms the company is responsible for the full maintenance of the building. The company is however exploring the option of owning its corporate real estate 100% as rental is too high.

Company 2 owns its real estate as an investment on behalf of the policy holders. The head office is being triple net leased and the branches are being leased as well. Company 3 is triple net leasing the real estate and is responsible for the maintenance of the building. The building is a new development and the developers build the building to meet the needs and requirements of the company. Company 4 is leasing a portion of office space in a multi tenanted building

Company 5 owns their corporate real estate as the operating and maintenance costs are lower, the availability of capital costs, the value of real options and internal incentives. Company 6 owns and leases their corporate real estate, reasons provided, institutional factors and real estate is not core business.

Table 5- Leasing versus owning

	1	2	3	4	5	6
Own Property	X	X			X	X
Lease Property	X	X	X	X		X

4.3 Outsourcing versus in-house management

It's evident that all the respondent companies both outsource and in-house their corporate real estate services. When asked which functions do they outsource all the companies 'manage their strategic sub functions in-house and outsource the maintenance and operational activities. According to Marsham and Heywood (2012, p. 6) citing Hartman et al. (2010) and Bowels and Kadzis (2007), the strategic and

sophisticated activities are sourced in-house and the operational activities are outsourced.

The outsourcings of the operational actives are based on the size of the job. Company 1 and company 2 out task some of their facilities management such as security, cleaning. The electrical and plumbing (maintenance and repairs) will depend on the size of the job. The larger and more complicated the job, they outsource the work. Yik and Lai (2005) stated that operations and maintenance include complicated functions and therefore require specialized skills and knowledge.

Table 6. CREM Strategies

	1	2	3	4	5	6
In-house management	X	X	X	X	X	X
Outsourced	X	X	X	X	X	X

Table 7. Functions managed in house and or outsourced.

Type of function	In-house	Outsourced
Strategic Planning	6	
Client Relationship Management	6	
Acquisition, Leasing & Development	5	1
Portfolio Management	6	
Financial Analysis	6	
Facility Management	2	6
Property Management & Building Operations	4	5
Maintenance &Repairs	2	6

4.4 Reasons to outsource

Majority of the respondent companies outsource their CREM service because real estate is not their core business. Three companies outsource to cut cost; however company 3 believes its cost has increased from hiring a service provider to provide facilities and property management services. Only two companies outsources as a way to assess skills, technology and best practice. One company outsourced due to organizational restructuring.

Table 8. Reasons to outsource

	1	2	3	4	5	6
Cost Saving	X	X			X	
Real estate not core business	X	X	X	X		
Access to skills, technology &best practice					X	X
Organizational restructuring					X	
Business process re-engineering						
Legislation & policies						
N/A						
Other						

4.5 Challenges with outsourcing

Surprisingly four companies indicated they faced no challenges with outsourcing and two companies expressed their concern about the lack of performance measurement tools. If they have a service provider working for them, they are unable to measure the quality of service performed. There is therefore no basis of determining whether these service contracts should be renewed or cancelled when they expire. They are also unable to compare various service providers. Therefore this could be the reason why they indicated they faced no challenges with outsourcing.

Table 9. Challenges with outsourcing

	1	2	3	4	5	6
Performance issues		X				
Lack of communication						
Lack of knowledge and experience by service provider		X				
Conflict of interest						
Achieving a strategic partnership						
Quality of service level		X				
Lack of ownership						
Lack of performance management tools		X				X
N/A	X		X	X	X	
Other						

4.6 Reasons to manage in-house

Three companies' manage their CREM services in-house to have control over the asset because they believe the internal team understands the business goals and objectives better than an external service provider would. Two of the three companies that in-house due to control over the asset own the real estate and believe that if they control the asset by keeping their CRE service in-house. The other two companies see the opportunity to manage in-house as opportunity way to develop staff skills and knowledge.

Table 10. Reasons to manage in-house

	1	2	3	4	5	6
Internal team understands the business goals and objectives		X		X	X	
Opportunity to develop staff skills and knowledge		X			X	
Real estate is core business						
Control of the asset		X			X	X
Lack of confidence in external service provider						
N/A	X		X			

4.7 Challenges with managing in-house

Three (half) of the companies indicated they did not experience any challenges with managing CREM services in-house. Those that experienced challenges mentioned performance issues, lack of flexibility and lack of skills and experience of internal staff. The reasons to this could be that the functions that are managed in-house are more strategic and because, as suggested by literature, the internal staff know the goals and objectives of the company and can therefore align the real estate strategic objectives with those of the business well.

Table 11: Challenges with managing in-house

	1	2	3	4	5	6
Performance issues		X				
No accountability from internal staff					X	
High salary cost						
Lack of flexibility						X
Lack of skills and experience of internal staff					X	
N/A	X		X	X		
Other						

5. Chapter Five

Discussion and Conclusions

The research report attempted to answer the following questions:

- Which companies manage in-house and which companies outsource?
- What reasons do they give for either choice?
- For those who only partly outsource, which functions do they manage in-house and which do they outsource?
- What challenges are faced with either in-house or outsourcing?

As previously suggested by Glagola (1999) corporations have an option of both outsourcing some functions and keeping other functions in-house. All the respondents prefer to both outsource and in-house their corporate real estate management services. Kadefors and Brochner (2004) stated that as a company grew, real estate management functions were established and the CRE functions were based at the headquarters and they did not have close contact with core business.

From the data collected the larger respondent companies, in terms of employees and revenue have formalized corporate real estate units which are based at headquarters and have no link with core business, however they call these units “facilities management”, “property management” and “workplace management”. There was one respondent who called their corporate real estate ”real estate”, this company is a South African branch of an international company and has a global corporate real estate unit.

It appears that the term “Corporate real estate” appears to be unknown to the five of the six South African company respondents. The term “corporate real estate” seems to mean an operational function and not a strategic one. However internationally, corporate real estate and ways of providing corporate real estate services is known to be a strategic decision as this can affect the performance of the company as well as cut cost and therefore add value to the business (Sarasoja 2004 et al citing Miller & Cardinal, 1994 p.4)

Ali, McGreal, Adair & Webb (2008) have defined corporate real estate as the real estate owned or leased by the corporation to achieve corporate objective and perform business activities Furthermore, Kooymans (2000) adds that it does not matter whether the real estate is owned for investment purposes or not. The majority of the respondents either owns their corporate real estate or leased them under a triple net leasing system. Consequently, they are responsible for the maintenance of the building and therefore this has an impact on how their decision to manage their CRE.

As real estate requires a specific skill to manage it (Hwa, 2003), majority of the respondents outsource their CREM services because real estate is not their core business. They indicated a lack of access to skills, technology and best practices as their reasons. Additional reasons for outsourcing by the respondents include organizational restructuring and cost cutting. These results are similar to the ones found by Matsham and Heywood (2012); they found that reasons for outsourcing CREM services were, cost saving, access to skills, technology and best practices, organizational restructuring, business process re-engineering, legislation and policies.

The findings of the research report match those of other international studies previously conducted. It is widely believed that outsourcing is conducted as a result to cut costs (Kimbler and Rutherford, 1986; Gibler and Lindholm, 2012; Hwa, 2003; Kooyman, 2000). However the one respondent believes its cost has increased from hiring a service provider to solely provide them with facilities and property management services, as they had a few internal staff looking after their operational and maintenance functions before. Kremic, Tukel, & Rom (2006) argue that the cost savings are not guaranteed with outsourcing and that these savings can only be realized if the service provider's costs are low enough and the service will be of good quality level at that low price.

The respondents who manage their CRE services in-house do so as, according to them, as the internal team understands the business goals and objectives, giving them control over the asset and enabling them to maximize the return on the asset. Furthermore it also affords them an opportunity to develop staff skills and knowledge. These results are once again similar to those found by Matsham and

Heywood (2012); Slack (2003) and Knowles (2004). The latter reason also addresses an important issue in the South African market – a documented skills shortage (Kingdon and Knight, 2007).

All the respondents manage their strategic sub functions (Strategic Planning and Client Relationship Management) in-house and outsource the maintenance and operational activities. The outsourcing of the operational activities is based on the size of the job. Company 1 and company 2 out task their facilities management activities such as security and cleaning. The electrical and plumbing (maintenance and repairs) will depend on the size of the job. The operation and maintenance of a building include complicated elements (Yik and Lai, 2005) and therefore require specialized skills.

The majority of the respondents indicated that they faced no challenges with outsourcing and two companies expressed their concern of lack of performance measurement tools, performance issues, lack of knowledge and experience by service provider and the quality of the service. Kimbler and Rutherford (1986) identified a lack of knowledge and experience by the service provider staff caused a performance issue.

Other studies completed conclude that problems experienced with services providers are poor communication, monitoring and control of the service provider by a non-specialist corporate (Gibler and Black, 2004; Yik and Lai, 2005). Gibler and Black (2004) suggest that the lack of measurement tools issue exist because the principal who does not possess real estate knowledge, does not know what standards of practice to apply to measure the performance of the service provider and therefore the cost of monitoring the performance is high.

I believe, from the interviews conducted, the respondent companies do not know what is expected of the service providers as they are non-real estate companies and therefore cannot measure the performance and some cannot evaluate whether they receiving a good service or not therefore indicating no challenge was experienced with outsourcing. If the service provider does not perform well this decreases the quality service level and consequently increasing the cost and the company does not benefit from the outsourcing (Liapopoulosa and Moshurisb, 2013).

Half of the respondents indicated that they did not experience any challenges with managing their CREM services in-house. The reasons to this could be that the functions that are managed in-house are more strategic and because, as suggested by literature, the internal staff know the goals and objectives of the company and can therefore align the real estate strategic objectives with those of the business well. Those that experienced challenges mentioned performance issues, lack of flexibility and lack of skills and experience of internal staff. These results match those of the literature, (Miller, u.d; Gibler and Black, 2004; Yik and Lai, 2005).

The lack of measurement tools are a problem, if the level of the service being provided by the external service provider could be measured and quantified, would the internal staff match the service level (Miller, u.d). In addition because internal staff are hired permanently and have secured jobs unlike a service provider, if he does not perform can be fired, this could be reasons as to why the internal staff would not perform to the optimal level or because the internal staff is not knowledgeable about real estate (Miller, u.d).

With the data collected from the six respondents it may appear that South African companies match international best practice; however, more studies might be needed to validate the results.

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7. Appendices

The interview

1. What industry does the company fall under?

Financial	☐
Agricultural	☐
Mining	☐
Construction	☐
Wholesale and retail trade	☐
Manufacturing	☐
Electricity, gas and water supply	☐
Transport, storage and communication	☐
Community, social and personal services	☐
Other (please specify)	☐

2. Is the company

The South African branch of an international company	☐
A South African company with only local operations	☐
A South African company with operations abroad	☐

3. What is the company's BEE rating?

Level 1	☐
Level 2	☐
Level 3	☐
Level 4	☐
Level 5	☐
Level 6	☐
Level 7	☐
Level 8	☐
Level 9	☐

Level 10 ☐

4. Does your company have a formal real estate unit?

Yes ☐
No ☐

5. If yes, what is the Unit called?

Corporate Real Estate ☐
Property Management ☐
Facilities Management ☐
Other (please specify) ☐

6. How long has the unit been in existence?

Less than 5 years ☐
5 to 10 years ☐
10-20 years ☐
20-30 years ☐
More than 30 years ☐

7. What is the job title of the real estate unit head?

Corporate Real Estate Manager ☐
Property Portfolio Manager ☐
Property Manager ☐
Asset Manager ☐
Facilities Manager ☐
Head of Property ☐

Head of Facilities ☐

8. The real estate unit head reports to the company through:

Director of Marketing ☐
Director of Operations ☐
Chief Executive Officer ☐
Chief Financial Officer ☐
Chief Operations Officer ☐
Other (please specify) ☐

9. What is the annual revenue of the company?

Less than R50 million ☐
R50-R250 million ☐
R250-R500 million ☐
R500 million -R1 billion ☐
More than R1 billion ☐

10. How many people work for the firm?

Less than 50 ☐
50-100 ☐
100-200 ☐
200-300 ☐
More than 300 ☐

11. Do you own or lease your real estate?

Own ☐
Lease ☐

12. Please indicate reasons for owning property

Lower operating and maintenance costs	☐
Availability of capital costs	☐
Risk averseness	☐
The value of real options	☐
Internal incentives	☐
Institutional factors	☐
	☐
N/A	☐

13. Please indicate reasons for leasing property

Transaction costs	☐
Differential access to credit market	☐
Lack of skill in asset disposal	☐
Real estate not core business	☐
Economies of scale in management	☐
Accounting and tax aspects	☐
N/A	☐

14. Does your company manage corporate real estate service in-house or are they outsourced?

In-house management	☐
Outsourced	☐
Partly in-house	☐

15. What functions are managed in house and which functions are outsourced?

Type of Function	**In house**	**Outsourced**

Strategic Planning		
Client Relationship Management		
Acquisition, Leasing & Development		
Portfolio Management		
Financial Analysis		
Facility Management		
Property Management & Building Operations		
Maintenance and repairs		

16. Please indicate the main reasons for outsourcing the real estate services

Cost saving ☐
Real estate not core business ☐
Access to skills, technology & best practice ☐
Organizational restructuring ☐
Business process re-engineering ☐
Legislation & policies ☐
other (please specify) ☐

17. Do you face any challenges with outsourcing?

Yes ☐
No ☐

18. If yes, please indicate which of the following are the challenges faced with outsourcing?

Performance issues ☐
Lack of communication ☐

Lack of knowledge and experience by service provider ☐
Conflict of interest ☐
Achieving a strategic partnership ☐
Quality of service delivery ☐
Lack of ownership ☐
Lack of performance measurement tools ☐
other (please specify) ☐

19. Please indicate which are the following reasons for managing real estate services in-house

Internal team understand business goals and objectives ☐
Opportunity to develop staff skills and knowledge ☐
Real estate is core business ☐
Control of the asset ☐
Lack of confidence in external service providers ☐
other (please specify) ☐

20. Do you face any challenges managing real estate in-house?

Yes ☐
No ☐

21. If yes, please indicate which of the following challenges do you face with managing real estate in-house

Performance issues ☐
No accountability from internal staff ☐
High salary costs ☐
Lack of flexibility ☐
Lack of skills and experience of internal staff ☐
other (please specify) ☐