CORPORATE REAL ESTATE PRACTICES IN SOUTH AFRICA – A SURVEY OF THE TOP 200 COMPANIES LISTED ON THE JOHANNESBURG STOCK EXCHANGE

Aashen Lalloo

A dissertation report submitted to the Faculty of Engineering and the Built Environment, University of the Witwatersrand, in fulfilment of the requirements for the degree of Master of Science in Property Development & Management.

School of Construction Economics and
Management University of the Witwatersrand
Johannesburg

2013

Contents

Candidates Declaration

I declare that this dissertation is my own unaided work. It is being submitted to the Degree of Master of Science to the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination to any other University.

……………………………………………………………………………………

(Signature of Candidate)

……….. day of …………….., ……………

Abstract

Purpose – The purpose of the study was to develop a baseline decription of the current state of corporate real estate management within South Africa.

Design/methodology/approach – A combined online/paper questionnaire was administered on the top 200 firms listed on the Johannesburg Stock Exchange.

Findings – Majority of the firms have no formally organised real estate unit. A few have only recently organised formal real estate units as a department of the company, reporting mostly to the CEO even though the latter seldom gets involved in Corporate Real Estate decision. The CFO appears to be the one in charge of corporate real estate decisions in most of the firms. Majority of the firms own, rather than lease their corporate real estate due to location, transport advantages, minimisation of the risk of rent changes and community links that are advantageous to their business effort. The principal reason for leasing was the flexibility it affords in relocating in future. Other issues covered include the cost treatment of using CRE, the importance of CRE management, in-house management and outsourcing of CRE services and the criteria for selecting an external CRE management service provider.

Business Implications – Service providers need to take into account specific criteria used by respondent firms in the selection of who manages their corporate real estate.

Originality/value – This paper provides the first comprehensive description of corporate real estate management on the Johannesburg Stock Exchange.

Acknowledgments

I would like to extend a heartfelt thank you to everyone who assisted me both directly and indirectly in carrying out this research.

My sincerest gratitude goes out to Dr. Samuel Azasu for his encouragement, tireless guidance and moral support over the last two years. This study would not have been possible without your invaluable input.

I am also grateful to all the individuals who took the time to respond to the survey and in turn helped to shape the future of Corporate Real Estate Research in South Africa.

Lastly, a special thank you to all my friends and family who have all in some way contributed to the successful completion of this research.

List of Figures

List of Tables

Chapter 1 - Introduction

Every business, including even virtual businesses, requires a space to reside and conduct business activities. The land and buildings owned by companies not primarily in the real estate business are referred to as Corporate Real Estate (CRE) (Liow Nappi-Choulet, 2007). Extremely few businesses do not require some sort of space in which to operate, “Even an agent working from a mobile phone will seek free use of doorways for shelter” (Weatherhead, 1997). However, up to the early 90’s, Corporate Real Estate (CRE) was still a resource that was overlooked by senior executives in favour of activities and functions that were deemed to be “core” to the successful running of a business. One of the earliest attempts to highlight the importance of CRE was the work of Zeckhauser and Silverman (1983), it was estimated that American companies’ real estate typically accounted for at least 25% of their total assets, but barely 20% of American corporations manage their real estate for profit. According to Brown and Arnold (1993) the notion of “not being in the real estate business” is the major hurdle in driving the change into effective use of CRE. Furthermore, Teoh (1992), cited in McDonagh.J (2000), discovered senior executives in many New Zealand corporations were “not concerned with real estate holdings as these are fixed asset or sunk costs.” Despite being a cost that is only second to salaries and wages, real estate was constantly neglected by the majority of corporations throughout the world and was treated mainly as a tool of production (Roulac, et al., 2002; Gibler, Black, and Moon, 2002). This confirms that many corporate real estate executives still do not believe a corporate real estate strategy and decision making can impact upon the wealth of a company’s shareholders.This spurred research into the area of what can be done with a company’s ‘real estate holdings to achieve a greater positive impact on the wealth of shareholders and enhance the value of the organisation (Gibson and Barkham, 2001; Manning and Roulac, 1999; Bon, 1994). Research has dealt extensively with how Corporate Real Estate Management (CREM) goals and objectives (Carn et al., 1999; Gibler et al., 2002; Ilsjan, 2007; Lindholm, 2008) can align with and improve companies’ corporate objectives and profits.

1.1. CRE from an International Perspective

Corporate Real Estate Management (CREM) led to many American and British companies re-evaluating their policies of real estate management (Avis et al., 1993; Louargand, el al., 1993). A study by Schaefers (1999); and Tay and Liow (2006) identified that this mindshift was an increasing trend among non-real estate companies. Prior studies suggest companies in the US and Europe were awakening to the critical role that effective corporate real estate management can play in their organisations. CREM adds value by increasing efficiency, increasing customer satisfaction and improving productivity by incorporating real estate strategy into broader corporate planning (Lambert and Poteete, 1997; Schaefers et al., 2006).

From an international perspective, the ownership of significant amounts of real estate by corporations is well documented. In the United States of America; CRE ownership was estimated to be at circa 20% of corporate wealth, whereas in the United Kingdom, real estate represented an average of between 28% and 38% of total company assets, and 95% of the capital that was reflected on the balance sheets of industrial companies (Rodriguez and Sirmans, 1996). This became important when it was proven in a study conducted by Debenham Tewson and Chinnock (1992) that many of the larger non-real estate organisations were in control of property portfolios that were equal to or exceeded the value of mainstream real estate companies.

European non-real estate firms were found to own a higher percentage of CRE than US firms, (Laposa and Charlton, 2001). Similarly, Asian non-real estate firms report a higher percentage of property held (as total tangible assets) than US and European firms. For example, Singapore business firms invested, on average, at least 40% of their corporate resources in real estate (Liow, 1999).There are various reasons for non-real estate firms to have such substantial property portfolios. One is the corporate image of a company, with many large businesses tending to own their main offices in order to boost their corporate image. The question of why many non-real estate firms own as opposed to lease their property has been extensively researched over the last 10 years and according to Liow, K. and Nappi-Choulet. I. (2007), the main reasons cited by the CRE managers include that CRE is reported as an asset on companies' balance sheets and therefore signifies organizational growth and provides a source of cashflow during times of recession,. Furthermore, CRE ownership provides a source of capital growth, investment income, and disposal and development profits, and is thus capable of improving a firm's market performance. None of these points can be related to the South African market because the basic question of how CRE is viewed and how much CRE there is has not been answered yet.

1.2. Statement of the Problem

Over the last decade there has been numerous research papers published across the world emphasising the importance of Corporate Real Estate and its value in supporting business operations. Much of the research has been concentrated in the UK and the USA. Some notable studies that were completed were benchmarking performance (Noha, 1993), Managing real estate to provide value (Apgar IV & Bell, 1995) and outsourcing (Bergsmann, 1994; Manning and Roulac, 1997), the value of CRE management (Krumm et al., 1998); a comparative study of European and North American CRE practices and the attitudes of senior executives toward CRE management (Bon and Luck, 1999), and the capability of suppliers in meeting the evolving needs of a corporate client. (Gibson and Lizieri, 1999). Manning and Roulac (1999) have documented and summarised the status of CRE research, particularly that carried out in the USA. Carn et al., (1999) have used a Delphi research method to examine current and future issues in CRE management from a corporate organisational and operational perspective, in New Zealand, an analysis of the performance and development of CREM across 457 organisations in NZ was conducted (McDonagh. J, 2002), Corporate Real Estate Ownership Implications conducted by Brounnen & Eicholtz, (2005) and in Asia, factors affecting the CREM practices within the commercial banking sector were investigated (Kaluthanri. P.C., 2009), finally, the measurement of the added value of Corporate Real Estate Management in an organisation was presented in a paper by Gibler & Lindholm, (2012).

The only known attempt to investigate CRE practices and influences on businesses in an emerging market was in Ghana where empirical research into the benefits of owning versus leasing property was carried out (Petison, K., 2007). To the best of the author's knowledge, there has been no such attempt at a study on the state of practice of CRE in South African industries.

1.3. Significance of the Problem

According to Zeckhauser and Silverman (1983), Corporate Real Estate assets consisted of more than 25% of the total assets of major corporations in the United States in the early 1980's. Bon, Gibson, and Luck (2002) have more recently suggested that real estate accounted for between 10% and 30% of total corporate assets of major European and American corporations between 1993 and 2001. This roughly translated to CRE being the second highest cost centre in an organisation after salaries (Veale, 1989). Real estate holdings can decrease a firm's risk profile, and low risk companies are more likely to own their real estate due to their relatively low cost of capital (Brounnen, D & Eichholtz P, 2005). However, as far back as 1989, Gale, found that much of corporate real estate resource management was still centred at the lower levels of management, with real estate specialists being used only on a limited basis. Research carried out by Warren, Simmons, & Trumble (2007) has shown that a significant proportion of organisations were still failing to implement even the most basic levels of asset management.

The two statements from Gale in 1989 and Warren et al. in 2007 were made eighteen years apart. Gale made his statement in 1989, around the time when corporate real estate management (CREM) became the subject of scientific research to a greater extent, mainly in the United States. By 2007 it seemed that this statement had not changed much despite the amount of research done on the subject.

Once completed, this dissertation will provide useful insights into the attitudes of corporate executives toward the subject of CRE from a South African perspective. Furthermore, the research will be able to provide quantitative data to show how much CRE is being “wasted” by bad management and ignorant executive behaviour. Various CRE Executives/Managers across various industries will benefit from the data presented in the paper, as currently it is impossible to even attempt to answer such burning questions as “How is CRE viewed?” “What are the attitudes of Corporate Executives toward the concept of CREM and CRE as a whole?” “How much Corporate Real Estate is there in South Africa?” “Who is in charge of CREM within a company (if anyone)?” and “What are the benefits of leasing v. owning property?” These are all critical questions that need to be answered in order for corporations in SA to reap some of the benefits outlined in research articles such as Manning C. (1997)

1.4. Objectives

The objectives of the study are to offer a prelimnary exploration of the state of corporate real estate management in South Africa by:

- Identifying the organisation of corporate real estate management among firms listed on the JSE
- Examining the attitudes of corporate executives/senior management toward Corporate Real Estate (CRE)
- To identify the activities that constitute Corporate Real Estate Management (CREM) and whether they are carried out in-house or outsourced.

1.5. Research questions

In order to fulfil the above objectives, the following questions will be addressed:

- Is there a formal real estate unit in existence?
- What is the job title, functions and lines of reporting of the person responsible for CREM?

1.6. Limitations

The main limitation is that study will comprise only of companies listed on the Johannesburg Stock Exchange (JSE); subsequently, the results may not apply to non-listed companies.

Chapter 2- Literature Review

2.1. Corporate Real Estate (CRE)

Corporate Real Estate (CRE), according to Zeckhauser and Silverman (1983) is defined as "the land and buildings owned by companies not primarily in the real estate business." Later, Brown et al. (1993) defined it as "properties that are either owned or leased by firms to achieve corporate objectives." In the same year, Joroff et al. (1993), termed Corporate Real Estate as the 'fifth resource' of business corporations/organisations, after the traditional four resources of People, Technology, Information and Capital. Brueggeman and Fisher (2001) described it as "the use of real estate as part of business operations and associated activities," and Krumm P. (2001) described CRE as real estate held or used by a business enterprise or organisation for its own operational purposes. Oluwoye et al. (2001) also attempted to define CRE as "real estate owned by a corporation, real property, physical facilities, or the buildings and land held by large organizations, both public and private." Edwards and Ellison (2004) depicted CRE as property held as an operational asset that serves to support the activities of the business occupying the property, while Liow and Nappi-Choulet (2007) defined it as "the land and buildings owned by companies not primarily in the real estate business."

Ali, McGreal, Adair, Webb (2009) argues that the most appropriate definition of CRE is as a functional unit in an organisation, which is responsible for the real estate asset holdings and their activities, and supports the organisation to achieve its business objectives. According to Ali.Z et al. (2009), the term CRE applies to properties that are either owned or leased by firms to achieve corporate objectives. The definition of CRE has broadened from the basic Zeckhauser and Silverman definition to the Kooymans definition that included the investment portion and the more recent Krumm definition which included the management component. This highlights the evolution over the years of the changing roles that CRE has played within various organisations across various economic sectors in the world. For the purposes of this research, the more broad-based definition of a functional unit within an organisation that supports a company's business objectives will be used.

2.2. Corporate Real Estate Management (CREM)

In recent years, however, property has come to be seen as a facilitator of an organisation's operations, and more importantly a company's business objectives. In line with this new role, increasing attention has been given to the management of property owned by corporations. One of the earliest attempts to define Corporate Real Estate Management was in the early 1990's when Nourse (1990), referred to CREM as "the management of real estate assets for use in business other than real estate." This basic definition was refined by Brown, Arnold, Rabianski, Carn, Lapides, Blanchard, Rondeau, (1993) who defined it as "the optimum use of all real estate assets utilized by a corporation in pursuit of its primary business mission."

According to Bon (1994), Corporate Real Estate Management (CREM), "concerns the management of buildings and parcel(s) of land at the disposal of private and public organizations that are not primarily in the real estate business." Bon et al. (1998) proposed that CREM refers to "the management of property that is incidentally held, owned, or leased by an organization to support its corporate mission." Corporate Real Estate Management (CREM), whilst Dewulf et al. (2000) defines it as "the management of a corporation's real estate portfolio by aligning the portfolio and services to the needs of the core business processes, in order to obtain maximum added value for the businesses and to contribute optimally to the overall performance of the corporation." Krumm P. (2001) further defined it as the functional practice, department, or profession that is concerned with the planning, acquisition, management, and administration of real estate on behalf of a company. Furthermore, Lindholm (2006) argues that it "concerns every real estate and facility-related issue in public and private organization, whose core business is not in the real estate business".

According to Ilsjan (2006), CREM "deals with the management of a corporation's (enterprise's) real estate portfolio, in both, private and public sector organizations." More recently, Fuerst (2009) described it thus: "Most definitions of Corporate Real Estate Management (CREM) states that its core task is the active, solutions-oriented, strategic and operational management of properties regardless of whether they are necessary for a company's business operations or not. Thus, CREM typically only comprises the real estate management activities of non-real estate companies." From the definitions mentioned, CREM could be referred to as "the strategic management of real estate held by a corporation/organization, be it public or private, in pursuit of its primary business mission

2.3. The CREM Function

Krumm et al. (2000) defined the main function of CREM as the management of a corporation's real estate portfolio, by aligning the portfolio and services of a company to the needs of the core business, in order to obtain maximum added value and to contribute to the overall performance of the corporation. Ali, McGreal, Adair, Webb (2009) defined the CRE function in an organisation as being similar to other business functions, such as sales and marketing, finance, human resources, and management information system departments, with its main objective being supporting the organisation's operations. Gale J. (1989) demonstrated that the CRE function is not limited to one specific area within an organisation but is rather integrated to a number of functional organisational units such as finance, marketing, production, operations, etc. Broadly there are five categories within which CREM can be said to operate. They are: Acquisition and Development, Property Management, Financial Analysis, Surplus Property and Miscellaneous Property Activities. Within each category there are sub-activities, for example, within Acquisition and Development there is a need for site identification/selection, acquisition of the site, its design and construction. Each activity demands some form of corporate real estate managment.

The complete sub-activities required within each activity according to Gale J. (1989) are, Acquisition and Development, and the associated CREM Activity that is required is identification, site selection, acquisition, development, design and construction. This is followed by Property Management, which requires active property management and record keeping. The next category is Financial Analysis, where project financial analysis, capital budgeting and property tax management and evaluation are the key activities required. Lastly, Surplus Property, which requires the identification of surplus property and its disposition, and finally miscellaneous activities that involve leasing, brokerage, etc.

2.4. Roles and responsibility of a CRE Manager

2.4.1. The Role of a CRE Manager

In order for Corporate Real Estate Management to succeed, effective management is crucial. This means that the appropriate people and structures need to be in place before an organisation can hope to achieve the benefits previously mentioned. According to McDonald J. (2009), in a traditional structure, the top management of an organisation will usually make the decisions which the CRE manager will implement, thus acting merely as a follower of orders. The CRE manager may express his/her opinions, but the limitation on his/her involvement in the organisation's strategic planning process may prevent the efficient functioning of this unit. Schaefers (1999), suggested that the CRE officer should be a strategist and be involved in long-term planning to achieve the overall organisation's goals.

In a standard scenario, either a director, the chief real estate officer, or a manager will lead the operations component of CRE with the actual job title for the post varying according to the structure of the organisation and country of operation. Some examples of job titles revealed in an American study that Directors of Real Estate accounted for 37%, Vice President 30%, President 17%, and others (e.g. CRE Manager) 17%.

2.4.2. The Responsibility of the CRE Manager

It is indicated here that the responsibility of the management role varies in an organisation, and that its integration with other business units would also vary as a consequence. Gibler, Black, and Moon (2002) indicated that there were very few corporate real estate managers that were actively involved in long-term synergies with regard to planning and co-ordination with other business units, and that the reporting line of the CRE manager was almost always directly to the Vice President with little or no direct communication to the President. Thus the CRE manager's role was perceived to be more focused on operational aspects and not very much involved in strategic planning.

The role of a CRE manager in an organisation is difficult to define, as corporate real estate activities encompass all aspects of real estate within a business. According to Seiler, Chatrath, and Webb (2001), the CRE manager has a more complex objective function in relation to an individual investor/developer, who looks for real estate investments from a return on investment perspective in order to increase personal wealth. Seiler, et al. consider that CRE managers should take a holistic approach and take cognisance of the impact CRE has on operating risks, financial risks, and corporate stock valuation within the organisation as a whole. Furthermore, the CRE manager must acquire and dispose of real assets, arrange the financing of these assets, and integrate these tasks into corporate strategy.

2.5. CREM and Organisation Structure

CRE organisation structures allow the effective implementation of CREM strategy (Liow and Nappi-Choulet, 2007). The structure of the corporate real estate function concerns who, where and how decisions about corporate real estate are made within an organisation (Gibson and Barkham, 2001). In other words, the organisation structure of CREM simply refers to the location and role of the CREM department within a business corporation.

Zeckhauser and Silverman (1983), advocated that the CREM structure can be decentralised (where management of real estate is the responsibility of each product department within the business organisation), centralised (where all real estate decisions for the firm are made in a centralised department within the business organisation), or a wholly-owned subsidiary (where control of some or all of the company's real estate is transferred to a subsidiary of the business organisation, e.g. like the Intercontinental Homes and Briscoe Properties is to Intercontinental Bank and Briscoe Company respectively in Nigeria). An alternative is to classify the CREM structure into profit centres and cost centres (Veale, 1989). Moreover, profit centres appear to be aligned with fully-owned subsidiaries, while cost centres appear to be aligned with centralised and decentralised departments (Rutherford and Stone, 1989).

2.6. The Value of Corporate Real Estate Management

In an effort to pinpoint the added value of effectively managing a corporation's real estate assets, Krumm, Dewulf & DeJonge (2000), described seven elements of added value (Table 1) that contribute to the transformation of real estate from mere "cost of doing business" to a true corporate asset. Krumm, Dewulf and DeJonge, (2000) also identified cost reduction, flexibility, and the relationship between real estate and marketing as the ways real estate can add value to the firm. In 1993 Nourse & Roulac listed possible interventions on how real estate could be linked to corporate business processes. Since then, De Jonge (1996), Lindholm (Lindholm, Gibler, & Leviäinen, 2006), Scheffer et al (2006), De Vries (2007; De Vries, De Jonge, & van der Voordt, 2008) and Den Heijer (2011) have contributed to research in this area.

Table 2.1 summarises the current literature on the added value of real estate linked to corporate business principles.

Table 2.1: Added Value of Real Estate over Time

Nourse & Roulac (1993)	**De Jonge (1996)**	**Lindholm (2006)**	**Scheffer et al (2006)**	**De Vries (2008)**	**Den Heijer (2011)**
Added Values	Added Values	Added Values	Added Values	Added Values	Added Values
Reduce Cost	Reduce Cost	Reduce Cost	Reduce Cost	Reduce Cost	Reduce Cost
Improve Productivity	Improve Productivity	Improve Productivity	Improve Productivity	Improve Productivity	Improve Productivity
Facilitate Managerial Process & Knowledge Work	Facilitate Managerial Process & Knowledge Work	Facilitate Managerial Process & Knowledge Work	Facilitate Managerial Process & Knowledge Work	Facilitate Managerial Process & Knowledge Work	Facilitate Managerial Process & Knowledge Work
Controlling Risk	Controlling Risk	Controlling Risk	Controlling Risk	Controlling Risk	Controlling Risk
Reducing Ecological Footprint	Reducing Ecological Footprint	Reducing Ecological Footprint	Reducing Ecological Footprint	Reducing Ecological Footprint	Reducing Ecological Footprint
Increase Real Estate Value	Increase Real Estate Value	Increase Real Estate Value	Increase Real Estate Value	Increase Real Estate Value	Increase Real Estate Value
Increasing (User) Satisfaction	Increasing (User) Satisfaction	Increasing (User) Satisfaction	Increasing (User) Satisfaction	Increasing (User) Satisfaction	Increasing (User) Satisfaction
Facilitate And Control Production	Facilitate And Control Production	Facilitate And Control Production	Facilitate And Control Production	Expanding Funding Possibilites	Improving Quality Of Place
		Promote Marketing And Sale	Improving Culture	Improving Culture	Supporting Culture
					Stimulating Collaboration
					Supporting Image

2.7. Attitudes toward Corporate Real Estate

In Zeckhauser & Sliverman (1983), it was observed that most US companies treat property as an overhead cost, “like stationery and paperclips.” Furthermore, when corporate executives were asked why they did not manage their real estate resources, they usually replied with statements such as “We are not in the real estate business.” Given that Veale (1989) showed that property occupancy costs make up 10 to 20% of operating expenses, or 41 to 50% of the net operating income of a corporation, it is one of the most taken for granted and under-managed assets (Englert J., 2001). Bon, Gibson, and Luck (2002) have developed on this argument and have put forward research that shows that real estate accounted for approximately 15% to 25% of total corporate assets amoungst major European and American corporations between 1994 and 2005.

Teoh W.K. (1992) demonstrated that property is not treated as a strategic asset by corporations “owing to the apparent tranquillity of property investment and almost guaranteed profitability, property management has generally been assumed to be a task not requiring any form or expertise or formal training.” Subsequent to Zeckhauser and Silverman, international interest has grown dramatically in various components of Corporate Real Estate. However, there is no mention of ways to ensure optimal use of the real estate assets that a company possesses. Adendorf and Nkado (1996) express a similar opinion in a report by Cornet Global (2005) based on an Ernst and Young survey. It was suggested that 52% of all organisations were still either doing nothing, or did not know what to do regarding their property portfolios. Furthermore, most senior executives perceive the role of real estate assets as merely providing appropriate working environments for the least space costs (Gibler, Black, and Moon, 2002), clearly showing that attitudes are still entrenched in the idea that corporate real estate is a means of doing business and thus cannot be managed for profit.

2.8. Conclusion

CRE is an important investment, the costs of which are second only to HR costs. As outlined above, it also provides numerous business benefits if it is managed effectively. Prior research on the impact of CRE holdings on firm performance was carried out by Cheong and Kim (1996), Deng and Gyourko (2000), Seiler, Chantrath and Webb (2001), Liow (2004), and Brounen and Eichholtz (2005). Cheong and Kim (1996) examined the relationship between increases in real estate prices and the value of non-real estate firms in South Korea using a yearly cross-sectional test for the period of 1987 to 1991. The results indicated that the proportion of a firm's real estate holdings to total assets had no significant impact upon firm value. Deng and Gyourko (2000) analysed a sample of 718 companies in non-real estate industries for the period and reported that high CRE ownership levels were associated with negative stock performance for firms with high betas. Seiler et al. (2001), on the other hand, tested for the diversification benefits of CRE ownership based on the modern portfolio theory. They examined the effects of a percentage of real estate holdings on a firm's systematic risk and risk-adjusted returns. They used a sample of 80 firms from 1985 to 1994 and found no evidence of the diversification benefits of holding significant amounts of CRE. Liow (2004) examined the impact of CRE ownership on the stock market performance of non-real estate firms in Singapore.

Similar to Seiler (2001), Liow reasoned that if CRE is a good diversifier, then non-real estate firms with significant property holdings should provide a higher risk adjusted return. The results showed that the inclusion of CRE in a corporate portfolio is likely to result in higher systematic risk and lower abnormal return performance. Brounen and Eichholtz (2005) looked at the effects of CRE ownership on the risk and return characteristics of listed companies using a sample of 5,109 companies from 20 industries based in 9 countries during the period of 1990 to 2000, although the effects were sector specific, they found an overall negative average relationship between CRE ownership and firm performance.

The relatively new nature of contemporary strategic Corporate Real Estate Management makes it a worthwhile area for research. The crux of the international bandwagon approach of advanced countries towards Corporate Real Estate Management is to tap the neglected real estate resources of corporations. Proactive measures taken toward a corporation's real estate is a sure way to add value to the core business of the organisation, and a source of succour in the problems of economic fluctuations on corporate organisations (Bakare, 2010).

Further research on the level of real estate ownership by non-real estate companies has been conducted internationally. Results of these studies show significant ownership of real estate, which ranges from 25% to 40% of their total assets by non-real estate firms:

(a) United States of America - Veale (1989); DiLuia, Shlaes and Tapajna (1991); Johnson and Keasler (1993),
(b) New Zealand - Teoh (1993),
(c) Malaysia - Iskandar (1996),
(d) Europe - Bon (1998),
(e) Germany - Schaefers (1999),
(f) Singapore – Liow (1999); Ong and Yong (2000) and Liow (2001),
(g) Ireland - Roulac et al (2002).

However, to the best of the author's knowledge, it is unclear how much CRE SA companies own, as is the status of the CRE function in the typical SA firm, the functions of CRE and decisions on owning versus leasing among others. The following questions would throw light on some of the above mentioned issues:

“How is CRE viewed?” “What are the attitudes of corporate executives toward the concept of CREM and CRE as a whole?” “How much Corporate Real Estate is there in South Africa?” “Who is in charge of CREM within a company (if anyone)?” and “What are the benefits of leasing versus owning property?”

Chapter 3- Research Approach and Methodology

In an attempt to ascertain the attitudes of corporate executives toward CRE, a detailed survey was conducted that provided insights into the current status quo of CREM in the industry. A survey is defined as a means of "gathering information about the characteristics, actions, or opinions of a large group of people, referred to as a population." (Tanur, J.M cited in Pisonneault and Kraemer (1993). This paper makes use of survey research which, according to Pisonneault and Kraemer (1993), is a survey that focused on advancing knowledge. The characteristics of such a survey are:

- A quantitative method that requires a standard benchmark from which to compare the subjects.
- The method of collecting information is through structures and pre-defined questions.
- Information collected from the sample size can be generalised to the entire population.

The sample for this research paper was the JSE Top 200 firms, and was identified on the basis of market capitalisation as on 31st December 2012. At the time of selection, the list included 200 companies from different industry sectors identified using the Global Industry Classification Standards (GICS). To facilitate a higher level of sectoral analysis, the companies have been clustered into the following seven top-level sectors (the associated sub-sectors are identified in parenthesis):

- Consumer Discretionary – (Apparel and Luxury Goods, Apparel Retail, Apparel, Accessories and Luxury Goods).
- Consumer Staples – (Beverages, Brewers, Food Distributors).
- Energy and Materials – (Chemicals, Construction Materials, Energy, Gold, Metals and Mining, Paper Products, Precious Metals and Minerals, Steel).
- Finance – (Diversified Banks, Diversified Financial Services, Insurance Brokers, Real Estate).
- Health Care – (Pharmaceuticals, Health Care).

- Industrial – (Construction and Engineering, Electrical Components and Equipment, Industrial Conglomerates).
- Information Technology and Telecommunications – (Electronic Equipment and Instruments, Wireless Telecommunication Services).

Data collection was focused on the top 200 companies (classified by market capitalisation), as these provide a proxy for the market as a whole. The limitation of a survey is that due to the multiple choice-type answer and question, the answers are already categorised into what one expects instead of what it is. This can be overcome by providing a space to write in answers, but due to time issues, senior corporate executives being able to do this is highly unlikely. For the purposes of this research, a combination of the two will be adopted, with a broad-based survey being conducted allowing for the majority of questions to be answered through multiple choice-type questions and text boxes when an opinion is required.

The questionnaire was divided into six main sections covering; organisation, structure, real estate decision making, leasing versus owning, corporate real estate management, and in-house management versus outsourcing.There was a total of 25 primary questions in the survey that led onto secondary questions, which in turn led to a number of sub-questions, resulting in a total of 33 possible data sources per respondent. The data collected included questions of fact, such as: “Is there a formally organised real estate unit in your organisation?” and also questions of opinion, many of which were measured on the five point Likert scale. For example, “Corporate Real Estate Management is not important because your company’s core business is not real estate” in questions where respondents were asked to indicate the importance of various real estate functions. Other questions that required company-specific text inputs also included ones such as, “Please comment on why the outsourcing service was successful.”

3.1. Ethical Considerations

The questionnaires and/or interviews were designed to elicit information for the purpose of the study only. This research adhered to the framework and policies of the School of Construction Economics and Management and the University of the Witwatersrand Research Ethics Committee. Any data for research publication purposes was treated with anonymity unless permission was granted for it to be used otherwise. In addition, the data obtained was not used for either commercial purposes or made available to third parties without express written consent from the participants. All the participants in the study expressed their consent to use the data for research as stated. The participants also confirmed that they were not below the age of 16 and also acknowledged their rights to discontinue participation in the research at any time without reason. The data emerging from the study was made available to all participants upon request.

3.2. Characteristics of Respondents

The results from previous research conducted by the likes of Zeckhauser and Silverman (1989), McDonaugh. J (2002), and Gale (1989) among others could not be generalised across all countries, and especially not South Africa. This paper aims to gauge the extent to which research (which was predominantly carried out in developed nations) relates to a developing nation like South Africa. In order to accurately determine the current state of the CRE Market in South Africa, a literature review coupled with quantitative research methods was used, data gathering was focused on how CRE/CREM is viewed, as well as the amount of CRE currently owned by public listed companies in South Africa.

Chapter 4 -Results and Discussion

As mentioned in the literature review, the survey was limited to the Top 200 JSE Listed Companies across the various sectors as defined by the GCIS Standards. The responses per sector are shown in Table 4.1. A total of eighty (80) responses were recieveed from the total sample of two hundred (200), yielding a 40% response rate.

Table 4.1: Respondents Line of Business

Description	Frequency	Percent
Consumer Discretionary	15	18.8
Consumer Staples	14	17.5
Energy & Minerals	10	12.5
Finance	24	30.0
Industrial	17	21.3
Total	80	100.0

The majority of responses were received from the Financial Sector (30%) of the economy, followed by Industrial (21,3%), Consumer Discretionary (18,8%), Consumer Staples (17,5%), and Energy and Minerals (12,5%). No responses were received from the Healthcare or IT and Telecom Sectors.

Table 4.2: Existence of a Formal Real Estate Unit

Description	Frequency	Percent	Valid Percent
Yes	16	20.0	20.0
No	64	80.0	80.0
Total	80	100.0	100.0

According to the survey, the majority of companies do not have a formal real estate unit within their organisation, with 80% of companies reporting no formal unit, this is in stark contrast to the McDonough study where 78% of New Zealand organisations had formal real estate units in existence. The reason for the low number can be explained by Q9, “How would you rank the importance of the real estate department in your organisation?” where 66% of respondents purported to say that they felt it to be less important or not important at all. This clearly reflected a misconception among senior management of the importance of real estate. On the flip side, of the companies that do have formally organised real estate units, 9 out of 12 have had the unit in existence for less than 10 years, reflecting the fact that the economy is still in the early stages of understanding and implementing CRE Activities. Also, 10 out of 12 companies have formed a department within the company to manage real estate activities.

The financial sector reported having a higher number of formal real estate units than any other sector. This can be attributed to the fact that generally, financial institutions understand the effect of effective asset management on a company’s balance sheet, and usually have the in-house expertise to manage this.The sector that had the lowest reported number of formal real estate units was Energy and Minerals, with no formal unit being reported at all.

Table 4.3: Existence of a Formal Real Estate Unit by Company Type

	Existence of a Formal Real Estate Unit		Total
	Yes	No	
Consumer Discretionary	1	14	15
Consumer Staples	3	11	14
Energy and Minerals	0	10	10
Finance	11	13	24
Industrial	1	16	17
Total	16	64	80

4.1. Title of Real Estate Unit Head

From the companies that did have a formal real estate unit, the majority of them showed a clear focus on real estate, with the most popular title containing the description “Real Estate,” “Director” and/or “Management.” This reflects that although there is a formal unit in existence, many of the companies do not have a dedicated CREAM professional to manage the real estate unit, resulting in either a director or senior manager performing the duties of a CRE Manager as well as their day-to-day responsibilities.

4.2. CRE Reporting Hierarchy

An important characteristic that contributes to the success of corporate real estate is the reporting level. Table 4.4 shows the level that the real estate unit reports to.

Table 4.4: Cross tabulation of the Existence of a Formal RE Unit and the Line on Reporting

		Level of Reporting							
		Director of Real Estate Portfolio	Facilities Manager	Director of Marketing	Director of Operations	Chief Executive Officer	Chief Financial Officer	Other	Total
Existence of a Formal Real Estate Unit	Yes	3	2	0	3	4	1	2	15
	No	2	2	11	12	27	2	1	57
Total		5	4	11	15	31	3	3	72

Many of the respondents reported to various different people within the organisation, and on a positive note the majority of them reported directly to the CEO, reflecting that from an implementation perspective corporate real estate is given priority within organisations that have a unit.

In organisations that have a formal unit in place, the real estate manager reports to the CEO, followed closely by the Director of Operations and Director of Real Estate Portfolio, whilst in organisations that do not have formal real estate units, the main reporting line is to the CEO. This shows that the responsibility is spread between slightly lower management tiers when a formal unit is in existence, and is limited to the CEO alone in informally organised units. It is expected that due to the amount of money involved in real estate transactions a high level overseer is needed in more formal units because of the specialised nature of the unit. This responsibility can be deferred to senior management.
In terms of real estate financing, the final decision lies with the Chief Financial Officer is 72,9%.

Table 4.5: Allocation of CRE Costs

		Frequency	Percent	Valid Percent
	Director of Real Estate	3	3.8	4.3
	Executive of Real Estate	2	2.5	2.9
	Chief Executive Officer	14	17.5	20.0
	Chief Financial Officer	51	63.7	72.9
	Total	70	87.5	100.0
	Missing	10	12.5	
Total		80	100.0	

4.3. Allocation of CRE Costs

The allocation of corporate real estate costs is a widely researched area. Generally organisations either manage corporate real estate as a profit centre or a cost centre.

Although the question of how real estate is managed was not directly asked, related questions on how the costs are allocated where focused on, the results of which are shown in Table 4.6.

Table 4.6: Allocation of CRE Costs

Answer Options	**Response Percent**
Are included as part of the overall overhead and not apportioned to organisational units	27.6%
Total real estate costs are included with other overheads and apportioned to organisational units	53.4%
Real estate operating expenses are apportioned to organisational units	10.3%
Real estate operating expenses are depreciated and apportioned to organisational units	3.4%
Real estate operating expenses and a capital charge are apportioned to organisational units	1.7%
Real estate operating expenses and market rentals (or similar) are charged to organisational units	3.4%
Other (please specify)	0.0%

The results show that just over half (53,4%) of respondents include real estate costs with other overheads and apportion the cost to separate organisational units. It was also revealed that 27,6% of respondents do not apportion the costs to organisation units.

4.4.

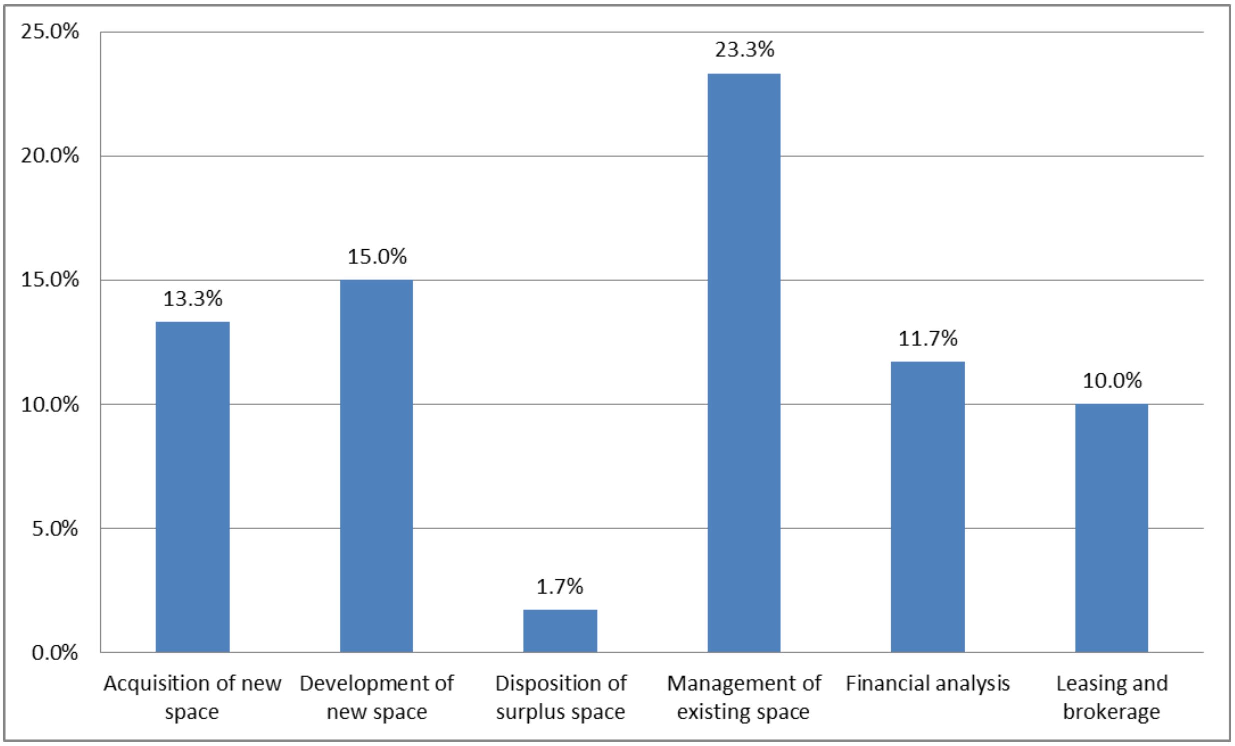
Table 4.7: Importance of CRE in Organisations

	Importance of CREM					Total
	Not important	Somewhat important	Neutral	Important	Very Important	
Consumer Discretionary	60.0%	26.7%	0.0%	13.3%	0.0%	100.0%
Consumer Staples	38.5%	38.5%	15.4%	0.0%	7.7%	100.0%
Energy & Minerals	40.0%	50.0%	10.0%	0.0%	0.0%	100.0%
Finance	25.0%	29.2%	4.2%	20.8%	20.8%	100.0%
Industrial	52.9%	35.3%	5.9%	0.0%	5.9%	100.0%
Total	41.8%	34.2%	6.3%	8.9%	8.9%	100.0%

From the data received, the financial sector mostly views CREM as important whilst the industrial sector is the sector that most thinks that CREM is not important. From the results in Table 4.7, it is clearly shown that corporate real estate is not viewed as being important, with 70% of respondents saying that it is not/less important in relation to other company activities. This point is further reinforced by analysing the results of Question 18 (see Table 4.8), where it is shown that 53% of respondents felt that corporate real estate was not important because the company's core business was not real estate. This relates closely to the early work of Zeckhauser & Silverman (1989) where respondents did not think corporate real estate was important because of the idea that "we are not in the real estate business." This clearly shows a misconception by some executives of the importance and purpose of corporate real estate management.

4.5. Corporate Real Estate Management Activities

Figure 1: Corporate Real Estate Activities



The highest rated corporate real estate function was management of existing space, followed by the development of new space and then acquisition of new space.One can infer from the data that CREM Activities among the companies listed on the JSE focus primarily on the post-acquisition phase of corporate real estate management.

Table 4.8: Perceptions on the Importance of CRE

Answer Options	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
The company’s core business activity is not real estate	**53%**	28%	0%	18%	0%
Uncertainty and unpredictability of future real estate markets, economic conditions and organisational space needs greatly reduce my capacity to effect optimal real estate solutions	18%	**47%**	13%	20%	2%
Diversifying real estate portfolios (by lease/own ratios, lease term maturation, capital; financing vehicle, etc.) can significantly reduce financial risk	40%	**47%**	3%	8%	2%
I have regular exposure to and a firm understanding of, corporate strategic plans and objectives from which to base real estate property decisions	17%	**57%**	8%	18%	0%
Future flexibility (in terms if commitments, location, building design and use, etc) is a top priority in evaluating real estate alternatives	5%	28%	18%	**37%**	12%
I do not have sufficient information or methodology available to clearly evaluate the physical performance or use effectiveness of my buildings	2%	8%	37%	**45%**	8%
Real estate decision making, on average plays a critical part in the overall performance of my organisation	3%	22%	12%	**53%**	10%
Real estate decision making is an integral part of corporate strategic planning	3%	22%	18%	**43%**	13%
Responsibility for real estate assets are delegated too far down in my organisation	3%	8%	33%	**47%**	7%
The president or CEO usually gets involved in corporate real estate decisions	8%	8%	37%	**40%**	7%

When corporations were asked about the main reason why real estate management is not important, more than half of the respondents strongly agreed that this was due to the fact that the company’s core business function was not real estate. Interesting, though, was the fact that 87% of respondents agreed that diversifying real estate portfolios would reduce the financial risk associated thereof, indicating that organisations are benefiting from certain aspects of effective CREM but are still ignorant to a lot of the other options available. Also on a positive note, 53% of respondents stated that there was sufficient information available within the organisation to make well-informed decisions regarding real estate management, indicating that the tools were available, although the implementation of the process was stagnant. This could be explained by the fact that 47% of organisations felt that the CEO did not get involved in real estate activities, meaning that it did not necessarily get the attention that it deserves and takes a back seat to other "core" business activities and units.

4.6. Leasing versus Owning

The decision of whether organisations should lease or own their premises has been debated extensively in papers such as O'Mara (1999), Natchwey and Jayakumar (2000), Evans (2000) and Anthony (2003). The benefits of each scenario are beyond the scope of this paper, but provide an indication of the status quo of the market.

Table 4.9: Leasing versus Owning

		Frequency	Percent	Valid Percent
Valid	Lease	11	13.8	14.1
	Own	65	81.3	83.3
	Other	2	2.5	2.6
	Total	78	97.5	100.0
Missing		2	2.5	
Total		**80**	**100.0**	

As reflected in Table 4.9 and Table 4.10, the majority of organisations own their premises with only 14,1% opting to lease. The other 2,6% have a hybrid of owning some and leasing other premises. This is evident in industries where there are various branches across the country, for example banks, where usually the head office is owned and smaller satellite branches are leased.

The main reasons for owning and leasing their premises are discussed later in the paper. The respondents were asked to provide three main reasons for owning their premises; the results are represented in Table 4.9.

Table 4.10: The Main Reasons for Owning their Property

Main Reasons for Owning Property	Percent
Transport links	3.0
Unique design of the building	1.5
Ensuring space for expansion	4.5
Freedom of choice over property management	1.5
Desire to establish community links that will aid business	21.2
No suitable property available for rent	6.1
Avoidance of rent rises	13.6
Avoidance of long term commitments to lease conditions	12.1
Control over management costs	9.1
Protection of expensive investment in plant	6.1
Protection for particular capital gain above level of inflation	4.5
Potential for long term development opportunities	7.6
Contribution to Joint Venture Programs	1.5
Availability of grants	3.0
Capital Allowances	4.5
Total	**100.0**
Missing	-
Total	80

From the data received the majority of organisations choose to own their premises so that there is sufficient access for the community. 21,2% of respondents provided the "desire to establish community links that will aid business" as the main reason for owning, followed by the "avoidance of rent rises (13,6%), and finally the "avoidance of long term commitments to lease conditions" (12,1%).

Table 4.11: The Main reasons for Leasing their Property

Main Reasons for Leasing Property		Percent
Valid	Less risk of being tied to an obsolete building	15.4
	Freedom to reduce the size of the estate if floor space needs to be reduced	15.4
	Flexibility of size of letting	30.8
	Freedom to choose cheaper or more expensive locations	38.5
	Total	**100.0**
Missing		-
Total		**80**

From the 16,3% of organisations that lease their premises, the main reasons provided for this was the freedom to choose cheaper or more expensive locations, especially if expansion is predicted (38,5%), "Flexibility of size of letting" (30,8%) and "Less risk of being tied to an obsolete building" and "Freedom to reduce the size of the estate if floor space needs to be reduced" tied at 15,4%

4.7. In-house Management vs. Outsourcing Real Estate Activities

Given that many organisations do not necessarily view CRE as a core business function; this had led to a number of outsourcing/ third party firms being tasked with the responsibility of managing this component of the business. From the results of the survey, it is clear that the outsourcing of real estate activity is used by a majority of the firms, with 79,2% of respondents resorting to outsourcing of real estate activities and only 18,9% performing the activity in-house. The remaining 1,9% partly manage in-house depending on the activity.

Table 4.12: In-house versus Outsourcing

Inhouse versus Outsourcing	Percent
In-house Management	18.9 %
Outsourced	**79.2 %**
Partly in-house	1.9 %
Total	**100 %**

Table 4.13: Services that are Outsourced vs Inhouse

Services that are outsourced/ managed in-house	In-house Management	Outsourced	Response Count
Real Estate Strategic Planning	31	49	80
Feasibility/Market studies	20	60	80
Real estate valuations	21	59	80
Selection of sites/premises	34	47	81
Space Layout planning	37	42	79
Building design	27	53	80
Constructive/Fit Out Management	35	45	80
Property/Lease Administration	31	48	79
Building Act/Health & Safety Compliance	29	50	79
Town planning issues	25	54	79
Surplus property/Lease disposal	34	44	78

The question about which type of services are outsourced and which are conducted in-house, was skipped by a respondent and therefore there is a variance in the response count. However from the data presented, the majority of services that are outsourced are Feasibility/Market Studies, Valuations and Town Planning issues. This shows that services of a more specialised nature that do not have a direct impact on the running of the business tend to be outsourced more often than Fit Out Management for example, which has a direct bearing on the look and branding of the company, and makes sense to be managed in-house.

The frequency of outsourcing has also shown to be on the decline over the last 5 years. This was expected as companies are now looking to reduce costs in order to aid cash flow after the economic recession.

On a positive note, companies seem to engage in long term contracts (more than 3 years) with external parties to provide outsourcing service and only 26,7% of respondents sign contracts for less than 3 years.

Table 4.14: Reasons for Outsourcing

Answer Options	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
To obtain a more independent service	**44%**	38%	13%	6%	0%
To gain a better quality of service	41%	**43%**	8%	9%	0%
To reduce the cost of service	**75%**	24%	0%	1%	0%
To access skills, technology, best practice not available within your organisation	**54%**	43%	1%	1%	1%
As the service is not a core business of your organisation	**46%**	36%	13%	5%	0%
To provide greater flexibility in staff resources	**36%**	50%	8%	4%	3%

According to McDonagh. J and Hayward (2000), among organisations in New Zealand the main reasons for outsourcing real estate functions were mainly access to skills, technology and best practices not available within the organisation. Cost savings were relatively unimportant, contrary to popular belief.

From the data collected, the results reflect a slightly different scenario among South African firms, where the reduction of costs was provided as the main reason for outsourcing followed by access to skills and technology. Furthermore, many organisations have reported a drop in the number of activities that were outsourced 5 years ago.

A total of 43,3% of respondents reduced their outsourcing activities with 40% keeping them the same and only 16,7% reported increasing outsourcing activities. This result was expected due to the economic recession at around the same period, which would have forced companies to perform more tasks in-house in an attempt to save money.

4.8. Procuring of Outsourcing Services

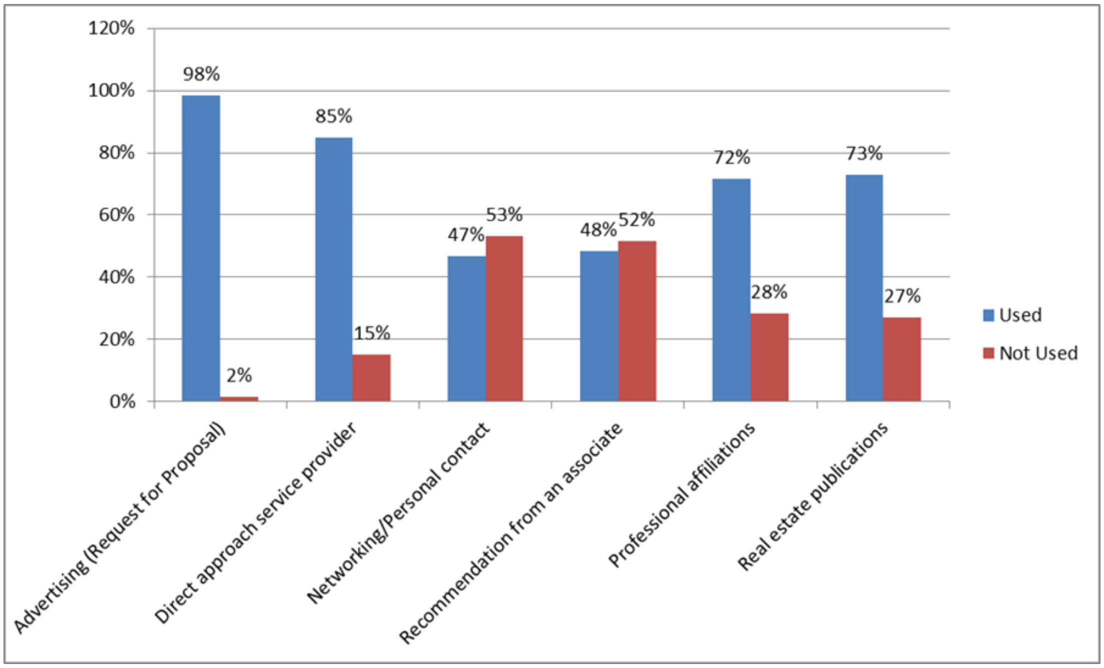


Figure 4.7 shows that the most commonly used methods of procuring services for real estate activities. From the data presented, the most commonly used method is advertising (Request for Proposal), this is expected as the companies surveyed are part of the JSE and thus transparency and fairness in procuring any service is vital.The least used methods are Networking/Personal contact and Recommendation from an associate. Once again, this could cause a conflict of interest within the organisation and being a public listed company, appointment of service providers through a network connection can be seen in a bad light.

4.9. Attitudes toward Corporate Real Estate

In Zeckhauser & Sliverman (1983) it was observed that most of US companies treat property as an overhead cost "like stationery and paperclips." Furthermore, when corporate executives were asked why they did not manage their real estate resources, they usually replied with statements such as "We are not in the real estate business." Given that Veale (1989) showed that property occupancy costs make up 10 to 20% of operating expenses, or 41 to 50% of the net operating income of a corporation, it is one of the most taken for granted and under-managed assets (Englert J., 2001). Bon, Gibson, and Luck (2002) have developed this argument and suggested that real estate accounted for 10% to 30% of total corporate assets of major European and American corporations between 1993 and 2001.

Teoh W.K. (1992) demonstrated that property is not treated as a strategic asset by corporations, "Owing to the apparent tranquillity of property investment and almost guaranteed profitability, property management has generally been assumed to be a task not requiring any form or expertise or formal training." Subsequent to Zeckhauser & Silverman, international interest has grown dramatically in various components of Corporate Real Estate. However, there is no mention of ways to ensure optimal use of the real estate assets that a company possesses. Adendorf and Nkado (1996) express a similar opinion and in a report by Cornet Global (2005) based on a Ernst and Young survey, 52% of all organisations were still either doing nothing, or did not know what to do regarding their property portfolios. Further, most senior executives perceive the role of real estate assets as providing appropriate working environments for the least space costs (Gibler, Black, and Moon, 2002).

Table 4.15: Important Traits in Choosing a Suitable Service Provider

Answer Options	Very important	Important	Neutral	Less important	Not important
Relevant past experience	35%	**63%**	2%	0%	0%
Size of Company	13%	**33%**	12%	**33%**	8%
Quality of assigned employees	26%	**68%**	2%	4%	0%
Local expertise	13%	**62%**	12%	8%	5%
Project methodology	13%	**50%**	20%	15%	2%
Reputation/References	30%	**55%**	10%	5%	0%
Independence of services	17%	**60%**	12%	7%	3%
Price	**67%**	32%	0%	2%	0%
National capability	12%	**53%**	19%	14%	3%
Overall "chemistry"	12%	**53%**	22%	10%	3%
Breadth of services available	17%	**47%**	22%	12%	3%
Quality of proposal/presentation	18%	**45%**	23%	10%	3%
Existing relationship with provider	24%	**59%**	10%	7%	0%

The three most important characteristics that organisations look for when appointing a company to provide real estate services are the price, the quality of the people that will be involved on the task and the local experience/expertise. Price remains a key driver in determining a suitable service provider with only 2% of respondents indicating that it is not an important factor.

Table 4.16: Skills Required by Personnel providing Outsourcing Services

Answer Options	**Very important**	**Important**	**Neutral**	**Less important**	**Not important**
Investment analysis skills	33%	**58%**	2%	3%	3%
Market knowledge	**50%**	47%	2%	2%	0%
Formal property qualifications	38%	**43%**	8%	7%	3%
Breadth of skills	32%	**48%**	12%	7%	2%
Negotiation skills	38%	**57%**	3%	2%	0%
Presentation skills	32%	**60%**	5%	3%	0%
Strategic management skills	33%	**62%**	3%	2%	0%
Market analysis skills	42%	**57%**	0%	2%	0%
Understanding of your organisation	40%	**55%**	3%	0%	2%
Knowledge of business management principles	37%	**58%**	3%	0%	2%

As previously mentioned, the quality of people assigned to carry out real estate activities were reported as being an important factor in choosing a real estate service provider, to expand on this point, the skills/criteria that are perceived to be the most important among the Top 200 JSE listed companies are strategic management skills, presentation skills and tied in third place, knowledge of business management principles together with investment analysis skills.

Table 4.17: Important Personal Attributes for Individual/Consultants Providing Real Estate Services

Answer Options	Very important	Important	Neutral	Less important	Not important
Timeliness/ Responsiveness	**60%**	40%	0%	0%	0%
Lateral thinking/ Creativity	**50%**	48%	0%	0%	2%
Accuracy/Thoroughness	**60%**	40%	0%	0%	0%
Communication skills	**55%**	43%	2%	0%	0%
Ability to work in teams	**53%**	45%	2%	0%	0%
Overall professionalism	**52%**	47%	0%	2%	0%
Positive attitude/Commitment	**53%**	45%	0%	2%	0%
Confidentiality	**55%**	43%	0%	0%	2%
Adaptability	**50%**	48%	0%	0%	2%
Problem solving ability	**58%**	42%	0%	0%	0%

The three most important personal attributes required from personnel providing real estate activities are timeliness, accuracy/thoroughness and an ability to solve problems. All of the attributes were voted to be very important by at least half of the respondents.

Table 4.18: Factors that Determine the Success of Outsourcing

Answer Options	**High influence**	**Neutral**	**Little/No influence**
Provider's understanding of your business	**45%**	40%	15%
Acceptance of outsourcing by your staff	22%	**49%**	29%
Cost Savings achieved	**85%**	13%	2%
Responsiveness of the service provider	**45%**	42%	13%
Communication/interface between the parties	33%	**57%**	10%
Quality of service provided	**58%**	34%	8%
Quality of personnel assigned by provider	**48%**	**48%**	3%
Clarity of objectives prior to outsourcing	33%	**53%**	13%
Effective performance measurement tool	**64%**	32%	3%
Performance based fee structures	**57%**	40%	3%
Full analysis of costs prior to outsourcing	34%	**50%**	16%
Well-planned transition of services	41%	**47%**	12%
Well-developed service level agreement	**68%**	29%	3%

Factors that have a high influence on the success of outsourcing were the cost savings, a well-developed service level agreement and an effective performance measurement tool.This reinforces the previous point that South African organisations are driven by the cost savings component of outsourcing rather than the added value that can be achieved. A well-developed service level agreement (SLA) was also highlighted as being crucial in setting out the roles and responsibilities of the parties and the measurement of the performance through effective measurements tools.

Table 4.19: The Success of Outsourcing

Answer Options	Very Successful	Successful	Neutral	Needs improvement	Unsuccessful
	20%	40%	35%	5%	0%

Majority of the respondents reporting as having outsourced the real estate activities, and subsequently, 60% of respondents reported that the service was successful. A very high percentage was neutral, indicating either a lack of effective measurement of performance and thus showing there is room for improvement. Some of the reasons provided by organisations that were successful in outsourcing were the ability to spread risk, the ability to adapt quickly to changes in market conditions and freeing up company resources to focus on core activities within the organisation.

From companies that felt that outsourcing was unsuccessful/required improvement, the main trend among the responses was that of not realising the expected cost saving. With organisations stating that, “Outsourcing is currently costing just as much as it would to employ a full time person.” Once again this alludes to the fact that organisations are heavily influenced by the cost component of outsourcing. Other reasons for the failure of outsourcing were ineffective communication between the parties, and slow response rates from service providers.

Chapter 5 - Conclusion

5.1. Discussion

In order to accurately gauge the performance of the subject firms against industry standards in other countries. The papers of McDonagh.J (1999), McDonagh.J (2001) and Nichols G (2005) was compared to the data received from the survey.

5.2. Existence of a Formal Real Estate Unit

From the results presented, 80% of South African firm's do not have a formal real estate unit in existence, whereas according to the surveys of Teoh (1992), McDonagh.J (2001) and Nichols (2005), the figures are 38%, 37% and 42.6% respectively and is distinctly higher than the 14% found in the USA by Veale (1989).This clearly shows that the perception of CRE amongst South African firms is lower than our overseas counterparts, pointing toward a more operational approach toward CRE than a strategic approach.

5.3. Job Title of CRE Head

Respondents were asked to state the title of the real estate unit head, and the titles "Real Estate", "Management" and "Director" were the most commonly found words in the title, indicating that there is no distinct individual that performs the CRE duties within any of the surveyed organisations and that the duty is a secondary operation that is generally passed onto an individual that lacks the skill and expertise to execute the task effectively. Once again this points to an operational viewpoint that is being adopted by firms toward CRE Practices.

5.4. Corporate Real Estate Reporting Level

The success of CRE hinges on ensuring that decisions can be made higher up within the organisation which would better align CRE practices to the company's core business objectives. In order to provide a better comparable model, the data was compared against subsequent research that used levels away from the CEO instead of actual job titles. From the results presented, 37, 5% of firms reported directly to the CEO, compared to 35%, and 34% for the McDonagh.J and Nichols survey respectively.

	Teoh	**McDonagh.J**	**Nichols**	**Lalloo**
CRE reporting level	combined level 1 & 2			
to CEO		35%	34%	37.5%
to level 2	61%	35%	37%	25%
to level 3	24%	19%	23%	12.5%
unclear	15%	11%	6%	15%

When compared to each other, the data reflected is very similar to other international findings, with 62% of firms in South Africa reporting to the top tiers of management compared to 61%, 70% and 71% for Teoh, McDnaugh and Nichols respectively; this points to a more strategic approach toward CRE by senior management and bodes well for implementation of effective CREM as there will be less resistance by individual units when decisions come from top tiers of management a supposed to lower tiers.

5.5. Allocation of CRE Costs

As already mentioned in the results, the allocation of CRE Costs is a key indicator into the overall perception an organisation has toward real estate. The question of whether it is treated as a cost or profit centre was not asked directly, instead the survey focused on the allocation of real estate costs, the findings are consistent with the results of all research pointing to roughly 50% treating property related costs separately and allocating them to the individual units, after analysing the points above it is clear that South African firm’s do not view CRE as a strategic resource within their organisations. The majority of firms do not have a formal real estate unit and those that do, do not have a dedicated CRE Manager. On a positive note, majority of the reporting of the CRE units is to the upper tiers of management meaning that CRE is aligned with business objectives to some extent.

5.6. The Attitudes of CRE Executives

The attitudes of senior management have been shown to have a marked influence in developing a superior level of peformance in respect of CREM. Questions such as “Do you think that your CRE Unit needs improvement” as well as the Likert scale gauging why CRE is not important where analysed and the results vary across the different sectors, however, they all still show that the vast majority of organisations do not view CREM as being important. The main reason provided was that “It is not a core function of the business”.

5.7. Leasing versus Owning

The argument of whether or not it is better to lease or own a property has been extensively researched in the last decade but hardly any research has been carried out among firms in South Africa. From the data presented, the vast majority have opted to own their properties. The question was then asked as to why this is so and the top three reasons provided by firms was the “desire to establish community links that will aid business” (21,2%), “avoidance of rent rises” (13,6%), and finally the “avoidance of long term commitments to lease conditions” (12,1%).

Once again the main reason of establishing links with community clearly reflects that CRE is an operational resource and merely a means of doing business, or in this case, aiding in gaining business. Avoidance of rent rises also points to company’s perceiving CRE as a cost that should be minimised and avoided.

5.7.1. Outsourcing versus In-house Real Estate Activities

From the McDonagh.J study, it was shown that amongst the larger organisations there was a greater demand for the following outsourcing tasks: Space layout, building design, resource management act compliance and property disposal. Comparatively, the most outsourced activities amongst South African organisations are Feasibility/Market Studies, Valuations and Town Planning issues. This is attributable to the fact that in the McDonagh.J study, majority of organisations possessed a larger number of staff numbers and thus space layout and building design took priority over other activities. In South Africa, it seems that more specialised tasks are outsourced, these are task that can be seen as not as important as the core business functions.

5.7.2. Factors Attributable to Outsourcing Service Providers

Given the large number of firms that outsource, it is crucial that firms and individuals that provide such services are aware of the needs of the organisation. From the survey conducted one can determine the most important company and personal traits that organisations look for as well as the most commonly outsourced activity within the organisation. The results showed that the price, the quality of the people that will be involved on the task and the local experience/expertise were the three most important factors that companies look out for when appointing a real estate service provider. Similarly, the most important traits that an individual or personnel that are providing real estate services to a form are strategic management skills, presentation skills, knowledge of business management principles together with investment analysis skills.

5.7.3. Identification of Real Estate Service Providers

The McDonagh.J study presented the three most common methods of identifying prospective real estate service providers through: Networking and personal contact 82%, Associate's recommendation 57% and Professional affiliations 48%, whereas in South

Africa the three most common methods are advertising, Request for Proposal, direct approach to a service provider and real estate publications. This result is expected as transparency and fairness is paramount for any public listed company when engaging third parties to perform duties on their behalf.

From the results of this survey, a view into the workings of the top listed companies in South Africa regarding corporate real estate, the management of corporate real estate and the outsourcing of property related services were presented. Although similar studies of this nature have been carried out in other countries, this paper represents the first to provide an overarching, broad view into corporate real estate practices from a South African perspective.

From a business perspective, an organisation's core functions have always taken priority over the corporate real estate functions to the detriment of the firm. Since CRE has a direct impact on various company indicators such as debt capacity and size, it becomes imperative to marry the financial management functions with the corporate real estate functions within non-real estate companies. Although outsourcing of CREM functions is the norm for many organisations, the data reflected in this paper reflects a need to develop a well-defined SLA and benchmarking tool so that organisations can measure the benefits of outsourcing and CRE as a company function. In a market where organisations are forced to "do more with less," efficient and strategic planning becomes paramount to ensure sustainable growth in organisations, hence, managers need to open themselves up to site selection, risk, corporate identity, efficient use of workplaces, costs of financing, labour conditions, workplace innovations, etc. affect an organisation's business strategy and ultimate future well-being. Successfully managed firms are taking advantage of the opportunities inherent in the successful management of their CRE, and it is hoped that this paper will provide the majority of organisations that do not view CREM as a key business function with the necessary tools and insights so that CRE is given the attention it duly warrants.

5.8. Evaluation

This study has provided some insight into the practice of corporate real estate management in South Africa. It outlines the level of importance that corporations place on corporate real estate and corporate real estate management. It goes on to highlight the current level of outsourcing of real estate activities, as well as the most important traits required by service providers along with the tasks most required by organisations – all invaluable tools to a service provider. The advantages of corporate real estate are clear and need to be pursued more intensely by South African organisations in order to reap the full benefits.

5.9. Future Work

Given that this paper is the first of its kind, naturally there remain numerous factors that require further research. More detailed research into the consequences that effective CREM activities have on the productivity of a company within the SA market needs to be undertaken. Furthermore, a detailed investigation that compares the performance of the majority of firms that do not have formal real estate units against the minority of firms that do would yield interesting results.

From an outsourcing perspective, there is a clear indication that outsourcing activity is increasing among organisations. However, the majority of firms do not have a formally organised real estate unit, indicating a lack of expertise in this sector of the market.

References:

Adendorf, M.J. and Nkado, R. (1996), “Increasing Corporate Value through Strategic Real Estate Management”, *Real Estate Review* **26**(3), 67.

Apgar IV, M. and Bell, M. (1995), “Managaing real estate to leverage change: The Dun & Bradstreet case, Site selection, December, 935-938.

Avis, M., Gibson, V., and Wats, J. (1989), “Managing Operational Property Assets, Department of Land Management and Development”, University of Reading, United Kingdom

Bakare, I. (2010), “An Appraisal of Corporate Real Estate Management Practice in the Hospitality Industry in Nigeria “A Case Study of Hotels in Lagos State”, unpublished thesis submitted to the Department of Estate Management, December, Faculty of Environmental Design and Management, Obafemi Awolowo University, Ile-Ife, Osun State.

Bdeir, Z. (2003), “Strategic Performance in Corporate Real Estate”, M.Sc. thesis in Real Estate Development, September Massachusetts Institute of Technology, Boston.

Blumberg, B., Cooper, D. and Schindler, P. (2008), “Business Research Methods” United Kingdom: McGraw-Hill Education. pp. 315-328; 385-387.

Bon, R. (1994). “Ten Principles of Corporate Real Estate Management Performance”. *Facilities* **12**(5), 9-10.

Brounnen, D. and Eicholtz, P. (2005), “Corporate Real Estate Ownership Implications”, International Performance Evidence, SBV School of Real Estate.

Brown, K., A.L. Arnold, J.S., Rabianski, N.G., Carn, P.D., Lapides, S.B., Blanchard., and Rondeau, E.P. (1993), “Managing Corporate Real Estate”, New York: John Wiley.

Brueggeman, W., and Fisher, J. (2001), “Real Estate Finance and Investments”, McGraw Hill, USA.

Debenham, T. and Chinnocks. (1992), “The Role of Property—Managing Cost & Releasing Value”, London: DTC Research.

Den Heijer, A. C. (2011). Managing the university campus, information to support real estate decisions. Delft: Eburon.

De Silva, T.A. (2010), “Benefits of mixed methods in environmental reporting research”, New Zealand: Lincoln University, pp. 1-19.

De Vries, J. C., De Jonge, H., & van der Voordt, J. M. (2008), “Impact of real estate interventions on organisational performance”, *Journal of Corporate Real Estate*,10(4), 208-223.

Dewulf, G., Krumm, P., & De Jonge, H. (2000),”Successful corporate real estate strategies”: Arko Publishers.

Englert, J. (2001), “The Strategic Alignment Handbook: A Corporate Infrastructure Resource Management Application Guide”, IDRC Publication Information, Report No. 58 in the series by the IDRC Foundation.

Gale, J. and Case, F. (1989), “A Study of Corporate Real Estate Resource Management”. *Journal of Real Estate Research* **4**(3), pp. 23-34.

Gibler, K., Black, R.., and Moon, K. (2002), “Time, Place, Space Technology and Corporate Real Estate Strategy”,*Journal of Corporate Research*, **24**(3), pp. 235 – 238.

Gibson, V.A. and Barkham, R. (2001), “Corporate Real Estate Management in the Retail Sector”, *Journal of Real Estate Research*, 22(1), pp. 107–27.

Gibson, V. and Lizieri, C. (1999), “New Business Practices and the Corporate Property Portfolio: How Responsive is the UK Property Market?, *Journal of Property Research*, **16**(3), 201-208

Ilsjan, V. (2007), “Corporate real estate management (CREM) in Estonia”. *Journal of Corporate Real Estate*, **9**(4), pp. 257-277.

Iskandar, Ismail. (1996). The Operational property management process in large nonproperty organisations in Malaysia: An organisational perspective. Unpublished PhD thesis, Faculty of Urban & Regional Studies, University of Reading, U.K

Joroff. M., Louargand, M., Lambert, S. and Becker, F. (1993), “Strategic Management of the Fifth Resource: Corporate Real Estate”. IDRC, Report No. 49, IDRC, Atlanta Georgia USA.

Klein, K.H. and Myers, M.D. (1999), “A Set of Principles for Conducting and evaluating interpretive Field Studies in Information Systems”. *MIS Quarterly*, **23**(1), pp .67-94.

Kooymans, R. (2000), “The Outsourcing Of Corporate Real Estate Management – How Do Corporate Real Estate Units And Outsource Service Providers View Each Other And The Management Issues?” Centre for Land Economics and Real Estate Research (CLEARER), School of International Business, Sixth Annual Pacific-Rim Real Estate Society Conference, Sydney, New South Wales, 24-27 January, University of South Australia, Australia.

Krumm, Peter J.M.M. (2001), "History of real estate management from a corporate perspective". *Facilities* **19**(7-8), pp. 276–286. doi:10.1108/02632770110390757. ISSN 0263-2772. Retrieved November 3, 2009.

Lambert, S. and J. Poteete (1998), “Managing Global Real Estate”.International Development Research Foundation.

Laposa, S and M. Charlton (2001), European versus US Corporations: A comparison of property holdings, *Journal of Corporate Real Estate* 4(1), 34-47.

Leedy, P.D. and Ormrod, J.E. (2010), “Practical Research: Planning and Design”. New Jersey: Pearson Education Inc.

Lindholm, A.L., Gibler, K. M. and Leväinen, K. I. (2006), “Modeling the Value-Adding Attributes of Real Estate to the Wealth Maximization of the Firm”, *Journal of Real Estate Research*, **28**(4), pp.445-75.

Lindholm, A.L. and Leväinen, K. I. (2006), “A Framework for identifying and measuring value added by corporate real estate”, *Journal of Corporate Real Estate*, **8**(1), pp.38-46.

Liow, K. and Nappi-Choulet, I. (2007), “Corporate Real Estate: Perspectives, Evidence and Issues”. (Research grant no.R-297-000-083-012), National University of Singapore, Singapore.

Manning, C. and Roulac, S. (1996), “Structuring the Corporate Real Property Function for Greater ‘Bottom Line’ Impact”, *Journal of Real Estate Research*, **12**(3), pp. 383-396.

Manning, C. and Roulac, S. (2001), “Lessons from the past and future directions for corporate real estate research”, *Journal of Real Estate Research*, **22**(1/2), pp. 7-57.

McDonagh, J. and Frampton, C. (2002), “Measuring Corporate Real Estate Asset Management Performance”, *Pacific Rim Real Estate Research Journal*, November, pp. 263-275.

Nachtwey, P. and Jayakumar, S. (2000), “Occupancy costs; a rude awakening”, *Real Estate Finance Journal*, Winter, pp. 24-27.

Nourse, H. O., & Roulac, S. E. (1993). Linking Real Estate Decisions to Corporate Strategy. *Journal of Real Estate Research*, 8(4), 475–494.

Oluwoye, J., Karantonis, A. and Fakorede, A. (2001), “Corporate Real Estate Asset Management: A Conceptual Framework”, *Pacific Rim Property Research Journal*, **7**(1), pp. 18-35.

Ong, Seow Eng and Yong, Yan Yi. (2000). Real estate exposure and asset intensity*. Journal of Real Estate Portfolio Management*, 6(1), 27 – 35.

Petison, K.P. (2007), “A review of lease versus own decision in corporate real estate: the way forward for developing countries such as Ghana”. KTH University.

Pinssoneault, A., & Kraemer, K.L., 1997 May, Middle Management Downsizing: An empirical investigation of the impact of information technology, Management Science, Vol. 43

Rodriguez, M. and Sirmans C. F. (1966), “Managing Corporate Real Estate: Evidence from the Capital Markets”, *Journal of Real Estate Literature*, **4**(1), pp.13–33.

Rowlands, B. (2005), “Grounded in practice: Using interpretive research to build theory”, *The Electronic Journal of Business Research Methodology*, [e-journal], **3**(1), pp. 81-92, available at <http:// www.ejbrm.com> [Accessed 9 October 2012].

Schaefers, W. (1999), “Corporate Real Estate Management: Evidence from German Companies”, *Journal of Real Estate Research*, **17**(3),, pp. 301–19.

Segal, S. (2012), “FM Top 100 Companies”, Available from: <http://secure.financialmail.co.za/topco99/rblack.htm>. [Accessed 14 August 2012].

Seiler, Michael J., Arjun Chatrath, and James R. Webb, 2001, “Real Asset Ownership and the Risk and Return to Stockholders,” *Journal of Real Estate*

Research, 22:1/2, 199-212.

Smallbone, T. and Quinton, S. (2004), “Increasing business students’ Confidence in Questioning the Validity and Reliability of their Research”, *The Electronic Journal of Business Research Methodology*, **2**(2), pp. 153-162, Available at <http://www.ejbrm.com> [Accessed 9 October 2012].

Teoh, W.K. (1993), “Corporate Real Estate Asset Management; The New Zealand Evidence”, *Journal of Real Estate Research*, **8**(4), pp. 607-623.

Van der Voordt, J. M., & Van der Zwart, J. (2011). value based design and research of hospital buildings. Paper presented at the MSIBE Conference.

Warren, C. M., Simmons, J. and Trumble, N. (2007), “The future @ work: delivering effective corporate real estate,. *Facilities*, **25**(11/12), pp. 463-472.

Weatherhead M. (1997), *Real Estate in Corporate Strategy,* MacMillan Press Limited, Basingstoke, Hampshire & London. p.149.

Veale, P.R. (1989), “Managing Corporate Assets”, *Journal of Real Estate Research*, **4**(3), pp. 1–22.

Wu, Jing, Joseph Gyourko and Yongheng Deng. “Evaluating Conditions in Major Chinese Housing Markets”, NBER Working Paper 16189, July 2010.

Zeckhauser and Silverman (1983), “Rediscover Your Company’s Real Estate” *Harvard Business Review*, Jan./Feb. pp. 111-117.

Appendix A: Questionaire