Corporate Real Estate - An Untapped Opportunity For Property Academia

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EDITORIAL COMMENT
This Guest Article has been written by Dr David Parker, Senior Investment Manager - Property, ANZ Funds Management, Melbourne. David is a member of the Editorial Board of the Australian Land Economics Review and a recent PhD graduate of the Faculty of Design, Architecture and Building at the University of Technology, Sydney.

As the winner of the Property Council of Australia's 1996 Tony Carpenter Award, David conducted an international research programme to investigate the role of outsourcing in corporate real estate, with a particular focus on trends in the US and UK.

The following Guest Article is based on the findings of that research. It discusses the dramatic growth in focus upon corporate real estate within Australian business and questions whether the response of property academia has been in proportion to that trend.

INTRODUCTION

In early 1996, based on then already prevalent trends in the US, Peter Verwer (Chief Executive Officer, Property Council of Australia) declared:

> "Looking back, 1996 will become known as the "Year of Four Revolutions",

nominating one such to be "a Corporate Real Estate Revolution" and concluding:

> "The Year of Four Revolutions will be most rewarding for those who embrace opportunity." (Verwer (1996))

For several years now, the corporate real estate revolution has provided substantial business opportunities for private sector corporates, the public sector, governments and service providers who have embraced the concept and sought to gain advantage from it.

Such major Australian companies as CSR and NAB, public sector instrumentalities such as Telstra and Australia Post and numerous Federal Government departments and service providers such as P&O and Serco have all focussed on aspects of corporate real estate in the operation of their businesses.

Providing advice on corporate real estate has become an industry in itself, with not only JLW Advisory, Knight Frank Independent and Colliers Jardine offering corporate real estate consultancy but also such groups such as Arthur Andersen and Price Waterhouse.

Already, certain business schools, such as the Australian Graduate School of Management (AGSM), have already started to provide executive programmes on aspects of business which involve corporate real estate. Some research into corporate real estate has been undertaken under the auspices of the Property Council of Australia and the Australian representation of IDRC. However, one of the few groups not to have taken a significant interest in corporate real estate to date appears to be property academia.

Such relative disinterest is surprising given the pressure on funding faced by property academia and the relative depth of funding and opportunities available from corporate Australia for research into and education upon corporate real estate issues.

The following seeks to establish what corporate real estate is, why it is important and to briefly consider some of the many opportunities available to property academia arising from the corporate real estate revolution.

CORPORATE REAL ESTATE - WHAT IS IT?

The Corporate Leaders Stream of the Property Council of Australia has adopted the following definition:

> "Corporate real estate is property utilised by a corporation to increase shareholder wealth where property investment may not be considered a core business."

Using this definition, research into and education upon corporate real estate is complementary to not only that for investment real estate but also to that of the finance, commerce, accounting and business schools. In order to place corporate real estate in the context of such schools, the following considers the relevance of corporate real estate to the economy.

CORPORATE REAL ESTATE - WHY IS IT IMPORTANT?

The size of a country's corporate real estate portfolio may be enormous - US corporations alone had a total of US$1.644 trillion invested in non-residential corporate real estate in 1990, 18.6% of the total value of US real estate stock (IREM 1991)).

At the single corporate level, AT & T occupies more than 5.8 million sq. m of office space alone around the world, the equivalent of the entire Sydney and Brisbane CBD office markets combined, as well as extensive industrial holdings (Harrington (1996)).

Avis et al (1989) found that real estate represented about 30% of corporate assets for 800 British corporates, whilst Seek (1991) suggested that land and buildings represented 15% of the total assets of the top 500 Australian corporates. Phil Ruthven notes that the land and buildings used by Australian business had a value of "around $270 billion" in 1995 (Australian Financial Review, 4th December, 1995).

Harrington (1996) outlined the "staggering" findings of a survey by the then BOMA of 38 of the largest companies listed on the Australian Stock Exchange to determine the extent of the real estate holdings on their balance sheets. More than 15% of such corporates were found to have in excess of 40% of their total net assets tied up in land and property, including such companies as Mayne Nickless (42.0%), Goodman Fielder (41.0%), Boral (40.0%) and Woolworths (40.0%).

The success of a large business today depends on how well senior management manage their human resources, capital, information systems and investment in fixed assets, each of which are key factors of production and businesses in themselves (Manning et al (1997)).

As CEOs continue to seek ways to improve the bottom line, they have realised that they can no longer afford to ignore one of the largest items on their profit and loss statement after labour (Lyne (1997)) and on their balance sheet - real estate (Harrington (1996)).

For a progressive, modern corporate, their real estate investment should be more than just somewhere to accommodate workers or house manufacturing. It should be an actively managed asset used to boost profitability and increase returns on capital, so creating value for shareholders.

Leveraging, world best practice, accountability, empowering and enabling are all familiar in the lexicon of current management philosophy and are all now also being applied to the management of corporate real estate. With a focus on outcomes rather than processes, the real estate portfolio is now an active rather than passive component of the management of a corporate's business.

OPPORTUNITIES FOR ACADEMIA?

Thus, through corporate real estate, property academia is offered a clear bridge to the work and resources of not only the finance, commerce, accounting and business schools but also directly to the major corporates and their tens of thousands of general management employees. Many of these people, who form an existing resource base today which is potentially far deeper than the property market alone may be expected to provide for the next several decades,will need to know an increasing amount about real estate in the next several years.

In Australia, as in the US and UK, corporate real estate is a significant resource, the effective management of which is still in its infancy, though the pace of change is accelerating (Webster (1995)).

For the pro-active Australian property academic, the ability to be involved in a major trend whilst it is still in its infancy could be contended to be an incredibly attractive prospect. Research opportunities in such a relatively new discipline may not only be extensive but may also be capable of attracting funding from the corporate sector, a key issue in the current economic environment facing the local tertiary education sector.

In addition to the conventional avenues of academic research, corporate real estate research also provides wider opportunities for investigation. Such projects as the collation, analysis and dissemination of information concerning the role of corporate real estate within the organisation, optimal structures for its management, case studies of successful corporate real estate management initiatives, contributions to the extensive benchmarking which is synonymous with corporate real estate management and the development and provision of further measurement tools readily come to mind.

Such research could be tied to that for the investment property industry (which includes not only the traditional institutional investors but also the exponentially growing listed property trust market and the burgeoning wholesale and retail unitised vehicles industry), so optimising the potential synergy between two of the key components of the real estate industry. If such developments were then to be linked to research into property market cycles, the benefits for both corporate and investment real estate

industry participants could be significant.
Extensive opportunities to provide education may be anticipated to be capable of creation and positive receipt by industry at a variety of levels. Not only might the corporate real estate executive be expected to be seeking finance, commerce, accounting or business skills but those executives originally educated in such disciplines might also be expected to be seeking real estate skills.

Inhouse and externally provided upskilling for existing corporate real estate, service providers and general management executives, tertiary courses focussing on corporate real estate, commerce and business management modules in real estate tertiary courses, corporate real estate modules in accounting, finance and management tertiary courses, business skills courses on how to run a consultancy, how to market to corporates, how to build alliances, relationship management and so forth together with executive programmes for the various corporate real estate industry participants are among the extensive range of product opportunities for tertiary education providers.

For the commercially aware property academic, the range of short courses, executive programmes and tertiary qualifications that could be provided both by a property school itself and in association with finance, accounting, commerce and business schools is potentially lucratively extensive.

Interestingly, those practitioners interviewed in the US and UK during the research programme referred to above noted that corporate real estate executives were tending to be recruited from management consultancies and accountancy practices rather than through the appointment of people with specific real estate qualifications - leading to the corporate real estate market operating with a significant number of non-real estate people. Clearly, if such a feature were to become manifest in Australia, an enormous potential market for property academia may be lost.

CONCLUSION

As the trend towards active management of real estate resources by corporates accelerates and as the entire real estate industry regroups to position itself for the opportunities arising, the prospective benefits from corporate real estate for researchers and educators in property academia may be considerable. However, to date, remarkably few appear to have sought to participate in such benefits.

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