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The Sustainability Agenda in Corporate Real Estate, Does it Exist ?

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Abstract.

This paper will investigate the use of sustainability practices in corporate real estate. It is a preliminary research document that will attempt to study such areas as, the amount of corporate real Estate (CRE) that is defined as 'green' (best practice sustainability). Is it shown on balance sheet and does it have any overall affect on the bottom line of the corporation? Is there a relationship between green holdings to overall assets? New and innovative ways of assessing CRE sustainability performance (from the balance sheet) and its relationship to company performance will be investigated.

To enable this research to be undertaken various corporations will be investigated to see if they actually have CRE departments, what staffing levels are in the CRE departments, (if any) what outsourcing is occurring, what benchmarking measures are in place to assess the sustainability performance of their CRE, if flexible CRE practices are used and if CRE assets are operated as cost or profit centres to assess their 'green' components.

The preliminary conclusions indicate that there is a great disparity between corporations. This may indicate that certain classes/types of companies do not need the CRE assets that others do. It may also indicate, as previously supported by other research, that most corporations have no regard to sustainability in their CRE portfolio.

1. Introduction

In recent years there has been much publicity on ecologically sustainable development (ESD) especially in relation to building practices. This paper will investigate this concept in relation to 'green buildings' from the corporate real estate point of view. There have been journal articles and conference papers delivered from the point of view of listed property trusts (REIT's) for their property portfolios, (especially in relation to their social responsibilities) but little has been written on corporation's ESD responsibilities in regards to their real estate portfolios, both owned and leased.

In 1992, the Australian government endorsed the following definition for ESD in Australia through the National Strategy for Ecologically Sustainable development (NSESD):

".....using, conserving and enhancing the community's resources so that ecological processes on which life depends, are maintained, and the total quality of life, now and in the future, can be increased" (Dept. of the Environment & Heritage. Australian Government 2006).

There is however a more common worldwide definition of ESD that was established from the Bruntland report, "Our Community Our Future" that states:

"Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (Jones Lang Lasalle, 2007).

Having regard to the role of the many different corporation's aims and goals it starts to become apparent that they must have building that meet the needs of their staff, clients, shareholders and all other stakeholders today, while conserving existing ecosystems for the benefit of future generations.

Several strategies have been developed by the Australian government to ensure ecologically sustainable development. Five key principles have been identified and should be put into use:

- Integrating economic and environmental goals, policies and activities (the integration principle)
- Ensuring that environmental assets are properly valued (the valuation principle)
- Providing for equity between generations (the intergenerational principle)
- Dealing cautiously with risk and irreversibility (the precautionary principle)
- Recognising the global principle

Another piece of legislation that is crucial in Australia is the Environmental Protection and Biodiversity Act (1999). It protects the environment, particularly where matters of environmental significance are concerned. This becomes apparent when one views the Australian government policy that requires all Australian departments to include a section in their annual reports, detailing the environmental performance of the organisation and the organisations contribution to ESD.

It has been estimated that in Australia commercial buildings contribute 8.8% to national greenhouse emissions. These, over time have a great role to play in meeting Australia's international greenhouse obligations. A sectional study found that office buildings and hospitals were the two largest emitters, by building type, causing around 40% of total sectoral emissions. (Green Building Council of Australia, 2007).

Hand in hand with ESD there is drive now for all corporations to carefully study the tangible and intangible factors that impact of the 'green efforts'. These may ultimately benefit the corporation financially and enhance their social responsibility. These driving factors could include:

- Risk reduction
- Employee efficiency & staff turnover rates
- Corporate profile
- Operating costs
- Increased asset value
- Increased sales

There could well be 'green incentives' that change a corporation's whole outlook on the way they undertake their corporate real estate practice.

To enable all of this to occur there must be tools available to rate the buildings that a corporation owns or leases. A range of tools have been developed internationally and in Australia to measure various aspects of the environmental performance of buildings. There appears to be two main approaches to ratings:

1) a design based approach, which seeks to predict the performance of a building based on analysis of the design features
2) an outcome based approach which measures the actual consumption of resources and environmental impacts of the building in operation.

Both of these approaches provide useful information to the building's owners, managers and tenants and could have the potential to drive continuous improvement of the green building stock. What is not mentioned is that most companies have no idea whatsoever of the performance of their corporate real estate assets.

The three most prominent environmental rating systems for commercial properties in operation are:

1) The green building council of Australia and the green star
2) Australian Building Greenhouse Rating (ABGR)
3) The National Australian Built Environment Rating System (NABERS)

2. Crucial areas of CRE practice and sustainable buildings

As can be seen later in this paper the number of corporations that did not have a dedicated CRE unit or did not undertake any form of performance measurement of their CRE portfolio were quite numerous. This is reflected in the statistical figures displayed later.
The 37 companies assessed were also researched having regard to their performance in the Ethical Investor magazine. This publication has established corporate monitor tables, rating companies on environmental sustainability, social responsibility and ethical governance.

An interpretation of each rating follows:

Rating	Environment	Social	Governance
*	Adverse	Adverse	Questionable
**	Developing	Disengaged	Patchy
***	Compliant	Responsive	Compliant
****	Sustainable	Engaged	Proactive
*****	Best Practice	Best Practice	Best Practice

There is more detailed explanation available of these rating and it is annexed to this paper. An analysis of the 37 companies having regard to this rating system can be seen at 7.14: Company sustainability ratings.

3. Methodology and respondent corporations

A data base was established by selecting at random some 42 companies taken from the top 200 listed in the Australian Financial Review. This list is published on a weekly basis (In 2007 it changed to the top 300). From this list of 200 top corporations, 41 were excluded as they were listed property trusts (LPT's also known as REIT's). Of the 42 companies chosen 5 were eliminated as financial data for them was only available for less than 5 years, whereas the sampling required a 5 year financial history to be available.
Company size related to the market cap. AUD$M. The companies ranged in size from AUD$71, 078.793 to AUD $2,509.063.
Of the companies studied, 9 were in manufacturing/mining, 8 financial services, 11 service industries, 7 retail and 2 media.
The annual reports for the last 5 years (2002 to 2006) for each company were obtained, reviewed and analysed in relation to their CRE assets. (See later in this paper).
The companies were also contacted to assess the role of their CRE management practices. As can be seen later many of the respondents had no specific CRE unit or CRE manager, section/department, some had a "property manager", but these functions may have been carried out by another person.

4. Overview of CRE in Australia

When the corporations were first contacted there appeared to be major ignorance of what CRE was and who actually managed it. In discussions it became apparent that corporations do not classify or think of their CRE assets the same way as do trained property professionals. To gain an insight into the way Australians look at CRE the following should be taken into account.

Corporate real estate can be best defined as, Kooymans (2000) 'corporate real estate is a term used in a broad sense to refer to real estate owned by a corporation, whether it is for investment or not. This included freehold and leasehold real estate that is used by an organization for its own productive purposes, whether or not the corporation also considers the same real estate to be an investment'.
Kenley *et al.*, (2000), stated that 'The primary value to the organization is not the investment value of the property but its contribution to the way it does business.'
The definition of corporate real estate does not include corporations or organizations that hold real estate as the main portion or part of their investment strategy. That is, property trusts (Real estate investment trusts), Superannuation funds, (Pension funds).
For the purposes of this paper it does not include public (Government) real estate.

Corporate real estate could then be classified into various classes:

Strategic Property: The real property assets that the corporation needs to own and control for its operation and long term business strategy.
Landmark/flagship property: This real property asset usually displays/states the corporation's image/culture. Can be owned or leased but it must be controlled. Usually medium to long term leasing arrangements put into place.
Core property: The real property that the company needs to control (not necessarily own) for medium term operations eg., includes industrial, retail and commercial facilities from which the company operates.
Peripheral property: The real property that a company needs on a short-term basis for intermittent cyclical functions/operations. Property is nearly always leased e.g.: extra warehousing space, serviced office space.
Surplus Property. Also know as disposal property. This is an area that should be under constant review as the company needs and wants change. The property does not fit into the corporation's long or medium term strategy or business plan.

Corporate real estate could then be classified into 6 sub-groups These, perhaps give a clearer picture of what corporations include on the balance sheet and refer to as part of their real estate asset holdings.

Buildings: the cost of buildings included in the company's property plant and equipment account.
Construction in Progress: The capitalised amount of plant and equipment and construction that has not been completed.
Land: The cost of land used in the production of revenue.
Leases: The capitalised value of leases and leasehold improvements included in property plant and equipment.
Natural Resources: The cost of irreplaceable natural resources including mining properties, oil fields and timber lands.

Other: Additional components of property, plant and equipment that cannot be placed in any of the foregoing categories.

Both classifications based on *Adendorff & Nkado, 1996.*

The corporations researched viewed their CRE assets in a more pragmatic way by classifying them by use. That is, commercial, retail, industrial, warehousing and office. There was no overall concept (except for one large financial institution) of the strategic, core, landmark property scenarios.
Adendorf & Nkado (1996) also comment that:
'Most corporations list real estate holdings in the property, plant and equipment part of the asset section of the corporation balance sheets. They are sometimes accounted for at their historical acquisition and financing costs, a valuation that is not a true reflection of their current value' It can be seen later that the CRE manager has little or no control over the 'book figures' placed on property.

5. The performance of corporate real estate

After determining what real property a corporation is holding, the next step would be to see if it is 'performing' in its own right. There are various methods of measuring this performance and it is often referred to as benchmarking. Benchmarking has been discussed extensively over the last 10 years, but just what is it? It is best described as, a process of comparing a set of performance figures and ratios, either within an individual large operation, between different organisations in the same industry, or even between similar processes in different industries. The whole concept of this process is to quantify aspects of property performance. Corporate real estate managers have a unique opportunity to gain access to very accurate detailed property figures from their own property portfolio. The theory being that once you have this data you can start analysing it in detail and pinpoint areas, or properties, that are not performing and take appropriate measures to deal with them. Harrington, (1996 p.6) points out that there are now recognised sets of figures from the Property Council of Australia that enable most commercial and retail properties to be benchmarked against industry levels.
Benchmarking the performance of private and public corporate real estate is slightly different to that of the 'standard' commercial or retail property in that many times the organisations 'property' is not actually returning any income. Herein the problem lies, so other methods of performance, or key performance indicators (KPI) must be used.
The methods that could be used to measure the performance of corporate real estate can be broken into two main groups, quantitative and qualitative.

Quantitative metrics include: (they are self explanatory). Based on Kenley *et al.*, 2000, p. 45, Timm 2001 and expanded by research interviews.

- Occupancy cost/m2
- Occupancy cost/person
- Lease cost as a percentage of occupancy cost
- Lease income as a percentage of total occupancy cost
- Capital expenditure as a percentage of total assets

- Capital expenditure as a percentage of total occupancy cost
- Outages (Space can not be used because of repair/maintenance problem).
- Occupancy cost as a % of total revenue
- Occupancy cost as a % of total expenditure
- m2 per person
- vacant space as a % of total space
- subleased space a s a % of total space and hours the facilities utilised
- asset value per person
- asset value increase

The above quantitative metrics can then be measured,

1. By portfolio over time
2. By property
3. Against other markets
4. Against other companies

The above listed metrics are available to all companies, but the question is, what measures do they actually use, if any at all?

6. Corporate real estate flexibility

To meet the requirements of the use of the various classes of corporate real estate it becomes essential to build flexibility into them.
Today corporate real estate managers are looking for greater flexibility in their portfolios to aid in aligning the CRE and business plan. There is a definite use of corporate facility location strategy to maximize shareholder wealth/value. Larger companies have an advantage in facility location decisions and this can lead to an 'agglomeration' value accretion to the surrounding land arising from the planned growth in business activity at that facilities site. Such companies can profit from their own (legal) inside information about likely impacts to the land surrounding the facility when it holds additional adjacent land (excess to its own operating needs) for resale. (Gibson, 2000. Manning & Roulac, 1999).

There is more consideration of cost factors related to corporate real estate location decisions. The possibility of the sale, in the future, of infrastructure development carried out as part of the overall corporation plan can be reflected in a growth in share value at the end of a project. (Even in mining companies).

Location choice and its impact upon revenue must be taken into account. (See comments later in this paper on cost and profit centers).
The impact of location choice on continuing shareholder value has to be viewed in the long term planning scenario. That is there may be short term 'pain' for shareholders through acquisition and set up cost, but long term gain through less expense (no rent etc.).

7. RESULTS OF STUDY

7.1 CRE management units

Of the 37 companies 23 (62%) had some form of a CRE unit and 14 (38%) did not. Of those that did not have a CRE department one had just appointed a specific property manager. This figure of 62% dropped to 48% when you took out the corporations with a 'single' property/facility manager only. The number of staff in these CRE departments varied from 1 to 113, with the average number of employees being 9. (This is reflected in the use of outsource service providers). It is noted here that 11 companies (30%) had specific divisions in their CRE departments and 10 (27%) had a definite CRE management structure. How the remainder functioned is an unknown at this stage.

7.2 Planning Horizons

Planning horizons for CRE property needs (both acquisition and disposal) were analysed on the basis of; 1-5 years, 5-10 years, 10-15 years and 10-20 years. 32% of companies planned 1-5 years, 27% of companies 5-10 years, 28% of companies 10-15 years and 13% of companies 15-20 years. It is felt that averaging the planning horizons here is meaningless, as the types and style of company many times dictates their planning horizons. This is an area that needs further investigation looking at the planning horizons for types of companies and determining if there is any correlation.

7.3 Owned and leased CRE

By analysing the annual reports and contacting the companies it was possible to gain an idea if they owned or leased property, or owned and leased property to carry on their business.
Thirty one companies (84%) both owned leased property, 3 (8%) owned all their property needs and 3 (8%) fully leased all their property requirements. The owning/leasing scenario may reflect companies trying to build some degree of flexibility into their property requirements but as can be seen later, this may not be the case. It is interesting to note that actual percentages of owned and leased property were able to be obtained from 14 respondents. The figures varied greatly from leased 92%, owned 8%, to owned 87%, leased 13%. At this stage no real conclusions can be drawn, but more data will be gathered in this area.

7.4 Auditing and revaluing CRE assets

A common practice in Australia and reflected in the annual report analysis is for company takeovers and amalgamations to occur. To this extent the auditing of the CRE asset base was investigated. Twenty six companies (70%) carry out a regular form of CRE audit whereas 11 (30%) do not. Of these 11 companies, 3 had recently started the process but (anecdotally) were having difficulty in actually determining what they owned. In one case some 8 companies were taken over and the CRE asset base was an unknown amount, both in number of properties and true market value.
Closely related to this is the revaluation of CRE assets. Revaluation here does not mean the written down/depreciated book figure but the actual independent value placed on owned CRE assets. Thirty eight percent of

companies revalued on an annual basis, 38% two yearly, 10% three yearly and 14% four yearly.

7.5 Cost and profit centres

Of the companies researched only 30% ran their CRE as a profit centre. The majority (52%) ran it as a cost center (after explaining the difference between a cost and profit centre for CRE) and a further 10% did not know. It could be reasonably assumed that the 10% that did not know, were actually running their CRE (or it has always run) as a cost centre giving a total of 62% as a cost centre. The remaining 8% appeared to be astute enough to know that their CRE was running as partly cost and profit centres as necessary.

7.6 Outsourcing

The question of outsourcing all or some of the CRE management was covered. No outsourcing was undertaken by 35% of the companies, 27% had definite outsource service providers, 19% partly outsourced and the remainder (19%) were unsure of any outsource services being used. The 19% that partly outsourced their CRE requirements stated that they did so on a sporadic basis as the need arose, which was apparently not often. The other 19% that were unsure appeared to reflect the minor role they felt CRE played in the operation of the corporation.

7.7 Benchmarking

To start to determine if the buildings meet sustainability requirements it is necessary to be able to assess the performance of each individual type of building. To this end the question of benchmarking was studied. Forty six percent of companies carried definite benchmarking processes, 41% made no attempt to benchmark and 13% did not know or understand what benchmarking was. Overall this shows that 54% of respondents made no effort to monitor the performance of any of their CRE assets. (On a property analysis basis, not a company performance/profit basis).

Anecdotally some of the measures used (of property owned) were; sales $/m2, internally properties compared to one another, against industry averages and rent $/m2. One particular company and their outsource service provider used an innovative method of ensuring quality CRE deals, both in dollar terms and company needs, by adopting a 'gain-share' approach.

This approach was undertaken on the basis that if the outsource service provider could save the company money, any 'gain' made above (or below) a benchmark figure was 'split' 50/50 or even a larger percentage for the outsource service provider, if the saving was greater.

7.8 Strategic alignment

Again for the company to perform in the best interest of the shareholder it is well documented that the CRE strategy and the company strategy must be aligned. Of the companies reviewed 70% had alignment procedures in place and 30% did not. This perhaps reflects the importance that is now placed on CRE being a boardroom issue.

7.9 Flexibility
Although flexibility in CRE should be of importance, 51% of respondents did not understand or know what flexibility in CRE meant. It is pointed out here that some CRE managers are not 'true property' people and had literally 'drifted' into the position from non-property backgrounds and this could explain their lack of knowledge. The remaining 49% understood the concept of flexibility and how it related their management practices. Again, anecdotally, the methods used included the following; through leasing, leasing and annual review of CRE needs, partly owning and leasing premises, building in break and make-good clauses that suited them (both as lessor and lessee) and 'an agglomeration of concepts'.

7.10 Information technology
The area of the use of information technology was also reviewed in relation to CRE practices interacting within the whole corporation. Thirty two percent felt or knew that the use of IT was crucial to the success of their CRE portfolio whereas 68% appeared to have little or no regard to the use of information technology for CRE. This is another definite area for future investigation.

7.11 Value of CRE portfolio
Of the 37 companies studied their CRE managers were aware of the total value on their CRE portfolio, both owned and leased in 88% of instances with the remaining 12% being not aware.

7.12 On or off balance sheet structuring of CRE

When initially investigating the balance sheets of the companies it was noted that 84% showed the CRE assets as an on the balance sheet figure, 4% off the balance sheet and 12% as operating costs (expense). This confirmed the original findings when talking to respondents of 3 companies (12%) leasing all their CRE requirements.

7.13 Is there a CRE sustainability agenda in place?

Of the companies investigated/surveyed only 22% (8 companies) of CRE managers/departments were able to confirm that they had a definite CRE green building/sustainability policy in place. This covered both owned and leased properties. The remaining 78% (29 companies) had no idea or did not have such a policy. Of the 78% it was noted that on further investigation that of the 29 companies that did not know about CRE green practices, 11 of these made reference to sustainability in there annual reports. This appeared to have more to do with corporate practices (or what they thought looked good on paper) rather than any form of definite CRE sustainability agenda.

7.14 Company sustainability ratings. (Refer to star * ratings in appendix – the more stars the better)

The 37 companies investigated were compared to the ratings under environmental, social and governance responsibility.

	Environmental	Social	Governance	
*	Nil	Nil	3	
**	5	9	12	
***	16	12	6	
****	12	13	13	
*****	4	3	3	
Averages:	3.40	3.27	3.02	(star ratings)

When you then introduce the results of the study in regards to companies that have proper CRE units and those that undertake benchmarking and then compare them to the 3 areas of responsibility the results become even more interesting.

Does the company have a CRE unit?

	Environmental		Social		Governance	
	Yes	No	Yes	No	Yes	No
*	Nil	Nil	Nil	Nil	3	Nil
**	2	3	5	4	7	5
***	6	10	6	6	3	3
****	7	5	7	6	6	7
*****	4	Nil	3	Nil	Nil	3

Does the company undertake a benchmarking (KPI) measure?

	Environmental		Social		Governance	
	Yes	No	Yes	No	Yes	No
*	Nil	Nil	Nil	Nil	1	2
**	2	3	2	7	4	8
***	4	12	4	8	2	4
****	6	6	6	7	5	8
*****	3	1	3	Nil	Nil	3

The main question is, what can interpreted from this?

8.0 Balance sheet and annual report analysis

As discussed earlier, this section of the paper will cover the five year period from 2002 to 2006 for the companies concerned. As also indicated in the abstract some innovative methods/ways/ratios were extracted to try and bring some 'life' into the area of financial analysis.

The areas cover:

- Property as a percentage of assets (Property value/total assets)
- Return on property (EBIT as a % of property value
- Property value per employee
- Property value increase/decrease over the previous financial year
- Property as a percentage of operating cost

- Property outages
- Occupancy cost per employee
- Occupancy cost per square metre
- Occupancy cost as a % of total revenue
- Property sales as a % of (PBIT)
- Purchase of property as a % of total outflows
- Property as a % of property, plan and equipment
- Depreciation (amortization) as a % of property income
- Property as a % of non-current assets

Some information was difficult to obtain, although there are supposed to be international accounting reporting standards, and this has resulted in some areas having no meaning.

Of the 37 company's researched, analysis of 25 were carried out in detail. The 12 that were not researched had problems with electronic access to their details.

Figure 1. Property as a % of assets

	2002	2003	2004	2005	2006
Average	11.41	8.44	13.72	9.17	7.03
High	42.03	38.80	37.80	34.12	30.05
Low	0.06	0.06	0.04	0.04	0.03

What can be gained from this? Compared to the 2000 figures where the average amount of property held was well in excess of 45% of total assets, the above figures show a sharp decline in the holding of property. What is apparent is the steady decrease in the 'high' figures from 2002 to 2006.

Figure 2. Property value increase/decrease over previous financial year

These figures covered a huge range from +25.62% to -46.08%. What is interesting is when the average figures are taken over the 5 year period it becomes apparent that is some form of consistency in the acquisition and disposal of properties.

	2002	2003	2004	2005	2006
Average	20.89	19.8	17.5	17.1	17.31

This is of course is very good for outsource service providers who would no doubt be involved in all of the major property transactions.

Figure 3. Property value per employee

Only 10 corporations had figures that could be analysed for this area but some conclusions could be drawn when the type of operation was viewed.

2002	2003	2004	2005	2006

Finance(x3)	243,469	262,212	289,040	314,388	329,506
Mining(x2)	72,102	66,022	62,195	58,541	58,939
Services(x5)	26,822	25,390	23,580	23,210	19,440

On the surface it appears corporations would like to decrease the property value per employee but the reverse is often the aim. The fewer the number of employees then the higher the return on a property basis.
An interesting corporation was investigated (major international airline) and the following was ascertained. (Just as a matter of interest)

Airline passengers per dollar of property asset value, calculated by taking the value of property assets and then dividing by the total amount of passengers that are served in one year. (Yielding number of passengers per $ of owned property).

	2002	2003	2004	2005	2006
Passenger Property $	33	38	38	38	41

Figure 4. Return on property (EBIT as a % of property value)

	2002	2003	2004	2005	2006
Average	112.21	106.75	110.16	132.33	123.65
Mean	98.63	96.96	89.68	90.62	86.89

Figures were able to be gathered for 14 corporations. There appears to be some consistency with the averages and even more when the mean figures are extrapolated.
This is an area for future research as more corporations are analysed.

Figure 5. Property outages

Only two corporations had any data on property outages (percent of owned property unoccupied/vacant) at any time. Many of the CRE managers contacted agreed it would be a good idea to monitor this, especially as the majority of CRE was run as a cost centre rather than a profit centre. The preliminary figures are shown below, but this again is an area that needs further research.

	2002	2003	2004	2005	2006
Average Outages%	15.25	15.8	16.7	8.0	10.9

Figure 6. Property as a % of operating cost (Where a company leases all its property)

These figures relate to 11 corporations where such information could be obtained and analysed.

	2002	2003	2004	2005	2006
Average%	16.34	14.45	12.95	13.36	10.99

These figures appear to be fairly consistent and may indicate that corporations can have some control of operating costs by leasing all their property needs and indirectly having (possibly) a large amount of flexibility.

The other ratios referred to earlier in this section have not been analysed as the figures available (at this stage) are meaningless. However, it is interesting to note that one large financial institution does calculate a property expense ratio, that is leasehold improvements over total property assets.

9. Conclusions

The findings from this preliminary study into corporate real estate practices in Australia are quite revealing. Although there appears to be a majority of corporations with definite CRE management department, if you exclude the 'one person property manager' scenario the number falls well below the 50% margin. These results reinforce again the lack of emphasis placed on the importance of CRE. Planning horizons appear to be in line with previous studies, especially when the types of corporations are taken into account. If one links the percentages owned and/or leased property to the concept of flexibility in CRE, these figures start to make sense. It is however important to note that there is an overall lack of knowledge of 'supposed CRE managers", as to what flexibility actually is and what it means to them.

The auditing of CRE assets is definitely an issue as are the independent valuing timelines. (Australian and International auditing standards) Running the CRE assets as a cost or profit centre is a relatively new issue, but it is felt that if better trained and more experienced CRE managers were employed the concept of profit centre management would prevail.

Outsourcing is not a problem, but having regard to previous studies the amount of outsourcing is increasing.

The ever present area of benchmarking the performance of CRE was investigated and again results reinforce the findings of previous Australian studies that a majority of corporations make no attempt to benchmark.

Totally opposite to this, 72% of companies had strategic alignment processes in place, so this is now seen as a definite boardroom issue.

Information technology (or ICT) relating to CRE management is not viewed as having importance. The results from actual interviews with 'true' CRE managers revealed the opposite meaning this is an area that will require further investigation.

The overall value of the CRE portfolio and how it is treated on the balance sheet is an interesting area. Although the value of the CRE assets were known, how and when they were arrived at was a matter on conjecture in many cases. Similarly as nearly all corporations show their CRE on the balance sheet in the area property, plant and equipment, the quality of the break-up of these figures appeared to be an 'accounting matter' rather than a CRE matter.

A few of the priority areas in CRE practice in Australia that need action include:

- Understanding what CRE is and how it functions in a business environment
- Use of benchmarking and KPI's
- Building flexibility into CRE portfolios
- Running the necessary parts of the CRE portfolios as a profit centre
- Judicious use of outsource service providers
- Lack of synergy between company's financial officers and the use of CRE as a value adding tool.

The analysis of the financial reports was reasonably difficult but did reveal some interesting results:

- Property as a percentage of assets is definitely falling
- Overall property values are increasing and this appears to be in line with market trends
- Property value per employee – these may correlate with the type of business
- Return on property appears to be increasing, but more accurate data is needed to progress here
- Property outages – more data and analysis needed
- Property as a percentage of operating cost – more data needed

These preliminary results suggest that CRE practices in Australia have moved forward but still have a long way to go. Most corporations do not really use their CRE assets to the maximum advantage and this is reflected by the results from this study.
Australia is not unique in this respect. The results of this study when compared to other international studies do not differ significantly.
What is needed in the Australian context is greater emphasis by companies and researchers in the corporate real estate area.

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