

CORPORATE REAL ESTATE: ANOTHER REAL ESTATE AREA

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Introduction

The term corporate real estate (CRE) is often confused with other aspects of the real estate areas especially the property management and facilities management (FM). This article intends to introduce CRE and its differences in comparison to property management and FM.

Definitions

Corporate real estate refers to the use of real estate, as part of business operations and associated activities (Brueggeman and Fisher, 2001). CRE applies to properties that are either owned or leased by firms to achieve corporate objectives (Brown et al, 1993). The management of CRE is known as corporate real estate management (CREM) and was defined by Brown et al (1993) as *"the optimum use of all real estate assets utilised by a corporation in pursuit of its primary business mission"*. CREM contributions to the firm are translated through various activities including property acquisition and development, property management, financial analysis and miscellaneous activities such as leasing, development packaging, and brokerage (Gale and Case, 1989). It is apparent that the management of CRE involves broader aspects of real estate management ranging from routine day-to-day property management to higher-level activities of long-term CRE strategic planning and asset management.

The Differences between CRE and Property Management

Property management involves the execution of the day-to-day tasks in order to enable the real estate assets to function properly. These tasks include three broad property management areas, namely; administrative, marketing and physical management. The administrative management involves rental collections, record keeping and reporting, while the marketing management

comprises the marketing strategy, tenant selection and rental schedules. Physical management is concerned with maintenance and rehabilitation or renovation of the real estate assets (Brown et al, 1993).

Property management focuses more on building maintenance, and concentrates on fulfilling customers' needs and satisfactions. Baldwin (1994) defines property management as, *"the total care of the building during the operation stage; the extent of management service will vary according to the building's use, quality, size, location and age, the ownership profile, and the capability and strategy of the property management company itself"*. This definition implies that the property must be in its *"operation stage"*, meaning that the property is used by the organisation to undertake its main functions such as office accommodation to house the management and administrative staff (Gibson, 1994). The extent of management service depends on various factors, as mentioned in the definition. For instance, a high quality building would require higher management and maintenance standards (Baldwin, 1994). An older building may need more attention because there is tendency for facility failures. In addition, high maintenance costs are anticipated for this type of building.

Gibson (1994) points out the different perceptions on property management by users and property managers. The property users are usually concerned with minimising costs of occupancy and obligations. This is in contrast with property managers, who perceived property management as a technical skill and challenge. The property needs to be maintained, involves a lease that needs to be reviewed, accommodation that needs to be refurbished, and a tax liability that needs to be minimised.

From the definitions of property management, it can be concluded that there are significant differences between property management and CRE as outlined in Table 1. The former involves a day-to-day property maintenance and management, which requires personnel with more technical skills. The latter comprises the strategic use of real estate to support the business operation, and requires personnel with more managerial skills.

Table 1: Summary of Differences between Property Management and CRE

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

(Note: *Depends on the structure of the organisation)

The Differences between CRE and FM

Another real estate area that needs to be distinguished from CRE is FM. FM is concerned with coordinating the needs of people, equipment, and operational activities into physical workplace (Brown et al, 1993). The tasks related to the FM department are acquisition and disposition, physical upkeep, record keeping, and reporting tasks for corporate-owned real estate. The US Library of Congress defines FM as *“the practice of co-ordinating the physical workplace with people and work of the organisation integrates the principles of business administration, architecture and the behavioural and engineering sciences”*¹. Amaratunga (2000) argues that the definition is very broad and should incorporate at least three principal aspects as forwarded by Barrett (1994). The three aspects are:

1. *it is a supporting management function to the core business of the organisation*
2. *it concentrates on the area of interface between physical workplace and people*
3. *it requires a multi-skill approach.*

Another definition discussed by Amaratunga concerning FM is forwarded by the Centre for Facilities Management of University of Strathclyde (1992), namely *“the process by which an organisation delivers and sustains a quality working environment and delivers quality support services to meet the organisation’s objectives at best cost”*.

From the definitions, it is argued that the FM function is to support the core business of the organisation, which is similar to the function of CRE. However, the scope of CRE is wider as

it involves the strategic aspect of real estate in the organisation. FM forms part of the CRE activities and it is operative in nature. The facilities department is perceived to be reactive and receives orders from CRE officers.

These definitions also distinguish the aspects of FM from property management. FM focuses on the provision of the quality working environment through various responsibilities such as facilities design, energy conservation and environmental control. Though both fields are technical in nature, FM tends to incorporate various skills such as specialists on operational management, industrial engineering, architecture and construction (Brown et al, 1993). Property management is concerned with the satisfaction of the tenants, while FM emphasises the provision of a working environment that satisfies the staff and workers in the organisation.

Zeckhauser and Silverman (1983) differentiate property management from FM by pointing to the distinction that property managers tend to consider business and real estate costs separately in order to protect business activity while reducing real estate costs. The facilities manager does not distinguish between buildings and the activities that go on in them. In fact, the FM role is to provide its services according to the business operation. For instance, when a business intends to expand its manufacturing operation, the facilities manager will consider the plan to accommodate this activity including site selection, location analysis, factories design for processing and assembling activities, space requirement and others. The differences between FM and CRE are summarised in Table 2.

¹ Quoted from Amaratunga (2000)

Table 2: Summary of Differences between FM and CRE

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

(Note: *Depends on the structure of the organisation)

Conclusion

From the review of literature, it can be concluded that CRE role is a wider real estate area and is concerned with the strategic role of real estate management within an organisation. Both property management and FM are part of the operations under CREM. An attempt to classify the activities of each discipline is shown in Figure 1 and some activities are seen to overlap between property management and FM especially on the aspects of building maintenance and record keeping or real estate inventory of a business organisation. The responsibilities of the CRE executives are to strategise the CREM function and co-ordinate the two departments for the real estate operation, in order to support the overall business operation.

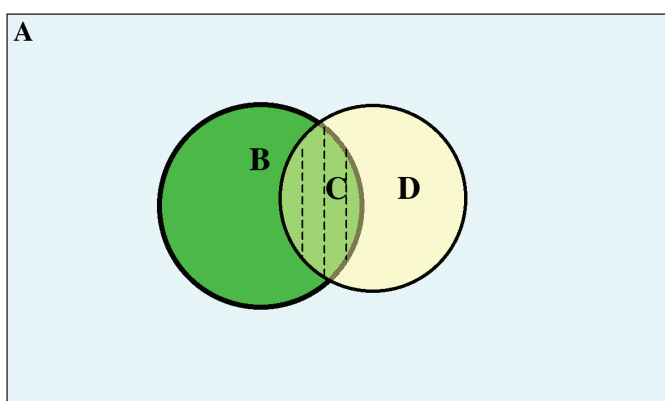


Figure 1: CRE, FM and Property Management Activities

Legend:

- A: CRE activities: Strategic real estate management inclusive of FM, property management, and financial analysis.
- B: FM activities: acquisition and disposition, and facilities provision
- C: Building maintenance and record keeping
- D: Property management activities: administration and marketing

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