

Exploring Financial Performance for Corporate Real Estate Management (CREM) in Malaysia

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Abstract: Corporate Real Estate Management (CREM) is increasingly attracting attention from corporations. It is an evolving internal service provision that can be shown to make significant contributions to organisations' success. Despite its importance, CREM faces dilution in justifying its importance especially through financial measures which is among the most important language to the senior management. This creates gaps between CREM's performance financially with what the stakeholder understand that led to failure in improving its position within organisations. The study explores CREM financial ability through secondary data extracted from financial statement derived from companies' annual report. These companies were selected from top 100 companies that fall under the category of corporate real estate based on three sectors namely as trading/services, industrial products and consumer products. Several financial measures were used such as property as percentage of total assets, return on property, property value per employee, property value increase or decrease and property as percentage of operating cost. The findings indicate that CRE increase over time in all sectors. Corporate real estate in consumer products sector found to be responsive compare to other sector in managing their corporate real estate.

Key words: Corporate real estate management, brand, branding strategy, internal service provision, sector

INTRODUCTION

Corporate success is vital in every organisation. Almost every business is currently facing unrelenting pressure to achieve a competitive position. New competitors are entering markets using new channels with new and innovative products. In addition, businesses have to contend with an increasingly complex burden of legislation, the tremendous development in information technology and the difficulty of recruiting and retaining appropriately skilled workforce. Furthermore, the nature of work has changed for many organisations and their people. Technology advancements, globalisation, deregulation, desire to improve shareholder value and many other factors are taken into consideration in assessing any organisation's success. Knowledge work is different from manufacturing work, either today or in the near future. With the effectiveness of people so critical to the success of current organisations, there should be a lot of attention and resources given to create highly effective conditions to support people and their performances.

A corporate business strategy addresses such critical elements as customers, employees and processes

that are profoundly impacted by the environment in which the company does business. However, companies pay less attention than they should to the elements of real estate strategy in creating this environment to interact with customers, house its people and support its process. Significant weaknesses can be found in the linkage between corporate real estate strategy and overall business strategy (McDonagh and Nichols, 2009). It is a rare occurrence for businesses not to have real estate requirement whether that business is a big manufacturing company requiring extensive land, plant and facilities, or a small retailer. Matching real estate needs to business needs is an obvious requirement in the profit potential of every business, though as noted above, one that is not always well managed.

Optimisation of real estate takes different forms of challenges because it involves cost at all stages of tenure from acquisition, ownership, operation and disposal. Corporate Real Estate (CRE) is often a corporation's second or third largest operating cost and can represent as much as fifty percent of the total assets on a typical balance sheet (Weatherhead, 1997). Meanwhile, provision of Corporate Real Estate Management (CREM) is increasingly important as part of the business' success.

This trend follows the changing orientations of the built environment which includes commercial, educational, industrial, recreational, residential, retail and transport infrastructures. CREM involves the full range of activities concerning portfolios of buildings, constructions, providing facilities for organisations, land rights, physical planning and managing investments.

Corporate Real Estate Management (CREM) is still a new concept in Malaysia and not well accepted among the decision-makers in corporations. This contributes to the lack of corporate real estate inputs in decision-makings for enhancing shareholder value in corporations. The impacts from this lack of CREM knowledge and practices among the corporations have limited Malaysian corporations from making full use of their real estate holdings. Inability to have proper CREM strategies has reduced the interest of local and foreign investor from investing in Malaysian companies.

In the Malaysian context, corporate real estate is relatively underdeveloped as an asset in corporate strategy. In particular, it is argued that there is an underestimation of the effects of real estate assets on property costs and shareholder value. Even though there is no apparent link between Corporate Real Estate (CRE) strategy with share performance, companies with a Corporate Real Estate Management (CREM) strategy facilitate the managerial process and knowledge framework that lead to enhancement in financial performance (Ali *et al.*, 2008). This indicated that CREM could make a positive contribution to organisation financial performance providing having the attention from senior management in order to maximize its potential. An understanding of CREM best practices in Malaysia could contribute to enhance company's performance and competitive advantage.

Literature review

Defining CREM: In defining CRE, Brown and coauthors introduced the management aspect to CRE by highlighting the optimum use of all real estate assets by a corporation in pursuit of its primary business mission through various activities, including property acquisition and development, property management, financial analysis and other miscellaneous, though related activities. Joroff *et al.* (1993) initiated CRE as the fifth resource underlying an organisation after the four better known resources of people, technology, information and capital. This transforms CRE into a strategic resource for an organisation like any other resource, such as Human Resources (HR) and Information Technology (IT) (Becker and Pearce, 2003). As a resource, CRE needs management input in order to be incorporated into organisational activities.

This presumes CRE is more than bricks and mortar and recognises its intangible contributions through its management. While the managerial aspect of human resources is labelled Human Resource Management (HRM) (Huczynski and Buchanan, 2001), so too the management of CRE is labelled Corporate Real Estate Management (CREM). This claim is supported by Appel and Feijts (2007) who state that CREM is the field of managing the CRE in order to achieve organisational goals. Corporate Real Estate Management (CREM) could be seen as harnessing the ability of management to direct the CRE resource in support of organisational objectives and strategies which translates into business success (Lindholm and Nenonen, 2006). The transition in the demand for accommodation and the changes in the real estate market have contributed to the recognition of the financial value of corporate real estate. This led corporations to look for ways to organise support services to drive return to core business. This has opened for outsourcing and strategic alliances in corporate real estate management. In order to continue to provide added value for corporations and their operating companies, corporate real estate management have to evolve and adapt services to corporation's current and future role within the corporate setting. Dewulf *et al.* (2000) has defined the discipline of Corporate Real Estate Management (CREM) 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. Therefore, the CREM focus is to support organisations' core businesses by utilising CRE resources.

When it comes to strategic management, the primary value of CREM to the organisation is that it contributes to the way an organisation does business (Stoy and Kytzia, 2004). The importance of CREM began from the need for recognition for CREM in improving business outcomes similar to human resources and IT (Joroff *et al.*, 1993). This introduces the concept of Corporate Infrastructure Resource (CIR) and the Integrated Resource Infrastructure Solution (IRIS) model in conceptualising the importance of CREM and the coordination of all the corporation's support functions (Materna and Parker, 1998; Englert, 2001; Dunn *et al.*, 2004). Several researchers and practitioners have provided frameworks for aligning CREM practices toward the strategic management level in maintaining organisational competitiveness (Roulac, 1996; Varcoe, 2000; Edwards and Ellison, 2009; Heywood and Kenley, 2008). Most of the frameworks proposed incorporated CREM as part of

the strategic resources that help organisations move forward and with more likelihood of becoming a part of business strategy. This shows that the effectiveness of CREM relies upon synergising real property value with other organisational functions in pursuit of an organisation's mission.

In brief, CREM has evolved as an important resource in fulfilling customers' demands in achieving an organisation's mission. The focus is to incorporate CREM into the structure and operations of various management levels, cross-functional departments and in a variety of environmental settings to optimise its value for an organisation.

Financial contribution: The financial contribution from CREM differs fundamentally from other forms of real estate management because corporations acquire real estate to fulfil business' needs not necessarily for making money from the real estate itself. The financial contributions of CREM can occur in the following ways (Meyer, 2004):

- By being valuable assets on the balance sheet
- By managing costly and expensive corporate outlays
- By managing the financial flexibility and risk inherent to any real estate decision
- By contributing to organisation's profit and
- By giving impacts to capital market decisions

Financial consideration is an important consideration in making CREM related decisions by the management especially when real estate plays major roles in company balance sheets. Zeckhauser and Silverman (1983) mentioned real estate assets might increase a company's total asset base by at least 10%. Veale (2004) highlighted that corporate real estate represents about one quarter of corporate worth with total occupancy costs for corporations that can range between 5-8% of (pre-tax) gross sales. In addition, organisations are using financial terms as their communication language to business units when dealing with CREM matters (McCarty *et al.*, 2006). The financial language is among the critical attributes for CREM executives to evolve from traditional CREM into a more strategic roles. This shows that corporate real estate plays a big impact to organisations financially.

Even though, it is valuable, corporate real estate is a costly asset. Corporate real estate spending is second highest operating cost after payroll in most organisations (Veale, 2009; Ettore, 1995; McNamara, 2002; Edwards and Ellison, 2009). That is the reason cost-reduction is very synonymous with the CREM functions. In many situations, CREM is typically asked to calculate the

financial consequences of the cost to lease or buy, to move, or to merge and acquire other companies (Virginia and Colin, 2001; Cooke, 2002). The cost reduction approach leads to CREM commonly being defined in a narrow cost-based terms or a cost-centred function (Wills, 2008).

Focusing too much on cost factors in fact creates a certain myopia because there are many other components that can contribute to organisation's success (Miciunas, 2003). Furthermore, CREM has limited potential for stipulation of the cost targets because the use of the occupancy cost concept in profit and loss accounts poses a problem. This is due to the determining factors for these cost types which are in many cases, outside the control of CREM depending on the management objectives (Stoy and Kytzia, 2004). Other than cost issues, CREM executives are faced with the mounting task of managing financial flexibility of corporate real estate which is inherently inflexible in nature (Scheffer *et al.*, 2006). In fact, CREM financial flexibility can be demonstrated in different parts of the organisation's portfolio for various situations such as real estate as collateral for mortgage loans, maintenance plans to suit with corporate cash flow, owning or leasing strategies, taxation advantages through capital allowance schemes (Hill, 2001; Crosby, 2003, 2005). Apart from financial flexibility, Gibson (2001) mentioned CREM functions as concerned with the need to manage financial risk and exposure of any real estate decision especially in regard to tenure and terms of real estate agreement. Understanding this type of risk allows organisations to know how fast they could exit a property transaction and at what cost.

Apart from becoming a spender and being perceived as a cost-centre, CREM also contributes to an organisation's profit. Space charging to external parties and internal rents to business units play important roles in generating profit for organisations (McDonagh, 2008). In some ways, the internal rents help organisations to control their budgets and reduce waste in space usage. Profit generation also exists by CREM leveraging existing use. Change in ownership from owning to leasing may save companies in term of interest payments, relocation to a lower rent workplace reduce excessive rental cost, disposition of surplus properties and taking advantage of refinancing benefits are a few ways of generating profit from CREM (Adendorff and Nkado, 1996). Hence, CREM's capability not only is being capitalised as a cost-centre but also can be utilised as profit oriented function.

Another financial contribution is in terms of capital market impacts. The capital market's impact may come

from a variety of reasons. However, there is a more positive impact for companies that make announcements to focus on their business than those who do not (John and Ofek, 1995). In this case, asset elimination of non-core CRE holding brings positive outcomes to share prices by portraying to the shareholders that company is reducing real estate assets and is focusing on their business. Hiang, and Ooi (2004) and Brounen and Eichholtz (2005) support this claim as their research found that higher real estate asset intensity gave negative impacts to a company's economic and market value-adding. The stock returns are the lowest among company with highest real estate ownership. However, given the separation and variety of ownership control, companies cannot be expected to make corporate decisions necessarily in enhancing shareholders' value from stock's price only without appropriate mechanism to align managerial and shareholder interests (Lee and Lee, 2007). In reverse to the above discussion, decisions by companies to spend on capital expenditures such as relocation to operate at a lowest cost centre which leads to a change in bottom line performance and an increase in revenue is also one contributing factor in enhancing shareholder wealth (Manning *et al.*, 2009). This leads to justifications for CRE capital expenditure that has both positive and negative impacts to organisations depending how this CRE asset is being used.

Corporate real estate financial measures

Property as percentage of total asset: As the value of property as a percentage of total assets are computed by dividing total long-term asset over total asset, it can easily be understood that this ratio represents a company's long term strategy. This ratio indicates percentage value of property in every RM1 of their total asset. It shows the important of property among the other asset in the company. Property in terms of this ratio is land, buildings, plants and machineries. If the company has high percentage of property, it shows that the property is important to the company as a means to their investment strategy because they prefer to put their money more on property than other asset.

Return on property: Return on property is calculated by dividing operating income with total long-term asset. This ratio was constructed to show how much profit an asset can generate for every RM1 of asset they owned to the company. So, if the ratio is high, it gives a positive meaning which is positive sales growth.

Property value per employee ratio: Property value per employee ratio reflects companies total long term asset over the number of employees. Low percentage of this

ratio means the sectors are hiring many employees for their operation. The need of employee's hiring is influenced by sector's nature of business and economy condition.

Property value increase or decrease: Property value increase or decrease shows property value increment or decrement for every year. It is obtained by subtracting total long-term asset with the previous year value for total long-term asset. High value of property indicates there is purchasing of property for the year.

Property as percentage for operating cost: This ratio was constructed by dividing total long-term asset with total operating cost. Operating cost is all cost that involve during production of their products. Results of the ratio show how many of costs for RM1 of property has generated. If the percentage ratio is high, the sector performance is not good because the sectors are suffering from high cost of production. High production costs will decrease sectors profit. But, if it has low percentage, it gives positive impacts to the sector when sectors are facing low operation cost.

MATERIALS AND METHODS

The purpose for this stage is to fulfill the first objective in exploring CREM current practice in Malaysian. This involves secondary data collection comes from annual report of the listed company in Bursa Malaysia. The finding from current practice for CREM in Malaysia provides an insight understanding of how organisations in Malaysia make use of their real estate assets. This data obtained from Bursa Malaysia from financial statement extracted from annual report. These companies were selected from three sector namely as trading/services, industrial products and consumer products (Appendix A). Data on value of property and plant, operating profit, revenue, market capitalisation, total assets, paid-up capital, net income, total asset and total equity are obtained from the companies. Several analysing measures were used to evaluate corporate real estate performance financially. Among of them are:

- Property as percentage of total asset
- Return on property
- Property value per employee
- Property value increase or decrease and
- Property as percentage for operating cost

The companies chosen are divided into three sectors namely trading and services, industrial products and consumer products. The study period is from 2009-2013 to get the latest trend of the corporate real estate management in Malaysia.

RESULTS AND DISCUSSION

This study provides the explanation on the ratios used for providing an insight into corporate real estate strategies across industries. This information is acquired from conducting document analysis (financial statement from annual report) using secondary data obtained from Bursa Malaysia Berhad for top 100 companies that fall under corporate real estate definition in Malaysia.

Comparison between sectors for property as percentage of total asset: All three industries display different trends for this ratio. Figure 1 shows that trading and services industry ratio revolves around the value 65. Whereas, industrial sector experiences constant, gradual decrease with little rise at the end of the trend. The different case happens for the consumer products because the trend forms a slope from 2004-2006. It takes an increase right after 2006 and faces a decrease from the year 2009 until 2012.

In the year 2005, the speculation that goes on during that time has impacted the property market which leads to the decrease in all three trends. The economic recovery is marked with the uprising market of tourism industry. Because industrial sector has no direct relationship with tourism, that is why while the other two industries are recovering, the industrial sector is still in a slump. From the span of time in 2007-2008, the economic situation is quite stable, so all three trends depict stagnant trends.

Things take a rather different turn in 2009 when the great economic recession happened. Due to the fact that the trading and services industry does not rely so much

on long term asset as revenue generation, it is still making profit when the industrial and consumer products have taken plunges in their trends. However, the economic depression cannot be avoided in 2010 when all three trends decrease regardless how the nature of the sectors is conducted. Finally, in the past 2 years, companies in trading and services and industrial sectors have been acquiring more long term asset to be compared to companies in consumer products industry. Consumer products adopted a more flexible strategy where they prior flexibility in terms of their corporate real estate management to provide easiness in corporate expansions or relocations.

Comparison between sectors for return on property: The next comparison done is on the return on property ratio for the three sectors as shown in Fig. 2. Trading and services industry shows the characteristics of being a highly adaptive to property market changes as it is able to make the decision whether to acquire or dispose of property according to the market. The stagnant trend of it proves so. The same goes to industrial sector. However, it is more volatile than trading and services sector's trend. Contradicting than the other two industries, consumer products industry has a fluctuating trend for its return on property ratio. The industry adopts a lot of flexibility in its corporate real estate management because it needs to be able to meet the needs of consumerism changing market. This explains the acquiring and disposal activity of the market and its volatility.

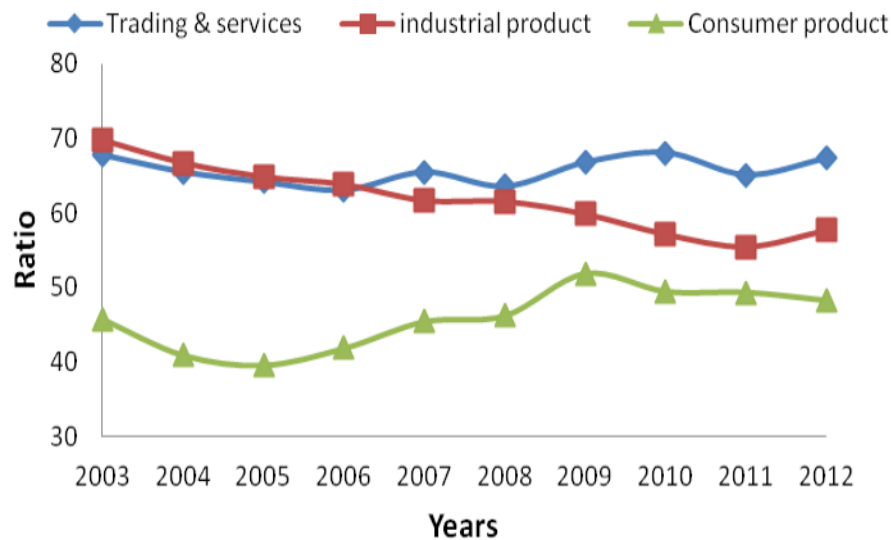


Fig. 1: Property as percentage of total asset for comparison between sectors

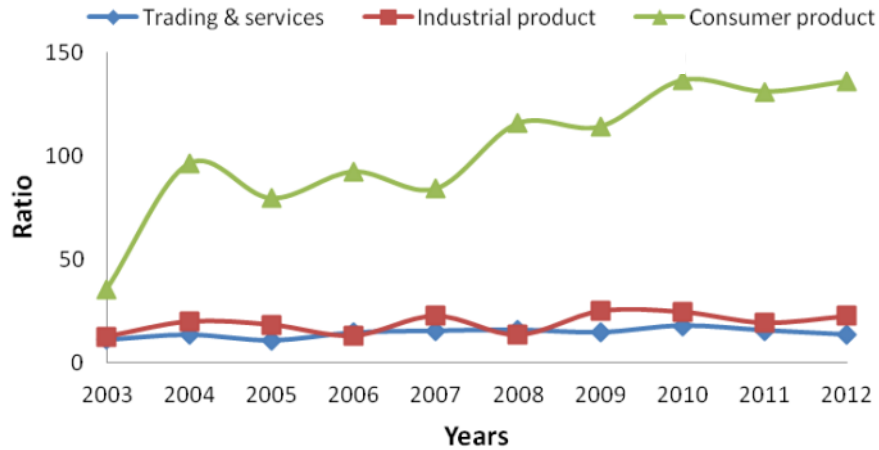


Fig. 2: Return on property for comparison between sectors

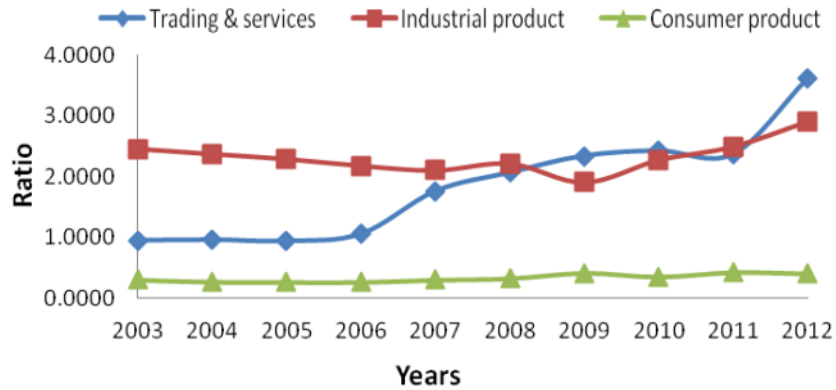


Fig. 3: Property value per employee for comparison between sectors

Comparison between sectors for property per employee:

Property values per employee ratios for all three sectors are shown in Fig. 3. Consumer products industry shows stagnant trend because although the companies in the industry actively dispose and acquire asset, the business itself does not require highly-skilled employees. This makes hiring and firing processes possible in a short period of time. Another strategy adopted by this industry is also hiring employees by contract consisting of various types of periods, depending on the current needs of the companies.

Trading and services sector is slow in acquiring long term asset. Asset in the industry requires workers to manage them and these workers are normally the highly-skilled ones and viewed as contributing to the company's profit. This explains why the trend of this sector is almost stagnant. Increase in the trend means the companies acquire more long term asset but the amount of employees hired to do the job is still lacking. Smaller amount of employees will result in larger value of this ratio. After the trend takes a peak, the trend once again

becomes stagnant for a good three years. It experiences a down slope in the year 2011 probably because they hire more employees as their strategy to serve prospect long term goals of the companies.

The industrial service, in terms of property value per employee ratio has successfully survived the ups and downs of the economic situations by displaying a rather consistent trend. The plummet in 2009 is the result of the great economic recession. The industrial industry, just like trading and services, require highly-skilled workers. As a means to survive in the recession, the companies resort to letting go of the property and not the workers. This contributes to the smaller value of the ratio in that particular year.

Comparison between sectors for property increase or decrease:

Figure 4 shows the comparison between sectors for ratio of property value increase or decrease for every year. From Fig. 4, it shows significant differences between values of property between sectors on 2009. Consumer products and industrial products sector have

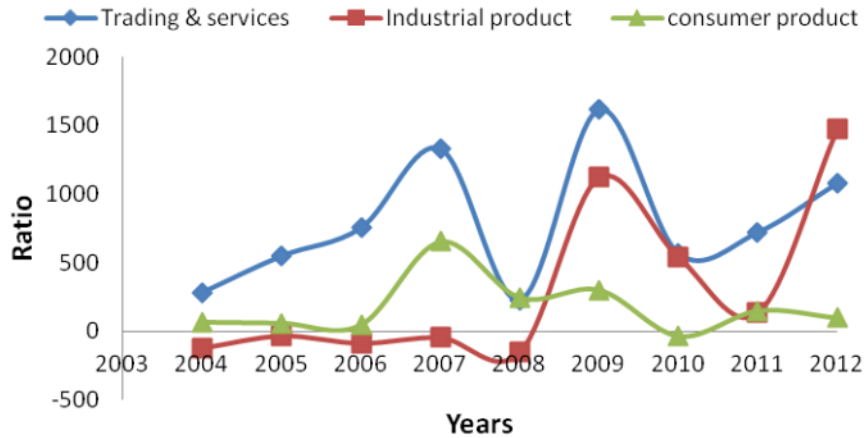


Fig. 4: Property increase or decrease for comparison between sectors

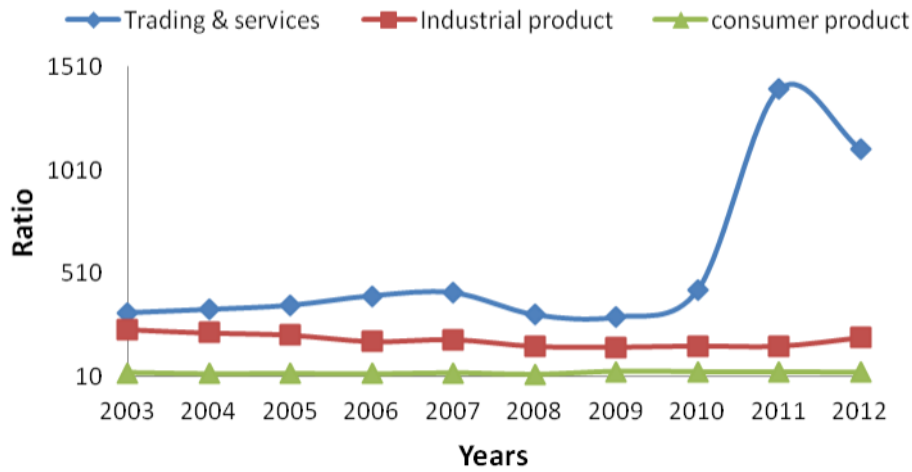


Fig. 5: Property as percentage of operating cost for comparison between sectors

high property value on 2009 compared to trading and services. One of the reason is manufacturing industries involve the use of machineries and plants for production. Not only that, both manufacturing industries are purchasing more plant and machineries on that year because they are developing new site for their operation. While, trading and services face low property value on year 2009 as a result of disposing asset for financial recovery. They dispose their asset to reduce their commitment on liabilities since they just recover from global economy crisis.

Comparison between sectors for property as percentage of operating cost ratio: From Fig. 5, there is similar pattern between the three sectors for this ratio. Ratio for trading and services sector in 2011 is slightly different from the other two sectors. Trading and services has low percentage ratio because it operation cost are high and its total property value are low. This sector is still recovered from financial crisis. They faced increment price for raw

material such as fuel. The price increment has contributed to increasing of operating cost. Sector of consumer and industrial products get fast recover from the financial crisis. They planned strategies that help them to overcome the crisis and increase their sales growth. They not dispose their asset at large number because their productions are depends on their machineries and plant.

CONCLUSION

The purpose of this research is to evaluate the CRE financial performance that may have impact on company's financial performance for Malaysian public listed companies. The major contribution of this research is providing evidence on the most suitable CRE performance measurement that connected with company performance. Main findings indicated that CRE ratio increase steadily according to revenue of the companies over time. This justifies the importance of corporate real estate in supporting companies' core operations. Even though this

study unable to specifically identifies which corporate real estate asset that contribute the most but at least it able to highlight the total contribution to the companies.

LIMITATION

There is limitation in using data from financial statement extracted from annual reports due to lack of

details for capturing the exact value by type of property. Further study is required in breaking down the details of contribution of property type towards the companies' main operations. By having this input may improve communication to the stakeholders about the importance of corporate real estate management within a company.

APPENDIX A

Top 100 Public Listed Companies By Market Capitalisation That Fall Under CRE as at 31 July 2013

Stock Name	Sector	Market capitalisation
PPB group bhd	Consumer products	17,663,948,241.80
British american tobacco (M)	Consumer products	17,502,989,000.00
UMW holdings BHD	Consumer products	16,192,553,897.52
Nestle (M) BHD	Consumer products	15,866,270,000.00
Fraser and neave holdings BHD	Consumer products	6,659,573,148.30
Oriental holdings BHD	Consumer products	6,005,410,415.84
Guinness anchor BHD	Consumer products	5,437,764,000.00
Carlsberg brewery Malaysia BHD	Consumer products	4,528,746,600.00
TAN chong motor holdings BHD	Consumer products	4,488,960,000.00
MSM Malaysia holdings berhad	Consumer products	3,535,989,400.00
Dutch lady milk industries BHD	Consumer products	2,949,120,000.00
QL resources BHD	Consumer products	2,870,467,689.00
Petronas chemicals group BHD	Industrial products	52,960,000,000.00
Petronas gas BHD	Industrial products	41,236,773,108.60
Lafarge Malaysia berhad	Industrial products	8,785,851,221.84
DRB-HICOM BHD	Industrial products	4,910,422,109.54
Hartalega holdings BHD	Industrial products	4,800,594,240.00
Top glove corporation BHD	Industrial products	3,652,620,253.18
Shell refining co (FOM) BHD	Industrial products	2,490,000,000.00
Axiata group BERHAD	Trading/Services	57,934,855,059.97
Sime darby BHD	Trading/Services	56,969,717,117.88
MAXIS BERHAD	Trading/Services	53,335,246,932.00
Tenaga Nasional BHD	Trading/Services	50,171,647,756.58
Genting BHD	Trading/Services	36,562,535,289.10
IHH Healthcare BERHAD	Trading/Services	32,535,757,972.00
Petronas dagangan BHD	Trading/Services	26,624,567,200.00
Genting Malaysia BERHAD	Trading/Services	24,702,265,735.68
MISC BHD	Trading/Services	24,283,034,480.32
Sapurakencana petroleum BHD	Trading/Services	23,129,718,635.82
Telekom Malaysia BHD	Trading/Services	18,852,908,434.60
YTL corporation BHD	Trading/Services	17,934,015,559.91
ASTRO Malaysia holdings BERHAD	Trading/Services	15,594,900,000.00
BUMI ARMADA BERHAD	Trading/Services	11,574,294,345.00
Airasia BHD	Trading/Services	8,786,874,792.80
Malaysia airports holdings BHD	Trading/Services	8,306,671,744.46
MMC corporation BHD	Trading/Services	8,191,207,504.88
Dialog group BHD	Trading/Services	6,783,219,810.99
Malaysia marine and heavy ENG	Trading/Services	6,768,000,000.00
Berjaya sports TOTO BHD	Trading/Services	5,647,305,700.96
Magnum BERHAD	Trading/Services	5,549,709,804.44
AEON Co. (M) BHD	Trading/Services	5,440,500,000.00
Boustead holdings BHD	Trading/Services	5,429,434,778.25
Malaysian airline system BHD	Trading/Services	5,096,788,266.00
Berjaya land BHD	Trading/Services	4,550,306,764.64
HAP seng consolidated BHD	Trading/Services	4,329,342,970.92
KPJ healthcare BHD	Trading/Services	4,316,179,797.60
Gas Malaysia BERHAD	Trading/Services	4,301,400,000.00
Parkson holdings BHD	Trading/Services	3,938,047,380.00
Bintulu port holdings BHD	Trading/Services	3,381,000,000.00
Media Prima BHD	Trading/Services	2,980,607,035.20
Airasia X BERHAD	Trading/Services	2,797,037,056.66
POS Malaysia BHD	Trading/Services	2,631,427,816.50
Dayang enterprise holdings BHD	Trading/Services	2,629,000,000.00
Berjaya corporation BHD	Trading/Services	2,491,104,357.54
NCB holdings BHD	Trading/Services	2,177,270,038.04
Bursa Malaysia		

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