Corporate Real Estate Management: A Need for Paradigm Shift in Nigeria
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Abstract
The concept of Corporate Real Estate Management (CREM), no doubt, has received considerable attention in developed countries like the USA and the UK. The reason for this paradigm shift towards CREM in corporate business management is obvious. The practice of CREM has resulted in higher overall profit performance. In view of this and compelling needs for estate surveyors and valuers to involve specialist service for efficient stewardship, this paper focuses on the relevance and usefulness of CREM. New directions for corporate property management practice are also highlighted.

Keywords: Corporate Real Estate Management, Paradigm Shift, Estate Surveyors

Introduction
Every corporate organisation has real estate assets that are part of the overall assets of business organisation. As one of the largest non-staff cost in most organisations, business real estate operational assets known as corporate real estate (CRE) had a historic reputation for being considered just as an unavoidable ‘cost of operations’ (Laws M, 2007).

To this end, corporations do not often take serious their real estate assets. Consequently, corporate real estate was traditionally a valueless asset in a company’s business assets neither do business managers it as an asset which require little or no training to manage. Business properties were then regarded purely as an investment property. In order words, the concern of a property manager was to obtain the highest return possible from the property for the property owner.

The CRE are important to corporate organisation. If not for anything, it is always required for the company’s business. As Linnenman (1998) put it, the real estate components of corporate assets are often required to provide space accommodation for the company business. According to the author, the space needs are often dictated by the anticipated growth of the activities, the optimal

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location, industry dynamics, corporate image and the availability of real estate properties. Corporate Real Estate demand is therefore a function of the expected space requirements via-a-vis the location that will place the company in a position to service their target market.

In line with the need of the organisation for business premises, property is described as an essential factor of production (Hwa, 2003). This explains why many corporations own a significant amount of real assets and this includes real estate (Seiler et al, 2001). The importance of real estate assets of an organisation has been variously documented. Breitensten et al (1998) found that the real estate assets of companies is in many cases more than 50% of the total assets and its costs represent the largest cost factor after the personnel expenses with 5% to 10% of the total turnover. Bouris (2005) regarded it as the second or third largest expenses on the balance sheets. Studies like Luokko (2004) and Ilsjan (2006) conclude that on average, real estate constituted around 30% to 35% in the UK and was of the opinion that the figures might be even a bit higher in the Western Europe. It is the fifth corporate resource of organisations besides Capital, People, Technology and Information.

In spite of the huge sum for the acquisition of this important resource of an organisation, capital commitment to corporate real estate generally generates a lower return than the same capital commitment to alternative business uses (Linneman, 1998). The reason often adduced for this ‘anomaly’ is that real estate is often not actively managed separate from or in conjunction with overall corporate strategy (Nourse, 1994; Rodriguez and Sirmans, 1996; Seiler et al., 2001). Corporate Real Estate Assets (CREA) are not accorded the required attention by business managers relative to the concentration on other aspects of the business. For example, UK business has been found to often throws away £18 billion a year through inefficient use of property. Cutting this out would however improve gross trading profits by up to 13%’ (Laws adapted from RICS 2002).

Overtime, however, corporate real estate's strategic import is being widely accepted. Perception about corporate real estate assets is changing in line with the dynamic business terrain driven by globalisation and competition. It is argued that, Corporate real estate should be viewed as a strategic asset that can impact corporate performance. In order words, CREA in the advanced countries have shifted from being a factor of production to an operational asset of a company. CREA is currently being seeing as a strategic asset which can be effectively managed to improve the overall business objective of the organisation. For
instance, there are indications that especially American and British companies are beginning to re-evaluate their policies of neglecting of property assets (Avis et al., 1993; and Joroff, Louargand, Lambert and Becker, 1993).

In advanced countries, contemporary CRE executives are proactive, strategic-thinking, and understand how their portfolio matches and serves their company’s business model. Skillful executives, now must strive to integrate the components of CRE management to create value for the corporation. There is also an increasing interest in understanding the value of property assets and, where operational certainty permits, on the realisation of enhanced value through a variety of structured financial transactions. The days of the simple choice between a freehold and a very standard institutional lease are long gone. The most innovative companies in corporate property know what they want from property in terms of business operations and financial returns, and how they are going to achieve them. The shift of focus from traditional real estate properties into strategic asset has therefore made corporate real estate management a task that is more involving.

The need for indepth corporate real estate research and re-alignment of perception and business operations in line with its business perspective have therefore been fuelled by the continued domination of real estate on the corporate balance sheet as well as the increasingly complex business environment compelling firms to discover the "hidden" real estate values (Liow, 1999; Carn et al., 1999). A wrong approach and misunderstanding of the strategic role of property in a non property company implies that the latent value of real estate will not be realised by corporate organisations and often has the tendency of affecting the national economy, incase of major loss to the organisations. There is a compelling necessity for paradigm shift for estate surveyors and valuers, who are custodian of property in Nigeria. Estate Surveyors and Valuers and the profession in Nigeria cannot pretend that the global wave of change in CREM has nothing to do with us.

This paper therefore provides an insight into the concept of corporate real estate as an operational asset of organisations and a value-adding resource of a business enterprise. This is with a view to enhancing the understanding of Nigerian Estate Surveyors and Valuers towards achieving better practices in CREM in Nigeria.

The paper is structured in the following manner: The introductory section of the paper examines the problem and defined the aim of the paper. In section 2, the conventional concept of real estate is examined. In section 3, a need for paradigm
shift in corporate real estate is provided. This is followed by the basic ideas of corporate real estate in section 4. In section 5, the paper examined corporate real estate management as a distinct real estate sub-discipline. The focus on section 6 is on the challenges of the shift in paradigm for estate surveyors and valuers. The last section concludes the paper and provides suggestions on the way forward.

Conventional Concept of Corporate Real Estate

Traditionally, property (Land) is seen as the fourth factor of production after labour, capital and entrepreneur. It is a tool or medium of investment which generates returns (income) in response to capital layout. Property investment according to Ajayi (1998) has an implied commitment to a longer term. Therefore, in view of the large sum of capital involvement in acquisition of property investment, investors in the market desires good security of tenure, expects growth in income and capital over their period of ownership.

Property investment is bedeviled with many interests and often requires huge capital outlay for its acquisition. This often requires the involvement of professionals for advice and guidance in transactions in the property market. These professionals, known as estate surveyors and valuers, are by virtue of the Act establishing the profession, saddled with the challenge of maximizing profits to the owner (investor) as well as cost minimization.

It is therefore expected that the Estate Surveyor who handles the property should get the highest net profit for his client (property owner) at the end of the year. To the tenants or the occupier of the building who pays for the use of the space, the major concern and area of concern is to maximize cost by paying the cheapest rent for space utilization. The concern of the landlord, on the other hand, is either a regular flow of income, mostly above the cost of capital, or capital appreciation at the end of the property.

The early thinking and practice of business property as property investment takes two main forms (Laws, 2007). According to the author, it involves a simple choice between a freehold and a very standard institutional lease, while other areas of organisation treating property as a ‘free good’. The approach sees property as a tool for generating money and compulsory requirements of an organisation for accommodating its business activities. This explains the reason why little attention was accorded corporate real estate.
Paradigm shift in Corporate Real Estate

Changes in the competitive, economic, financial and regulatory conditions call for changes in the corporate organization to meet the new business environment (Hwa, 2003). These constant changes often touch all aspects of an organisation. It commonly occurs in their approach to assets holdings, financial structure, corporate governance and ownership. Noticeable change is therefore the increasing need to see property beyond the investment approach to its holding and use. Organisations now see corporate real estate as a strategic asset (Parker, 2002). This means it plays a primary role, along with human resources, technology and information, in helping the company achieve its long-run goals and objectives. Therefore, it has recently been argued that CRE must contribute to a company’s shareholder value (Arthur Andersen, 1993; Brown et al. 1993; and Joroff et al. 1993).

Many reasons have been adduced to the shift in perspective by authors and researchers. First, Corporate Real Estate is seen as a business operational resource which should attract financial return. It is therefore seen to be contributory to enhancing the value of the entire business premises. Second, there is increasing need for understanding the various costs and constraints of property costs in the balance sheet of corporate organisation. Third, the contemporary business environment seeks to integrate corporate strategy and decision making process with corporate real estate strategy. Fourth, Business entrepreneurs seek to adopt CRE strategy that mitigates the financial risks by setting out control for the management and reporting of property cost and the acquisition and disposal of assets. In the same way, corporations now develop strategies that covers areas such as cost improvement initiatives which the CRE function needs to deliver in order to meet wider cost reduction targets. Lastly, Entrepreneurs are often mindful of the strategy that captures how a company should fund its real estate portfolio in order to meet its wider finance objectives.

Globalization has however gradually crept into the corporate business environment and activities in Nigeria. There are indications that foreign investors are encouraged presently investing in Nigeria. For instance, the Nigerian capital market has, to a large extent, enabled many investors beyond the shore of Nigeria to invest in the country. The Banking and Communication industries are almost wholly owned by foreign investors. Most of these organisations have tremendous real estate holdings that worth several billions of Naira. There seems to be indications that these strategic investors and shareholders will begin to expect significant contributions of their real estate holdings to the entire business performance. Their expectations from real estate unit and/or managers are...
expected to be tasking and as involving as other business units. Estate surveyors, as corporate real estate managers, would be expected to be pacesetters in strategic real estate decisions and policies of organizations. As such, corporate real estate responsibilities require dynamism in real estate education, training and practice. The continued relevance of Estate Management profession in the ever-changing business environment is a function of the re-alignment of the practice in line with the contemporary needs and requirement of the global business environment.

**Basic Ideas of Corporate Real Estate**

O'Mara (1999b, 2-3) identified CRE as an important organizational resource on two levels. First, CRE is a tangible resource being the *place* (physical environment) where people and technology interact in doing of business. This physical environment may be dimensionalised as location (*place*) and workplace (*space* of production) (Roulac, 2001), and is capable of influencing individual and organizational behavior (O'Mara, 1999b, 17). Second, CRE management practices are intangible resources that, as part of a firm’s capability, facilitate organizational strategy in achieving competitive advantage.

CRE connotes property held as an operational asset to support the activities of the business occupying the property (Edwards and Ellison, 2004). Brown and Arnold (1993) refer to it as properties that are either owned or leased by firms to achieve corporate objectives. It encompasses the land and buildings owned by companies not primarily in the real estate business (Liow and Nappi-Choulet, 2002). In other words, the space owned, leased, or occupied by organisations that are non in property business as a major requirement for accommodating the organisations business and or its staff members are referred to as corporate real estate.

CRE is an important asset of an organisation. It becomes more relevant to an organisations survival as no business exist without a space, at least as a point of contact or location. It is a strategic asset which decision is now taken at the board level. Reasons for this are diverse. First, the cost of acquisition of real estate is quite tangible relative to other business assets of the organisation. Therefore, management is conscious of the impact of the cost in the overall cost of the organisation. Second, the location of a firm is an indication of its competitive advantage in the industry. The result is that issues of where a head office would be located are a major issue of concern to board members. Third, CRE now serves as a brand identity to organisations. Organisations currently maintain structure with which their customers easily identify them. Lastly, real estate strategy in organisations is not currently left in the hands of mediocre. Real
estate strategy is designed and adopted to be in line with the overall business strategy of the firm. Issues about Corporate Real Estate have therefore turned to be a major decision issue of an organization.

The management of CRE is known as corporate real estate management (CREM) and was defined by Brown and Arnold as ‘the optimum use of all real estate assets utilized by a corporation in pursuit of its primary business mission’ (Ali et al, 2008). The concept of CREM brings together all the perspectives typical for real estate: financial, occupational and those that linked to business strategy and management, which have typically been looked at separately in traditional real estate management (Ilsjan, 2006). As a concept concerned primarily with the management of land and buildings owned by companies not in real estate business, it is all encompassing, CREM issues have a lot to do with issues related to management, marketing, sociology, and even psychology (Op cit). Hence, this concept raises the significance of CREM above the traditional, facility management, which is increasingly seen as an operational day-to-day management of the corporation’s facilities (Kaleva and Olkkonen, 2001, Ilsjan, 2006).

**CREM as a Distinct Real Estate Sub Discipline**

The development of CREM has passed through several phases of development. Earlier researchers contended with the ‘hurdle’ of differentiating traditional real estate management from finance and economics related CREM researches. Diaz (1993) conducted a comparative study of researches in conventional real estate with corporate real estate management. The author posited that conventional real estate science was a knowledge-driven discipline that lacks the focus of community consensus and characterised by slowly advanced knowledge base while finance related CREM as a science depicts a central theory and methodology, (efficient market hypothesis and capital pricing model).

Manning and Roulac (1999) examined how corporate real estate managers thinking have shifted from conventional real estate to Corporate Real Estate. They pointed out that prior to CREM, traditional investment real estate was concerned with investment return from the ownership of real property, while CRE is industrial, office and/or retail space (i.e. land, buildings, improvement, etc) in use by businesses, where not only site selection, but also facility design and space utilisation decisions, inevitably impact a company’s business operations and future cash flow in numerous ways beyond any investment return
received from the ownership of real property (to include leasehold rights). The authors argued that CRE has management and business affiliations.

Then (2000) noted a lack of an integrating framework for considering the impact of business trends and strategic decisions on corporate real estate assets in the activities of conventional property managers. He supported the need for a shift in focus on corporate real estate asset as tools for enhancing the overall performance of organisations.

Gilber, Black and Moon (2002) investigated the different roles of conventional property managers and corporate real estate managers. They argued that corporate real estate officer and others daily decisions about facility, location, building design, space layout and lease obligations, are efforts at correcting the abnormality of conventional real estate managers who runs the assets without a plan as to how those real property holdings could contribute to the company’s productivity and profitability.

The work of Ali et al (2008) demonstrated a perfect shift of thinking from the investment paradigm of real estate. The author established the differences between property management and CREM. According to the author, property management involves day-to-day property maintenance and management, which requires personnel with more technical skills while CREM comprises the strategic use of real estate to support the business operation and requires personnel with more managerial skills. The differences are summarised in (Table 1).

Table 1: Summary of Differences between Property Management and CRE

<table>
<thead>
<tr>
<th>Scope</th>
<th>Property management</th>
<th>CRE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objectives</td>
<td>Building maintenance</td>
<td>Strategic real estate activities to support the business operation</td>
</tr>
<tr>
<td>Activities</td>
<td>Day-to-day tasks;</td>
<td>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.</td>
</tr>
<tr>
<td></td>
<td>administrative management, marketing and physical management.</td>
<td></td>
</tr>
<tr>
<td>Users</td>
<td>Building occupiers/tenants</td>
<td>Stakeholders</td>
</tr>
<tr>
<td>------------</td>
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<td>----------------------------</td>
</tr>
<tr>
<td>Management</td>
<td>Property manager</td>
<td>Corporate real estate manager</td>
</tr>
<tr>
<td>Skills</td>
<td>Property specialist, business administration and engineering</td>
<td>Property specialists with financial and management background.</td>
</tr>
<tr>
<td>Level of management*</td>
<td>Tactical or operational</td>
<td>Strategic or tactical</td>
</tr>
</tbody>
</table>

Note:*Depends on the structure of the organization.


Brown and Arnold (1993) documented a major migration of perspective from other related activities like FM to CREM. The author highlighted that Facility Management (FM) is a discipline concerned with coordinating the needs of people, equipment, and operational activities into physical workplace. The tasks related to the FM department, according to the author are acquisition and disposition, physical upkeep, record keeping, and reporting tasks for corporate-owned real estate. On the other hand, CRE does not include the business activities of a real estate investment trust, a developer of industrial space, or a commercial brokerage company, other than the procurement and management of their own space needs (Roulac, 2001). This is because these companies are primarily in the business of real estate, contrasted with using real estate as an input in support of other businesses.

Ali et al (2008) in an attempt to justify the shift in thinking corporate real estate argued that the scope of CRE is wider as it involves the strategic aspect of real estate in the organization, whereas FM forms part of the CRE activities and it is operative in nature. The differences between FM and CRE are summarised (Ali et al, 2008) in Table 2. Hence, the CRE manager’s role is concerned with the strategic role of real estate management within an organization with both FM and property management part of the operations under the CRE manager. The responsibilities of the CRE manager are to strategise the CRE function and coordinate the two departments in order to support the overall business operation.
## Table 2: Summary of Differences between FM and CRE

<table>
<thead>
<tr>
<th>SCOPE</th>
<th>FM</th>
<th>CRE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objectives</td>
<td>Provide quality working environment to support the business operation</td>
<td>Strategic real estate activities to support the business operation</td>
</tr>
<tr>
<td>Activities</td>
<td>Acquisition and disposition, physical upkeep, record keeping, and reporting tasks to CRE owner.</td>
<td>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.</td>
</tr>
<tr>
<td>Users</td>
<td>Staff and workers in the Organization</td>
<td>Stakeholders</td>
</tr>
<tr>
<td>Management</td>
<td>Facilities manager</td>
<td>Corporate real estate manager</td>
</tr>
<tr>
<td>Skills</td>
<td>Professionals with the architectural, construction engineering, industrial engineering and operation management skills.</td>
<td>Property specialists with financial and management background.</td>
</tr>
<tr>
<td>Level of management*</td>
<td>Tactical or operational</td>
<td>Strategic or tactical</td>
</tr>
</tbody>
</table>


Note:

*Depends on the structure of the organization

Dewulf and Dejouge (2000) referred by Kaleva and Olkkomen (2001) illustrated the difference between CRE’s holistic approach compared to traditional narrower approaches to real estate management’s different perspective (Il sjan, 2006). The author demonstrated four perspectives of CREM and argued that beyond the assets management perspective of the conventional real estate management, CREM incorporates the business perspectives of utilising property to effectively contribute to the organisations overall performance. These perspectives include general management, asset management, facility management and cost control.

A major limitation of the foregoing studies therefore, is the fact that they addressed the shift of paradigm in advanced countries of USA, Uk and
Singapore. Apart from the fact that the issue of CREM is still in its rudimentary stage in the country, there is no known study in Nigeria. Since most of the previous studies investigated the shift of paradigm in different and developed markets, such as the U.S. and the U.K., the shift in paradigm of CREM in Nigeria will be of interest to corporate managers, shareholders and practitioners. This becomes necessary in view of the recent aggressive opening of branches and acquisition of branches/properties by Nigerian corporate organisations. With huge investment in acquisition of properties by these corporate organisations, one wonders whether or not the managers are conscious of allocation of resources between real estate assets and other assets of the organisation. A similar concern is whether or not corporate managers are aware of the importance of real estate assets to their organisation.

Challenges to Estate Surveyors and Valuers

The challenges posed to Estate Surveyors and Valuers and/or Corporate Real estate Managers by this paradigm shift in perceiving, approaching and handling business premises are diverse.

- Stakeholders in real estate industry should begin to see property and related activities as a boardroom issues, appropriately handled at the board level and therefore prepare and develop the interpersonal relationship and ability to function at the board level.
- The need to develop the technical and administrative acumen to function in and provide related CREM services cannot be compromised.
- Develop technical ability towards value determination so as to meet corporate managers increasing interest in understanding the value of their property assets.
- Acquire training to understand dynamic business strategies to be able to function and integrate business property into the overall corporate objectives of the company.
- Management of CRE to impact on the productivity of the company should be the concern of real estate professionals.
- Understand CRE strategies that which includes cost improvement initiatives that will result in wider cost reduction target.

Conclusion

Overtime, the perception of business premises as an investment property has shifted to being an operational asset. In the same way, CRE decision making is now a board room affairs. Businesses executives now concerned about how their CREA can impact on productivity, contribution in to achieving overall
business strategy and reduction of cost. Many estate surveyors and valuers who are custodian of property/real estate appear; however seem to be lost in the paradigm shift in business operational premises. A timely acquisition of requisite technical and operational knowledge and understanding of CRE and strategies for its management is expedient.

CRE team needs to acquire knowledge of strategic decision making with which to make its activities contributory to enhancing corporate strategy, acquire requisite financial knowledge and business control mechanism that will improve the accuracy, transparency and competitiveness of financial reporting and acquire knowledge about effective customer relationship; this allows property assets and services to be flexed appropriately.

A major implication of this paper is the need to overhaul Estate Management education in Nigeria. Educational training in finance, marketing and business management are requisite inclusions in the curricular of the Universities and polytechnics as a means to producing graduates that will fit into the emerging competitive and global practice. This is an inevitable edge against the encroachment of the profession by contemporary business managers who are more versatile in business and finance related issues. The Nigerian Institution of Estate Surveyors and Valuers and The Estate Surveyors and Valuers Registration Board of Nigeria should take a pro-active measure of organising professional development training for members to make them relevant in handling business premises to meet organisation’s requirement.

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