

Current Review Towards the New Best Practices of Corporate Real Estate Management (CREM) in Malaysia

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ABSTRACT

Corporate Real Estate (CRE) is referring to land and buildings owned by companies which are not primarily in the real estate business used for operational purpose. CRE covers the entire range of activities. Awareness of knowledge of CRE in Malaysia lacks because the researcher found that the operation of properties owned by a few large companies is undermanaged and underused. This review paper focuses on the definition of corporate real estate (CRE), components of CRE, and the current practice in the industry. This paper a desk analysis reviewing the literature on general management of the corporate real estate. By using the secondary data such as Company Annual Report, Previous studies and other relevant sources. There are several different issues to examine along the way, from the business strategies, Constituent and tools to help make the right decisions. It draws a framework for CRE analysis. From this paper, we can find the issue to improve the current practice on the CRE in Malaysia.

Keywords: *Corporate Real Estate, Current Practise, Strategies, Constituent, The Best Practice*

INTRODUCTION

Business companies need to be competitive in today's demanding and diverse market world. Global economic changes require companies to operate their business in different ways, with high demand for innovative thinking in the use of business resources. For that, an organization's top management needs to be alert and more proactive. The purpose of implementing Corporate Real Estate (CRE) in a corporate organization adds values and reduces risk. According to O.Mara and Valenziano (2002), as one of the major organizational tools, real estate is a required asset that hosts the operations of the company and supports its core business. These companies derive benefits from the properties they own, which are reflected in their balance sheets and investing in real estate provides more advantages even managing real estate assets generally quite different than others managing the company's core of the business.

Nowadays, organizational encounters a challenging task of implementing the best corporate real estate strategy. Based on Lambert, Poteete, and Waltch (1995) studies, most CRE executives faced certain constraints regarding the responsibilities and roles in an organization. The purpose of implementing CRE in a corporate organization is to prove that organization have added values and try to reduce the risk. The argument about the immovable property can affect many corporate financial parameters, such as equity costs, debt costs, debt capacity and a company systematic risk. The questions are what the components of CRE that can help business organizations achieve this. As the need to reduce costs and highlight the core business has increased due to current economic conditions and expand the level of expertise in corporate real estate management. Mutual understanding of anything related to a CRE business should be enhanced in such a way than consensus can be achieved. A significant role of CRE unit in the company is to understand the attitudes of property managers towards financial and business management. This study aims to review the current practice of CRE to provide better alignment for CRE practices in Malaysia.

LITERATURE REVIEW

Overview of the Corporate Real Estate

Corporate Real Estate (CRE) refers to the land and buildings owned by companies that are not primarily owned by real estate companies that invest significantly in property used for operational purposes (Liow & Hiang, 2004). Bon (1995) defined corporate real estate covers the entire range of activities concerning a portfolio of building and landholding held by an organization, financial planning and management, investment planning and management, construction planning and management and facilities planning and management. The term CRE misinterpreted to be associated with areas such as property management and facilities (Ali, McGreal, Adair, & Webb, 2008). A portfolio of CRE can be interpreted as a financial asset of the corporation, a real estate market asset and an operational asset from three viewpoints.

Organizations manage CRE by an individual or by separate unit and can entirely be outsourced to an external provider. CRE function can be centralized, (standardized procedures, decisions and outcomes by headquarters) or decentralized with individual offices and operations having their processes and objectives depend on the CRE function is organized and decisions of CRE are made (Estate, 2000). The management techniques to gain operational benefits from the property are include site selection, facility design and space utilization (Roulac, 1999).

Importance of Corporate Real Estate in Organization

The previous analysis has confirmed that the real estate has added a significant amount of assets to the overall balance sheet of a company (DiLuia, Shlaes, & Management, 1991; Veale, 1989; Zeckhauser & Harvard, 1983). This indication showed the property and real estate held by a few companies have their purpose of maximizing the value of the company. In term of monetary values, real estate could be view as a company's asset or cost component. Ali et al. (2008) recommends that as an asset, real estate is a resource will improve a firm's equity through reallocation of assets and reorganization of its financial claims. In different circumstances, if real estate considered as the company's cost, it will lessen the firm's profitability. A different perspective from III and Real (2002) points out that in an organization, real estate fulfils two critical roles. The first role is linked to physical aspects regarding the working space and place where it supports the production process. The second role is connected to organizational image represent to the world. For that, it's forward into consideration that the role of corporate real estate does not necessarily rely on financial values but also different types of values, for example, image and identification of the business organization. Research by Omar, Mohd Diah, and Md Yassin (2016) provided evidence which justified the importance of corporate real estate in supporting companies' core operations where the main findings

showed the ratio of CRE increase steadily according to companies revenue over time. This finding proved that CRE financial performance has an impact on the company's financial performance for Malaysian public listed companies.

Constituent

Corporate Real Estate Management (CREM) has four perspectives, namely, General Management; Asset Management; Facility Management and Cost Control (Kaleva & O Olkkonen, 2001; Krumm, 2001). These four used against the holistic CREM approach to illustrating the conventional compartmentalized approach to real estate management (Njungbwen & Udo, 2011). CREM'S management functions are divided into the following major area: business focus; operational focus; focus on real estate; and strategic focus (Krumm, 2001). Varcoe (2000) indicates that many companies deal separately with these areas, rather than jointly managing them together for the benefit of the organization as a whole in the management of a corporate organization, Liow and Nappi-Choulet (2007) also recognize at least four essential fields of existing CRE practices: CRE Company Quality Measurement; CRE Organizational Structure; CRE Risk Management and Assessment; and CRE Strategic Planning.

Corporate Real Estate Management (CREM)

Stephen (2001) said a strong emphasis on restricted financial corporate real estate aspect in current CREM. The suggestion is to broaden the traditional financial focus to include a business management dimension that combines real estate into the business strategy – real estate strategy implementation order of CREM decisions. Avis, Gibson and Watts (1989) found evidence of CREM strategic planning share between the firms. From the previous studies, most the issue highlighted a business management focus which is corporate real estate planning to facilitate the development of CREM strategy that supports the overall business strategy. Corporate real estate organizational structure that enables the corporate real estate strategy to be implemented effectively and corporate real-estate measurement. Most researchers also strongly recommended the importance of developing a CREM strategy linked to business strategy (Nourse, 1994). Business Management should believe that in strategic planning, there seem to be difficulties when it comes to implementing it.

One remarkable study by Veale (1989) tested seven factors that increase CREM performance. Seven aspects include the existence of a structured, coordinated real estate entity, the use of management information systems for operations of real estate, the use of property accounting methods, the prevalence of reporting to senior management of real estate information, the contribution of real estate executives to overall corporate strategy and planning, the information that available and procedure for evaluating real estate performance and use, and performance of real estate assets relative to overall corporate assets. Information from Jalil Omar and Heywood (2014) study which taken from the literature and empirical evidence indicated that CREM brand consists of three elements which CREM as a resource for organizations, which CREM supports organizations' core business and CREM supports through real estate functions. CREM had to involve within the organization in a broader range of activities ranging from property transactions, renovations, refurbishment, space rental, land development, marketing, lease management and several other. Therefore, the responsibility of CREM has no limit to physical activities only but also include the physicals with non-physical activities.

Corporate Real Estate Management (CREM) Strategies

Roulac (2001) mentions that a rare occurrence for a corporate business strategy to include a CRE strategy. The cause for this limited connection occurs from corporate strategic management and

the researcher tend to disregard the significance of real estate assets in the business organization. As a result, no priority had given to CREM. However, there is another different perspective in which researchers in CRE tend to highlight the real estate issues and have separated CRE from corporate business issues. As an example, Roulac (2001) try to break this barrier by drawing attention to the benefaction of CRE strategies to the competitive advantage of business organization. Roulac (2001) stated that superior CRE strategies through creating and keep the customers, attracting and holding on to outstanding people, contributing to the business processes, promoting enterprise values and cultures, encouraging innovation/learning, enhancing core competency and increase shareholder wealth can contribute to the competitive advantages of a business organization.

CRE's contribution in creating and keeping the customers can be achieved by way of the provision of an attractive physical environment by business organizations to its customers. For example, Krumm and Vries (2003) point out that real estate can increase the firm's revenue through the improvement of the corporation's sales network. Good location and has easy accessibility to the markets will increase the value to the business for a firm that has it. Roulac (2001) also discover the contribution of CRE strategies in assisting the firm through the creation of the business identity to promote its corporate values and cultures. Most of the company's physical environment has revealed the identities of the companies. According to Ackerman (2000) and O' mara (1999) pointed out that an office building represents the characters of the organization and acts as the physical personification of the organization. A study by Kaluthanthri and Osmadi (2019) reviews the literature on CRE strategy from 1980 through 2018 identified similarity and dissimilarity along with the progressive development of the strategic review on CRE. The review confirmed that the context of CRE strategies discussed by the scholars are the same operationalization of CRE strategies under different conceptual terms and the strategy bottom-line is similar.

Corporate Real Estate in Malaysia

The total real estate owned by selected 500 non-property companies in 2001 amounted RM 96.27 billion which represent 20.7% of the total market capitalization (RM465 billion) of Bursa Malaysia and the total tangible assets of the firm constitute about 24% (Hwa, 2008). Research by Zaiton, McGreal, Adair and Webb (2008) showed that 76% of companies in Malaysia had CRE strategies that follow the Nourse & Roulac framework (Nourse & Roulac, 1993). Mostly in the sectors of manufacturing which is 59% and retail services is 42%. As a result, an encouraging trend of companies adopting CRE practices has shown. Meanwhile, Iskandar (1996) found that the operation of properties owned by the public company and large companies in Malaysia are undermanaged and underused. The current change in the point of view from "we are not in the real estate business" to an approach that shifts the CRE into cash through strategies such as sale and leaseback, spic-off, disposal and acquisition is a significant step forward in realizing the hidden and neglected CRE values. According to Ali and McGreal (2008), most of the companies in their sample have a CRE strategy and have a similar pattern of CRE utilization in 1998 and 2003. In both study periods, the most used strategy in both study periods facilitated the production, operation and services delivery strategy. The research shows that around 24% of major public companies in Malaysia still do not have a CRE strategy.

Referring to the annual reports prepared by Malaysian corporate firms, the CRE term was not being used in the Financial Statements to describe the real estate of a particular company. The use of Property, Plant and Equipment (PPE) term is more synonymous to describe matters related to real estate elements in the corporate world, especially in Malaysia. A detailed description of the PPE value which been used in the company annual report can be seen in the Statements of Financial Position. According to Fadzil (2019), separate information regarding "land" and "building" real value cannot be specified in a transparent manner because some of the companies take CRE report lightly. In addition to that, inconsistencies in naming separate classes also become one of the problems faced by certain corporate companies.

Corporate Real Estate Company in Malaysia

The research by Keong and Hwa (2012) examine the applications of corporate real estate (CRE) approaches and current real estate management practices of UEM Group using the Nourse & Roulac framework (Nourse & Roulac, 1993). The UEM Group's corporate structure which consists of eight listed companies and a host of related companies synergistically involved in four core business area which expressways, engineering and construction, township and property, asset and facility management, and other investment (Sulaiman, 2010). Keong and Hwa (2012) revealed that CRE management practices or application-level on UEM Group's minimally restricted to property management and facility management practices. Some real estate decisions are made on a situation basis at a particular time or made for conveniences. This poorly calculated real estate decision may lead to lower organizational performance.

Keong and Hwa (2012) make some recommendations to improve the understanding and application of CRE management in the UEM Group:

1. **Establish a CRE unit within UEM Group:** CRE management requires strategic management skills in managing real estate. This dedicated CRE unit consists of qualified personnel to be established instead of relying on the current organizational set-ups that focus much better their core functions.
2. **Awareness Programme of CRE Management to Top-Senior Management:** From the feedback researcher received, level of awareness of CRE management among the strategic management of UEM Group generally low.
3. **Roll-out of Proposed UEM Group CRE Framework:** There is no systematic assessment tool in UEM Group for real estate investment decision making. Therefore, they suggest that the Proposed UEM Group CRE Framework developed from the research be rolled-out to the UEM Group of companies.
4. **Conduct a CRE Review of UEM Group's Real Estate (Owned & Leased):** An exercise at Group level and individual subsidiary level be initiated to identify and compile an update including real estate inventory register. An inventory or real estate portfolio analysis can be conducted for the strategic management of its real estate by creating a real estate matrix of property control.
5. **Marketing CRE Management as a Value-Add Service to the Asset & Facility Management Business Proposition:** Once the CRE management practice proved its valuable contributions to the UEM Community, in its business proposals, the expertise in CRE Management can be applied to the Asset and Facility Management division's services as a value-add service to external clients in its business propositions. As a result, the CRE unit can develop from being a cost centre acting as a support service to the UEM Group to becoming a profit centre which provides a consultancy service to external clients.

Corporate Real Estate Best (CRE) Practice

According to Heywood and Waddell (2009), the Committee were polled to know the most pressing issues for them as CREM practitioners. Two cycles of practitioner suggestions and consensus forming were required to discover the practice issues.

CONCLUSIONS

A long-term CRE fact has been primarily framed itself in terms of 'property' rather than 'business'. The main issues are about the link between CREM and organizational strategy and business dimension. Initially, it to operate in non-real estate organizations, but in furtherance of the theory by other researchers, it revealed that it often exists in real estate organizations. Several other identified problems with CREM practice were also aspects of this lack of business approach.

The critical point is that the organizations should be a corporate entity and to support the corporate mission, and real estate should be managed holistically. Given the importance of CRE and its management, it is vitally essential that organizations seek professional expertise. This study indicates that to get the best practices, CRE must be reframed and considers the main competencies. CRE details need to improve as the main concern for organizations was how CRE supports and helps their operations. An alternative suggestion is to actively change the prevailing CREM practice norms as the existing ones seem does not make a difference for the issues. These studies seem to rely on a greater awareness among practitioners of the benefits of CRE and emerging business drivers in order to advance levels of practice gradually.

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