

Corporate Real Estate Management

- Importance, Strategies and Development -

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Abstract

Title: Corporate Real Estate Management – Importance, Strategies and Development

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Problem description: An organized approach to corporate real estate (CRE) decisions i.e. a CRE strategy, can add value to a company in many ways. The decision to own or lease real estate is a vital part of the strategy. What factors are decisions to own or lease CRE based on? The authors seek patterns in decision factors for different industries. Identified patterns will provide an understanding of companies' CRE management (CREM).

Purpose: The aim of this study is to investigate companies' CREM with a focus on strategies for CRE decisions, in particular to own or lease real estate.

Investigated companies will be categorized in order to find patterns within and between industries. To achieve the aim, the following objectives have been identified:

- To verify whether companies realize the potential value CREM can add and if they do, discover how it shows in the organizations.
- To recognize what strategies and rationales companies use for CRE decisions such as owning or leasing.

- To understand how CREM has developed over time and what external factors it is affected by.

Method: A deductive research approach has been used in this study. Firstly, the CRE literature was reviewed in order to better understand the topic under investigation. Interviews with CRE experts provided insight into companies' view on CRE strategies. The review and the initial interviews resulted in a theoretical framework that formed the basis for the empirical research. Companies' actual opinion was investigated through a questionnaire that was sent to about 200 respondents. The collected data was complemented with in-depth interviews with six of the respondents. The quantitative and qualitative data was then compared with the theoretical framework. The comparison led to the creation of a CREM framework.

Conclusions: The variation in how companies are managing their CRE is large. Some companies have no CRE strategy, others are currently developing one, and some have one but are not working actively with it while others have come a long way. Overall, companies tend to view CRE as more important today than before. Several factors that influence the decision to either own or lease real estate have been identified. They seem to be company specific rather than industry specific. CRE strategies should consequently be company specific rather than industry specific. The importance of CREM is likely to increase in the future due to stronger market competition, which makes it essential to handle CRE as a strategic resource.

Keywords: Corporate Real Estate - Management, Strategies, Decisions, Owning, Leasing, Rationales, Development

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Lund, May 2012

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1 Introduction

The first chapter of the study presents the topic that is being investigated. The background provides a general idea of what the study is about and is followed by a problem discussion that points out the research direction. The goals of the study are specified under aims and objectives. Lastly, the limitations of the study are described.

1.1 Background

The history of buildings constructed specifically to accommodate either commercial or industrial activities is brief even though the chronicles of buildings date back to well before the beginning of the modern age (Krumm, 2001). For a long time industrial activities were limited in scale and size and could consequently be performed outdoors or in someone's home. Changes in agriculture, manufacturing, mining, transportation and technology during the Industrial Revolution had a profound effect on the society of the time. Companies' accommodation needs were changed and triggered the construction of buildings especially constructed for accommodating industrial processes. The growth of industrial activities and the continuous need for accommodation has drawn attention to corporate real estate (CRE). The expansion of companies' real estate portfolios has also increased the managerial interest in the subject. Growing number and geographical spread of real estate together with increasing size and complexity of buildings have resulted in the establishment of CRE as a separate discipline within organizations – just like marketing, finance and human resources.

Real estate is vital to most companies' everyday operations. **The term CRE describes real estate that houses productive activities of a traditional corporation and whose primary business is usually not related to management, development, and investment or financing of real estate assets. It includes both owned and leased real estate** (Manning & Roulac, 1999). The issue of managing a company's real estate portfolio is not new but its focus is no longer solely to meet the need for accommodation (Lindholm, 2008). CRE can not only save the organization money, but also add value and enable the organization to fulfill its goals (Krumm, 2001). Managing a real estate portfolio is about optimizing the performance and value of real estate to the core business.

For about two decades ago the management of major companies started to appreciate the importance of facility site locations, building design and infrastructure, space layout and contractual obligations to maximize cash flow (Manning & Roulac, 1999). Until then, management in many companies was neglecting its company's real estate commitment and investment. CRE assets were not paid the same attention and involvement as other corporate resources and decisions. A survey performed by Veale in 1989 showed that only 20 percent of firms

in the US managed their real estate for a profit and not more than 41 percent evaluated the performance of their real estate on a regular basis. The increased awareness of the importance of CRE partly originates from 1983 when Zeckhauser and Silverman first observed that a major portion of all corporate assets, 25 to 41 percent, was invested in real estate. A few years later, Veale noted that occupancy costs of corporate space represented some 10 to 20 percent of operating expenses. Weimer (1962) drew attention to CRE and the impact it has on the company already in the early sixties. In his article *Real Estate Decisions are Different*, published in Harvard Business Review, he emphasized the manifold ways CRE is closely linked to other corporate aspects such as finance and marketing.

CRE decisions differentiate from other business decisions and draw on specialized expertise (Manning & Roulac, 1999). The long-term consequences of real estate decisions are often hard to forecast. At the same time, the business is exposed to rapid change and turbulent environment. Businesses need efficient, innovative and productive work environment with flexibility for expansion and contraction in response to the market to meet the many challenges of today (Gibler, 2006). Companies have different facilities needs depending on their business and the market they compete on. Based on those needs the company must make real estate decisions such as location and occupancy duration. CRE decisions should be made to fit overall corporate goals and strategies (Manning & Roulac, 1999). An organized approach to real estate decisions i.e. a CRE strategy is likely to add value to the company. A vital part of a CRE strategy is the decision to either own or lease real estate. Whether it is better to own or lease CRE depends.

1.2 Problem Discussion

On one hand, owning real estate can be very profitable. On the other hand, it takes time and effort that could instead be spent on the core business. Depending on type of business one option might be better than the other. If a company plans to stay at the same location long term and needs special adapted facility space, owning rather than leasing seems reasonable. Service companies such as consultancy firms generally have a more generic business than production companies. A generic business does not usually have the same requirements on the facility as production companies. With this follows that it is easier to replace one generic business with another rather than having one production company replacing another. It can consequently be assumed that the more generic business, the greater the possibility that a company leases its premises. Whether this is true has not been validated. Based on what factors do companies decide whether to own or to lease real estate? Are companies owning or leasing by active choice or necessity? Do companies base their CRE strategy on the same underlying factors and in that case, does it result in similar strategies for companies within the same industry?

When searching for CRE strategy in Google Trends it replies that the term does not have enough search volume to show graphs (Google Trends, 2012a). The tool measures how often a term is searched for relatively to the total number of searches globally. The search term CRE indicates a decreasing search frequency since 2005 (Google Trends, 2012b). However, it has been stated in the literature that non-real estate companies are paying more attention to CRE since they have realized the value it may add to the business. Is this true and in that case, how does the increased attention show in organizations? Perhaps it means that the management is dealing with CRE to a greater extent than ten years ago. Possibly, it also means that the role of the CRE manager has changed. The actual outcomes of the increased attention have not been investigated. Are companies aware of the potential of a CRE strategy and do they have one? Are there any differences between industries?

CRE consultants and developers are seeking new and improved ways, to provide CRE services to companies as a result of increasing corporate outsourcing of real estate functions (Manning & Roulac, 1999). An outsourcing trend indicates an increase in leasing real estate. Meanwhile, larger companies are learning to take advantage of economies of scale to better plan and tailor space utilization to their dynamically changing needs (Manning & Roulac, 1999). They are also starting to negotiate more beneficial and flexible contracts for current and future facility requirements. In the future it will become even more important for a company's CRE function to assist corporate management with how location, building design and leasehold improvements impact an organization's business strategy, given globalization, technological, information and cultural trends. Do companies consider external impact when formulating, implementing and evaluating CRE strategies? What factors can be identified on today's market that already are affecting or in the future will affect whether a company should own or lease real estate and what overall CRE strategy to apply? Has CREM developed at the same pace in all industries or has the development reached different stages in different industries?

1.3 Aim and Objectives

The aim of this study is to investigate companies' CREM with a focus on strategies for CRE decisions, in particular to own or lease real estate.

Investigated companies will be categorized in order to find patterns within and between industries. To achieve the aim, the following objectives have been identified:

- To verify whether companies realize the potential value CREM can add and if they do, discover how it shows in the organizations.

- To recognize what strategies and rationales companies use for CRE decisions such as owning or leasing.
- To understand how CREM has developed over time and what external factors it is affected by.

1.4 Limitations

The research is limited to buildings even if the term real estate also includes land. Strategies for land and buildings and its respective impact on the company might differ. A narrow scope enables profound understanding and land is therefore excluded.

Only large companies are included in the study. The reasoning behind the exclusion is explained under Method. So is the definition of a large company. Consequently, the study results cannot be applied to all types of companies. However, parallels can be drawn to smaller companies.

The study is focused on companies with CRE in Sweden since conditions and influencing factors might differ from one country to another. Therefore, companies' international CREM will only be lightly investigated and not analyzed in depth. Conclusions are not to be applied to CRE abroad due to insufficient data.

2 Method

This chapter is a presentation of the research procedure. Firstly the general approach to the study is presented. This is followed by a literature review on CRE. How the study was conducted, respondents chosen and data collected are then presented. Next, how the collected data was analyzed is described. Finally, the reliability and validity of the study is discussed.

2.1 Approach

In order to gain a holistic understanding of CREM and its importance and development over time, a literature review was conducted. The aim of the review was also to understand what possible facts companies base their CRE decisions on. Interviews with academic and professional CRE experts were held in parallel with the literature review to better understand impact and issues of CRE. The review together with the interviews provided the basis for the further research approach.

Different research approaches can be applied to a study. In this study the relationship between theory and research is deductive, which means that the theory provides the basis for the research. General principles that are known or assumed to be true are applied to specific cases (Bryman & Bell, 2007). The deductive approach involves empirical testing based on relevant theory and is often associated with quantitative methods. The deductive research approach can be compared with the inductive approach, which is about drawing conclusions from observations and often involves qualitative studies. Both approaches have their merits and demerits that need to be taken into account (Phatak, 2011). The deductive approach is a more solid and reliable method, which does not lead the researcher astray. On the other hand, the deductive approach is less flexible and not open for as many ideas as the inductive approach.

The literature stresses the importance of CREM and suggests that companies are paying more attention to the topic than before. Rationales for different CRE strategies, for example to own or lease real estate, are also stated in the literature. Whether CRE decisions are based on such rationales, how the proposed increased interest shows in organizations and the development of CREM is empirical tested through a questionnaire that was sent to approximately 200 companies. The aim of the empirical research was to be able to find a gap between theory and practice in CREM. Due to the quantitative nature of the questionnaire only requested information was provided (Jacobsen, 2002). To gain a wider understanding six questionnaire respondents were chosen for in-depth interviews. The respondents, questionnaire and interviews are further described below.

Finally, the theoretical framework was compared with the empirical research and what the theories suggest could consequently be supported, rejected or further

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developed. The comparison also enabled a discussion about the development of CRE strategies today and in the future. The overall research procedure of the study is presented in Figure 1.

In order to keep track of ideas on the content or conclusions of the study that emerged during the working process, an opportunity register was used. The idea is that at any point of time there will be a rich set of opportunities to choose from, rather than having only the choice of those that managed to survive a sorting process (McGrath & MacMillan, 2000). The register made sure that no ideas were lost and thereby enabled a focus on the current task. In addition to the opportunity register, thoughts and activities were documented during the working process. The documents came to great use when deciding on the scope of the study. The documents also facilitated communications with tutors who primarily were consulted when making critical decisions and delimitations.

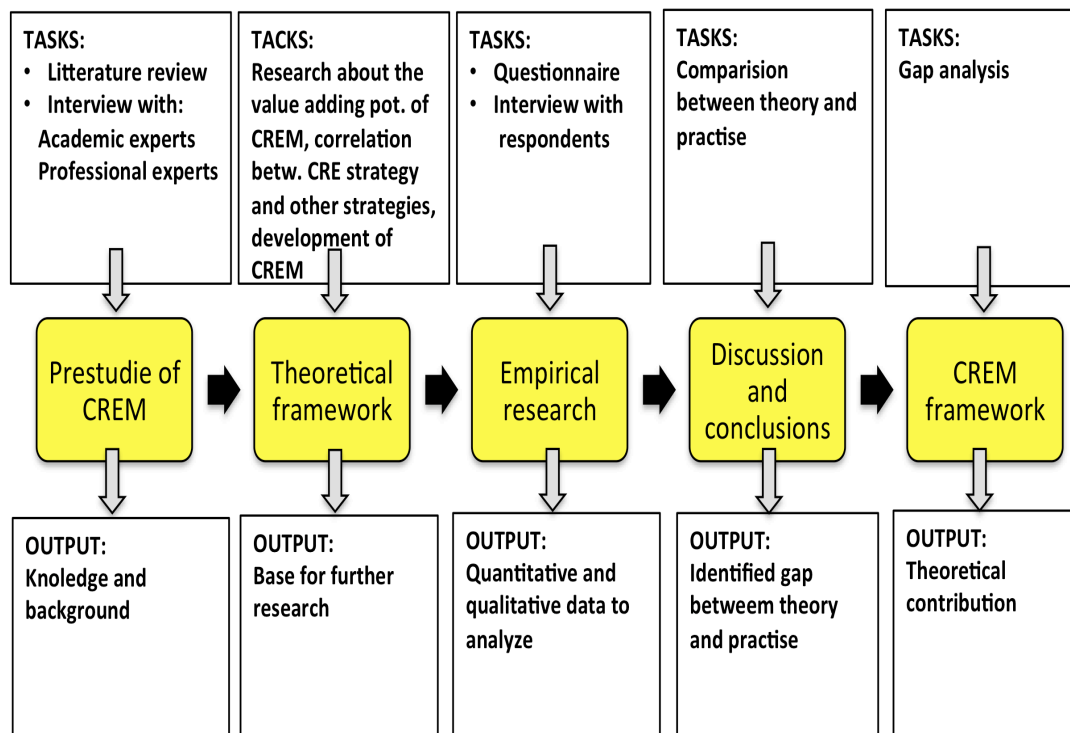


Figure 1. Study Research Procedure.

2.2 Literature Review on CRE

“Learn From the Mistakes of Others. You Can’t Live Long Enough to Make Them All Yourself!”
(Unknown)

A summary of previous research forms the basis for the theoretical framework that establishes what is already known and what is still unknown and untested (Best & Kahn, 2006). Academic CRE experts were advised in order to find keywords and relevant literature for the review. The advices generated a list of books and articles to include in the review. A narrative approach was initially used in order to get a first impression of the topic. The review became more systematic as the scope of the study was narrowed down. The aim of a systematic review is to find out what a research project can add to existing knowledge about a topic (Bryman & Bell, 2007). The review process was iterative which meant that new and interesting theories that came up during the review were either included or excluded. Both old and recently published sources were used since the aim partly was to understand the development of CRE over time. Only sources that were considered to be of high quality and reliability were used. The most frequent used source is professional journals but sources also include books and information retrieved from the Internet.

The literature review formed the basis for the theoretical framework that is presented in chapter 3. The theoretical framework has focused on three parts that all revolves around the topic under investigation – CREM. The first part is about the importance of CREM. The value it might add and how the value can be measured will be described. Further, the importance of linking CRE strategies to other company strategies is emphasized. The second part of the framework is devoted to CREM strategies. Eight different CRE strategies that are frequently being referred to in the CRE literature are described. With or without a CRE strategy, all companies must make real estate decisions such as owning or leasing. Possibilities and rationales for different alternatives are presented. The third and final part of the theoretical framework concerns the development of CREM and external factors that possibly affects the CRE department’s work. The three parts of the theoretical framework are described in different sections in the next chapter. Subsequent chapters follow the same structure.

2.3 Empirical Research

Collected data in the empirical research is derived either from a questionnaire or in-depth interviews. The information is collected for the first time and is tailored to a specific problem. This type of information is called primary data (Jacobsen, 2002). The data is primarily presented quantitatively but also qualitatively. Whether one method is better than the other has been widely discussed (Jacobsen, 2002). In this

study the methods are considered to be equally good and suited to illustrate different approaches.

The questionnaire is used to obtain statistically useful information about CREM from which conclusions can be drawn. The goal is primarily to meet the above-mentioned objectives, which includes identifying patterns within and between industries. A questionnaire with fixed response alternatives is the most common form of quantitative methods (Jacobsen, 2002). Most questions in the questionnaire have fixed response alternatives but the respondents are also given the opportunity to further explain some of their answers in own words. This makes the questionnaire quantitative but also qualitative to some extent. The main advantage with a quantitative method is that it standardizes data and makes it easy to work with the collected information (Jacobsen, 2002). It is possible to get an overview of great amount complex information in a relatively simple way. Since many respondents may be asked to complete the questionnaire a representative sample of respondents can be obtained which increases the possibility to generalize the result. The downside of the quantitative method is that it has to be rather general since it targets many respondents. Further, the questionnaire will provide no other information than that requested.

Additional interviews were done to deepen and complement the generated questionnaire data. The choice of respondents to interview was based on the results of the survey. Two companies from each industry that have fundamentally different businesses and therefore compete on different markets were interviewed. According to the questionnaire answers the companies also have different approaches to CREM. By interviewing different types of companies within the same industry various aspects of CREM can be recognized and differences within an industry can perhaps be explained. The qualitative method, to which in-depth interviews belong, is useful for understanding how respondents interpret and understand a given situation (Jacobsen, 2002). The method is time-consuming, resulting in a limited number of respondents, which in turn affects the representativeness. Generated data is complex and difficult to analyze. The advantage of the qualitative method is that it seeks a wide understanding of the entire situation and produces in-depth, comprehensive information.

2.3.1 Choice of Questionnaire Respondents

Almost all companies, if not all, are dependent on some type of building to manage the business. There are over one million companies in Sweden (Ekonomifakta 2012a). According to the European Commission, the size of a company is based on three criteria: number of employees, annual turnover and the balance sheet total (Verheugen, 2006). Large companies have at least 250 employees, an annual turnover of 50 million euros or more and a balance sheet total of 43 million euros or more. About 950 companies in Sweden meet these criteria (Ekonomifakta, 2012b).

The reason why the study is focusing on large companies is that such companies are likely to have the economic resources and knowledge to own real estate. Smaller companies might not have the financial ability to buy CRE. Furthermore, larger companies have several economies of scale opportunities that are not available to smaller businesses when managing a real estate portfolio (Manning & Roulac, 1999). Larger companies have for example economic power to better manage their company's CRE portfolio, which includes negotiating for land and space. The ownership and control of a multi-facility network of working spaces provides locational, facility design and contractual opportunities and flexibility. Some of the advantages potentially apply to small and medium companies but it is the larger companies that can afford the resources that can most take advantage of the economies of scale in CRE management. Burger King or McDonald's can afford the time and talent to first uncover and then later tailor its location and leasehold improvements to changing marketing environments. An independent single-location hamburger stand cannot.

In addition to the greater opportunity for economies of scale, it is more likely that larger companies have a CRE function and/or a CRE strategy than smaller companies. A small facility area makes it difficult to justify the time and effort it takes to establish and maintain a CRE strategy. Larger companies can consequently be assumed to contribute to the empirical research to a greater extent than smaller companies. Consequently, the empirical research was focused only at companies that meet the above stated requirements for large companies. A list of such companies was created with the help of Retriever Business.

2.3.2 Questionnaire

A questionnaire can be used when factual information is needed (Best & Kahn, 2006). In order to pose the right questions and obtain desired data, pre-studies were conducted, both by screening relevant literature and interviewing professional CRE experts. The questionnaire included both open and closed questions. The first means that the respondent mark yes or no, write a short response or check an item from a list of suggested responses (Best & Kahn, 2006). The closed form takes little time, is easy to fill out and relatively objective and keeps the respondent on the subject. Further it is fairly easy to tabulate and analyze. The open form provides for greater depth of response since it calls for a free response and no clues are given. The questionnaire has several advantages, and properly constructed and administrated it may serve as a most appropriate and useful data-gathering device in a research project.

When planning and constructing the questionnaire other questionnaires were studied and drafts were sent to four persons, all with relevant knowledge of the subject under investigation, for evaluation and criticism. Thereafter, the questionnaire was pilot tested with a person similar to those in the respondent group. The careful preparation of a good questionnaire takes a great deal of time,

skill and hard work (Best & Kahn, 2006). Once the questionnaire has been sent out it is too late to remedy its effects. Poor quality of many mailed questionnaires helps to explain why only a few of them are returned. As a result of low response rates, the data obtained are often of limited validity. The rate of returns also tends to be disappointing unless the group of respondents has a genuine interest in the problem under investigation or knows the sender.

A low response rate means that many rejected the questionnaire and the accuracy of the result may then be questioned (Ejlertsson, 1996). In order to find suitable respondent within a specific company and increase the expected response rate, 250 companies on the list were contacted by telephone. The purpose of the phone calls was to get hold of a person who could answer CRE related questions. A person responsible for CRE can be assumed to have a genuine interest in the problem under investigation, which probably contributes to a higher response rate. It is important to choose respondents carefully and send questionnaires only to those who possess the desired information and are likely to be sufficiently interested to respond conscientiously and objectively (Best & Kahn, 2006). By talking directly with the respondent a relation was established, the purpose of the study could be explained and certain types of reactions to the subject could be included in the data summary. When it was not possible to get hold of and talk to the most appropriate respondent, a receptionist generally provided this person's email address. Not all companies could refer to a person who could answer the questionnaire. Finally, 201 questionnaires were distributed by email. About 100 of the respondents were talked directly to, 50 received a voice message and the rest were simply just emailed. To increase the number of returns, a reminder was sent to those respondents who had not returned a completed questionnaire within two weeks. The overall effort resulted in 114 responds i.e. a respond rate of approximately 56 percent. The number of respondents that chose the alternative "don't know" for any question was overall low. This hopefully indicates that the person who filled in the questionnaire has a wide knowledge in the CRE area. The questionnaire procedure can be viewed in Figure 2 below.

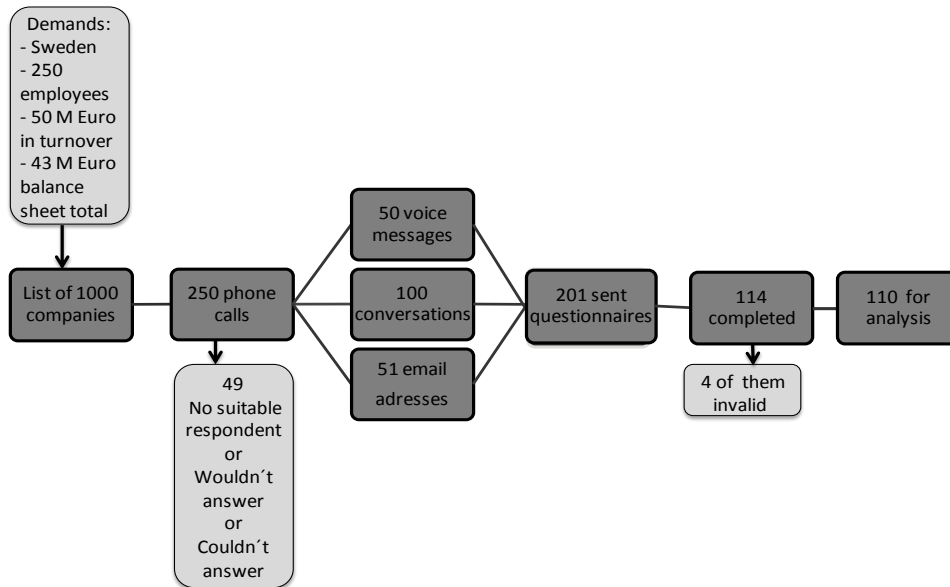


Figure 2. Questionnaire Procedure.

A good questionnaire provides data that is easy to interpret (Best & Kahn, 2006). All aspects of the questionnaire were therefore carefully considered before it was distributed. To assure that the respondents would not lose interest, it was important that the questionnaire had a maximum of ten questions and was attractive in appearance. The questions were objective and presented in a logical order. It was equally important that the questionnaire only sought information that could not be obtained from other sources.

In order to be able to generalize the collected data the ambition was to get a minimum of 100 completed questionnaires in return. The goal was exceeded with 14 questionnaires since 114 questionnaires were sent back. Four of them were later excluded from further research since none of the questions had been answered. Several out of Sweden's largest and most well known companies are represented among the respondents. All questionnaires have been reviewed manually since some of the questions were of open type and the answers could provide valuable information. All respondents have not answered all questions, which explains why the total number of answers sometimes is lower than the total number of respondents. Data generated from the questionnaire has been compiled with the help of Excel. The questionnaire questions can be viewed in Attachment 1.

Some of the respondents chose to be anonymous. Companies within the same industry category can have very different businesses, which can make it difficult to draw general industry conclusions. By not mentioning company names, focus will be on similarities rather than differences. This will enhance the possibility to draw general conclusions for a certain industry and thus compare the different categories.

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Accordingly, the mentioning of company names was considered to add little or no value to the research and it was therefore decided not to state any names.

Categorizing

Companies in different industries have diverse facility and location needs and can therefore be assumed to have different views on and strategies for CRE. To investigate whether patterns can be found within and between industries the respondents were categorized into six groups:

Production (33) – companies that use machines, tools and labor to produce goods.

Service (38) - companies that provide services such as attention, advice, discussion and experience.

Retail (20) – companies that sell physical goods from a fixed location.

Hotels and restaurants (1) – commercial establishments that provide lodging and/or meals.

Public sector (2) – companies that are owned by the state.

Other (15) – companies that do not fit under any of the other categories.

The figures in brackets represent the number of returned questionnaires from each category. Three companies did not chose category but since their company names are known they could be placed in appropriate categories afterwards. A single company chose to be anonymous both in category and company name. Altogether, this adds up to 110 questionnaires. Since no general conclusions can be drawn based on only one or two questionnaires the public sector and hotels and restaurants categories will not be analyzed nor compared with the other categories. Both categories are however still included when the respondent responses are analyzed all together. Each industry's share of total respondents can be viewed in Figure 3.

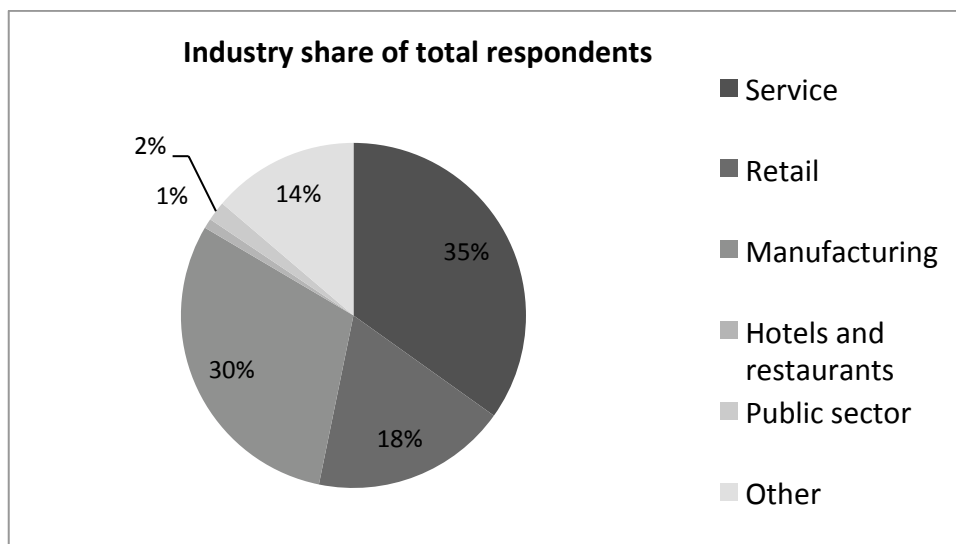


Figure 3: Industry Share of Total Respondents.

It is possible that some companies disagree with the industry definitions and therefore ended up in the category called other. This category is a consequence of the aspiration that all respondents should be able to answer the questionnaire. Several media companies but also a dairy company and a manufacturer of communications products can be found in the category called other. The same reasoning as stated above regarding the public sector and the hotels and restaurants category applies to the "other" category. Thus, the category will not be compared with other industry categories. In some cases it can be argued that a certain company belongs to another category than the one it chose to place itself under. It is also possible that some companies consider themselves to belong to more than one category, for example both retail and service, and have chosen one of the two when asked to define company type. However, no companies have been moved from one category to another. Subjective views on industry definitions should be taken into account when analyzing and generalizing results for each industry category.

Questions

Companies' interest in and attention paid to CREM was investigated. The respondents were asked if they have a current CRE strategy and in that case, they were asked to explain it. The aspiration was to find out whether companies consider CREM value adding and important enough to spend resources on. Perhaps CREM issues and possibilities are more important to some type of companies than others. Questions about awareness and interest will imply whether companies are paying more attention to CREM than before and in that case, how it shows in the organization. The respondents were also asked to state how much facility area, measured in square meters, the company owns and/or lease in Sweden. The purpose of asking about the facility area was to investigate whether any correlation between CRE strategies and size of area exists. A conclusion could for example be that companies that occupy larger facility areas are more likely to have a CRE strategy than companies with smaller areas.

The respondents were also asked whether they own or lease the majority of the specified facility area. The aim of the question was to investigate whether companies in general own facility area rather than lease it or vice versa. By dividing the respondents in above stated categories the answers would also indicate if it is more common to own or lease in one industry than another. The answer might support the assumption that the more generic business the more common to lease. The companies were asked to state what type(s) of facilities they possess: office space, warehouse, production space or service space. For each type they were also asked to indicate whether they own or lease a majority of the area. This question would enable owning and leasing patterns to be identified for different types of facilities. Examples could be that all types of companies generally own office space and rent service space. Patterns can possibly also be established for each industry category, perhaps companies within the production industry tend to own production

space but lease warehouse. In order to determine what companies base their decisions to own or lease facility space on, a number of possible influence factors were listed. These factors are partly a result of the interviews that were held when planning and creating the questionnaire, and partly a result of the literature review. To reduce the risk of overlooking any factors the respondents were given the possibility to explain other influence factors in an open type question. The same questions were asked for both owning and leasing decisions but the influence factors were not entirely the same. Also in this case was the purpose to distinguish general patterns for all companies and for each industry category.

Companies view on CREM has possibly changed over the last decade, which makes it interesting to examine whether companies own the same share of its real estate portfolio as ten years ago. A change might indicate that the company has implemented a CRE strategy, for example to lease all its real estate and accordingly sold some. If the company has grown it might have done so by leasing more real estate and consequently decreased its owning share. The reasoning behind the question is that a change might have some correlation with the CRE strategy, either that such a strategy has been established or changed and implemented. Another possibility is to discover patterns within the industry categories that indicate a shift from owning to leasing or vice versa. The result might indicate certain trends in CRE strategies.

2.3.3 Interviews

Interviews were held throughout the whole research process. Firstly, an academic expert was consulted in order to gain basic knowledge about the development and importance of CRE. The interview generated valuable literature recommendations and helped form the purpose and scope of the study. Six professionals that work with CRE in different contexts were then interviewed. Four of them are consultants that offer companies CRE advice in various aspects and the other two works as business developers for a construction group that provides companies with real estate. The purpose of the interviews was primarily to gain insight into companies reasoning about CRE decisions. The six interviews also provided information that was used when creating the questionnaire. Later it contributed to the empirical research by complementing and enhancing the collected questionnaire data.

The questionnaire is a special case of the interview methodology. It is collective, standardized and presented to many people concurrently. (Befring, 1992) The questions and the response alternatives were systematically arranged i.e. strictly formulated and presented in a predetermined order. The drawback with a structured interview approach like this is that the interview cannot be corrected afterwards. Consequently it is crucial that questions and response alternatives are as comprehensive as possible. (Lundahl & Skärvad, 1982)

When sufficient data was collected through the questionnaire, six respondents were asked to answer further questions either via email or telephone. The interviews led to better understanding of the topic and the questionnaire result. In the case of email interviews the questions, but not the answers, were predetermined and systematically arranged. Unlike the questionnaire, it was possible to complement the answers with follow-up questions. This type of interview approach is called semi-structured. (Bryman & Bell, 2007) Also the telephone interviews were semi-structured but less systematic than the email interviews. In-depth interviews like these are more flexible and situational than a structured interview. An in-depth interview is designed to elicit the respondent's evaluation of the situation, opinions, attitudes and ideas as much as pure fact. In addition, some questions are asked only to certain respondents. (Lundahl & Skärvad, 1982) The interviews with academic and professional experts also fall under the in-depth semi-structured interview category. Five of them were done face-to-face and two over the phone. The interviews and the output of them are visualized in Figure 4.

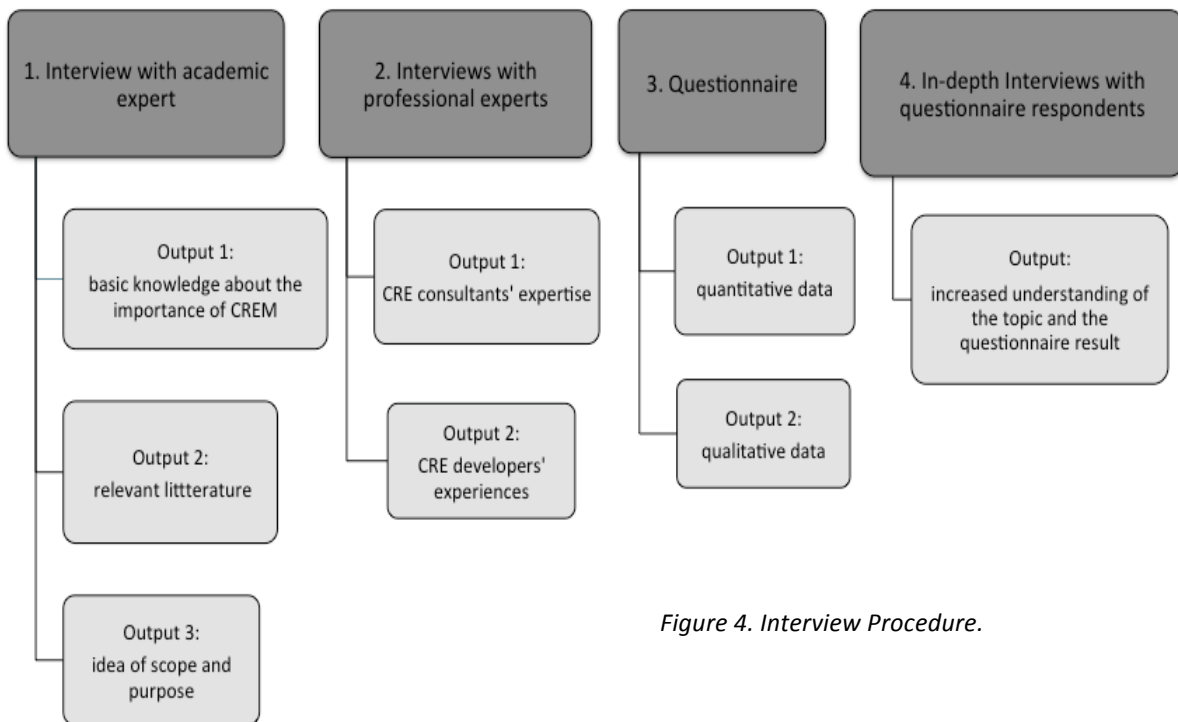


Figure 4. Interview Procedure.

2.4 Validity and Reliability

Since all data in the empirical research is collected for the first time the credibility of the sources does not have to be questioned to the same extent as in the case of secondary data (Jacobsen, 2002). The primary data that is being used is collected for no other reasons than the study purpose.

The question whether the result obtained from the questionnaire is accurate cannot be neglected. There is always a risk that the questions were asked in the wrong way or answered by the wrong respondent. There is no guarantee that the questionnaire was sent to the right person, especially not if the distribution of it was not preceded by a conversation with the intended respondent. This cannot be influenced but should be considered when analyzing the collected data. The validity of a questionnaire is about asking the right questions, phrased in the least ambiguous way (Best & Kahn, 2006). All terms must be clearly defined so that they have the same meaning to all respondents. To clarify the meaning of terms that could be interpreted differently, a cover letter was included in the questionnaire distribution.

Both authors were present during a majority of the interviews. In the case of absence, the present author made sure to record the interview. Interviews are subjective in nature, which means that the respondent may have a different opinion than the company he or she is representing. There is also a risk that the respondent is not telling the truth or omits certain information. This has been taken into account when analyzing the empirical research. To further increase the validity of collected information all interviewees have been asked to recommend other persons with knowledge in the topic.

All used resources are referenced and multiple sources have been used to verify any discrepancy found in information.

3 Theoretical Framework

The theoretical framework is divided into three parts: The value adding potential of CREM, CREM strategies and the Development of CREM. In short, the first part explains why CREM is important; the second part describes a company’s many CRE possibilities and the third part states CREM development over time. Together the three parts provide a holistic view on CREM and its importance to companies.

Few companies can run a business without performing any activity in some type of building. Some companies, for example cleaning companies, perform their activities in other’s building. Unless it is a very small cleaning company where all the work that revolves around the business can be taken care off from the owner’s home, the business most likely requires office space, cleaning supply storage and a place for the employees to gather. The buildings that accommodate these activities belong to the company’s CRE portfolio. Such a portfolio needs to be managed. CRE decisions, such as owning or leasing, must be made. If managed well, CRE can add value to the company and not only be viewed, as a costly necessity.

Corporate real estate management (CREM) forms the core of the theoretical framework. The first part of the framework explains the importance of CREM and the value CRE might add if managed correctly. How and why the CRE strategy should be correlated with other company strategies is also described. In the management of CRE, is helpful to have an organized approach to decisions such as to own or lease. Implications of owning and leasing are described under financial possibilities in the second part of the framework. This is followed by rationales for respective alternative. Other CRE decisions than owning or leasing that has to be made are then explained. Thereafter, eight possible CRE strategies are described. The third part of the framework examines CRE from a historic and current perspective. The disposition of the theoretical framework is illustrated in Figure 5 below.

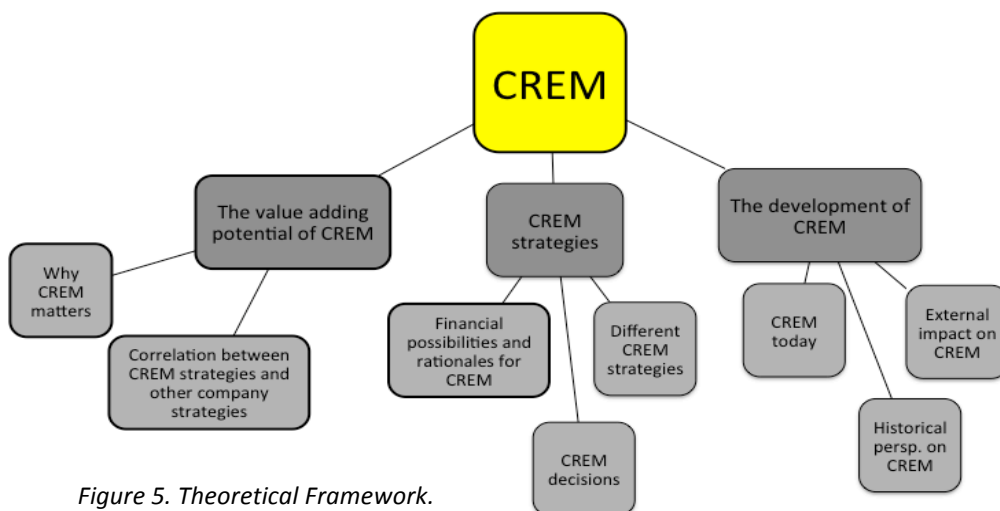


Figure 5. Theoretical Framework.

3.1 The Value Adding Potential of CREM

This part of the theoretical framework is visualized in Figure 6 below. Firstly, it is explained why companies should invest time and resources in CREM. It describes the meaning and benefits of a CRE strategy and what value such a strategy can add to the entire company. Then, the correlation between different company strategies is described.

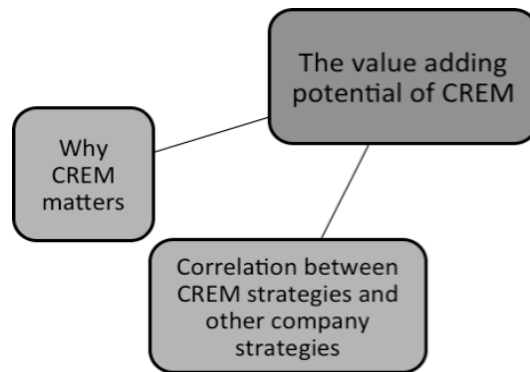


Figure 6. The Value Adding Potential of CREM.

3.1.1 Why CREM Matters

According to Lindholm et al. (2006) CRE strategies involve the areas: Asset management (AM), property management (PM) and facilities management (FM). A key to a successful CRE strategy is to link it to the overall strategy of the company and identify how real estate decisions affect the firm both directly and indirectly (Manning & Roulac, 1999). A focus on how to financially measure the identified impact will clarify what sort of CRE strategy it takes to contribute to the company's financial success (Lindholm et al, 2006). The value adding attributes of CREM according to Lindholm et al (2006) are highlighted in Figure 7 below.

Corporate Real Estate Strategies

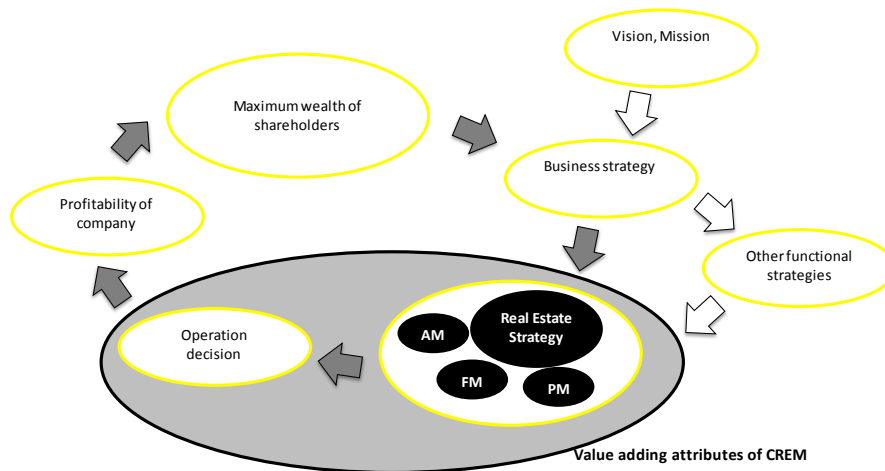


Figure 7. CREM as a Part of the Corporations' Strategic Framework (Lindholm et al, 2006).

Several authors have made their contribution to the area of identification and measurement of the benefits of the CRE strategy. Zeckhauser and Silverman's study from 1983, mentioned earlier, was the first one that presented the economic potential connected with real estate assets (Manning & Roulac, 1999). The result from their study showed how American corporate managers did not use their real estate assets, which at the time was equal to 25-40 percent of total assets, to increase the profit of their firm (Lindholm et al, 2006). Thereby, they lost both profits and lowered their stock price performance. The same year Nourse and Roulac took another approach to CRE by establishing eight different strategies to get a successful CRE.

In 1996, an effort was made to pinpoint the value added of real estate (Krumm, 1999). The different kinds of value real estate can add to a company and what parameters that would lead to added value were categorized. If the company fulfilled one or several of the parameters it would benefit from the specific kind of added value. The value categories and the to them belonging parameters are listed below.

1. Increasing productivity
 - Offering adequate accommodation
 - Site selection
 - Introducing alternative workplaces
 - Reducing absence of leave
2. Cost reduction
 - Creating insight into cost structure
 - More efficient use of workplaces

Corporate Real Estate Strategies

- Controlling cost of financing
-
- 3. Risk control
 - Retaining a flexible real estate portfolio
 - Selecting suitable locations
 - Controlling the value development of the real estate portfolio
 - Controlling process risk during (re)construction
 - Controlling environmental aspects and labor conditions
- 4. Increase of value
 - Timely purchase and sale of real estate
 - Redevelopment of obsolete properties
 - Knowledge of and insight into real estate market
- 5. Increase of flexibility
 - Organizational measures (working hours, occupancy rates)
 - Legal/financial measures (mix own/rent/lease)
- 6. Changing the culture
 - Introducing workplace innovations
- 7. PR and marketing
 - Selection of branch locations
 - Image of buildings
 - Governing corporate identity

In the general case, the return of real estate is not as large as the return of the core business (Lindholm, 2008). Though, real estate adds other kinds of value, like more effective activities within the organization. Through a change in mindset about the CRE department from “a cost unit” to “a profit unit”, the real estate unit would identify opportunities for better profitability. Gibson (2000) argues that real estate can and should be considered from three different perspectives: a physical, a functional and a financial asset. Each perspective gives the company some sort of flexibility that contributes to the bottom-line of the company. In the latest decade real estate has also been examined from a workplace perspective (Gibson, 2000). The real estates impact on attraction of the best workers and stimulation of employees to work efficiently has been highlighted.

To Measure the Added Value

The whole point of a company’s goal setting is to make sure that they are achieved (Lindholm, 2008). Communication of the goals’ importance and evaluation of the process to reach them is essential. Different measurements can be used to evaluate a success factor. A common way to measure success factors is through metrics

called key performance indicators (KPI's). The limitation of KPI's is that they have to be quantifiable. One part in the evaluation of a firm's performance is to determine the financial success through measurements of net profit, turnover etc. The situation for the CREM is similar, although it has historically been focused on operational efficiency measuring operating cost, cost per square meter etc (Krumm, 2001). The shortcoming of this focus is that short-term goals lead to short term actions (Lindholm, 2008). As long-term goals are not considered, the decisions can lead to cutbacks in aspects that would lead to long-term profitability. Furthermore, the financial data cannot measure if the CREM can lead to competitive advantage. In order for the company to measure the most important parts of CRE a measuring change is needed. The measures should also be able to identify if CREM supports the objectives of the firm and if the unit of CREM reaches the internal strategic goals.

3.1.2 The Correlation between CREM Strategies and Other Company Strategies

Three types of strategies are commonly used within organizations; corporate, business and functional (Wheelen & Hunger, 2000). Corporate strategy can be explained as a company's overall attitude and direction regarding growth, its various business and product line. It can also be viewed as an umbrella strategy, covering the different businesses within a company (Thompson and Strickland, 1998). The business strategy can be described as a more detailed strategy, a responsibility of the CEO or head of business (Wheelen & Hunger, 2000). This strategy is supposed to be flexible and react to changes in the business environment in order to hold a competitive position in the specific market. To highlight the difference between the two mentioned strategies, corporate strategy centers the question of what industry the company should compete within meanwhile business strategy focuses on how they are going to compete there (Thompson and Strickland, 1998). The purpose of functional strategy is to support the business strategy. Functional strategies, in which CRE strategy can be included, are developed in existing units within an organization and focuses on how the specific unit can contribute to the business strategy. Thereby, functional managers for units such as manufacturing, research and development, human resources are in charge of their functional strategy, although they are reviewed and approved by a CEO or head of business.

3.2 CREM Strategies

Companies have many options when it comes to CRE. There are several strategies to choose from and many decisions to make. This part of the theoretical framework firstly describes different ways of acquisitioning real estate and rationales for the alternatives. This is followed by a presentation of identified risks associated with respective alternative. Other decision aspects of CRE than owning or leasing are then

presented. Finally, eight possible CRE strategies are described. Figure 8 below illustrates the second part of the theoretical framework.



Figure 8. CREM Strategies.

3.2.1 Financial Possibilities and Rationales for CREM

There are basically two (three) financial options in the acquisition of real estate: Owning, leasing and a hybrid of the two: sale- and lease back (Lind & Brunes, 2008). The options are not conclusive; the situational variations are almost as many as there are real estates. There are a lot of rights to take advantage of as an owner or a leaser, but there are also several obligations.

Owning

One definition of owning is: *“to have permanent, legal right to independence and (more or less) without restriction dispose of possess”* (Nationalencyklopedin, 2011-04-14). Owning can also be defined as the residual right of disposal, meaning that the owner has the right to decide in every aspect that remains after current legal regulations (Lind & Brunes, 2008). In combination with economic activity another aspect is relevant as well; *“the economic residual value”*. If the asset i.e. the property increases or decreases in value, the difference accrues to the owner.

Ali et al. (2008) identify following strategic and economic reasons to own CRE:

Strategic reasons to own:

- Security
- Unique location
- Transport links
- Unique design for building
- Safeguarding location for plant and cannot be moved
- Ensuring space for expansion
- Freedom of choice over property management
- Desire to establish community links that will aid business

- Supply or suitably educated or trained labor
- No suitable property available for rent

Economic reasons to own:

- Avoidance of rent rises
- Avoidance of long-term commitments to lease condition
- Control over management costs
- Protection of expensive investment in plant
- Potential for particular capital gain above level of inflation
- Potential for long-term development opportunities
- Contribution to joint venture programs
- Availability of grants
- Capital allowances

Leasing

One definition of leasing is “to let someone dispose of something in return for payment” (Nationalencyklopedin, 2011-04-17). The tenants’ rights and obligations are regulated in the contract (Lind & Brunes, 2008). The length of a leasing contract can be widely varying. In the contract, it is also specified how much of the daily real estate management that is the tenants responsibility. Options regarding conditions to extend the contract or leave the premises earlier are also included in the contract.

Ali et al. (2008) identify following strategic and economic reasons to lease CRE:

Strategic reasons to lease:

- Freedom to move, especially if expansion is predicted
- Less risk of being tied to an obsolete building
- Freedom to reduce the size of the estate if floor space needs to be reduced
- Opportunity to test locality without long-term commitment
- Flexibility of size of letting
- Availability of additional services
- Accommodation included in outsourcing contract

Economic Reasons to lease:

- Demands less capital
- Desire to limit the size of non-liquid capital assets
- Freedom to choose cheaper or more expensive location

Given the abilities of property owners in areas such as real estate management, tenants are willing to pay higher lease rates in return for additional expertise, service

and reduction of risk (Benjamin et al, 1998). The fact that a property is offered for lease rather than sale indicates that the property lessor thinks highly enough of the property's potential that he wishes to keep it. The lessor probably knows the identity of future users of the property and the future value of the property. The user of the property could of course becoming as knowledgeable as the lessor, but this is exactly the sort of transaction cost that the tenant is trying to avoid since real estate is not its main business.

Leasing exists in part because a lease provides the least costly alternative in certain situations (Williamson, 1988). Most equipment is leased for a term less than its economic life, which means that part of the value of the asset is derived from its resale or liquidation. If property is too specialized, then the residual uses of the property will be limited. It can be argued that the more specialized a real estate property, the less likely the existence of highly developed secondary markets.

The prevalence of shopping centers suggests that leasing is a solution to a free-rider problem (Benjamin et al, 1998). The value of a property is determined in large part by traffic patterns, crime and the general desirability of the neighborhood. It is therefore in the interest of a property owner to lobby for or ensure favorable conditions for the area. All owners will be worse off if the owner does not make any effort to ensure the area's desirability. However, activities to remain property value might not be undertaken because their benefits would accrue not just to owners making the expenditures, but also to owners of adjacent properties as well. Thus, each individual owner has little incentive to make such expenditures. If the neighbors are doing it, individual actions will be unnecessary, while if they are not, the efforts will be insufficient. When one lessor owns much of the property in one area, such a problem is solved because the lessor is a main beneficiary of maintaining the value of the neighborhood and depends largely by the lessor. The lessor either makes the expenditure and earns the benefits or does not: there is no free-rider problem. Given that it is optimal to make the appropriate expenditures to maximize property value, the expense of such activity can be passed on to tenants as higher lease payments.

Sale- and Lease back

The concept sale and lease back has been given several definitions. The definition that is used in this study is general and includes variations. The typical situation is, one party sells a real estate to another party and writes a long-term lease agreement at the same time (Jensen, 2012-02-07). The former owner becomes the tenant. The situation was used widely in Sweden in the 1980's. The former owner commonly gets a buy-back option and continues to have the responsibility for the daily real estate management. The length of the contract is normally very long. Due to changes in accounting regulations, the depreciation right can no longer be transferred in a sale-and lease back-situation. Therefore, sale- and lease back is not as common today as it was in the 1980's.

Corporate Real Estate Risk

An early definition of risk was that risk is associated with the probability of an event (Baird & Thomas, 1985). The issue connected with the definition is the common lack of knowledge of the outcomes and their probabilities. In corporate finance, the risk is often calculated as the variance of the expected returns. The reliability of the estimated probabilities is depending on the access to sufficient data of earlier outcomes.

The CRE risk is most likely the single most important risk due to the fact that it increases the risk exposure for the firm. Several risks are associated with the management of CRE assets. Their nature of the risks are different depending on whether the assets are leased or owned by the company. Baird and Thomas (1985) have identified the below listed risks related to owning and leasing CRE:

Risks connected to ownership of real estate:

- Potential mortgage
- Default risk
- Property management risk
- Reversion risk

Risks connected to leasing real estate:

- Risks associated with lease terms and in particular their length
- Risks associated with escalations i.e. increased expenses under a net lease and the amount of space leased

Other possible risks:

- Physical risks such as location and design weakness risk
- Regulatory risks such as regulations of local or state agencies
- The risk of hidden value and foreign currency risk

3.2.2 CREM Decisions

A CRE portfolio comes with a must to make certain decisions. These decisions highly affect the business and must be made whether the company is working strategically with CRE or not. Factors such as type of industry, business, market and competition are likely to affect CRE decisions and result in different decisions for different companies. Decisions has to be made concerning below stated aspects (Nourse & Roulac, 1993).

Corporate Real Estate Strategies

Location: the company must decide where it wants to perform its activities and serve its customers. Location strategies should include country and/or part of country, metropolitan statistical area, downtown or suburbs, the particular submarket, neighborhood and finally the specific building.

Quantity: amount of space needed to provide for immediate and short term needs as well as to allow for future expansion and other possible additional space needs.

Tenancy duration: the consideration of the minimum and maximum time horizon over which the company's access to the space is assured. The duration is controlled through direct ownership, leases and options to extend and/or.

Identity/Signage: the advertising message that is being sent to the company's audience by the external and internal perception of the space.

Building size/character: whether the company prefers to be the solely tenant or wants to locate in a multi-tenant building where it can either be the dominant tenant or one of many.

Building amenities: the employee perception and experience is strongly influenced by available amenities in and proximate to a facility.

Exterior quality: the visual appeal is determined by the quality of landscape, building design and materials and public spaces. It also influences the functionality of the space.

Company space: the interior space, layout, design, and furnishings define the atmosphere and functionality of the work environment.

Mechanical systems: the comfort of the work setting is affected by the heating, ventilation and transportation such as elevators and escalators.

Information/Communication systems: the company's effectiveness and productivity is affected by the support the facility provides for communicating and processing information.

Ownership rights: rights that are obtained through the transaction including full ownership and short- and long-term leases have critical operating and financial implications.

Financing: How the financial commitments are paid and through what types of financial arrangement have important financial consequences.

Control: the presence of specific tenants in adjacent space can have important operating implications, which is why the degree of control over other types of use of the facility is of concern.

Risk management: several risks are associated with space occupancy among them is responsibility for employees and financial exposure to disaster. These risks and others have critical operating implications. Insurance is vital.

Operating decisions regarding CRE that are in conflict with the organization's overall business strategy might be made in the absence of an explicit CRE strategy (Nourse & Roulac, 1993). Just as important it is to take the organization's primary business strategy into consideration when specifying the CRE strategy, so also is it to consider the latter strategy when making a particular real estate decision.

3.2.3 Different CREM Strategies

Articulation of the business strategy is a precondition to formulating a real estate strategy that is derivative of the corporate business strategy (Nourse & Roulac, 1993). The strategic management literature offers several models and ways to think about corporate strategy. Michael Porter is broadly recognized for his framework about how competitive forces impact strategy (Porter, 1985a, 1985b). The purpose of the framework is to analyze and understand the competition in the market, on which the company competes. It also helps the company understand its current position on that market. The aim is to improve that position by developing and establishing effective strategies based on the identified competitive forces. The focus of the framework is the five competitive forces of threat of new entrance, threat of substitute products, bargaining powers of buyers, bargaining power of suppliers, and rivalry among current competitors. Established strategies must then be adapted to work at a detailed level within a company's different markets and product areas (Tregoe & Zimmerman, 1980). In order to develop strategies that are useful and possible to work with, companies must determine scope and limits for basic strategic decisions and relation between different decisions. The basic strategic decisions will form a framework for operational decisions such as deciding on what resources that are needed to achieve the company's strategic objectives. The idea behind this theory is that a company's most important activities, such as resources and strengths, always are directed toward the company's products and markets. All strategies must therefore be translated into the specifics of the organization's scope of products and market. It is important to realize that the driving force of a company may change over time due to changes in markets, the environment and other factors that determine a company's direction and competitive position. The specification of the scope of the products and markets is the basis for considering what physical facilities are needed to support the organization's strategy, and consequently the real estate strategy is needed to support the organization 's strategy.

Corporate Real Estate Strategies

When real estate is discussed in strategic management theory it is often limited to purchasing decision, especially with respect to locating the facility (Nourse & Roulac, 1993). The linkage between the real estate strategy and the overall business strategy is rarely discussed. Real estate resources are vital ingredients to the realization of a business purpose. Decisions regarding real estate, associated with an organization's business strategy, follow of consideration of such basic as: the contribution of real estate as an input to the production and service delivery function, the role geography plays in the business, the required amount of space per worker and the message the company wants to send by the image, external appearance and internal ambiance of its space to employees, suppliers, customers, the financial markets and the broader community in which the business is based. The appropriate real estate strategy or strategies is determined by the collection of corporate considerations including driving force, the generic strategies employed to implement that driving force, and the particular culture and values of the company. Nourse and Roulac (1993) have developed a CRE framework of strategies that encompasses how property decisions can be guided. The strategies are presented below.

- *Occupancy cost minimization*

This strategy implies the search for the lowest cost. It is important to distinguish if the company wants to be cost effective or is driven by low costs even at the expense of quality. The location of office bank operations in remote low cost places is an example. Security and comfort for the employees is required since these often are open around the clock, but prime space downtown in major cities at a very high rental is unnecessary. Such location should be saved for aspects of bank services that involve contact with customers.

- *Flexibility*

The life cycle of a production process or business is often not predetermined, which makes flexibility important to many organizations. Facilities that can readily be adapted to multiple uses are favored in this strategy. It is also important that other companies desire the location. If a company is producing a product short-term it is considered unnecessary to construct a special adapted building since such a building might be hard to sell.

- *Promote human resources objectives*

The retention and maintaining of skilled workers might require a particular location, certain quality of space and adjacent amenities. Companies with its own research and development department is dependent on a low employee turnover rate since the work is conducted over long time horizons and the recruitment of new employees can be costly and time consuming. This strategy can also be applied within the production industry, where the availability of favorable labor can determine the location of the business.

- *Promote a marketing message*

Corporate Real Estate Strategies

An organization can promote a marketing message through the physical image of the facility. This is a way to advertise and attract attention to the company's services and goods and to attract specific target groups. The communicated image can also serve as a symbolic statement.

- *Promote sales and selling process*

The location of shopping centers, hotels and supermarkets all belong to the *promote sales and selling process* category. Many large chains have established a network of store location to enhance sales and take business from the competition. The strategy is commonly used within retail and restaurants but also used by companies who want to state a cost-consciousness and a low price image in the choice of location and design of buildings.

- *Facilitate and control production, operations, service delivery*

The essence of this strategy is to combine ownership rights, finance, the design and layout, quality of facility and capacity in order to achieve greater efficiency or control of operations in alignment with the corporate strategy. The availability of necessary resources for the production of goods and services and the supply of efficient logistic channels often determine the business location. In order to facilitate control operations are located adjacent to each other. An illustration of this strategy is McDonalds who leases each restaurant to a franchisee. McDonald's, not the franchisee, chose new sites to conform to regional development plans and controls the image of the outlets. Collaboration between business units can be facilitated by workplace design.

- *Managerial process and knowledge work*

The selection of real estate is seldom based on an explicit consideration of facilitating the functions of managing the business effectively, profitability and progressively. Very little attention has been given to how the design of physical workspace for knowledge work complements the doing of knowledge work. The real estate strategy to facilitate managerial process and knowledge work explicitly addresses how to design structures that will complement the doing of knowledge work.

- *Capture the real estate value creation of business*

A business often creates value in surrounding property by its presence since it attracts new business as suppliers or customers. This strategy is about owning the surrounding land and profit from the increase in value or to obtain special lease discounts for occupying a particular space because of the external effect on an owner's profits. Thus, the strategy applies to both leases and owners of real estate. In the latter case, there is an expressed will to buy more land than necessary in order to profit from a future sale.

3.3 The Development of CREM

The objective of CREM departments is nowadays to provide companies with added value over competitors (Lindholm, 2008). This has not always been the case. In the beginning of 1930 several companies had established real estate departments due to a continuous need for accommodation and the absence of a professional real estate market (Krumm, 2001). In those days the known arguments for real estate departments were to control construction activities, guarantee the availability of skilled employees, create and maintain a corporate image through the architecture of the building and standardize building design. Since then the real estate profession has gone through radical transitions. The third part of the theoretical framework summarizes the development of CREM and is presented in Figure 9 below.

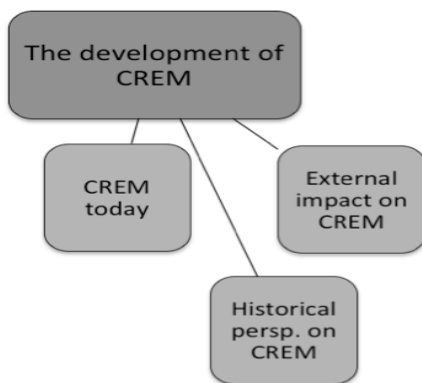


Figure 9. The Development of CREM.

3.3.1 CREM Today

Several titles exist for the persons in charge of a company's CRE (Ali et al, 2008). Examples include vice president, manager, director and a variety of specialists. The variation depends on the level of management and involvement in the long-term and short-term planning. According to Gibler, Black and Moon (2002) the involvement in long-term planning is not a common task for the CRE managers. The same situation is identified regarding co-ordination with other business units. Another issue is the communication (Brown and Arnold, 1993). The CRE manager's role continues to be operation oriented due to the fact that communication includes only the vice president of operation and not to the executive vice president or the president. Direct communication with the top management is commonly not more frequent than every six months. The problem regarding lack of planning involvement and infrequent contact with company management can be detected in the overall structure of companies (Pittman and Parker, 1989). From another point of view, the benefits of CREM are not effectively communicated to the rest of the firm (Andersen, 1993). If it were, the senior managers would take the information into consideration in business decisions. Also, the role of the CRE manager is pointed

out to be tough due to a complex objective function (Seiler et al, 2001). The CRE manager has several more parameters to take into consideration than the need to increase the company's wealth.

3.3.2 Historical Perspective on CREM

The role of CREM has changed dramatically (Krumm, 2001). A decade ago, the role was to provide the company with enough space. Today, the role is a strategic resource to the firm. The reason for this development is the paradigm shift in the business environment due to globalization and information technology (Ali et al, 2008). The requirements of the role are now more creative and proactive than ever. Several authors have identified the development in the area in their own way, connecting the changes in CRE with the development of the market and management in general.

Joroff et al. (1999) have identified five evolutionary stages regarding the development of roles for CRE organization (CREO). At the first stage, the role can be described as a taskmaster (Ali et al, 2008). The taskmaster's main function was to provide the company with appropriate buildings. In order to be a good taskmaster, the main competence should be within the technical field of building engineering. The second stage was identified as a controller and followed by the dealmaker role in the third stage. The dealmaker's challenges were to optimize the buildings for a specific company by making the buildings standardized and so forth. In the fourth stage, the CREO was identified as an entrepreneur. In the last stage, the role of the CREO was identified as a strategist supporting the company to reach its objectives.

Instead of stages, Roulac (2001) described the development of the role with different eras. The first era is named "Custodial era" and held the physical maintenance as the main issue (Ali et al, 2008). This is followed by the "Entrepreneurial era" where the CRE has a more profit seeking role. This followed by concern regarding efficiency among management and an administrative era took over. In this area a cost minimization was most important and thereby outsourcing of real estate services became a natural choice for many companies. In the fourth era, differentiation, growth and change within companies made it important to develop effective systems for real estate processes and services. The last and current era is strategic. In this era creative and proactive is the most important characteristics identified because of the importance of real estate to form a productive environment for the company to operate in. Both Joroff et al and Roulac' approaches holds the impact from internal factors and the management as the main influence factors.

O'Mara (1999) had another approach on the development of CRE management regarding the shifts in mindset as a consequence of changes in external factors. In the 1970s there was an existing undersupply of real estate and the main task for the

CRE manager was to estimate the value of real estate, which resulted in a market oriented mindset. In the late 1980s and early 1990s the market reached a period of downsizing within operational business, which resulted in a cost-minimizing mindset. The last and also the current mindset is strategic. In order for a company to be successful in today's competitive market, the CRE to be a strategic resource as well.

3.3.3 External Impact on CREM

External impact affects a company's strategies, which in turn is likely to affect the management and performance of CRE. Forces that in different ways and to various extents affect today's companies are described in this section.

Hypercompetition

Hypercompetition displays a different situation from the prevailing during perfect competition, where advantages are sustainable (D'Aveni, 1998). Instead of adjusting the firm to the perfect competition, the company should take actions to disrupt the market. Hypercompetition opens up the possibility for companies to achieve temporary advantages by actively destroying their own as well as their competitors' advantages by a so-called "creative destruction". The result is an uncertain, faster and more aggressive market. The 7-s framework, also by Richard D'Aveni (1998), demonstrates how companies can build temporary competitive advantages. The seven s' are: providing stakeholder satisfaction, positioning for speed, positioning for surprise, engaging in strategic soothsaying, signal strategic intent, shift the rules of the game and make sequential strategic thrust.

Resource-based View

The resource-based view suggests that an organization should focus on its internal resources and make them unique and inimitable (Barney, 1995). Inimitable resources are a result of the knowledge and the processes in the company. Through these resources, the company can develop capabilities and compete for advantage against other players on the market. From this perspective, the learning in the organization is the source for innovation and building of capabilities that are invisible or hard to imitate for competitors (Too et al, 2010). If a company is successful in this process, they can achieve a competitive advantage.

Globalization

Globalization is changing the way business is conducted (Too et al, 2010). Companies used to act only at their local market and needed to know only the demands of that specific market. Now, as companies act globally, knowledge about several markets is essential. For almost every procedure in the company the mindset needs to be changed in order to fit in to a global market. For CRE managers, all managers for that matter, this means a need to think globally but to act locally. Global CRE may be undeniable to companies due to the fact that other companies

might enter their home market, making the competition global. Three factors are driving the development of globalization of CRE (Too et. al, 2010):

- *Economic factors*
Local differences in terms of land regulations and taxations make some market more attractive than others. Estimation claims that 85 percent of the population will live in emerging economies. This will also increase commercial activities in those regions.
- *Political factors*
Deregulation of capital, personnel and raw material flow has given companies confidence to expand and thereby stimulated regional integration.
- *Technological factors*
The cost of long-distance communication has decreased rapidly, making it possible to work effectively in company located in several countries.

The global marketplace has led to an environmental turbulence, which has created a new form of competition, a hyper-intense sort of rivalry (D'Aveni, 1998). The hypercompetition emerged and changed the view of competitive advantage. Instead of building and defending a sustainable competitive advantage, companies should focus on generating a flow of temporary advantages. For CRE the effects of the new phenomenon seem to be that the companies need to:

“Focus on their core CRE competences as a flexible means of global networking to apply it more or less transitory arrangements with other firms to enhance learning and better serve their markets” (D’ Aveni, 1998).

To cope with a rapidly changing and unpredictable business environment companies have to integrate their tangible and intangible capabilities in order to achieve competitive advantage (Teece et al, 1997). The resulting capability is known as dynamic capability. To cope with a fast changing and unpredictable business environment on a global basis so called global dynamic capabilities are essential. This kind of capability is combined of resources that are hard to imitate and includes an effective management of relationships throughout the whole global organization (Too et al, 2010). A company that are effective and constantly developing and reconfiguration of global dynamic capabilities can achieve advantage, possibly even in a long-term perspective.

Cope with External Impact

Several authors have identified the importance of a connection between CRE and business strategy. Real estate must be a flexible asset in order to support a company’s business strategy in a changeable business environment (Nourse &

Roulac, 1993). When companies enter a global market with hypercompetition, the CRE will become a central part to reach competitive advantage (Too et al, 2008). The argument is rational for two reasons. The first reason is that CRE is hard for competitors to imitate due to its intangible nature. The second reason is that there is still a lot of companies that don't take their CRE resource into consideration when their competitive strategy is developed. Therefore, development of three CRE capabilities is essential in order to cope with globalization and hypercompetition:

- *Flexibility capability*

In an environment with accelerating rate of change the organizational platform needs to be flexible to make quick transformation of the company possible. This seems to be the future every company has to face (D'Aveni, 1998). Therefore, it is essential for companies to build a strategic real estate portfolio (Too et al, 2008).

- *Network organization capability*

In the globalization of companies' home-markets a way to reach other markets is through some sort of merge between companies located in different regions (Too et al, 2008). The phenomenon has become more common and many strategic alliances and joint ventures can be identified in today's marketplace. The concept is not only a way to rapid expansion and achieve economies of scope, it can also be a way to handle real estate for a company globally. Cooperative real estate relationships radically changes the needs and demands on real estate in global companies. This allows companies to minimize capital spent on real estate at the same time as they can benefit from strategic stability and flexibility.

- *Managerial learning capabilities*

It has been agreed that the circumstances of globalization and hypercompetition is a greater demand for mobility for companies (Thomas & D'Aveni, 2004a). This is also the situation for CRE and therefore real estate managers' needs to change the ways of organizing real estate (Too et al, 2008). They need to acquire knowledge and competence in how to handle these shifting demands of real estate. They need to know when to respond to organizational changes and how to do it.

As mentioned, CRE is commonly considered to be a physical asset on a company's balance sheet (Too et al., 2008). Managers need to identify both their tangible and intangible CRE assets usable as capabilities. The capabilities that enable companies to survive and compete in the global hypercompetitive business environment that they are facing today are most important. These include flexibility, CRE network with partnering organization and the learning of managers. It has been identified in a survey that only 50 percent of the studied companies understood what CRE flexibility means (Wills, 2008). Taking the ignorance of the CRE capabilities into consideration, the companies that do know and understand the value could easily achieve competitive advantage (Too et al, 2008). For a company to be able to

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develop CRE capabilities the senior management must recognize the strategic importance and request a shift in mindset and management.

4 Empirical Research

The empirical research is the foundation of the study. It is with help of the research that a contribution to existing theories can be made. The empirical research is of both quantitative and qualitative character. In the search for relevant information a questionnaire was distributed to about 200 respondents. In this chapter the questionnaire statistics is presented. Qualitative data has been collected partly through the questionnaire but also through in-depth interviews via telephone or email. The result of the qualitative data collections is also presented in this chapter.

4.1 Results from Questionnaire

The results from the questionnaire are presented below. Discussions about findings can be found in the next chapter. The results are presented both for the entire respondent group and for each industry category. Some questions have only quantitative answers while others have been supplemented with qualitative data.

4.1.1 The Value Adding Potential of CREM

- *Have you noticed an increased interest in CRE over the last five years?*

The awareness of CRE importance has increased over the past five years, according to Swedish companies. This is true for the entire respondent group but patterns differ between industries. In the retail sector the proportion of companies that agree with the increased interest is as high as 84 % meanwhile only 46 % of the production category agree. The difference between industries can be viewed in the Figure 10 below.

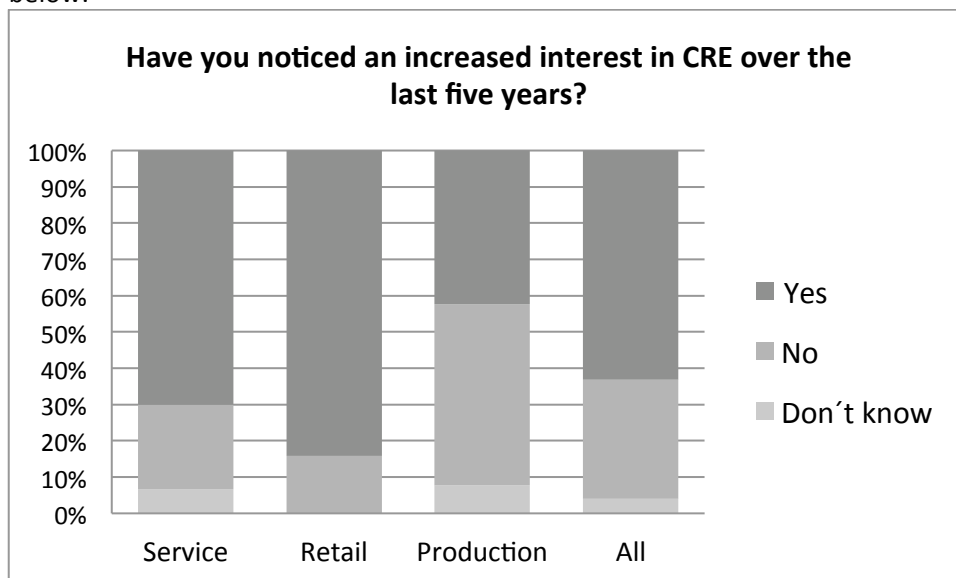


Figure 10: Increased Interest.

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- *Can you describe the company's CRE strategy?*

Several companies within the retail industry are focusing on their core competencies:

"Our core business is to provide a good and rational network of stores and we always strive to be the tenant, no matter how much profit the property can generate. We have no organization that can handle a large portfolio of owned real estate. Historically, we owned about 100 facilities but these were sold off a few years ago since owning real estate is not our core business"
(Retail Company)

"We are not a real estate company – we sell cars. Therefore are we leasing rather than owning our facilities"
(Retail Company)

"Our core business is commerce, not to acquire and manage real estate. Our strategy is therefore to lease our stores"
(Retail Company)

Other, see potential in owning real estate:

"We own until the balance sheet does not tolerate more properties without affecting KPI's negatively"
(Retail Company)

Planned occupancy duration is an important part of some companies' CRE strategy:

"Owning long term and leasing short term"
(Service Company)

"We will own real estate that have development potential and lease real estate has matured"
(Retail Company)

Not all companies have a CRE strategy:

"We do not have a clear real estate strategy but we have two people from purchasing who work with real estate issues. The primary task is to pay as little as possible for used space"
(Service Company)

Some are currently working on a CRE strategy:

"We are working hard on one that must be completed in Q2 2012"

(Service Company)

A service company implies that the CRE trend within the service industry is to lease. Other service companies support this trend by stating that they will continue to lease in the future. One production company stated that:

“Owned properties is usually a consequence of acquisitions and therefore hard to predict. However, it is not likely that we will acquire real estate in other ways”

- Are decisions regarding owning or leasing made centralized?

Out of all respondents, 91 % claims that the decision to own or lease CRE is made at the top of the organization hierarchy i.e. the decision making is centralized. The result for each industry can be seen in Figure 11 below.

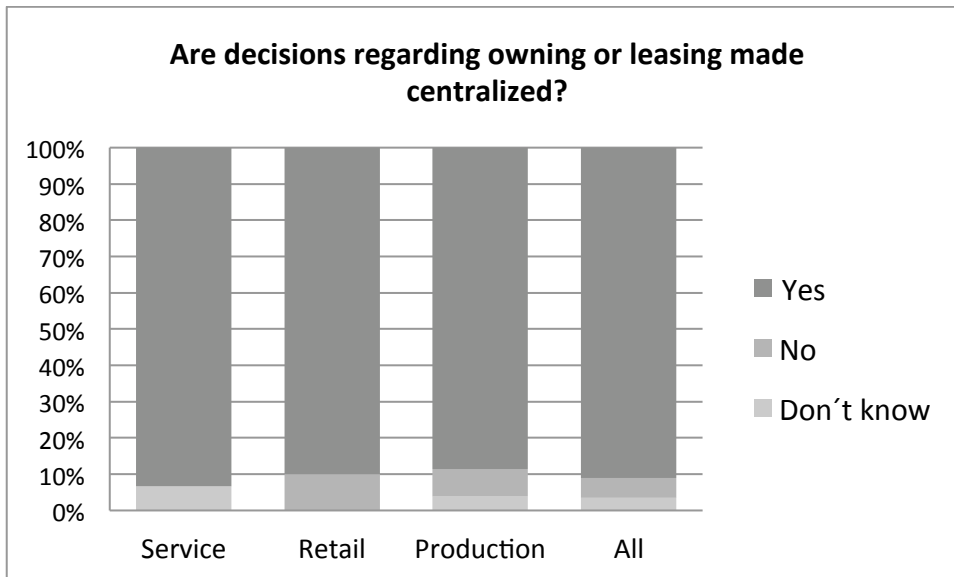


Figure 11: Centralized Decision Making.

- Does your company have a CRE manager?

Almost three quarters of all respondents (73 %) has a CRE manager. For service and retail the proportion is higher, 80 % and 89 % but for production it is lower (58 %) compared the overall result. The results can be seen in Figure 12 below.

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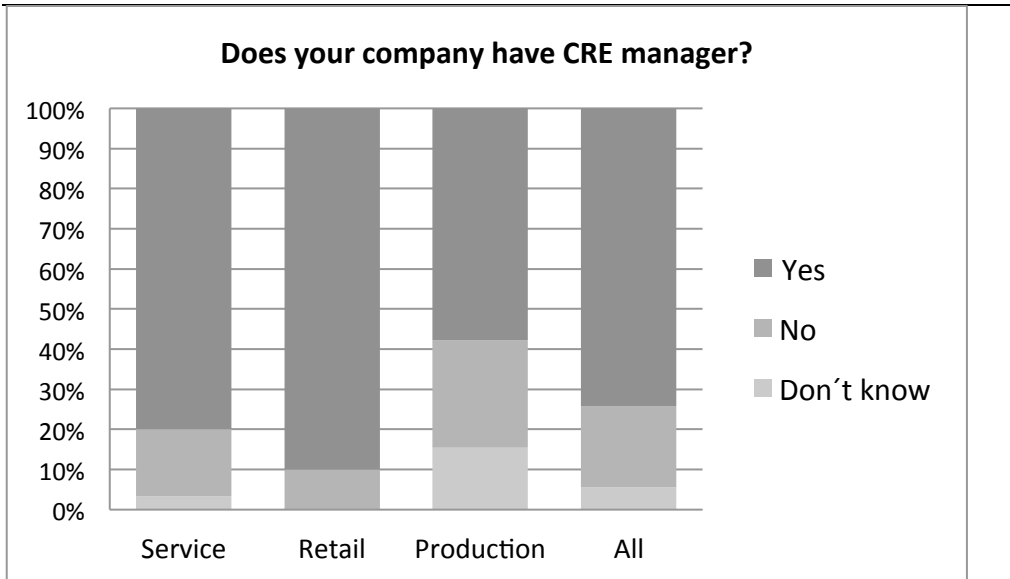


Figure 12: CRE Manager.

- Does the CRE department/corporate real estate manager report directly to company management?

The proportion of respondents who claims that the CRE department or CRE manager reports directly to the company management amounts to 72 %. As much as 89 % of the retail respondents state that they do report directly to the company management. Lower numbers can be identified within production and service, 62 % for them both. The answers are shown in Figure 13 below.

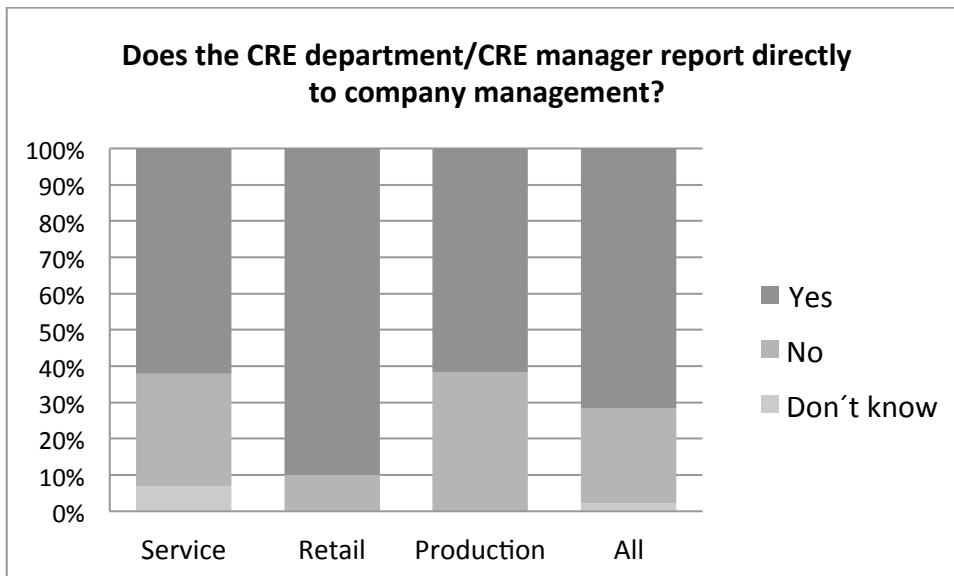


Figure 13: Reporting to the Company Management.

Correlation between having a CREM strategy and size of real estate

All companies that own more than 500 000 square meters facility area claim to have a CRE strategy. Out of the companies that own between 50 000 to 500 000 square meters 75 % claim to have a CRE strategy. Below 50 000 square meters only 58 % of the companies have a CRE strategy. The answers are illustrated in Figure 14 below.

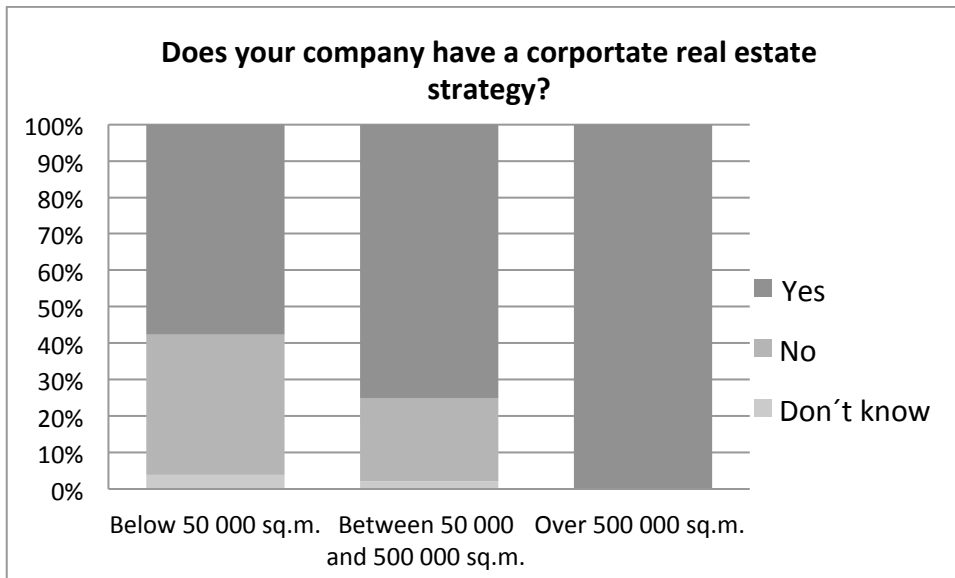


Figure 14: Correlation between Strategy and Size of CRE.

4.1.2 CREM Strategies

– *Does your company have a CRE strategy?*

Out of all respondents 73 % claim to have a CRE strategy. For service and retail, the proportion is 83 % and 79 % respectively. The number is lower for the production industry (61 %). All results are shown in Figure 15 below.

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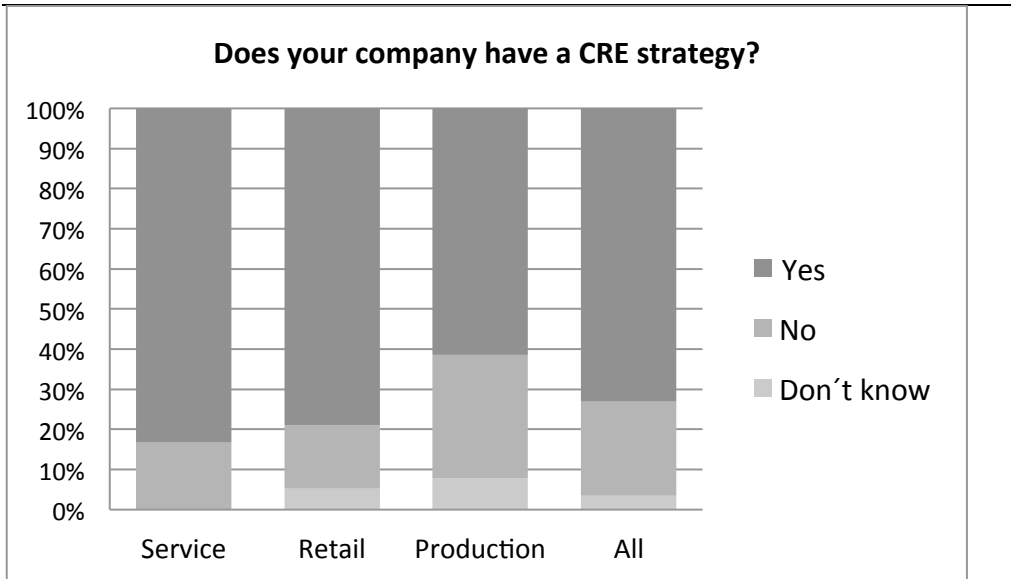


Figure 15: CRE Strategy.

- Does your company own or lease a greater share of the total real estate area?

Regardless of type of premises, 63 % of the respondents answered that they lease more real estate than they own, 34 % own more and 4 % do not know. In the service industry, 85 % lease more than they own and only 11 % state the opposite. In retail, 79 % lease more and 21 % own more. In the production industry on the other hand, 66 % own more, 10 % own and lease about the same proportion and 24 % lease more. All proportions are showed in Figure 16 below.

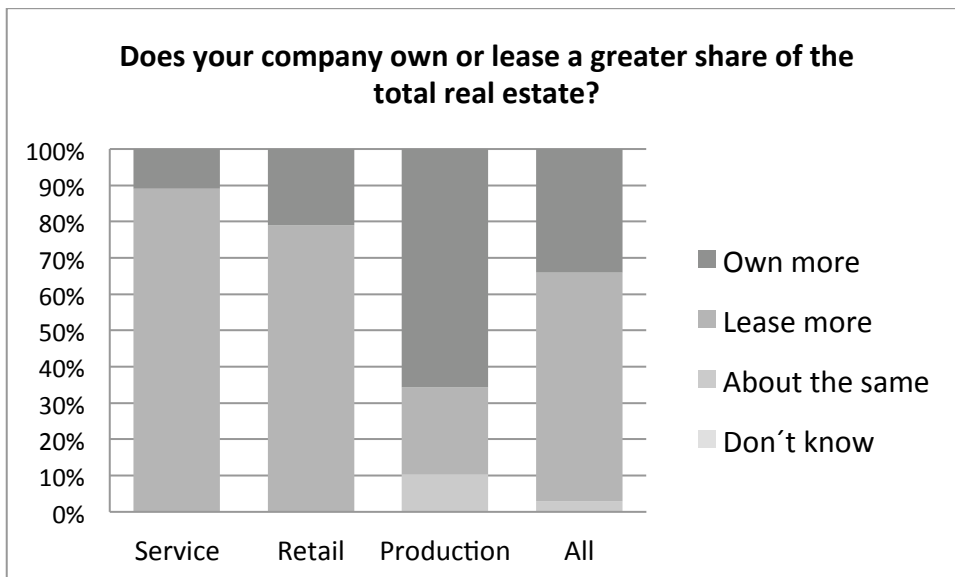


Figure 16: Owning or Leasing CRE?

Comparison between industries regarding the choice to own or lease a specific type of premises will be investigated below.

Office space

Out of all respondents, 31 % say they own a greater share and 67 % lease more. Out of service companies, 91 % lease the majority and 9 % own more. In contrast, 52 % of the production companies own more and 45 % lease more. For retail, the proportion for owning more is 35 % and leasing 59 %. All proportions are showed in Figure 17 below.

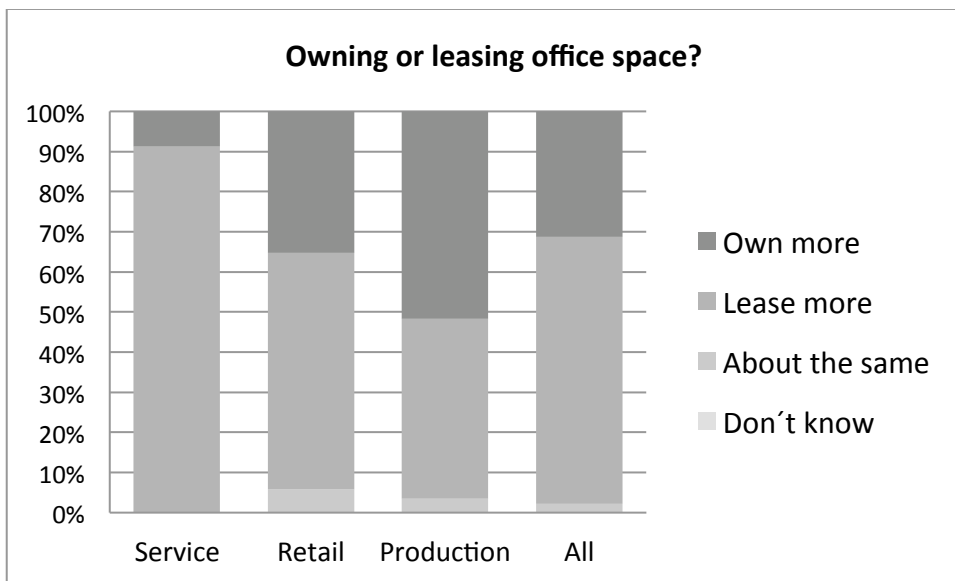


Figure 17: Office Space.

Warehouse

When it comes to warehouses, 41 % of all respondents own more and 56 % lease more. In the service sector, 83 % lease more of their warehouses and 17 % own more. In the production sector, it is more common to own (56 %) than to lease (37 %). In retail, 59 % own and 41 % lease. All proportions are showed in Figure 18 below.

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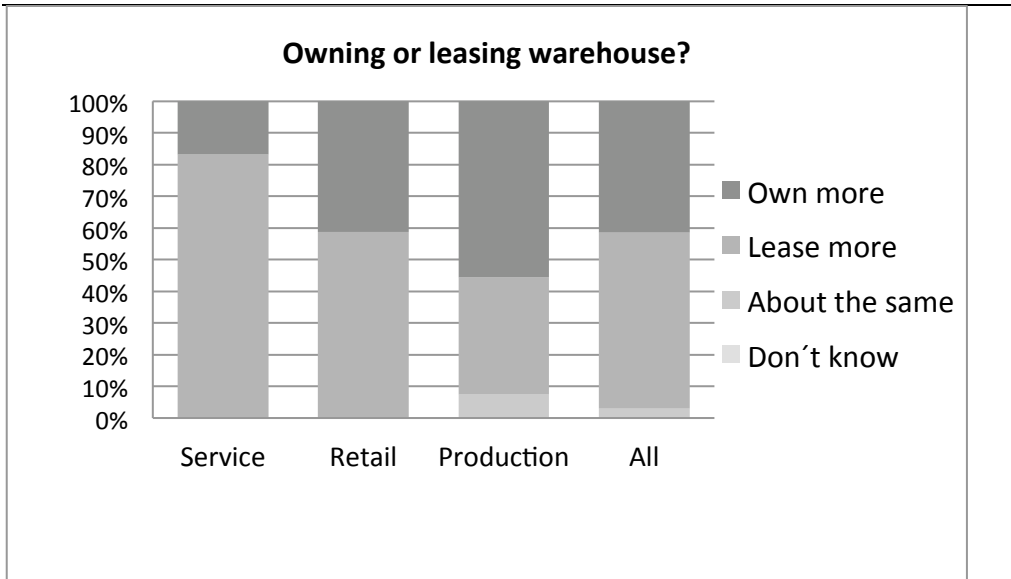


Figure 18: Warehouse.

Production space

When it comes to production spaces, the result for all respondents shows that it is more common to own (58 %) than to lease (40 %). In the service sector, leasing represent the greatest share with 73 % and owning only 27 %. The opposite is identified for production companies, where 81 % own more and only 15 % lease more. In the retail sector, 80 % lease more and 20 % own more. All answers are presented in Figure 19 below.

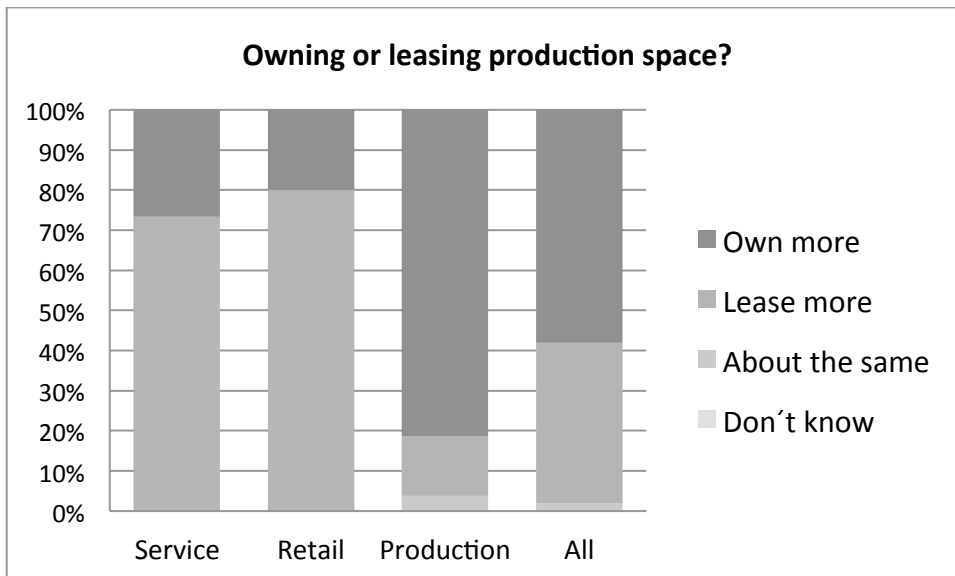


Figure 19: Production Space.

Service space

Out of all respondents, it is somewhat more common to lease than to own service space (59 % vs. 36 %). Also in this regard, service companies lease a greater part (82 % vs. 18 %). For production companies the situation is reversed, 69 % own more and only 12 % lease more. In retail, 73 % claims to lease more and 27 % to own more. All answers are presented in Figure 20 below.

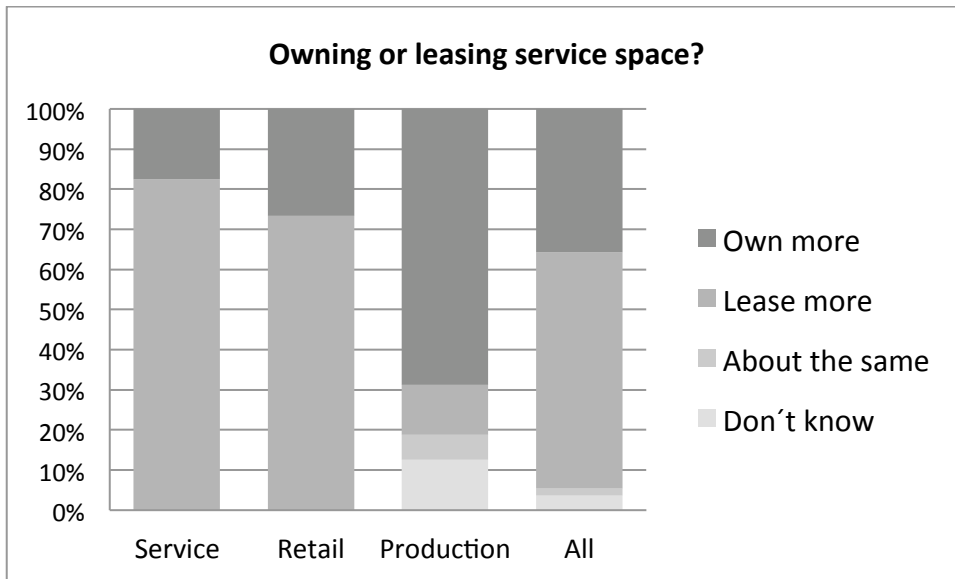


Figure 20: Service Space.

- *Is there a correlation between type of premises and the choice to own or to lease?*

"No correlation, we are leasing all real estate"
(Retail Company)

"Our strategy is to have a lean balance sheet and it is applied on all types of facilities. We are therefore leasing all types of properties"
(Service Company)

The quotations above are good examples of the most frequent answer when respondents were asked whether any correlation exists between owning or leasing and type of facility. Several companies answered that their strategy is to lease real estate, regardless what type of building the decision concerns. Only seven companies suggested a correlation between strategy and facility type. Six of them belong either to the retail or the production category. The seventh company belongs to the category called other. Two retail companies both own warehouses and lease service space. One of the two also owns office space. Production companies that

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implied a correlation tend to own production space and lease offices and warehouse.

Rationales for owning

The ranking of rationales for owning CRE are presented in Table 1 below. The impact value very small was merged with small impact and large was merged with very large in order to simplify the process of identifying how important companies view each parameter. The identified value, either none, very small and small, large and very large or don't know, with the largest share of the responding companies are highlighted in bold with yellow background.

Table 1: Rationales for owning CRE within all industries.

Impact in all industries:	None	Very small	Small	Large	Very large	Don't know
Parameter:						
Plenty of appropriate real estate to buy	47%	16%	10%	5%	2%	21%
Inadequate supply of appropriate real estate to lease	40%	8%	12%	17%	4%	19%
A good investment	40%	6%	9%	17%	9%	20%
Company policy	16%	2%	7%	20%	37%	18%
Capital availability	35%	7%	11%	18%	8%	21%
Consequence of acquisition	30%	10%	31%	18%	11%	19%
Control (independence of third parties)	41%	8%	8%	10%	14%	19%
Accounting regulations	43%	10%	13%	6%	1%	27%
Planned occupancy duration	30%	6%	8%	16%	21%	19%
Tax effects	36%	16%	19%	5%	0%	25%
Security for loans	47%	10%	15%	5%	1%	23%
Company tradition	22%	4%	12%	24%	17%	21%
Amount of space needed for the business	27%	8%	14%	14%	20%	20%
Operational requirements on real estate	31%	6%	19%	19%	14%	20%

As can be seen above, five parameters stand out regarding the importance: *Company policy*, *Planned occupancy duration*, *Company tradition*, *Amount space needed for the business* and *Operational requirements on real estate*. All other parameters are by the majority acknowledged to have no impact at all. Note that there is a large amount of companies who are not able to state to what extent a single parameter is influencing the decision. What rationales that impacted the decision to own CRE is very varying from one company to another, which is noticeable. Some differences between the industries can be identified.

Service

In the service industry the only two parameters that seem to have a large impact are *Company policy* and *Panned occupancy duration*. All results for the service sector are presented in Table 2 below.

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Table 2: Rationales for owning CRE in the service industry.

Impact in Service industry:	None	Very small	Small	Large	Very large	Don't know
Parameter:						
Plenty of appropriate real estate to buy	48%	14%	3%	7%	0%	28%
Inadequate supply of appropriate real estate to lease	45%	3%	7%	17%	0%	28%
A good investment	48%	3%	7%	14%	0%	28%
Company policy	21%	0%	7%	10%	38%	24%
Capital availability	45%	7%	3%	10%	0%	34%
Consequence of acquisition	45%	7%	3%	14%	3%	28%
Control (independence of third parties)	48%	7%	10%	3%	0%	31%
Accounting regulations	52%	7%	3%	3%	0%	34%
Planned occupancy duration	38%	3%	3%	14%	17%	24%
Tax effects	45%	14%	7%	3%	0%	31%
Security for loans	55%	3%	14%	0%	0%	28%
Company tradition	29%	4%	7%	18%	14%	29%
Amount of space needed for the business	38%	3%	10%	10%	10%	28%
Operational requirements on real estate	45%	3%	7%	14%	3%	28%

Retail

In retail there are a several parameters that have a large impact. Out of these the most important parameters seem to be *Company policy*, *Control* and *A good investment* since these are claimed by 75 %, 50 % and 44 % to have a large/very large impact. For all parameters, see Table 3 below.

Table 3: Rationales for owning CRE in the retail industry.

Impact in Retail industry:	None	Very small	Small	Large	Very large	Don't know
Parameter:						
Plenty of appropriate real estate to buy	50%	6%	13%	13%	6%	13%
Inadequate supply of appropriate real estate to lease	50%	13%	19%	6%	0%	13%
A good investment	31%	6%	6%	13%	31%	13%
Company policy	13%	0%	6%	25%	50%	6%
Capital availability	31%	6%	19%	13%	25%	6%
Consequence of acquisition	25%	19%	6%	13%	25%	13%
Control (independence of third parties)	31%	13%	0%	19%	31%	6%
Accounting regulations	44%	13%	0%	19%	0%	25%
Planned occupancy duration	31%	19%	6%	19%	13%	13%
Tax effects	38%	19%	19%	6%	0%	19%
Security for loans	44%	19%	13%	0%	6%	19%
Company tradition	31%	6%	13%	13%	25%	13%
Amount of space needed for the business	38%	6%	13%	13%	19%	13%
Operational requirements on real estate	38%	0%	13%	19%	19%	13%

Production

In the production industry the situation is even more complex. Several parameters seem to have a significant impact, although the values of the impact are widely varying. For example, the parameter *Inadequate supply of appropriate real estate to lease* are by 23 % stated to have a large impact, although 23 % don't know about the impact and another 23 % says there is no impact connected with that specific

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parameter. The four parameters that received the highest proportion of respondents for the value large impact/very large impact are *Amount of space needed for the business* (59 %), *Operational requirements* (52 %) and *Company policy/Consequence of acquisition* (45 %). All the parameters are shown in Table 4 below.

Table 4: Rationales for owning CRE in the production industry.

Impact in Production industry:	None	Very small	Small	Large	Very large	Don't know
Parameter:						
Plenty of appropriate real estate to buy	31%	27%	15%	0%	4%	23%
Inadequate supply of appropriate real estate to lease	23%	8%	12%	23%	12%	23%
A good investment	31%	12%	12%	19%	4%	23%
Company policy	11%	7%	11%	15%	30%	26%
Capital availability	11%	11%	15%	26%	11%	26%
Consequence of acquisition	7%	0%	30%	30%	15%	19%
Control (independence of third parties)	22%	11%	11%	7%	26%	22%
Accounting regulations	19%	15%	30%	4%	4%	30%
Planned occupancy duration	12%	4%	15%	19%	23%	27%
Tax effects	15%	22%	22%	7%	0%	33%
Security for loans	31%	15%	12%	12%	0%	31%
Company tradition	8%	4%	23%	27%	12%	27%
Amount of space needed for the business	7%	4%	4%	26%	33%	26%
Operational requirements on real estate	11%	4%	7%	26%	26%	26%

– *Is there any other parameters affecting the choice to own?*

Concerning factors that impact the decision to own real estate, not many additional factors were mentioned. A production company stated possession of land as a reason why the company owns real estate. Some companies, also within the production industry, pointed out that activities are performed in “old buildings that have been around since the business started” i.e. company tradition. Except the possession of land factor no other impact factors were added to the list when it comes to owning real estate. However, several of them were highlighted:

“Often own special adapted buildings”
(Production Company)

“Our industrial real estate is an important part in our production and it is important that we keep track of everything. Therefore we own the production space”
(Production Company)

A majority of all retail companies lease a greater share of the CRE portfolio. One retail company in particular stands out:

“A very long-term investment horizon makes the direct ownership most profitable over time. The company owns all the property it requires for its

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operations”
(Retail Company)

Rationales for leasing

The most important parameters for all respondents are *Focus on core business* and *Flexibility*. Both of these parameters are claimed by 64 % to have a large/very large impact. The largest proportion of the respondents also claimed that the following rationales have a large impact/very large impact: *Avoid capital tied up*, *More efficient using third parties for management of real estate*, *Company policy*, *Planned occupancy duration* and *Amount of space needed for the business*. The other parameters are by the largest share of companies said to have no impact at all. Note also that a large share of the respondents is not able to quantify the parameters at all. All of the proportions can be viewed in Table 5 below.

Table 5: Rationales for leasing CRE within all industries.

Impact in all industries:	None	Very small	Small	Large	Very large	Don't know
Parameter:						
Avoid tied up capital	12%	6%	12%	38%	21%	10%
Lack of capital available	40%	15%	22%	10%	1%	13%
Insufficient supply of real estate to buy on desired location	44%	14%	13%	12%	3%	15%
More efficient using third parties for management of real estate	18%	12%	17%	26%	14%	13%
Flexibility	12%	3%	13%	36%	28%	9%
Focus on core business	8%	5%	16%	25%	39%	8%
Company policy	10%	5%	12%	29%	32%	13%
Planned occupancy duration	24%	6%	16%	23%	20%	12%
Accounting regulations	39%	11%	11%	2%	2%	34%
Company tradition	26%	17%	15%	17%	11%	14%
Amount of space needed for the business	24%	9%	15%	22%	16%	15%

Service

In the service sector, companies state that *Focus on core business* (74 %), *Avoid tied up capital* (74 %) and *Company policy* (68%) have a large/very large impact when deciding to lease CRE. *Company tradition* also gets a relatively large proportion on large impact, but is by the same amount (slightly more than a fifth) considered to have no impact at all. All of the results are shown in Table 6 below.

Table 6: Rationales for leasing CRE in the service industry.

Impact in Service industry:	None	Very small	Small	Large	Very large	Don't know
Parameter:						
Avoid tied up capital	3%	9%	3%	41%	28%	16%
Lack of capital available	35%	13%	16%	16%	0%	19%
Insufficient supply of real estate to buy on desired location	45%	13%	13%	10%	0%	19%
More efficient using third parties for management of real estate	20%	3%	10%	37%	17%	13%
Flexibility	16%	0%	10%	35%	29%	10%
Focus on core business	10%	0%	6%	32%	42%	10%
Company policy	6%	0%	10%	23%	45%	16%
Planned occupancy duration	23%	0%	17%	20%	30%	10%
Accounting regulations	39%	10%	13%	0%	0%	39%
Company tradition	23%	16%	10%	23%	16%	13%
Amount of space needed for the business	26%	3%	16%	19%	19%	16%

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Retail

In the retail sector, 84 % of the companies say that the parameter *Company policy* has a large/very large impact. This parameter is followed by *Avoid tied up capital* (79 %) and *Focus on core business* (73 %) when it comes to having a large/very large impact. The importance of the factor *More efficient using third parties for management of real estate* is widely varying: one fifth consider the parameter to have no impact at all, one fifth consider it to have small impact, one fifth consider it to have a large impact and one fifth consider it to have a very large impact. All the results are shown in Table 7 below.

Table 7: Rationales for leasing CRE in the retail industry.

Impact in Retail industry:	None	Very small	Small	Large	Very large	Don't know
Parameter:						
Avoid tied up capital	16%	0%	0%	63%	16%	5%
Lack of capital available	37%	21%	21%	16%	0%	5%
Insufficient supply of real estate to buy on desired location	53%	16%	16%	0%	11%	5%
More efficient using third parties for management of real estate	21%	11%	21%	21%	21%	5%
Flexibility	16%	5%	16%	16%	42%	5%
Focus on core business	16%	0%	11%	26%	47%	0%
Company policy	16%	0%	0%	42%	42%	0%
Planned occupancy duration	42%	11%	11%	26%	5%	5%
Accounting regulations	47%	11%	11%	0%	5%	26%
Company tradition	47%	11%	11%	11%	11%	11%
Amount of space needed for the business	42%	16%	0%	16%	16%	11%

Production

Regarding rationales for leasing, the production industry shows a complex situation. No parameter gets the highest proportion on very large impact, but the three most commonly stated parameters to have a large/very large impact are *Flexibility* (58 %), *Amount of space needed for the business* (49 %) and *Focus on core business* (44 %). *Avoid tied up capital* and *Insufficient supply of real estate to buy on desired location* is stated to have a large impact by at least one fifth, but also stated to have small impact or no impact at all by another fifth. All of the results are shown in the Table 8 below.

Table 8: Rationales for leasing CRE in the production industry.

Impact in Production industry:	None	Very small	Small	Large	Very large	Don't know
Parameter:						
Avoid tied up capital	15%	11%	26%	26%	11%	11%
Lack of capital available	30%	19%	30%	4%	4%	15%
Insufficient supply of real estate to buy on desired location	22%	19%	11%	22%	4%	22%
More efficient using third parties for management of real estate	11%	22%	26%	15%	4%	22%
Flexibility	4%	4%	19%	50%	8%	15%
Focus on core business	30%	11%	0%	22%	22%	15%
Company policy	8%	15%	19%	27%	8%	23%
Planned occupancy duration	15%	7%	19%	26%	11%	22%
Accounting regulations	26%	19%	15%	7%	0%	33%
Company tradition	19%	15%	26%	11%	7%	22%
Amount of space needed for the business	7%	7%	15%	30%	19%	22%

- *Is there any other parameters affecting the choice to lease?*

The respondents were also asked if other factors than those listed in the questionnaire impact the decision to own or lease real estate. Uncertain future facility needs, temporary needs and lack of competence to handle a large portfolio of owned real estate was mentioned as reasons to lease. A retail company also mentioned that it had taken over lease contracts in acquisitions. Many companies emphasized location as an important influence factor:

“Retail space is better to lease because of its dependence on venues and trade routes that can change quickly. A new shopping center can make the former location empty and unattractive”

(Retail Company)

“Our CRE strategy is entirely dependent on locations. Our business is all about good location.”

(Retail Company)

“Our strategy is to lease all stores to be able to move to a better location when the contract has ended”

(Retail Company)

Notable is that one production company stated tradition as the main reason why the company leases its real estate:

“We have leased our facilities for over 100 years”

(Production Company)

4.1.3 Development of CREM

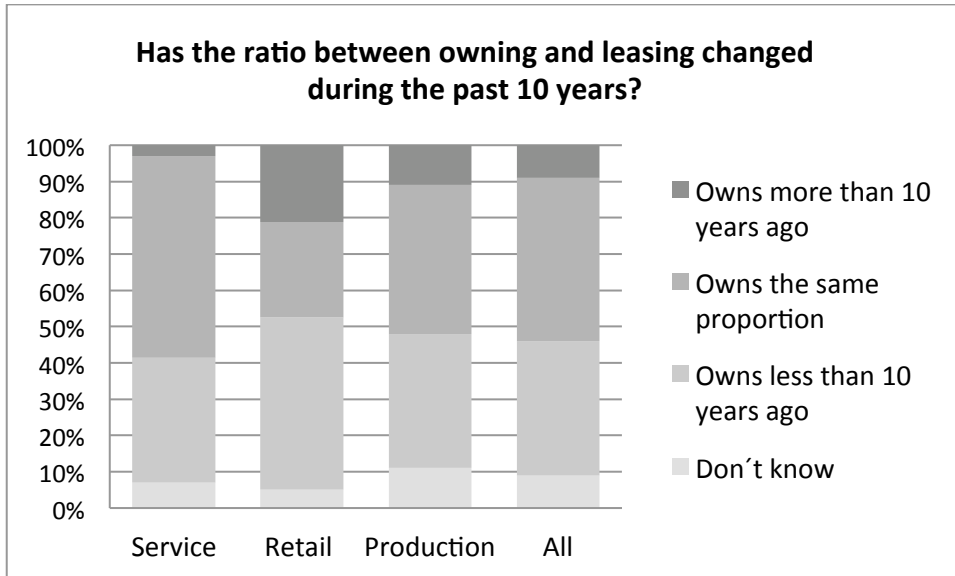


Figure 21: Changes in Owning and Leasing CRE.

As can be seen in Figure 21, of all respondents only 9 % state that they own more than ten years ago, most of the respondents own about the same proportion as ten years ago (45 %) and almost the same amount of companies own less than they did ten years ago (37 %). In retail, 21 % owns more, 26 % the same proportion and 47 % less than ten years ago. The production industry shows the same proportions as the whole group almost exactly (11 % more, 41 % the same and 37 % less). In service, only 3 % owns more than ten years ago, 55 % the same proportion and 34 % less than ten years ago.

For all respondents, regarding the future, 14 % thinks they will own more, 17 % less, 10 % don't know and more than the majority (59 %) thinks they will own the same proportion. This can be seen in Figure 22 below.

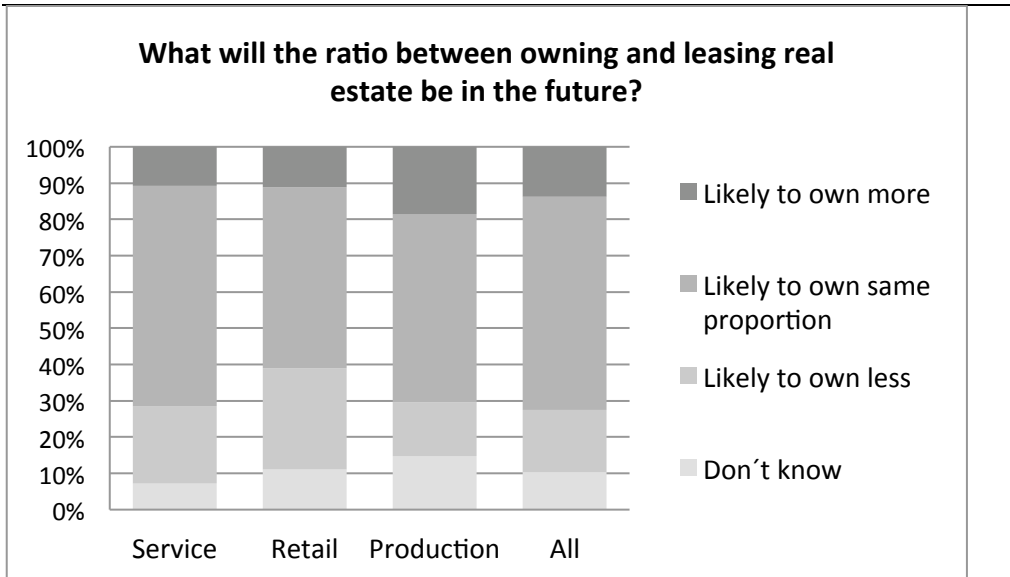


Figure 22: Future Ratio Between Owning and Leasing CRE.

The result is similar in different industries. The majority thinks they will own the same proportion in all of the respondent groups. An interesting identification in retail is that 28 % believe that they will own less than today although 21 % said that they own more today than ten years ago. 11 % thinks they will own more, 50 % the same proportion and 11 % don't know. In production, the majority (52 %) believe that it is likely that they will own the same proportion in the future. 18 % are likely to own more, 15 % to own less and 15 % don't know. In the service sector it is more likely that companies will own less than more in the future (21 % compared with 11 %). More than the majority of the service companies (64 %) believe that they will own the same proportion and 7 % don't know.

The respondents were also asked whether the CRE strategy is the same internationally as nationally and the result showed that 35 % of all asked companies did not know, 27 % said no and 37 % said yes. The differences between industries was very small, the only thing worth mentioning was that in retail, almost 50 % claimed to have the same CRE strategy internationally.

4.2 In-depth Interviews

In seeking further understanding of companies view on and strategy for CRE, a few respondents were asked to answer six open type questions. The chosen respondents all showed a high interest for the topic and represent the three largest industry categories based on response rate: service, production and retail. Two respondents, representing different companies, from each category were interviewed. A short presentation of the companies is followed by the interview questions and answers per industry category.

Service

The two companies from the service industry that were interviewed provide entirely different services. One company (Service Company A) has over 100 training centers in the Nordic region and about 250 000 members. The other company (Service Company B) offers vehicle inspection on the Swedish market. Due to their differences they compete on completely different markets, the vehicle inspection market was for example characterized by monopoly until 2010. The two companies do not compete for the same customers and the activities they perform require different type of facilities. Thus, the two service companies are likely to have different CRE needs. One company is primarily leasing real estate while the other company owns a larger share of its real estate. (Questionnaire)

Production

The first production company (Production Company A) is a global player in personal care products. The respondent that was interviewed represents the company in a certain geographical area and not the entire company. The company is leasing a majority of its real estate in that specific area. The other company (Production Company B) is a high-technology engineering group with advanced products within mining, construction and other areas. The company owns three quarters of the facility area.

Retail

The first retail company (Retail Company A) has over 2000 stores of which about 1400 are on the Swedish market. The majority of the company's properties are leased and about 100 are owned. The other retail company (Retail Company B) that was interviewed sells different types of beverages. Some years ago the company owned a majority of its real estate but today it leases a vast majority.

- *The theory suggests increased awareness of the importance of CRE, how does this show in your company?*

Service Company B implies that it does not show at all. However, the interest will likely become more evident shortly since the company is about to sell all its properties.

The interest for CRE within Production Company A has not increased nor decreased. Nevertheless, it did increase some years ago but has now stabilized. Production Company A does not see a connection between the CRE strategy and other strategies within the company; therefore the strategies are not linked to each other. Production Company B notices a general increased interest in CRE based on more inquiries by telephone and email.

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Retail Company A sees great potential in working actively with CRE strategy, particularly in terms of cost savings. The respondent believes that it has become more common for companies to work on the CRE strategy. In the case of Retail Company A, the CRE strategy has moved all the way up to corporate management.

- *If your company has one, is the CRE strategy updated on a regular basis?*

Service Company B answers no when asked whether the CRE strategy is updated continuously. In contrast, Service company A says that the strategy absolutely is updated continuously based on the competitive environment, competitors' ownership structures and trends within the area the company provides services.

Each geographical area where Production Company A operates has a specific CRE strategy. The strategy for real estate in the area that the respondent represents is updated once a year. The real estate situation is then evaluated and what must be done is decided. The meeting is of informal character, ideas are exchanged and notes are taken. Not much happens between meetings. Production Company B is currently working on its first CRE strategy, which will be completed during 2012.

Retail Company A reviews its strategy every year and it is updated in accordance with changes in the business plan. When Retail Company A decides to lease a building the decision is often based on the company's wish to free up capital. The retail chain is regarded as an attractive tenant since it will increase the market value of the real estate with its presence. Therefore, the company considers it more profitable to build and own its real estate than lease from a third party. In that way, the company gets to keep the profit that the construction project generates. Sometimes the company chooses to sell such a building for a higher price always possible. Leasing occurs at locations where it would otherwise be difficult to find a suitable place to build. The risk of leasing from a property owner that does not manage the real estate well is another reason for the company to own. All strategic buildings should be under the company's control and are therefore owned. Since Retail Company A is dependent on the environment that surrounds the store, for example access roads and car parking, the company prefers to control not only the store but also the land nearby. The need of control makes it appropriate to own the stores rather than lease them. Retail Company A stresses that one of the greatest advantages of leasing real estate is that no capital is tied-up. If a company strives after a higher rate of expansion it is better to lease real estate since it might not be possible to run construction projects or to free up enough capital for buying or building real estate. Certain company size and skills are needed for owning real estate.

When asked about CRE strategies for other markets than Sweden Retail Company A points out differences between countries. In Norway for example, it is acceptable to let a competitor take over the lease agreement when it runs out if it provides a better deal for the property owner. This makes it difficult to lease. In Sweden, the

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property owner cannot throw out the tenant when the contract expires if the tenant can and wants to stay due to legal restrictions. The retail chain does not have the same strong position on the Norwegian market as in Sweden, which weakens its attractiveness as a tenant and increases the risk of being replaced. In other countries the lease agreement differs evidently from such agreements in the Nordic region. Owning real estate is much more of a financial investment and much more responsibility is put on the tenant. Being a tenant in another country is different. (Interview)

The respondent Retail Company B finds it difficult to answer the questions since the company nowadays is a tenant and not an owner of real estate. The company's establishment strategy is evaluated once a year. This means reviewing where the company is established and where it is not but should be. The work is massive and most often generates board decisions

– *Is the CRE real estate strategy linked to the overall business strategy?*

Both service companies state that their respective CRE strategy is linked to the overall business strategy. According to Service Company B, the correlation between the strategies is new since the importance of the linkage just recently was understood. Service Company A states that its business strategy: to be as close to customers as possible to help them improve their health, is supported by the CRE strategy.

The strategy that Production Company B is working on will be linked to the company's core values and to the same measurable targets.

Retail Company B's CRE strategy to only lease is correlated with the overall business strategy. The ambition is to also sell the buildings the company currently owns. This will enable a focus on the company's core competencies.

– *Is the CRE strategy adapted to changes in the surrounding environment such as changes in the competitive structure, globalization or the financial climate?*

Service Company B that does not update its strategy continuously does not take changes in the external environment into consideration to the same extent as Service Company A.

Changes in the external environment are considered when Production Company A is reviewing the CRE strategy but there has never been a need to adapt the strategy to such changes. When asked whether the corporate strategy will be adapted to external factors the respondent from Production Company B answers that "it will be kept alive".

External factors are always considered when Retail Company A works on the CRE strategy.

- *What do you believe will be the next step in the development of the company's CRE strategy?*

While Service Company B reveals that its next step within CRE is to sell all properties, Service Company A chose not to give away any information about its next move.

When asked about the next step in the work with CRE the respondent from Production Company A answers:

"It could be to work together globally. Maybe not all countries together but in Europe or at least in Sweden"

Next step in Production Company B's strategy work will be to implement the strategy and to ensure the organization's support.

Retail Company A anticipates no future changes in the retail chain's CRE strategy; it is likely to move on in the same direction – trying to build and own real estate as much as possible. Regarding trends in CRE the respondent implies that many companies want to focus on their core competencies and therefore prefer to lease real estate instead of owning it.

- *Has your role changed since you started working with CRE related questions, for example to which you report? Do you believe it will change in the future?*

The step from being a property owner to becoming a tenant implies big changes that most likely will be reflected on the role of the respondent in Service Company B. So far, the role has not changed. According to Service Company A, the role of the CRE manager is continuously changed due to frequent changes in the company structure that occur when one manager replace another.

The respondent from Production Company A has worked with CRE for two years and the role has not changed notably during this period. The respondent from Production Company B reports to the vice president of the company, as before but with a stronger mandate.

Until two years ago the respondent in Retail Company A reported everything that concerned CRE to the finance department. Today the respondent reports to the group executive board. The role has not changed remarkably since the respondent joined Retail Company A one year ago. The respondent believes that CRE work will become more strategic in the future. The work will include scenario-analyses to a

greater extent than today. The respondent from Retail Company B says that the CRE role has changed over the years and become more strategic. The role will probably continue to change in the same direction and the management is likely to pay more attention to CRE. (Interview)

From a real estate providing company's perspective

In order to get another perspective on companies CREM two CRE business developers were interviewed. The business developers work at a Swedish company that is active in the fields of construction and project development, including commercial properties. The company purchases, develops, manages, leases and divests property projects. The respondents have experience from working with a variety of companies in providing those companies with suitable properties. The two respondents are called A and B.

During the last decade respondent A has noticed a consolidation trend, meaning that the company wants to streamline the organization and focus on the core business. It follows that many companies want to lease their properties instead of owning them. By leasing real estate the company can focus on what it does best and let others do what they do best e.g. manage real estate. In addition, capital is made available to the company. By leasing, a company has the opportunity to choose the best geographical locations, which is not always possible with ownership.

Owning on the other hand means total control and the possibility to set own terms and conditions. It might seem reasonable for a company that has a lot of capital to invest in real estate. Many people are convinced that an investment in real estate equals secure future revenue. Many forget however, that it is not always possible to sell the property. Such a property does not add value to a company. In addition, it ties up capital. Some might find it unjustified spending resources on a property that does not guarantee value nor belongs to the company's core competencies.

Based on experience, respondent A states that the more specially adapted premises, the more likely that the company owns the properties. Companies within the service industry tend to lease real estate rather than own. The main reason that companies want to lease is that they want to access a more central part of the city center. Few companies have the financial means to buy real estate on such locations. Those companies that usually want to buy real estate often require less office space than production, warehouse or showroom space. Typically, production companies and retailers want to buy real estate. Tenants on the other hand, have a greater need for office space than other type of space.

More companies than ever are thinking twice before investing in real estate, based on recent years economic turmoil. In the past, companies used to think that it was impossible to fail in real estate. Interest rate, economic situation and risk management are factors that influence the decision to lease or own real estate. Type of business also affects the decision. Perhaps the building needs to be adapted to

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the company's production activities. When it comes to smaller companies emotional values such as an ownership tradition often plays a critical part in the decision-making.

Corporate real estate has moved higher up the corporate agenda. In addition, it has become popular to use the premises as a tool for attracting and keeping qualified employees. Larger companies are choosing direction: either they streamline the organizations and sell the properties or they own as much of its real estate as possible.

Respondent B means that it is more profitable for a company to own real estate than lease it. After ten years a tenant has paid in rent, the cost of buying the building. By owning real estate cost of risks that the property-owner otherwise would charge for can be avoided. If a company plans to use a property long term it is definitely more profitable to own it. Smaller companies often buy real estate to secure future income and avoid taxes. It is especially profitable to buy real estate when financial markets are shaky. Construction costs are generally lower since the market is under pressure and the construction companies usually have higher required rate of return, which results in rent increases.

5 Analysis

In this chapter the results from the previous chapter will be discussed. The analysis will follow the same structure as previous chapters: The value adding potential of CREM, CRE strategies and Development of CREM. First, the empirical research is discussed and then the result is compared to the theoretical framework. The chapter is concluded by a short review of the future.

The analysis takes stand in the theoretical framework i.e. should be according to the CRE literature. The theories are compared with practice i.e. as is according to the empirical research. The differences between the current and the desirable situation are analyzed in a gap analysis consisting of the two parts: Situation according to empirical research and Desirable situation according to the theoretical framework. The analysis is focused on differences between industries and possible solutions to reach the desirable situation.

5.1 The Value Adding Potential of CREM

In this section the analysis will focus on the questions that relates to a potential growing interest for CREM in companies.

5.1.1 Current situation according to the empirical research

Judging from the results above, there seems to be a difference in the identified potential value of CRE strategies between different industries. The service industry and the retail industry claim that their interest for CRE has indeed increased. Meanwhile, the production companies do not identify the same trend. What is the reason for this pattern? The result from the questionnaire was further supported by the in-depth interviews. One production company said that it was not able to see an increased interest in CRE in the past years. There was an increased interest a couple of years ago since the company did not even consider CRE decisions before that point, but since then the interest has been constant. The pattern is consistent for almost all of the questions that can be correlated to an increased interest for and level of attention paid to CRE. In both service and retail the interest seems greater. They claim to realize the value adding potential in working with CREM.

Both the questionnaire and the interviews show that CRE matters are higher up on the company agenda in many companies. In some companies, the CRE managers claim that he or she has a greater impact in overall business decisions than before. In the in-depth interviews an attempt was made to identify whether the tasks of a CRE manager has changed. Several companies mentioned how the CRE strategy solely is to make the balance sheet leaner or simply keep the costs as low as possible. Only one company indicated a reporting change: from the financial department to the executive board.

The relationship between size of real estate and a CRE strategy is undeniable. Every asked company with a size of real estate over 500 000 square meters has a CRE strategy. Only 13 out of the 110 that participated in the questionnaire are operating their business in a real estate portfolio bigger than 500 000 square meters. Since the number of respondents that claim to have a CRE strategy decreases with size of portfolio the conclusion that the greater portfolio the more likely that the company has a CRE strategy can be drawn. In total, 87 companies answered the question about whether or not they have a CRE strategy: 83 percent of them answered yes. All of the companies that participated in the in-depth interviews either has or is about to develop a CRE strategy.

5.1.2 Desirable situation according to theoretical framework

In the studied literature, it is stated that companies can benefit from a CRE strategy in several and different ways. According to de Junge (1996) all companies can benefit from a CRE strategy in seven specific areas, namely *Increasing productivity, Cost reduction, Risk control, Increase of value, Increased flexibility, Changing the culture, PR and marketing*. If not all, than at least several of these areas must be of interest for companies in all industries. Some of the studies are relatively new, but the first article found is written by Weimer and dates back to 1962. Is it possible that companies are not reached by this information yet? Due to the existing information society all large Swedish companies could easily find this information. The explanation is perhaps as Too et al explain in 2008, the senior management must notice and most importantly actually believe in the potential of a CRE strategy. In O'Mara's description of the development eras of CRE management from 1999, the most commonly identified role of CRE managers correspond to the one that prevailed in the late 1980's when the most important aspect was cost minimizing. Besides the increased interest and the reinforced mandate of decisions no trends against a more strategic position, as discussed by Ali et al in 2008, were identified in collected data.

In the literature it is also clear that in order to fully benefit from the CRE, companies have to make sure that there is a connection between the corporate real estate strategy and the overall business strategy. Nourse and Roulac were among the first to emphasize the importance of the linkage between the strategies in their article from 1993, which is often referenced in subsequent CRE literature. Can it be, that the value today is indeed identified, but many companies have not yet reached a point of action or not taken the action all the way through the entire organization? A couple of companies from the in-depth interviews mentioned that a potential future development is a more strategic approach to their tasks.

5.2 CREM Strategies

In this section of the analysis the different identified strategies will be investigated and discussed. The rationales for the financial choice to either own or lease CRE, that

have been identified though questionnaire and interviews will be discussed in the first part. In the second part the actual result and pattern will be compared to relevant theories.

5.2.1 Current Situation according to the Empirical Research

To identify what parameters that influenced the decision to own or to lease seems to be hard for many of the respondents. Concerning the decision to own, one fifth of the respondents do not know to what extent a specific parameter affected the choice. The corresponding figure for the decisions to lease is 10-15 percent of the respondents. Accounting regulations are the hardest parameter to determine the influence of, more than one third does not know the impact of it in the decision to lease. Impact of accounting regulations and tax affects are the hardest two parameters to determine when it comes to the decision to own.

No economical parameters seem to be critical for the majority of the companies when it comes to the decision to own. The variety of the quantified impacts are admittedly large and many of the parameters are indeed important for a large portion of the companies, but it is an interesting result that only the policy and tradition of the company has very large and large impact. Furthermore, the parameters seem to be very specific for the companies and it is hard to identify a common opinion regarding the rationales for one sector. However, some designated parameters follow a pattern that intuitively seems logical. For example, in production these factors are *Control*, *Amount of space needed for the business* and *Operational requirements on real estate*.

When it comes to rationales for leasing CRE the situation seems even more complex. Although, as the respondents from the construction company as well as some comments from the qualitative part of the questionnaire states, several companies tend to focus on their core business in which they do not include the ownership of real estate. The high importance of this parameter is common for retail and service. *Flexibility* and *Planned occupancy duration* are two other parameters considered important (*Flexibility* is considered important in both retail- and service industry and *Planned occupancy duration* only in service industry). This is further enhanced by interviews where leasing is stated to be a more flexible option especially under growing or uncertain future development for the company. For production, it is hard to draw any conclusions at all except that in correlation with the earlier answers, production is to a smaller extent using a CRE strategy. Therefore, the parameters might reflect a specific person or a geographically defined part of a company.

Can the variation in identified importance indicate that companies not commonly break down the issue of owning or leasing into parameters? In the qualitative following question were companies could add parameters that also had influenced the choice several companies pointed out that one parameter is almost the only one that matter for the specification of their core business or that they simply just own

or lease with a few exceptions. From this an overall conclusion might be that the parameters influencing the choice to own or lease is mostly dependent of the overall situation and strategy for the specific company and therefore several trends can be identified in one industry.

When asking if there is any correlation between type of real estate and the decision to own or to lease, the most common answer was no. Also in this aspect many of the companies pointed out that the main purpose is to own or lease as much as possible with a few exceptions. Although, some companies actually do mention a correlation between the decision and type of real estate. The most common identified correlation is to own warehouse and production space but to lease service space.

5.2.2 Desirable Situation According to the Theoretical Framework

According to Ali et al (2008) rationales for owning and leasing can be divided into two subcategories namely economic and strategic. The value of the parameters depends on which of these that are relevant for the specific company. The value of a certain parameter can vary a lot in a specific sector making the subdivision in to sectors somewhat irrelevant. Perhaps it is other factors such as competition situation or current specification of the market that determines the choice whether to own or to lease. In a market where competition is hard it is logical that conditions might change rapidly and in another market in the same industry the situation can be monopolistic. The decision to own or to lease is a part of a CRE strategy and should therefore be connected to the business strategy as stated in studied literature, in particular by Nourse and Roulac (1993). With this reasoning, the parameters that will determine the decision would be extremely company specific.

As suggested by Nourse and Roulac in 1993, companies can choose between eight different CRE strategies to position themselves and benefit from a CRE strategy appropriate to combine with their overall strategy. Only one company has mentioned a CRE strategy that is more specific than simply to own or lease as much real estate or type of facility as possible. However, it is possible to combine the given information with known company specification and guess which strategy that might be suitable or that they might already follow in some extent.

5.3 The development of CREM

In this section of the analysis, the time aspect correlated to CREM is investigated. In the first part the trends for the recent development as well as the potential future development identified through questionnaires and interviews are analyzed and discussed. In the second part the identified patterns are compared with the theories identified and in the end of the section the future for CRE will be discussed further.

5.3.1 Current Situation according to the Empirical Research

In this aspect, the reason of the analysis is to identify trends in the development of CREM. To what extent has the role of a CRE manager in Swedish companies changed over time? The role over long time is hard to identify in reality due to the length of the phases. It is not likely that the person in charge of CRE today has been in charge long enough to be able to identify a potential paradigm shift. Although, it is possible that they have a clue about big trends over time in their company and therefore some questions in this area were included in the questionnaire.

As shown in the result above, only 9 percent of the respondents have in the past years changed their real estate portfolio by owning more. The past trend seems to be, either to not change the proportion at all or to lease a bigger proportion. The only exception from this trend is in retail, where the pattern is slightly less distinct and every fifth company actually says it owns more real estate than ten years ago.

For all respondents it is more common to lease than to own, independent of type of premises. Can this be an indication of the trend to outsource? Together with the answer whether the proportion of owning and leasing has changed in the last ten years, some sort of outsourcing trend can be identified. In all industries, between 30 and 50 percent of the companies asked stated that they own a smaller proportion than ten years ago. This can be compared with the small amount of around 10 percent that claims to have had the opposite development.

5.3.2 Desirable Situation according to the Theoretical Framework

According to the Too et al (2008) companies should get ready to compete in a global market with a global and thereby probably rougher competition. To do this every capability within the company has an important part and especially corporate real estate since the usage of this capability can be enlarged in a global situation. The reasoning behind this is according to Too et al that CRE is hard to imitate by competitors and the fact that many companies has not yet realized the value connected with a CRE strategy. As stated by D'Aveni (1998) and others, globalization is undeniable for companies since the whole world's markets can be available for every company through a merge, acquisition or simply a move to a market with more beneficial conditions for the specific business. In this situation a competitor can enter the home market for a successful company and make the competition global.

In order to meet the increased rivalry the first step is of course to set a CRE strategy that supports the business strategy, as stated earlier in this analysis. From the interviews, one CRE manager mentioned that a more global approach or at least a common CRE strategy for the company nationally could be the next appropriate step in the development. Another respondent stated that the role has begun to have a more strategic agenda and a second respondent consider the future tasks to involve

more scenario analyzes which can be identified as a strategic planning part where external parameters are taken into larger consideration.

CRE manager is used as the title of a person somewhat in charge of the real estate for a company although the titles in reality are widely varying. As stated by Ali et al in 2008, this indicated varying responsibilities for planning and duties connected to the role. A very common situation during the handing out of questionnaires, receptionist could not tell who was in charge of real estate decisions. Especially common was this phenomenon in companies that only or almost only were leasing their real estate. A conclusion from this could be that perhaps the role needs to be established in organizations.

5.3.3 The future

So what about the future? It is hard to make any conclusions regarding whether companies in the future will own less, more or the same proportion. For the whole group of respondents a large group thinks it will own less rather than more. Although more than the majority thinks that they will own the same proportion. The interpretation of this can either be that companies are satisfied with the proportion owned today and are not planning to change anything, or that they are satisfied with the proportion today and cannot see in which direction the company might be heading in the future. The future is of course in many ways uncertain, but based on the identified trends and the theories about the future market development some predictions can be identified. Although there is a large portion of speculations in this part, a framework for coping with CRE for now and in the future was developed.

6 Framework and Discussion

In this chapter a framework for strategic positioning of CREM is presented. First, the purpose of the framework and the discussion around its usability will be explained. The purpose is mainly to help companies identify how to use CRE to reach success right now and in the future. Therefore the framework includes the following parts: Prerequisites for well functioning CRE management, What rationales to consider and what strategy to choose and To cope with the future.

In this discussion the major finding is that companies often tend to identify their CRE strategy with the choice to own or lease. Only one company has mentioned a more specific strategy. As stated in the theory the correlation between corporate strategy and the business strategy is that the corporate strategy decides what industry the company will compete in and the business strategy specifies how the company will compete. The functional strategies, in which CRE strategies can be placed, are supposed to support the overall business strategy as well as the corporate strategy. Furthermore, the rationales determining the decision to own or lease is closely connected to the decisions for a CRE manager. In the empirical research the rationales seemed very company specific and perhaps different from one time to another. In order for the CRE strategy to be successful the decision for CREM and the choice to own or lease should be aligned with the chosen strategy. Furthermore the CRE strategy is as mentioned above helping companies on their way to success if it supports the business strategy and the corporate strategy. The only thing besides these overall strategies affecting the company's direction is external changes, which is impossible for the company to control. Although, the company can handle external impacts more or less strategic. The framework will therefore explain choseable strategic options for CREM and how to cope with the external impact. The importance of interconnected strategies is illustrated in Figure 23.

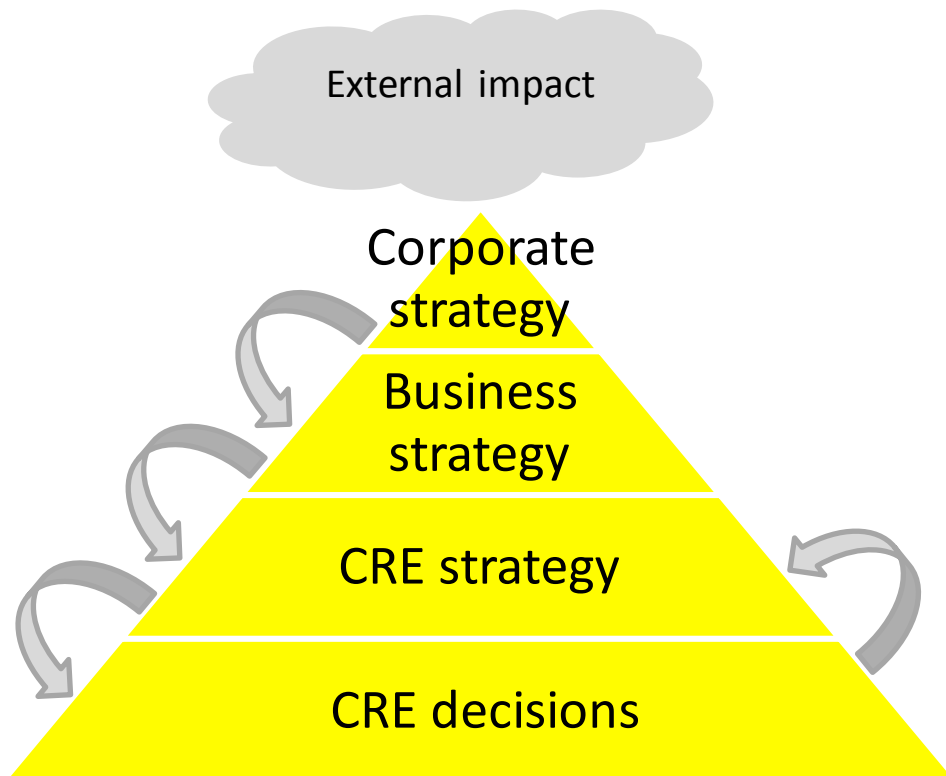


Figure 23: The Importance of Interconnected Strategies.

6.1 The framework

In this section, all three parts of the framework will be described in order to understand how to use the framework. The three sections are *Prerequisites for well functioning CRE management*, *What rationales to consider and what strategy to choose* and *To cope with the future*. They will be described in this order. The framework can be seen in Figure 24 below.

6.1.1 Prerequisites for a Well Functioning CREM

This part of the framework can be acknowledged as the foundation of the framework. If the identified demands are not fulfilled, the specific position of the strategy might not be useful. The identified demands are:

- *Support for the importance of corporate real estate strategy from senior management*
- *Identify the role of corporate real estate manager and make at least one person responsible*
- *Make the corporate real estate manager's role strategic and include long-term planning in duties*

- *Follow up the success of the strategy and take long term goals into consideration*
- *Update the chosen strategy continuously*

6.1.2 What Rationales to Consider and What Strategy to Choose?

In this part of the framework, the different CRE strategies first mentioned and developed by Nourse and Roulac in 1993 are linked to the identified rationales from theory as well as empirical foundation. In addition what type of business that is most likely to benefit from a certain strategy will be described. Types of industries suitable are also discussed although the parameters found were more depending on competition situation and type of business than specific industry. This way the options will be clearer for a specific company. Note that more than one strategy can be a suitable choice for a company, although perhaps one suits the overall business strategy slightly more. In some cases, a specific strategy is suitable for one kind of real estate and another for another type. Lastly, the strategy is linked to either lease or own depending on critical parameters. Worth mentioning is that the choice to own is only an option when the company consider themselves to have enough knowledge and capital to invest in real estate.

As identified in the theory, the strategies are:

Occupancy and cost minimization

- *Business strategy connection*

From the empirical foundation the identified companies for which this strategy would be beneficial are companies with price sensitive customers. Therefore, companies with a business strategy that involves an aim to give customers their products or services for lowest possible price is suitable. These customers do not care about extra benefit and will probably not pay much attention to the specific building. Note that the decisions for CREM must be depending on the market position. A strong competitor can probably have this strategy and be localized in the suburbs; meanwhile some less strong actors will have to be located where many people are passing by.
- *Suitable industries*

It is hard to give general advice for an industry since their competition situation can be very varying. Therefore if the situation for business is identified from the description above, service, retail and production companies supplying for a price sensitive customer can all benefit from this strategy.
- *The decision to own or to lease*

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The critical parameter that decides whether the company should own or lease is the planned length on the occupancy duration since it will probably be more beneficial in a cost minimization aspect to own in a longer perspective. Therefore this strategy can be used together with both owning and leasing of real estate.

Flexibility

- *Business strategy connection*

Typical companies suitable to choose this strategy are growing companies, companies that are expanding to new and not well-known markets or companies within markets with rapidly changing demands and/or uncertainties. For example this can be the case in an upcoming market like a new high-tech industry. Their business strategy is probably updated continuously and therefore a flexible approach to CRE strategy is suitable.

- *Suitable industries*

Typically service companies are suitable for this strategy since they generally are not as dependent of the location as a retail company (and therefore more locked to a specific location).

- *The decision to own or to lease*

This strategy should be chosen for companies that want to have the freedom to move whenever they want to. Since leasing provides better conditions for changes it is the logical financial option linked to this positioning. The strategy gives the company a chance to try a specific location without the risk of being stuck at a bad location or tied to an obsolete building.

Promote human resources

- *Business strategy connection*

This strategy has not been identified from any of the companies participated in the survey nor in interviews. Although both theory and some respondents mention that the importance of this aspect might increase in the future. This is also a strategy that might be more important due to increased competition where attraction of the best employees will be crucial for companies. A suitable business strategy is for example to provide customers will the best possible service on the market.

- *Suitable industries*

Service companies with high performance employees would probably benefit from this strategy.

- *The decision to own or to lease*

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The location and the benefit available for the employee in the building are crucial in this strategy. If the company has stable situation and real estate possible to own are available it might be a good idea, otherwise lease is an option as well. Since this strategy is not identified from any respondents the strategy is not included in the framework.

Promote a marketing message

- *Business strategy connection*

This strategy has not been identified from respondents either. Although it is possible to think that companies for which marketing is crucial and a big part of the overall strategy would benefit from this choice of strategy. For example, with this strategy it is possible to think that corporate real estate can be used as a marketing asset.

- *Suitable industries*

Retail companies with a large budget on marketing are specifically suitable for this strategy.

- *The decision to own or to lease*

If the marketing requires a unique building, the most appropriate financial option would be to own. Although the location might be crucial as well and then the availability of real estate to own is a relevant aspect as well as the risk connected to get stuck with an obsolete building. Since this strategy is not identified from empirical research it is not included in the framework.

Facilitate and control production, operations, service delivery

- *Business strategy connection*

Companies identified to be suitable in this strategic position are companies where the core business is production with a need of special design and adaption of premises to reach an effective production.

- *Suitable industries*

For many production companies this strategy is the natural choice.

- *The decision to own or to lease*

In this strategy, a beneficial location for customers or suppliers is of importance. Therefore, a rational financial option for this strategy is to own and thereby be able to control driveways and immediate surroundings. Furthermore, a logistically good location is often outside the city, where conditions for owning are good.

Promote sales and selling process

- *Business strategy connection*

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Identified companies suitable to choose this strategy are companies in need of a unique location. The reason for this criterion is that the service or products they are providing are dependent of the location in order to be reached by customers.

- *Suitable industries*
Restaurants and many companies in retail depending on their customers spontaneous shopping are typically suitable in this positioning.
- *The decision to own or to lease*
According to the theory, it is beneficial to own in a unique location. It is a safe investment, since the risk of being stuck with the building is small as the location probably is valuable to other players as well. Although the empirical research says that real estate available to own is rare at these locations preferably in the city center or at a popular shopping mall. Furthermore, the value of the location can change as the city or nearby location is changing and value of the location can decrease dramatically. Therefore leasing can be identified as the preferable option.

Managerial process and knowledge work

- *Business strategy connection*
This strategy has not been identified from the respondents. A potential explanation might be that the companies suitable for this strategy are small high-tech and/or extremely knowledge based companies, perhaps developed from a research discipline. These companies are perhaps not big enough to qualify into the chosen respondents of this study.
- *Suitable industries*
Service, Retail and Production are possibly suitable to choose this strategy, preferably with a scientific or managerial approach.
- *The decision to own or to lease*
Regarding location a city that also holds universities is a suitable option, although no rationales for which financial option to choose has been identified. This strategy is also excluded from the strategy.

Capture the real estate value creation of business

- *Business strategy connection*
This strategy has been identified as useful for companies with an extra strong market position. These companies can build their buildings themselves and sell them for a higher value than standard market value. Another possibility for a company with a strong market position is to buy more land for their territory and later sell it to a higher price since other companies might benefit of a location next to a strong player.

- *Suitable industries*
A company in large retail company with a market leading position is suitable.
- *The decision to own or to lease*
The financial option connected to this strategy is initially to own.

6.1.3 To Cope with the Future

As mentioned in the theory, the internal capabilities can be used to cope with a changed competitive situation. The importance of Managerial learning capabilities, Network organization capability and Flexibility capability will increase as the effect of globalization and hypercompetition reach more and more markets and companies. As long as the markets where a specific company is competing on are local the demands on these aspects are lower. The more exposed a company is to global and intense competition, the more value can be achieved by including these capabilities into the corporate real estate strategy and therefore the potential value of the CRE strategy will increase.

6.2 The framework

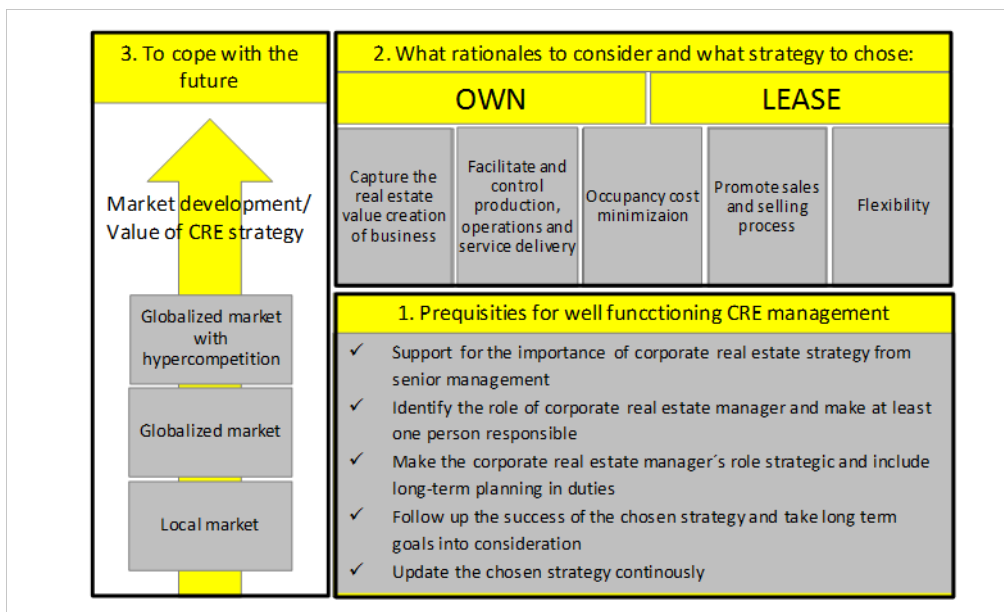


Figure 24: Framework for a Strategic Position of CREM.

6.3 Framework Discussion and Generalizability

The discussion and suggested positioning above should be viewed as a tool in the process of moving towards a successful corporate real estate strategy in a

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company. Although, as mentioned in the analyze, the impact of rationales tend to be very company specific and therefore the positioning should preferably be supported by the senior management's plan for the company future. The continuous update of the positioning is as important as making a specific positioning in the first place. As discussed in the part *To cope with the future*, the rate of change and competition situation will be intensified for several companies, if the home market is heading in that direction, make sure to use CREM strategically.

7 Conclusions

In this chapter the conclusions from the study are presented. Some of them are already mentioned in the analysis or the framework discussion and here summarized and evaluated. The chapter will indicate whether the aim and objectives of this study have been reached.

The aim of this study was to investigate companies' CRE management with a focus on strategies for CRE decisions, in particular to own or lease real estate. The aim is fulfilled when the three objectives have been met. Therefore, the conclusion is divided in accordance to these objectives.

- *To verify whether companies realize the potential value CREM can add and if they do, discover how it shows in the organizations.*

The variation in how companies work with CRE is large. Some companies have no CRE strategy, others are currently developing one, and some have one but are not working actively with it while others have come a long way. The best in class companies are continuously reviewing and updating the CRE strategy, taking external factors into consideration when doing so. The research indicates that companies within retail and service are paying more attention to CRE strategies than production companies. Overall the interest in and attention paid to CREM seems to have increased. However, the way from realizing the importance to take actions tend to be long in many cases. Over 83 percent of the respondents state to have a CRE strategy. However, the strategy seems to be either to own or lease real estate. The correlation between the overall business strategy and the CRE strategy is not strong enough in many companies. CRE could add more value to the company if the strategy was more specific than just owning or leasing and stronger connected to the overall business strategy.

- *To recognize what strategies and rationales companies use for CRE decisions such as owning or leasing.*

An important part of CREM is to decide whether the company should own or lease its real estate. Most other real estate decisions that must be made are closely related to the choice of owning or leasing. But nowhere is to be found, what financial possibility the company should choose depending on industry, business strategy or CRE strategy. Several factors that influence the decision to either own or lease real estate have been identified. The overall conclusion is that it is difficult to generalize a specific industry. CRE strategies should consequently be company specific rather than industry specific. However, companies within the same industry with similar businesses are likely to be able to use the same strategy. A framework has been developed in order to guide companies in their search for a new or updated CRE strategy.

- *To understand how CREM has developed over time and what external factors it is affected by.*

The importance of CRE is likely to increase in the future which makes it essential to handle CRE as a strategic resource. The CREM role seemed to have changed slightly although a lot of companies have not yet made the role as strategic as it is supposed to be. External factors like competitive situation and globalization do affect a business all the way from corporate strategy to functional strategies. Therefore, it is important for companies to choose a suitable CRE strategy that is aligned with the business strategy already today. After the strategy is set it should be updated in accordance with the market changes the companies meet during their lifetime.

7.1 Further research

In order to be able to draw any statistical correct patterns, a deeper analysis has to be done. The collected empirical information is large enough to draw more profound conclusions from if appropriate software is used.

Furthermore, it would be interesting to do more in-depth interviews with respondents to be able to tell more about the future development of CREM. Perhaps then, it would be possible to identify the different approaches to CREM closer and maybe find out the reason for these differences.

It would also be interesting to include smaller companies in the study. Even though they are less likely to own their real estate, they might have a CRE strategy. With smaller companies included in the investigation base it could be possible to identify the strategies from Nourse and Roulac, which was not identified among the large companies.

An additional approach to the research could be to further investigate the differences between countries and thereby be able to find out to what extent national regulations and culture influence the decision to own or to lease CRE. In this study, an attempt was made to describe the value CRE might add if handled correctly. It would be interesting to quantify the actual value in financial terms. Finally, it would be interesting to find out how a company would be affected if they choose to own the CRE that is today leased and vice versa.

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8.3 Interviews

Academic expert

Jensen Ulf, Department of Real Estate Science at Lund University, Lund, 2012-02-08

Professional experts

Bergqvist Freddie, Business Developer, Skanska, Malmö, 2012-02-21

Kuchler Magnus, Partner, Advisory Services, Performance Improvement, Ernst & Young, Stockholm 2012-02-15

Lundberg Andreas, Business Developer, Skanska Commercial Development, Malmö, 2012-02-10

Merseburg Christian, Executive Director, Tax, VAT, Ernst & Young, Stockholm, 2012-02-14

Rindstig Ingemar, Partner, Assurance, Audit, Ernst & Young, Uppsala, 2012-02-24

Öberg Daniel, Partner, Assurance, Audit, Ernst & Young, Stockholm, 2012-02-15

Questionnaire respondents

Production Company A, 2012-05-07

Production Company B, 2012-05-08

Retail Company A, 2012-02-10, 2012-05-08

Retail Company B, 2012-04-27

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Service Company A, 2012-05-03

Service Company B, 2012-05-03

9 Attachments

9.1 The Questionnaire

1. a. What type of industry does your company belong to?

Answer options:

- Production industry
- Service industry
- Retail industry
- Hotels and restaurants
- Public sector
- Other

- b. What company are you representing?

Open answer.

2. How much real estate area, measured in square meters, does your company owns and/or lease in Sweden?

Answer options:

- Under 50 000 sq. m.
- Between 50 000 – 500 000 sq. m.
- Over 500 000 sq. m.

3. Does your company own or lease a greater share of the total real estate area?

Answer options:

- Own more
- Lease more
- About the same
- Don't know

4. In what types of premises does your company have business?
 - a. If your company has business in any of the given premises types, state whether you own or lease the greater area.

Type of premises: Office space – Warehouse - Service space – Production space

Answer options:

- Own more

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- Lease more
 - About the same
 - Don't know
- b. Is there a correlation between type of premises and the choice to own or to lease?

Open answer.

5. a. To what extent has the following factors impacted the choice to own CRE?

Parameters:

- Plenty of appropriate real estate to buy
- Inadequate supply of appropriate real estate to lease
- A good investment
- Company policy
- Capital availability
- Consequence of acquisition
- Control
- Accounting regulations
- Planned occupancy duration
- Tax effects
- Security for loans
- Company tradition
- Amount of space needed for business
- Operational requirements on real estate

Answer options:

- No impact at all
 - Very small impact
 - Small impact
 - Large impact
 - Very large impact
 - Don't know
- b. Is there any other parameters affecting the choice to lease? Tell us more about that and your answers from above?

6. a. To what extent has following factors impact the choice to lease CRE?

Parameters:

- Avoid tied up capital

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- Lack of capital available
- Insufficient supply of real estate to buy on desired location
- More efficient using third parties for management of real estate
- Flexibility
- Focus on core business
- Company policy
- Planned occupancy duration
- Accounting regulations
- Company tradition
- Amount of space needed for the business

Answer options:

- No impact at all
- Very small impact
- Small impact
- Large impact
- Very large impact
- Don't know

b. Is there any other parameters affecting the choice to lease? Tell us more about that and your answers from above?

7. Has the ratio between owning and leasing changed during recent years?

Answer options:

- The company owns a greater share real estate than ten years ago
- The company own a smaller share real estate than ten years ago
- The ratio is indifferent
- Don't know

8. What will the ratio between owning and leasing real estate be in the future?

Answer options:

- The company will most likely lease the greater share of real estate in ten years
- The company will probably own a smaller share real estate in ten years
- The ratio will most likely be indifferent
- Don't know

c. Can you identify any trend regarding the choice to own or to lease for your company or any of your competitors?

Open answer.

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9. Do you have a strategic approach to your CRE?
- a. Has the company interest in CRE increased over the last five years?
 - b. Does your company have a CRE strategy?
 - c. Are decisions regarding owning or leasing made centralized?
 - d. Does your company have CRE manager?
 - e. Does the CRE department/corporate real estate manager report directly to company management?
 - f. If you have a CRE strategy, is it the same internationally as nationally.

Answer options:

- Yes
- No
- Don't know

- g. Can you describe your CRE strategy?

Open answer.

9.2 Interview - Questionnaire Respondents

1. The theory suggests increased awareness of the importance of CRE, how does this show in your company?
2. If your company has one, is the CRE strategy updated on a regular basis?
3. Is the CRE real estate strategy linked to the overall business strategy?
4. Is the CRE strategy adapted to changes in the surrounding environment such as changes in the competitive structure, globalization or the financial climate?
5. What do you believe will be the next step in the development of the company's CRE strategy?
6. Has your role changed since you started working with CRE related questions, for example to whom you report? Do you believe it will change in the future?

9.3 Interview - CRE Consultants

1. What determines the choice to own or lease real estate?
 - What factors do think company should consider?
 - Which is the major advantage respective disadvantage of owning and leasing real estate?
2. Is it common that a company owns a certain type of facility e.g. warehouses and leases another facility type e.g. offices?
3. Do companies usually choose to either own or lease real estate or is a mixture more common?
4. In what way and to what extent do you believe that the market affects the decisions to own or lease?
5. Do you know of any international differences that might make it reasonable to own in one country and lease in another?
6. What do you believe will happen in the future from a CRE standpoint?
7. Is the choice or own or lease affected by the specific industry to which the company belongs?
8. Is it possible to identify trends within CRE strategies?
9. Has CRE matters moved up the corporate agenda?
10. Do you have any suggestions about questions to pose to the questionnaire respondents that will help understand companies' choices?
11. To what extent do you believe following factors influence the decision to own or lease: tax regulations, accounting regulations, interest rates, depreciation, company size, and location?

9.4 Interview – Retail Company A

1. Tell us about your role, your daily tasks etc.
2. What determines the choice to own or lease real estate?
3. Do you lease a certain facility type and own another?
4. Do you consider it important to work actively on the CRE strategy? Do you see potential in working on the strategy?
5. If you have CRE in other countries than Sweden, do you have the same CRE strategy in all countries?
6. What are the benefits and disadvantages of owning or leasing real estate?
7. Has CRE become more important?
8. Has the company always leased a majority of the properties? Tell us about the CRE development in your company over time.
9. Do lease from more than one property-owner?
10. What do you think about the future? Is the CRE strategy likely to change?
11. Do you have any idea about how companies within other industries work with their CRE? Has the awareness increased?

9.5 Interview - Construction Company Representatives

1. Do you notice trends in companies' choice to own or lease real estate?
2. Which is the major advantage respective disadvantage of owning and leasing real estate?
3. Does it happen that a company wants to terminate a lease agreement and instead buy the real estate? What would the reasons for such a decision be?
4. Have some of your customers previously owned real estate? What would the reasons for such a decision be?
5. Which industry does companies that buy real estate from you usually belong to?
6. What do you think determine the choice to either own or lease real estate? Is the decision depending on what type of market the company is competing on?
7. Which are the most important factors when deciding to own or lease?
8. What do you believe will happen in the future from a CRE standpoint?