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Corporate Real Estate Management in the Retail Sector

*A study of the relationship between the management of the corporate real estate
and corporate performance*

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Abstract

Retail organisations have often been cited as being at the forefront of corporate real estate management. This research found that the retail sector can be characterised by diversity both in terms of the degree to which organisations are vertically integrated and in terms of the range of modes of retailing they engage in. This in turn led to highly diverse real estate portfolios. Given this diversity it may be surprising that the over riding strategy which the vast majority of sample firms adopted was focused on supporting the core retail activity. However the way in which they implement this strategy, again reflected the diversity in the sector. In terms of the future, the senior real estate managers were focusing on the medium term particularly looking at the way change would impact their functional strategy. This study provides a snap-shot of current practice and contributes to the debate however it also recognised that there is a need to answer the more fundamental questions.

Keywords: *Corporate Real Estate Management, Retail, Performance Measurement*

Introduction

During the last 10 to 15 years, corporate occupiers of all types have started to examine their real estate needs in a more systematic manner in order to gain greater value from the space they occupy and, in some cases, own. There have been a number of studies in the US and the UK which have examined the management of occupational real estate. (See Veale 1987, Joroff *et al.* 1993, Avis *et al.* 1989, DTC 1992, Avis and Gibson 1995, Hillier Parker 1994) These have been broad reviews covering a variety of aspects from corporate real estate strategies to information systems with the aim of documenting the current state of corporate real estate management practice. They have also tended to cover a wide range of sectors but there has been little attempt to focus on any particular sector in depth often because of the lack of data available.

Although the retail sector has not been investigated in any depth, it is often cited as being at the leading edge (Avis *et al.* 1989, Avis *et al.* 1993, Weatherhead 1997). The reasons given for this relate to the significance of property to the core business and therefore the greater understanding at all levels of the organisation of the contribution of real estate to performance. Given the substantial literature on store location (See for example Jones and Simmons 1990) it is not surprising that this view has been taken.

Additionally, a number of UK based retail organisations have taken a high profile approach to the management of their operational property portfolios. The establishment of property subsidiaries by major retail organisations has been widely reported. Included in this group are the establishment of Chartwell Land by the Kingfisher Group, Barclays Property Holdings by Barclays Bank and Boots Properties by Boots. The structure and remit of each of these groups has varied but the effectiveness has never been investigated. Other retailers have chosen different approaches which have been less well-documented.¹

All of the work to date has been historical, that is examining what has happened or what is currently happening. A few studies briefly looked to the future (Gibson 1995b) investigating what the key issues were which would change their approach to the management of corporate real estate but these were highly generalised in order to be appropriate for a wide range of sectors. However, the retail sector has some particular challenges when looking to the future.(Roulac 1994) The impact of technology on shopping trends, changing consumer preferences, government intervention in planning and transport all could have a significant impact on the nature and scope of the property portfolio required by retailers.

¹ See Weatherhead (1997) for a case study of Marks and Spencer

In addition to formulating an organisational strategy and structure that is capable of responding to the likely changes in consumption and distribution, retailers are faced with the broader strategic choice as to whether to make real estate investment decisions purely in response to the current and future needs of the core business or to diversify into real estate investment and development as an activity in its own right (Nourse and Roulac, 1993). Theoretically an organisation should pursue any activity in which it can generate positive net present value for shareholders. Firms in the retail sector, it might be hypothesised, are more likely than most to have opportunities for creating shareholder value within their portfolio of property assets. Such opportunities might include the exercise of valuable development options, the exploitation of market information generated in retail operations and the utilisation well developed property expertise where it exists.

Against the imperative to generate net present value from property activities, where it is possible so to do, are a range of factors that could ultimately prove deleterious to shareholder interests. These factors include conflicts of interest between retail and property activity that are costly and time consuming to resolve, negative reaction by external parties to pure property activity (shareholders, opinion formers, analysts etc.), and an actual lack of genuine property investment expertise. That the balance between the costs and benefits of strategic diversification into pure property activity by retailers is not absolutely clear is a possible explanation of the large variation in property strategy and structure within the sector.

This paper will report on a research undertaken during the summer of 1998. The aim of that project was to establish the current range of objectives, strategies and structures adopted by listed retail companies with respect to their real estate assets and forecast how and why these might change over the next five to ten years. In total 27 major UK based retailers participated in the survey.

The paper will review findings under three of the core areas of investigation namely:

- 1. how retailers currently seek to manage their real estate assets and the place of the real estate function within the organisation;*
- 2. the key changes in the business environment over the next five to ten years that will have an impact on retail organisations and their impact on the current property portfolios of retailers; and*
- 3. the likely changes in the retailers' real estate strategies that will result from changes in the business environment.*

The following section of the paper will outline the characteristics of the organisations participating in the research. This is felt to be particularly important as one of the contentions is that retailers form a very heterogeneous group which in turn will create a diversity of real estate strategies.

The next two sections will examine the current corporate real estate strategies adopted by these organisations and aspects of practice followed by an analysis of the key changes in retailing and the likely management response.

The final section will draw together the conclusions and make recommendations for future research.

Methodology and Profile of Respondents

The sample of companies in the study should not be regarded as representative of the retail sector in general. As mentioned in the introduction, the retail sector is complex in structure and heterogeneous. A truly representative survey would require a significantly increased sample size and a fully specified sampling frame which could be stratified into relevant subgroups. One of the aims of this study was to establish a framework for further research. Therefore, given the exploratory nature of this research, the sample was derived on the basis of three criteria: size, performance and known interest in developing innovative property solutions. We contacted approximately 60 firms drawn from the 'Top 100' (by market capitalisation) list of retailers and, of these, 27 provided information, representing a survey response rate of 45%.

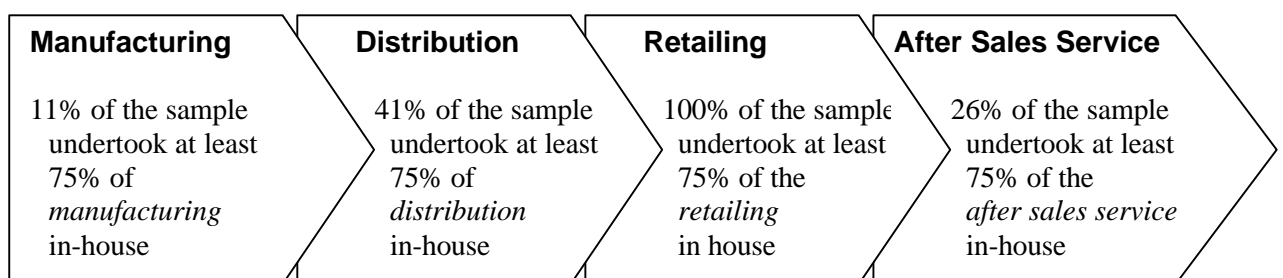
The data for this study were generated by an in-depth telephone questionnaire survey. The survey took place during April and May of 1998.² The nature of the majority of interviews places the study somewhere between a series of case studies and a full-scale survey. The material collected provides an insight into the way in which retailers manage their property assets and provides a basis for future research. However, ultimately, the sample size is perhaps too small to draw general conclusions about the retail sector as a whole. Hence, the research is best thought of as a scoping study that is intended to raise questions relating both to research in the retail sector and the future of corporate real estate research in general.

Diversity of respondents

There are many ways in which the diversity of retail organisations could be examined. We wanted to explore aspects of diversity which would have the most significant impact on the real estate portfolio required to support the business. We selected the degree of vertical integration and the range of modes of retailing each organisation pursued.

Although most of the companies in the survey were well known, it is never clear which of the activities from manufacturing to sales each organisation chooses to undertake in-house and which are bought in or out-sourced. Retail organisations are vertically integrated to varying degrees. For instance their involvement may span the entire value chain from manufacturing to after-sales-service or concentrate on only a proportion of these activities. In order to ascertain their overall scope of activity we asked the organisations to provide a breakdown of the types of activities they were engaged in upstream and downstream from the core retail activity. Figure 1 shows the extent to which four broad categories of operation were undertaken in-house.

Figure 1: Degree of Vertical Integration by Organisations

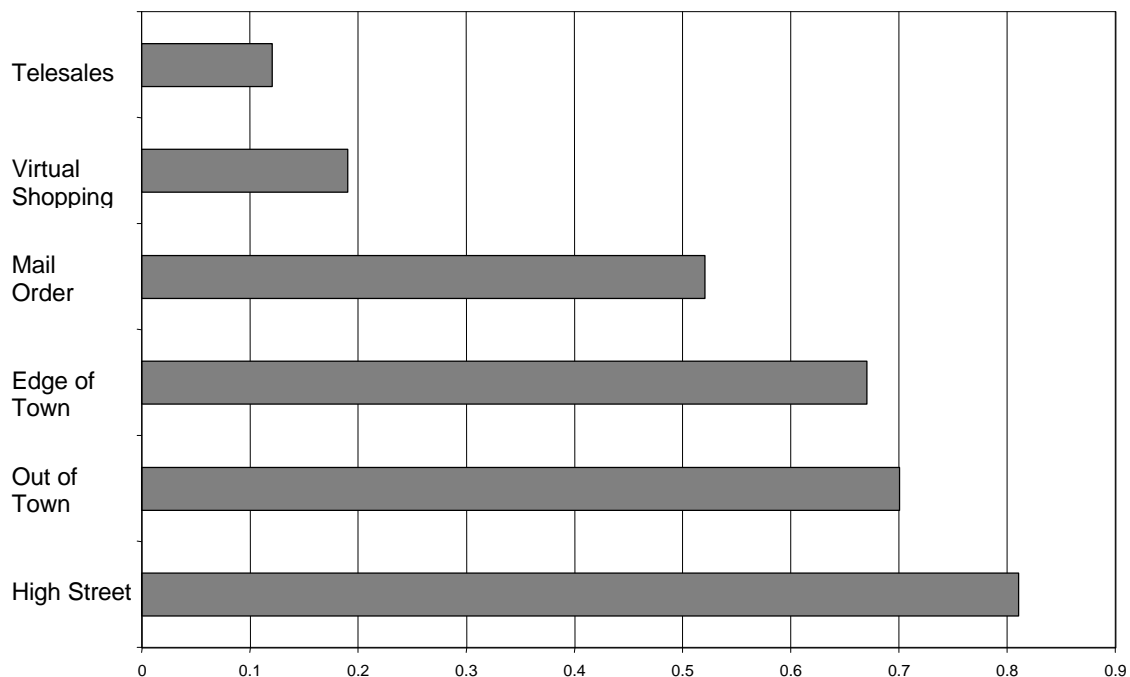


² A copy of the questionnaire used can be obtained from the authors

Not surprisingly, all of the companies in the study undertake retailing in-house. However in terms of warehousing the sample is split, only 41% of the sample were approaching self-sufficiency while 37% had none at all. The vast majority of companies had no in-house manufacturing activity and only a quarter appeared to undertake their after-sales-service in-house. The point to be made is that the companies in the sample are very diverse in their approach to delivering goods and services to the consumer, undoubtedly reflecting the sector as a whole. This will also mean that the associated corporate property portfolio will have varying degrees of scope and complexity ultimately resulting in different pressures and challenges in terms of real estate management.

However, retailing itself is a very diverse activity and can encompass different modes of sale from mail order to electronic commerce. We therefore examined the modes of retailing and balance of income from these sources in greater depth. Again we see (Figure 2) a wide variety of strategies related to retail delivery pursued within the sample although only a minority were involved in telesales and virtual shopping. In terms of the relative income earned from each of these activities, only a very small proportion of respondents were able to break down their turnover according to the categories provided. Given that we were interviewing the head of corporate real estate this may not be surprising. Nevertheless, it is worth noting that these senior property managers do not appear to have basic management information related to the retail activities to hand which may impede their ability to manage the assets proactively. This will be considered later.

Figure 2: Modes of retail activity: percentage involvement



These two aspects of diversity are likely to lead to very different real estate requirements for each of the organisations. For instance organisations which are highly vertically integrated and involved in a number of modes of retailing are likely to have very diverse portfolios from manufacturing sites and distribution centres to retail units in various locations and call centres. We asked the survey respondents to provide some information on their company's property portfolios. Most managers were unable to quantify the extent of their total property holdings by square footage or capital value. In general, however, managers were more

familiar with the dimensions of the retail portfolio. When managers were asked to provide information on the current market value of their holdings approximately 70% were not prepared to divulge the information. In approximately 30% of cases this was due to commercial secrecy and in the other cases it was due to not having information to hand. So apart from drawing the conclusion that current market value seems to be a relatively unimportant variable to a substantial minority of property managers it is not possible to provide an analysis of the data on current market value. The focus of information on the retail property may not be surprising as this is both most closely linked to the perceived “core” business and is likely to be the highest value real estate in the portfolio.

As well as managing the operational real estate, a third of the organisations indicated that they owned investment property. This indicates that while the property activities of the majority of firms are focused on the retail mission, there is a sizeable minority that engage in property investment as a business activity in its own right. However, some care is required in the interpretation of this statistic. A number of respondents referred to the fact that *some* of their investment property was residential space above retail units, not all of which, due to security and management issues, is let and much of which is unavoidable when purchasing a high street retail location.

Over half the respondents with property held as investment were unable to give any size details making data given by those who did respond difficult to interpret. The same was true of the current market value information. Even more surprising is that fact that the majority of respondents with investment property were unable to say what proportion of this portfolio was in retail. Those that did respond indicated that the proportion held as retail varied from a very low proportion to a very high one. It would be most unwise however to interpret this lack of ability to produce basic portfolio information as management inefficiency. However, it may indicate that property managers, even those looking after investment property, are more concerned with servicing the needs of the retail function than being purely property focused, especially given that some of these so called “investment properties” (i.e. flats) may have been acquired by chance.

In conclusion, the data gathered from the sample of retailer organisations provides evidence of the highly heterogeneous nature of this group in terms of the range of activities they pursue and, apparently, in the way in which they own and utilise their real estate resources. This has implications for the way in which corporate real estate research should be undertaken and raises questions about the appropriateness of business sector studies. This issue will be considered further in the conclusion. The following section will examine the corporate real estate strategy and structure of the participation organisations.

Current Real Estate Strategy & Practice

If structure follows strategy, it is necessary to first examine the real estate strategy being adopted and then how the organisation arranges and undertakes the required real estate activities. In order to capture the strategic intent, we asked the respondents to provide us with their real estate department's "mission statement" if one existed or to encapsulate what they felt it might be. These comments have been reproduced in Figure 3.

Strategy

The comments in the box have been divided into four categories in a two by two table. The first dimension is the degree to which the strategy seems to focus on *cost minimisation* or *added value*. These are represented by the columns. The second dimension focuses on whether the strategy has a *property* or a *business (retail)* orientation. These are represented by the rows. Although the data have not been subject to rigorous analysis, the review of comments strongly suggests that the majority of companies manage their assets with a view focusing the retail business by adding value or minimising costs. Put more simply the real estate team serves the needs of the retailers first.

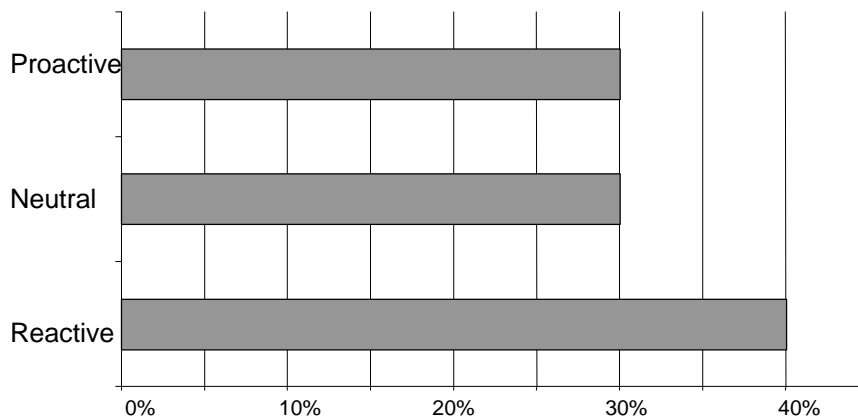
In recent years there has been some tendency for retailers and non-retailers to imbue their property units (however structured) with the mission of creating returns through pure property activity namely: investment, trading and development. In the case of our sample, approximately one third hold investment property and therefore may be seen to have, at least partially, this remit.

Although there is little documented evidence on this subject, anecdotal reports suggest that the pursuit of pure property objectives by organisations whose core business is non-property may lead to internal conflict. In the sample of firms within this study there appears to be little evidence of the pursuit of pure property objectives and some indication of the problems this may cause. For instance, one respondent mentioned that his organisation had: 'once operated in this way but this caused some bad feelings within the company'. They have since changed their way of operating as a result. Similarly, another respondent said that: 'his firm had thought about going down this route but decided against such a move because of the danger of intra-company conflict'. Generally, the majority of organisations seem to be committed to providing a platform for the success of the retail operations. In fact, the commitment to supporting retailing activity is one of the strongest factors uniting the group. This said there are a number of organisations that seem to take broader property objectives into account although these are always in conjunction with retail objectives.

In relation to another dimension of strategy, one of the key findings of corporate property research in recent years is that property groups follow trends in core areas rather than anticipating changing property requirements and seeking to meet these requirements ahead of time. Figure 4 provides a subjective indication of how quickly property organisations react to change based on the judgement made by the research team on information given during the interview. Issues such as *who initiates change*, *what information is available on the business and the property* and *what measures of performance are used* were taken into account when forming this assessment. According to our subjective estimate, 70% of companies in the sample are reactive or neutral. The term reactive is not used pejoratively. Figure 4 is presented to reinforce the point made above that the property function in the sample companies acts principally as a support to the retailers and therefore are driven by the changing business and corporate strategy of the organisation.

Figure 3: The Strategy of Retail Property Management.

	Minimise Cost	Added Value
Property Orientation	<ul style="list-style-type: none"> To ensure that property assets held for operational purposes are on the most appropriate tenure and terms. To dispose of properties not required for operational purposes. Minimise rents, ensure leases give flexibility. Spend as little as possible on property....this is difficult to achieve. Aim to minimise occupation costs, maximise rental income and in doing so optimise asset value. Aim to be as cost effective and cheap as possible with as little involvement from senior management staff. With a major thrust to open new stores. 	<ul style="list-style-type: none"> Aim to ensure that we achieve best rents at review, maximise income and carryout responsibilities in accordance with leases. Ensure that we get what we are entitled to. Development side...make maximum development profit; Asset side.....maximise return and enhance capital; Services side....right shops at the right place at the right time. Effectively manage the property estate to provide a cost effective and efficient service. Aim is proactive asset management
Business Orientation	<ul style="list-style-type: none"> Keep overheads to a minimum in property management terms. Potentialise the use of property, maximise the use to provide the best function for retail. To maximise the advantage of each location and reduce costs and the right square footage and right location for each town. Aim to minimise expenditure and maximise income. To provide convenient and operational shops. Investment portfolio is usually acquired with a retail unit i.e. flats above shops. If you are a retail organisation then investment property is not a primary concern. Increase the quality of the fleet, by looking for bigger and better retail units and getting rid of the dross Aim to be lean and mean! Aim to maximise asset value, minimise occupational costs. 	<ul style="list-style-type: none"> Main role of the property group is to aid company expansion. Aim to maximise the return to the business and to manage from a retail perspective. Aim to be active in the management of property to maximise the benefit for the retail function Aim to maintain high standards as a retailer with a customer focused property management and maintenance side. We are customer driven, our aim is to find new properties to benefit our customers and the stores. (customers are both customers and the retailers) Manage it proactively and efficiently for the retail function and at the same time aim to create value where we can. Focus on Customers (operations and retailers). Provide the best possible service to the client Aim to make sure the property suits the needs of our retailers and therefore customers and by doing so add value to the business (from the property perspective).

Figure 4: Proportion of sample with property function as reactive, neutral or proactive**Structure**

Examining the structure adopted for the management of the real estate, we asked companies involved in the survey whether property was a) managed centrally, b) managed by a dedicated subsidiary or c) managed by separate teams within each retailer. Ninety seven percent³ of respondents stated that property management was carried out centrally as a headquarters based function. Undoubtedly this reflects the key strategic role of property within the retail organisation and perhaps more importantly the strong relationship between property strategy and financing.

Exploring this further, the role of the real estate function within retail was examined. Figure 5 gives the responses to the question: what is the main role of the central property function. It can be seen that, whatever else the central group undertakes, they see their main role as one of information provision as well as serving the needs of the retailers. In many cases, specific property activities can be subcontracted but most retailer organisations see it as important to have a group within the firm that provides an independent view of the market and manages the activities of outside contractors. This function is increasingly being called the “intelligent” or “informed” client.

Figure 5: Main role of the property function

<i>Description of Main Role</i>	<i>Percent</i>
Provide property advice to retailers	41 %
Provide advice and or manage consultants who undertake property related work	22
All or some of a range of activities *	30
Other	7
* Provide advice to retailers, manage consultants, ensure retailers aware of market rents, property overview (ensure that other property groups are fulfilling their function), property investment (ensure that freehold is achieving appropriate return)	

³ This statistic should be treated with some care since there is a difference between a group HQ and a divisional HQ. We believe that in three cases (11%) respondents were referring to divisional, not group, HQ. Given the size and diversity of some of the retail groups in could be contended that a Divisional HQ in a large diversified group is equivalent to a Group HQ in a single sector retailer.

Following *Gibson et al.* (1995c) the property related activity were investigated in three categories: transactional, technical and consultancy. Figure 6 shows which *transactional activities* (e.g. acquisition, disposal); *technical activity* (e.g. maintenance, landlord and tenant, valuation) and *consultancy activities* (e.g. research, technical and management consultancy) the central group function is responsible for and which were outsourced. It is clear from this figure that the range of activities undertaken by the central property function is wide and diverse.

Figure 6: Activities Undertaken by Group Property Function

	<i>Do Not Do</i>	<i>Undertake Internally</i>	<i>Subcontract</i>	<i>Undertake <u>And</u> Subcontract</i>
<i>Transactional</i>				
Acquisition & disposal	4 %	59 %	4 %	33 %
Development	41	41	7	11
Investment	67	15	7	11
<i>Technical</i>				
Property maintenance	7 %	56 %	26 %	11 %
Refurbishment	19	52	18	11
Valuation	4	52	26	19
Landlord and tenant		70	11	19
Property management		85		15
<i>Consultancy</i>				
Property research	30 %	44 %	11 %	15 %
Property consultancy	70	4	22	4

The transactional activities are the first group of activities to be considered. Perhaps the most basic property activities are acquisition and disposal, re-balancing the portfolio in the light of the changing needs of the organisation. Yet this activity is perhaps the easiest to subcontract. A high proportion of retailers actually engage in acquisition and disposal activity and this undoubtedly reflects the fact that there is a strong need to have a centralised overview of the way in which the retail portfolio is developing. It may also be the case that retailers undertake acquisition and disposal because it is possible, utilising information generated in other activities, to take advantage of the property market's undoubted inefficiency⁴ to generate returns for shareholders.

A large minority of the retailers in the survey do not undertake property development. Those who do tend to carry out this activity in-house. The reasons for this are probably similar to those for acquisition and disposal. Most importantly there is considerable opportunity to make gains from development if it is carried out judiciously which would relate to Nourse and Roulac's (1993) strategy of *capturing the real estate value creation of business*. As noted before, relatively few retailers engage in property investment for its own sake but those that do generally undertake it in-house.

The second grouping in Figure 6 gives an indication of the range of technical activities that the group property function undertakes in the sample of retailers. That such a high proportion

⁴ In an asset market that is inefficient it is possible to buy low (i.e. lower than the gross present value of the income stream) and sell high (i.e. higher than the gross present value of the income stream).

of property maintenance and refurbishment is undertaken in-house undoubtedly reflects the fact that upkeep of retail property is an essential part of maintaining an all-important brand image. Again this can be related to the Nourse and Roulac (1993) strategy of *promoting the marketing message*. The high level of landlord tenant activity and property management activity undertaken within the central group function is also likely due to the mission of the property group to enable the retailers to carry out their activity as effectively as possible.

The final category of activity relates to research and consultancy advice whether that be related to the property market or more generally to the property management process. Organisations are more likely to investigate the property market than seek management or technical advice. It appears that these retailers are running their property organisations on the basis of professional expertise and accumulated wisdom rather than systematic research or external advice. However it is also apparent that these organisations continue to attempt to improve and develop their in-hour property management function.

Management change

Reflecting perhaps the dynamic nature of the retail sector as well as developments in corporate property management, 78% of companies in the sample acknowledged that they had changed the way they managed their real estate over the last five years. It was not possible to capture the dimension of change quantitatively yet the comments made are instructive about trends in the sector. Figure 7 reproduces, with some editing the views of the respondents.

Again it is possible to provide a framework related to the drivers to change. These have been grouped into the following categories:

- *matured over time and gained greater sophistication in approach,*
- *re-focused on the core retail support activity,*
- *obtained greater support from key business decision makers, and*
- *change of personnel both at the top level and lower down.*

These comments also reflect the fact that the sample is drawn from a set of reasonably successful retailers and therefore a certain proportion of the comments reflect change due to growth. It is also quite evident that competitive pressure is one important source of change in property management.

Figure 7: Changes in property management practice

Maturing Property Management Function

- *Grown the business considerably, therefore we have had to become more professional in the way we do things. The property function has matured.*
- *Changing management because we have grown, as a result we have become more formalised and systematic in our work*
- *We are more proactive in terms of dealing with issues before they arise.*
- *Become more professional, more proactive in asset management and the management plans for the stores.*
- *Have become more structured.*
- *The company has grown bigger over the last 5 years. Five years ago property was managed centrally but now property is independent.*
- *Has improved, most people are under pressure to analyse and be on top of everything. There is pressure to be more comprehensive...there is always the threat of outsourcing if we are not efficient.*

- *We have become more market driven. We have a better relationship with our landlords. We have changed to reflect the economy. Deliver the appropriate function whilst we are function based we get involved across the whole spectrum of activities, we are team players and this underlies everything.*
- *Talked of talking to other retail property departments felt they had a good relationship with them, better than the commercial departments of surveyors. Felt that retail property departments understood each other because of the nature of retailers and their specific requirements.*

Increased focus on Core Retail Activity

- *There is a closer examination of financial returns from retail sites. Don't manage as a landlord it caused problems for us in the past. A 'them and us' situation existed and this didn't foster good relations. They (the retailers) felt that property was taking money from them to put in our own coffers. There is a closer examination of financial returns from retail. Because most are on short leasehold there is little potential to exploit potential sites.*
- *Property division used to be a separate subsidiary company. The retailers decided that property should not be a business in itself, but an advisor and support. It does work better because we are retailers and therefore more sensitive to retailers needs and not just looking for a good property deal.*
- *More cost orientated*
- *Have diminished in importance, decisions and power have been transferred away from property...everyone other than property make property decisions. Although they are generally unaware of the consequences of those decisions....Marketing rules today! Don't think the current structure is appropriate...any ideas welcome but can't change the world I'm afraid.*

Closer link to Business Decision Makers

- *Become more focused and targeted as a result of board level decisions*
- *Have become more professional because retailers have become more interested in property*
- *More stores, more computerised, more specialised part of the property market and therefore only we can meet our needs. Property research is increasing in importance. Always looking to improve. The structure is OK but retailers don't always understand property. There is never really enough time to increase the potential of property... not enough staff.*
- *Measures are more sophisticated need to prove that we are more cost effective.*

Changing Personnel

- *There has been a rearrangement of the management functions, a new director of property was appointed two years ago this resulted in another level to the management structure.*
- *We do manage more, but we are involved more possibly because we have more staff we can afford to cover a greater number of things.*
- *Structure has changed as a result of downsizing and restructuring... we are better for it.*

One of the most intriguing aspects of the section is that there is some evidence of a retreat from property functions operating as independent 'arms length' landlord. However these comments are complementary to the earlier finding that these organisations main objectives were driven by the retail business. Overall therefore, the survey findings seem to confirm the realisation that property management can never drift too far from the needs of the core retailing business.

Change and Future Response

As well as considering current strategy and management practice, the research also sought to review how the corporate real estate managers saw the future trends in retailing and the impact of those on the way in which they managed their real estate portfolio. Therefore, we asked respondents to comment on the likelihood of future changes in the balance of their activities. It is difficult due to the wide range of replies to summarise the responses. Instead we have provided a review of responses in Figure 8. Comments seem to fall into two categories: those concerning *the location of retailing* and those dealing with the emergence of *new modes of shopping*.

Corporate real estate managers do not seem to be signalling that larger changes should be expected in the location of retailing. For instance, there is no evidence of a strong pressure on sample companies to move out of town, quite the contrary in fact, with some companies seeking to increase their high street presence. What is unclear at this stage is whether this is a reaction to current government policy or is driven by consumer demand. The property professionals responding to the questionnaire are going to be acutely aware of the influence of PPG6⁵ and other planning guidance attempting to drive retail activity to the town centre.

Much more significantly perhaps is the way in which many of the firms are considering increasing their share of mail order and internet delivery although many of the comments are rather muted. They do not appear to signal a significant or fast shift in the modes of retailing. This aligns with recent research on the impact of new management practices and technology on office usage where it is felt that the changes to new ways of working (hotelling, hot desking) would gradually result in an evolution in associated property requirements (Lizieri et al 1997).

However, any substantial drift towards ‘distance shopping’ would obviously have profound implications for the value of traditional “retail units” and the future of the town centre. As yet internet sales represent a relatively small proportion of retail turnover, a fact which is confirmed by our survey, but there is some expectation that this share will grow (Borsuk, 1997; Knight Frank, 1997). Were this to increase in importance there would obviously be a transfer of value from retail properties to warehousing property and other property which enter the retail value chain such as ‘call centres’. A key issue in retail research in the future is estimating the way the retail sales will be divided between the new forms of retailing (telesales and internet delivery) from the traditional store based retailing (Borsuk, 1997). This has implications for the role of property based retail outlets, moving from where transactions take place to showroom or promotional platforms.

Figure 8: Comments on likely future changes to your retail operations.

Changing Location of Retailing

- *Diversification: see that the company may increase its role within the high street and reduce its role out-of-town.*
- *Some move in the future towards factory outlets, but this would be fairly insignificant.*
- *More in-town as a result of Government promotion of town centres. More home shopping.*

⁵ Planning Policy Guidance 6 relates to the desire of the Government to reduce car journeys and therefore to concentrate retailing within existing town boundaries.

- *Look to move towards other forms of shopping like on the internet and out of and edge of town.*
- *No real plans to change the structure of retail activity, though there may be an increase in the ratio in favour of out-of-town.*
- *Will expand high street and edge-of-town assuming that the 'policy' status quo remains the same.*
- *Policy to stay in the town centre if we can.*

Changing Mode of Retailing

- *I'm a property person, I don't know about retail strategy. XXXX started looking into virtual shopping so I suppose we will have to.*
- *There will be an increase in XXXX Direct in the future.*
- *No plans for change at the moment but believe the internet will be looked at in the future.*
- *Increase mail order.*
- *We need to look at other ways of selling goods. Possibly the selling of advice is the way forward.*
- *Mail order, home shopping will increase in the future but will only amount to a small proportion of retail sales.*
- *Virtual shopping is likely.*
- *Telephone ordering and mail order are likely to increase.*
- *Looking at lots of things, the internet is one.*
- *Can't really see a change in the retail activity we are involved in, people like going out of their homes to go shopping. The internet is good for standard items like CDs it is not so easy for clothes. We are however looking at interactive technology within the stores, and have considered the internet.*
- *Looking at the internet, but no real change expected.*

A final point to make on the subject of change concerns the suitability of current arrangements for property management. Eighty five percent of the sample think that the current structure is the most appropriate for '*delivering operational property to the retail function*'. Eighty two percent believed that the current structure was appropriate to '*ensuring that the value of real estate is understood by retailers and senior managers*'. Seventy seven percent believed that the current structure was suitable for '*exploiting any latent potential in the value of real estate assets owned by the group*'.

It can be clearly seen from this that the majority of managers are happy with the way corporate real estate units are currently organised. Without introducing undue cynicism, these findings must be treated with some caution since they probably reflect a quite normal human desire for stability and lack of self analysis. It is probably true that to a certain extent property management has become more sophisticated over the past five years but it is most unlikely that the pace of change will diminish (Gibson 1995b). The business environment will change (Gibson, 1995a), in particular internet shopping is likely to develop, and property managers will have to change as well. This point is substantiated by some of the comments that were made alongside the responses to the 'current structure' questions. These are contained in Figure 9 and to a certain extent they indicate that managers are not entirely happy with their current arrangements.

Figure 9: Appropriateness of Current Structure

Delivering the appropriate operational property for the retail function

- *Need more staff . Need to change the regional structure into more distinct units which correspond to the retail units. The estates functions don't always know whether they are responsible for certain shops. Need more clarity*
- *More staff are needed to improve the situation*
- *We are a retail company, it is not retailers jobs to understand property. They need to know how to make profits on retailing.*
- *Structure is set up by talking to retail colleagues. Overall brief to get to know the stores and the problems associated with them. Retailers would like someone local to shout at when things go wrong.*
- *Property is an extremely valued department in XXXX*

Ensuring that the value of real estate is understood**by both retailers and senior managers**

- *More staff are needed to improve the situation*
- *Difficult to get the retailers to understand the changes in the future retail market and work accordingly.*
- *Don't look to maximise the resource from property. Talked about breaking away and becoming a property subsidiary but felt that our real role was one of support*
- *We have a problem with the vacant investment property. This need to be intensively managed, especially with regard to rent collection etc. Often better not to let flats above shops But now becoming involved with Housing Associations and living above the shop programme....good. Also heavily into town centre management*
- *We have focused activity on development and asset management...as a result development meets retailers needs and asset management meets property needs and ensures that property is being used effectively*

Exploiting the latent potential of real estate assets owned by the group

- *We are personnel poor, we could be doing more but lack the man power to do it.*
- *Don't know of a practical solution to this one*

Summary and Conclusions

This study has investigated the corporate real estate strategy and practice within the retail sector and provided an opportunity to look at the strategic business drivers in the sector and their implications for the real estate. Even though this paper investigates a single business sector, it is clear that there is as much diversity as there is commonality within the group.

The diversity is not just in terms of the type of goods (convenience, comparison, and leisure) but also in terms of the way in which each organisation approaches the market. The degree of vertical integration and the range of modes of retailing will have a significant impact on the scope and complexity of the real estate portfolio required to support the core business. In addition some retail organisations have also diversified into property investment and development activity in their own right and therefore hold properties with objectives related purely to financial return. This adds yet another layer of complexity onto the already multi-faceted set of real estate related objectives.

However, when examining the real estate strategy and practice, there does appear to be a degree of mutuality, at least at the highest level. The over-riding remit of the majority of the corporate real estate managers and their teams is to “*support the core [retail] business*” thus the strategy and structure emerge from this focus. This is apparent not just in terms of the way in which organisations currently manage their real estate portfolio but also in terms of the way in which they feel they should do so in the future.

In general management terms, these are not surprising findings. Functional strategies should emerge from business unit strategies which in turn are derived from the overall corporate strategy. An organisation cannot decide how it should best mobilise its resources until it is clear about which businesses it intends to be in and how it will compete within those business sectors. A corporate real estate strategy concerns how to mobilise the real estate resource to support the business objectives. This appears to be exactly what the group of retail organisations within the sample are attempting to do.

However, the implementation of that strategy, again reflects the diversity of the group but also appears to depend on where on the path to improved real estate management practice they currently stand. Again this supports other research which has investigated the stages of how corporate real estate teams evolve and mature over time (Joroff *et al.* 1993).

In terms of the future challenges, the group appears to be rather near-sighted in their views. On the one hand they are conscious of local trends (pressure for move to town centres) while being rather muted in their views about the impact of new modes of retailing, particularly internet based transactions. Again this is not necessarily a fault if one accepts that the real estate strategy is derived from the higher level corporate and business unit strategies. But the question remains whether the most senior corporate real estate manager should be taking a longer-term view so that the real estate issues are brought into the analysis at these higher levels. At least one of the themes for future improvement (*Ensuring that the value of real estate is understood by both retailers and senior managers*) is an attempt to get real estate on the strategic agenda.

So what are the lessons for future research? Corporate real estate research is still in its infancy. This study, like many which have preceded it, has mapped out a picture of the current situation. It has provided a snap-shot and developed some frameworks for making

sense of a rather complex and messy picture. It has answered the question *what is currently taking place?* and therefore make a valid and interesting contribution to the debate.

However, for the field to move forward both *how* and *why* questions need to be further investigated. These are by far the more difficult to answer and are likely to require more detailed information and longer-term involvement from the participating organisations. They will also require different, often qualitative research methodologies, which are less familiar to real estate researchers. This therefore is the real challenge for corporate real estate researchers and practitioners. If corporate real estate research is to move onto the next level, it will take openness and a partnership approach in order to answer some of these more fundamental questions.

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