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Internal Rents and Corporate Property Management
A study into the use of internal rents in UK corporate organisations

Robert Cock and
Nick French (corresponding author)
Department of Land Management and Development
The University of Reading, Reading, Berkshire
England, RG6 6AW
TEL: +44 (0) 118-931-6336 FAX: +44 (0) 118-931-8172
e-mail: N.S.French@reading.ac.uk
Home Page: http://www.reading.ac.uk/LM

ROBERT COCK is Operations Manager,
Property Services Department, Nationwide Building Society, UK.

NICK FRENCH is the Senior Acacia Lecturer in Land Management and Jonathan Edward Consulting, *Fellow in Corporate Real Estate* at the Department of Land Management and Development, The University of Reading.

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Abstract

Research in the late 1980s showed that in many corporate real estates users were not fully aware of the full extent of their property holdings. In many cases, not only was the value of the holdings unknown, but there was uncertainty over the actual extent of ownership within the portfolio. This resulted in a large number of corporate occupiers reviewing their property holdings during the 1990s, initially to create a definitive asset register, but also to benefit from an more efficient use of space.

Good management of corporately owned property assets is of equal importance as the management of other principal resources within the company. A comprehensive asset register can be seen as the first step towards a rational property audit. For the effective, efficient and economic delivery of services, it is vital that all property holdings are utilised to the best advantage. This requires that the property provider and the property user are both fully conversant with the value of the property holding and that an asset/internal rent/charge is made accordingly.

The advantages of internal rent charging are twofold. Firstly, it requires the occupying department to "contribute" an amount to the business equivalent to the open market rental value of the space that it occupies. This prevents the treating of space as a free good and, as individual profit centres, each department will then rationalise its holdings to minimise its costs.
The second advantage is from a strategic viewpoint. By charging an asset rent, the holding department can identify the performance of its real estate holdings. This can then be compared to an internal or external benchmark to help determine whether the company has adopted the most efficient tenure pattern for its properties.

This paper investigates the use of internal rents by UK-based corporate businesses and explains internal rents as a form of transfer pricing in the context of management and responsibility accounting. The research finds that the majority of charging organisations introduced internal rents primarily to help calculate true profits at the business unit level. However, less than 10% of the charging organisations introduced internal rents primarily to capture the return on assets within the business.

There was also a sizeable element of the market who had no plans to introduce internal rents. Here, it appears that, despite academic and professional views that internal rents are beneficial in improving the efficient use of property, opinion at the business and operational level has not universally accepted this proposition.

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"The aim of internal rents and other occupational charges is to ensure that each user of space understands the full cost of its operations, including accommodation."
Real Estate in Corporate Strategy (Weatherhead, 1997)

INTRODUCTION

During the last ten years of the 20th Century there was a structural change in the business environment worldwide. The advent of e-commerce, greater globalisation and business expediency driven by new technology all culminated in companies revising the way in which they operated. These changes have had a substantial impact upon the way in which companies utilise and price their physical space requirements. (RICS, 1997). From the viewpoint of an operational company, property fulfils two roles. Firstly, it provides space from which the business can operate. Secondly , it is a financial asset. These two role combined should place property at the centre of any business strategy.

Property is one of the three "factors of production[1]". The other "factors" are money (capital) and people (labour). As a factor of production it will be viewed as a cost to the company[2]. That cost is deducted, in the case of leasehold properties, as rent paid and, in the case of freeholds, as a charge (depreciation) for usage. However, due to current accounting requirements, it is possible that this depreciation charge fails to fully account for the real cost of the asset to the occupier. This applies principally, although not exclusively, to freehold property. This paper investigates ways in which the "true" cost of occupation can be attributed to the end occupier and how this, in turn, can help companies identify the performance of their property holdings as financial assets.

Changing Business Patterns.

The late 1990s has seen a substantial change in the way in which businesses operate. During this period, a number of business trends have developed and culminated in companies seeking greater flexibility and greater efficiency in the way in which they carry out their business. Globalisation and new information and

1 Some commentators consider that "information" and "communication" are also factors of production. However, most of the economic literature consider them to be a sub-set of the principal three listed.
2 A property investment company has a different view as the property itself is the "product" and is the income producer.

communication technology have all impacted upon the need of businesses to rationalise their operations. Only efficient and effective firms will be able to keep ahead in an ever increasingly competitive world market. This has led to the need to flatten the organisational hierarchies, outsource non-core business and question the traditional views of location requirements, distribution and space allocation.

These new business patterns have impacted upon all the traditional factors of production. Capital is now being raised on a global scale, through new and innovative financing vehicles. The result is increasing competition and thus the average cost of capital via non-traditional routes has been falling and standardising. Stock markets have generally been buoyant, reaching all time highs in all the major world markets. Human resources are being utilised on new, non-traditional, contracts. Many employees are now part-time or are on short contracts. In many cases, work is outsourced to remove the ongoing burden from the main payroll, allowing greater flexibility and at the same time lowering costs. Only the core staff are retained on full time contracts. Peripheral staff numbers will vary according to the economic climate.

The Impact on Property

Property costs are one of the largest sources of overhead cost for most corporate organisations, typically second only to staff costs. In recent years, and particularly during the recession of the late eighties and early nineties, businesses have focused increasingly on cost-cutting, and one major area for that focus has been property costs. Yet, traditionally property has always been viewed as a 'reactive' asset; one which is bought or rented as a result of operational need. Where space is rented, the cost of occupancy can be judged directly via the rent (and associated costs of occupancy). Where it is bought, this market cost is not directly related to the operating unit. One would like to think that at the time of purchase, the relative merits of "own" vs "rent" were assessed, but over time this analysis becomes historic and the only "cost" that impacts on the company is the depreciation within the accounts (which could be considered to be a benefit in terms of tax planning) and/or any interest payments related to the purchase of the property. Even where these elements are allowed for appropriately, it would be rare that the payments would be allotted back to the particular operational unit that occupies that property. In other words, there can be a distinct mismatch between the assessment of the cost of space that is rented and space that is owner occupied. This makes rational decisions about space requirements difficult, as there is no common external benchmark to price the space used.

The efficient pricing of owner-occupied space can be viewed in three ways. Firstly, if space is priced effectively, an occupational unit can judge how efficiently it is using its allocation and, if management systems encourage the efficient use of space, it is reasonable to assume that the unit will release space that is not being used. This is particularly true if each unit operates as an individual profit centre and increased profits affect the annual bonuses of the decision makers within each unit.

Secondly, as a property manager, if you know that your individual operational units are aware of the true cost space and that this is charged directly to the individual profit centres, then it is unlikely that you will choose to occupy anything more than is required. By eliminating surplus space, the company's overall cost of occupation will decrease (and may release capital if the surplus space is disposed of in the open market)

and this will directly lead to higher profits. This, in turn, will make the company more attractive to investors, as it will mean more money available to distribute as dividends (although it is appreciated that excess cash may not always be passed onto the shareholder) and ultimately it may impact positively on the share value (more attractive shares trade for higher prices). This role of property within the balance sheet is often overlooked (Nelson et al, 2000).

The third way in which space pricing can assist companies is in the strategic management of their owner-occupied property holdings. Property is a financial asset, but unlike other assets its contribution to the business tends to be viewed in a passive manner. It is often held in the accounts on a historic cost basis and rarely is its performance measured in any specific way. By identifying the "return" of the asset in the form of the price for the space, it is possible to judge whether the asset is performing sufficiently to merit its retention, or whether alternative ways of space provision would be more cost effective.

Alan White, the property director for British Telecom (1999) stated that "the key is to breakdown real estate data and relate them to measures that the chief operations officer is used to seeing…" In other words, property directors need to talk the same language as their financial colleagues if they are to instill the benefits of good property management into the overall strategy of the company (Binder, 1999).

Transfer Pricing

By identifying the price of space for owner-occupied property it is possible to introduce a system of charging internal rents within the company. Typically, the cost of occupying and holding property is the second or third highest cost for corporate business with property costs representing 5% or more of turnover (Avis & Gibson, 1995). Similarly, the current market value of property owned by such organisations accounts for more than 30% of total net assets for the majority of corporate organisations. It is therefore self-evident that proper management and control of these cost drivers and assets is critical to an organisation's success.

One management tool that can be used to help manage the cost of property (and to a lesser extent, its asset performance) is the charging of internal or notional rents. Most businesses have as their primary objective the maximisation of profits for their shareholders. This commonly involves the combining of the factors of production in the most efficient way to produce a product or service and earn a surplus of income over cost. The efficient employment of resources is a central management activity.

In smaller organisations, the responsibility for combining those factors of production (including property) and delivering the product to market tends to be concentrated within a single organisational structure. Consequently, overheads are typically well-known to senior management, well understood and well controlled (to the extent that they are controllable). However, as organisations grow, the increased scale of operations tends to make lines of communication more hierarchical with the result that businesses reorganise themselves into divisions in order to remain efficient. These divisions typically focus on specific areas of activity within the overall corporate business. The corporate strategic and finance departments, together with the facilities-related and other support functions, tend to remain at the core.

The purpose in divisionalising a business structure is to provide clear and specific business objectives within the divisions. Managers are motivated to deliver the particular objectives of the division in which they work, and achievement of their objectives are measured as individual profit centres. Where one division provides a good or service to another, there is clearly a need to transfer that good or service at a price that not only makes sense to both divisions in terms of their profit objectives, but also maximises corporate profit.

The inter-divisional accounting mechanism devised to coordinate this system is known as Transfer Pricing. Transfer pricing falls within the area of management accounting, which places the notion of responsibility accounting at the centre of the management control system. It conforms to the classical principles of management that emphasize lines of authority and responsibility. Scapens (1991) argues that "transfer pricing can be viewed as a means of contriving divisional decisions to maximise group profits." This will impact not only day to day operational decisions but also long term investment decisions (Tomkins & McAuley, 1992).

Transfer Pricing And Property

Historically the use of transfer pricing in a property context has been limited. As previously noted, in the UK (and to a lesser extent in the US) property is typically provided, managed and maintained by a "service" department at the core of most large businesses. These departments tend to operate in a reactive way, responding to the requirements of the operational divisions. The initial costs, and more frequently nowadays, the running costs of property, are factored into the investment decision-making process. But once the property is acquired, it is often left in the management of the service department, and the real costs of holding it are lost in the corporate accounts. No transfer price in the form of an internal rent is levied.

Where an organisation chooses to introduce transfer pricing for property, it forces the organisation to recognise explicitly the overhead costs associated with property, and relate them directly to the business activities that incur them. It enables the organisation to take a much more informed view of business performance. Those parts of the business where the property cost overheads exceed, or reduce to unacceptably low margins, the ability of that profit centre to generate a surplus are exposed to management scrutiny. Whereas before poor performing factors of production were hidden in overall corporate costs, they now become revealed and action can be taken.

The Use of Internal Rents in UK Corporate Business.

There has been only a limited amount of research into the use of internal rents in the UK. The seminal works in the area are *Managing Operational Property Assets*, (Avis, Gibson and Watts, 1989) and *Property Management Performance Monitoring* (Avis et al, 1993). A later study, *Real Estate Resource Management* (Avis and Gibson, 1995) looked at the changing emphasis of internal rents programmes on a number of prominent UK businesses.

The Avis and Gibson studies look at the broad spectrum of operational property management in the UK context, both in the private and public sectors. As the original 1989 study acknowledges, it was initiated in light of growing concern in the US and UK that operational property was not being effectively or efficiently managed. These studies followed on from previous work by Harvard University in 1981 (Zeckhauser and Silverman) and by Veale (1987). These studies were amongst the first to highlight the lack of priority given to property by corporate organisations in the US, and their failure to recognise property as a key resource.

There has however been one piece of research specifically targeted at the charging of internal rents; *Charging out 'Internal (Asset) Rents' - Internal Property Management Accounting Practices* (Hillier Parker, 1993). This looked in detail at the use of this approach amongst a small sample of UK corporate businesses, and provides some detailed and useful insights with which this paper aims to draw comparisons. The Hillier Parker research took place in 1993, at the bottom of the recession and surveyed a cross-section of UK-based corporations all of which occupied large amounts of commercial floor space. The sample was chosen to represent a broad range of industry types such as manufacturing, high-tech, service and distribution organisations.

For the purposes of the research, Hillier Parker defined organisations as having a *"system of internal rents if they charge some or all of their property users an 'asset' or 'notional' rent for at least some of the property which they occupy"*. The Hillier Parker study found that 69.5% of their sample had internal rent systems although there was a widely varying degree of sophistication and coverage in what each company considered to be an internal rent system. Where no internal rents were charged, the organisations were commonly structured into subsidiaries/operating companies/business units with responsibility for their own property.

Where internal rents were charged, in most cases the decision to introduce a system of charging was taken on the joint initiative of the central property department and the finance department. This was found to involve people at the highest managerial levels; typically main board directors. These themes are discussed further in the light of the author's own study detailed below.

The Research

The purpose of this present research was to gather information about the use of internal rent charging systems amongst UK-based corporate property occupiers. The target population chosen for the study was the membership of the Property Managers Association (PMA). This is a common interest and lobbying group with a membership drawn from the property management departments of a large range of UK-based corporate organisations. The membership comprises private and charitable organisations for which property ownership is not a primary function. The survey was undertaken in 1997. This was an interesting time for the corporate real estate profession as the markets in the UK were experiencing an upturn in fortunes and there was a view that the recessionary experiences of the early 1990s were passed. Many organisations had used the recessionary period to assess their systems and internal procedures in an attempt to limit their costs. At a time when revenues are being squeezed, the effective management of

corporate assets can have a considerable affect upon the bottom line profitability of a company. The survey date was therefore very pertinent. It is noted that there may have been significant changes over the last three years and this would benefit form further research, but the results as presented show a clear snapshot of thought at transitional point in the market.

The objective of the survey was to collect data from the target population specifically relating to the subject of internal rent charging. The stated objectives of the survey were:

- to establish what proportion of the sample operates a system of internal rent charging;
- to identify the principal reasons for introducing the system;
- to identify whether the system typically delivers the results expected of it;
- to identify how the system is typically organised;
- to identify any commonly perceived benefits and drawbacks;
- to establish whether there has been a move away from the system; and if so;
- to establish any common reasons why.

The survey forms were sent to the whole PMA membership. Of the 123 forms sent, 55 useable responses were received. This represents a response rate of 44.7%, which compares favourably with the response rates of previous studies. The total number of properties occupied by the sample, as declared in the completed questionnaires, is 28,907. A complete list of the respondent organisations is included at Appendix A.

It is noted and accepted that the response comes predominantly from retail occupiers who may view their property holdings in a different light to non-retail occupiers. In the retail sector, the comparative facility cost may not be the principal driver for rationalisation. Location is a major factor that might not be completely reflected in the internal rent process. "Locational goodwill" is generally excluded from the calculation of open market rent on which the internal rent will have been based. That having been said previous research (Avis et al, 1993) concentrated upon a retail occupier as one of its case studies and it was clear that the internal rent process was critical in their rationalisation decisions.

Similarly it is noted that the responses can only be viewed as indicative as the results are not statistically significant.

In order to form a view as to the validity of extrapolating from the sample to the wider property occupying population, it is useful to understand the structure of the sample. The survey respondents classified their own organisations by economic activity, with the following results. In absolute terms the structure of the total sample, relative to the respondents, is shown in Table 1.

Table -1: Analysis of respondents by principal economic activity

Principle Economic Activity	No. Of Respondents	Members of PMA

Retail Distribution	38	101
Banking, Finance & Insurance	5	9
Hotels, Restaurants & Catering	3	5
Other	3	3
Energy & Water Supply	3	5
TOTAL RESPONSES RECEIVED	52	123

NB: 3 of the total of 55 respondents did not answer this question.

The range in the size of the property portfolios managed by the respondents is large. The smallest portfolio comprises just 13 properties; the largest is about 3000 properties. There is a strong and understandable skew in the distribution of portfolio size to the lower end, as shown in Figure 1.The average size of portfolio is 535 properties, but the median is 340.

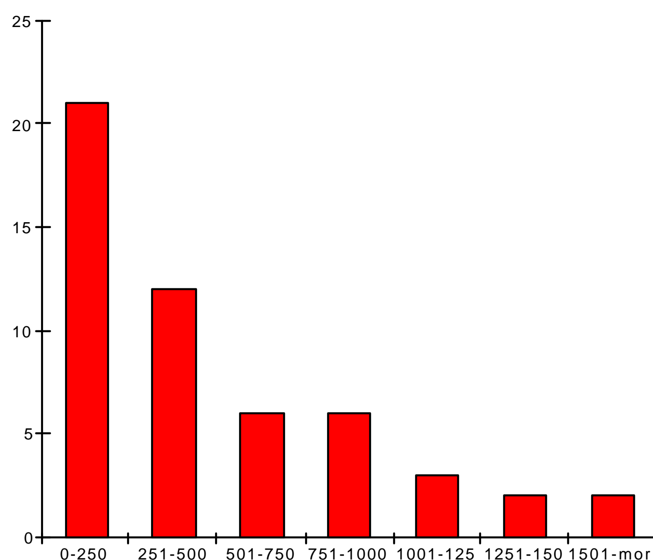
The Research Findings

The primary research purpose was to establish the extent of internal rent charging in the population studied at the survey date. The proportion of the sample that use some form of internal rent charging is shown in Table 2 below.

Table 2: Use of Internal Rent Charging

Organisations	Number	%
Charging Organisations	29	53
Non-Charging Organisations	26	47

Figure 1: Structure of Respondents by portfolio size



The 29 organisations that charge internal rents account for some 15,700 properties (54% of the sample). The charging group includes the largest and smallest portfolios in the sample. The mean portfolio size for charging organisations is 557 properties, the median is 349. Both the median and the mean are slightly higher than for non-charging organisations in the sample. It was interesting to note when the majority of firms introduced the system of charging internal rents. This shows a fairly regular profile of introductions from the 1970s onwards, with a peak in the first half of the 1990s.

Reasons for Internal Rents

The survey also examined the reasons why charging organisations introduced internal rents and whether organisations believed the system influenced management thinking. The questionnaire asked which of the four given reasons for introducing internal rents most closely matched the organisation's motivation. The results are shown in Table 3.

Table 3: Primary purpose of Internal Rents

Primary purpose	**Number**	**%**
To calculate true profits	17	59
To inform occupiers of true costs	10	34
To evaluate and capture the return on property assets	2	7
To encourage the release of surplus space	0	0
Total of respondents to the question	29	100

This shows that nearly 60% of the sample who charged internal rents did so in order to calculate true profits. The next most common reason was to inform occupiers of true costs. Only 7% of respondents were interested in evaluating the return on the asset. Perhaps the most surprising finding however is that none of the respondents believe they introduced internal rent charging primarily in order to encourage the

release of surplus space. In the context of the post recession economy, one would have expected cost control to be a major consideration in management thinking. However, this may be a reflection of the dominance of retailers in the responses, where the use of costs may not be, as discussed above, the principal driver in indicating surplus.

A further question asked what the secondary or subsidiary reasons were for introducing internal rents. The results are shown in Table 4. Facilitating the "performance measurement of the business" was the most frequently cited of the secondary or subsidiary reasons for introducing internal rent charging in the present study, being selected by only 3% fewer of the sample than picked "to calculate true profits" as the primary reason. Two other reasons were both selected by 14 organisations. Informing occupiers of costs and encouraging the release of surplus space, and facilitating general budgeting and planning were both cited by 48% of respondents to this question.

Table 4: Secondary or subsidiary reasons for introducing internal rents

Secondary Reasons for introducing internal rents	**Number**	**%**
To facilitate the performance measurement of the business	16	55
To inform occupiers of costs and encourage release of space	14	48
To facilitate general budgeting and financial planning	14	48
To facilitate a more accurate pricing of products and services	7	24
To evaluate and capture the return on property assets	6	21

Objectives

Having determined the reasons for introducing the internal rent systems, it was important to identify whether the companies felt that they had achieved their objectives. Of the 27 respondents who answered the question, 93% stated that the objectives were met by the system. Less than 8% of the responndents stated that the objectives were not met. One of these stated that:

"The system is in its infancy and relates to intra-group subsidiary cross charging. A more developed and universal system is planned for 1997". (Financial services multiple)

The second stated that the objectives were not met due to the way in which the system was administered for the entirely leasehold estate.

"Rents are only reviewed in the financial year the property is subject to a rent review. To be accurate all rents should be reviewed annually." (National multiple restaurateur)

In both cases, the reasons the system was seen as not meeting its objectives were related to the stage of implementation of the system, or the administrative arrangements in place. The reasons given did not suggest a fundamental failure of the system to deliver what had been sought from it.

Conflicts

The survey also asked whether the system gave rise to conflicts within the organisation. Of the 26 useable responses, 18 (69%) said it did not. The remaining 8 (30%) said that it did. On the face of it the difference in response to this and the previous question seems difficult to reconcile. How can a system that is regarded as fair by the great majority of respondent organisations also give rise to conflict? It is possible to interpret the results as indicating that the principles and underlying concept of internal rent charging are understood and regarded as fair, whilst individual pricing decisions give rise to conflict. This is also borne out by some of the observations made in relation to the types of conflict that arise. There will be a natural reluctance to embrace internal pricing when the same space was being provided last year for "free". The managers of the profit centers need to be sold the advantages of the system, not the fairness of the same. One respondent, who introduced internal rent charging and full facilities transfer charging in 1995 made the following comments on sources of conflict:

"The users feel the costs are too high as their profits are reduced. But also acknowledge that anyone can make profits with no overheads!" (Regional electricity company)

Another, who stated that the system is in its infancy, and feels that the system is not regarded as fair by the organisation, explained the reasons for conflict arising in the following way:

"An occupier may object to being charged true costs when space is allocated to them as surplus (un-assignable or sub-lettable) at historically high cost, when cheaper (to them) alternatives are available." (Financial services multiple)

However, the majority of those who stated conflicts do arise are typified by the following response:

"Businesses do not always want to accept true costs." (National multiple retailer)

These responses are not dissimilar to the findings in the Hillier Parker study (1993) which found that most companies who charged internal rents reported that they had, at some point, experienced conflicts between the profit centres and the service provider about the sum they have to pay in "rent" to the centre. This was because there was a lack of confidence in the accuracy of internal valuations as well as a suspicion that the central property function had the objective of extracting as much rent as possible.

It is not possible to measure in any quantitative sense whether the level of conflict arising in this sample differs from the previous studies, as their results were not published in quantitative form. The anecdotal evidence however looks very similar. At the time the earlier studies were carried out, many companies had recently introduced the approach and may have been experiencing initial "teething" problems that gave rise to conflict. There is evidence from this present study that organisations who have recently introduced the system are amongst those reporting conflict.

Influence on Organisational Management

The primary purposes cited by respondents are clearly intended to result in some measurable impact on the management of the organisation. The purpose of any transfer pricing system is, as discussed earlier, to

influence management decision-making within a devolved system of management so as to deliver an optimum result for the organisation overall. The survey therefore asked whether this had been achieved. Of the 27 responses to the question, 20 (74%) said that it did; 7 (26%) said that it did not.

Problems with Internal Rent Charging

The questionnaire was designed to measure and identify the perceived drawbacks to an internal rent charging system. Typical responses were: too bureaucratic; too costly to administer; insufficient financial payback and no longer necessary. Of the 29 responses to this question, 57% said there were no drawbacks to the system, 41% said there was a drawback of one sort or another. One respondent (a national multiple retailer) felt the system was too bureaucratic. One (a major national retailer) felt there was insufficient payback. None thought it too costly to administer, or no longer necessary. Ten respondents gave other reasons. These included comments such as:

"Setting up is heavy going, and takes a lot of up front work. When working and debugged works well and results worthwhile." (Regional electricity company)
"Sometimes can affect internal business relationships." (National multiple retailer)

"The freehold shop has already been charged the amortisation costs for the capital and in some respects is being penalised by charging rent as well." (National charitable organisation)

"Time-consuming to calculate open market rent". (National multiple retailer)

"Broad-brush approach adopted regarding freeholds within trading company; i.e. all based on assumption of 7.5% yield". (National multiple retailer)

Again, these findings and comments mirror those from previous studies. The majority view amongst users of internal rents is that the benefits far outweigh the drawbacks. It is apparent from the above findings that the majority of the sample which do charge internal rents have a clear view of the purpose of charging internal rents, believe that that purpose is being achieved without causing undue organisational conflict, and believe that the system is having an influence on organisational decision making overall. The majority also feel there are no drawbacks of significance to the system.

Internal Rent Systems

One of the principal issues to consider when introducing an internal rent system is the form in which it will be administered. Historically, organisations have used systems ranging from implementing formal leases between the central property holding department and the occupying profit centre, to simple informal (and often undocumented) agreements. In previous research (Crosby and French, 1993) it was seen that there was a reluctance for companies to use formal leases as they did not believe that inter-company lets were as valid as those that were at arm's length. This was shown not to be the case, but it was important within this survey to find out what current systems were being implemented. This was intended to gain a clear idea of the degree of formality employed. The results are presented in Table 5.

Table 5: Documentation used for internal rents

Form of Documentation	Respondents selecting	% of respondents
Legal Leases	2	7.4
Formal Internal Lease	1	3.7
Lease Book or Manual	2	7.4
Basic Heads of Terms Letter	6	22.2
No formal documentation	19	70.4
Other	0	0
Total of responses	30	111.1

NB: 3 of the total of 27 respondents answered more than one category.

A surprisingly high proportion (92.6%) of the respondents use no documentation or just a basic Heads of Terms letter to record their arrangements. This suggests that for the majority of users the system is primarily an administrative one not intended to create a true landlord and tenant relationship. Interestingly, a supplementary question asked respondents to identify the basis of the rent assessment for their freehold property. Without exception, rents were based on open market rental value (OMRV). Given the purpose of transfer pricing as described above it is encouraging that all of the sample use the market price as the basis for transfer pricing property assets.

The respondents were also asked about the internal practice in relation to rent reviews. This was evenly split between reviewing rents annually (44%) and five yearly (48%). In the majority of cases, the internal rents were assessed internally by internal valuers (58%), or in tandem with an external surveyor (39%). Only 3% relied exclusively upon an external surveyor. Some organisations use external valuers to validate internal valuations, or as a periodic external check on a rolling programme. Others use them to cover geographically distant or unfamiliar areas.

Satisfaction with Internal Rents

This research set out to establish whether companies are now moving away from internal rent in light of their experience with the system. The responses previously considered in relation to the fairness and effectiveness of the system suggest that the majority of those organisations charging internal rents have a positive attitude to the approach, and believe it to be delivering tangible benefits to the organisation. None of the firms who were currently using internal rents had any plans to abandon the system.

Conclusions

The research findings give an insight into the attitudes to, extent of use of, and systems of operating internal rent charging systems amongst the target population. It is recognised that the survey was undertaken at a time when the economy and the property market were both coming out of recession, and on the upward phase of the economic cycle. Competition in all spheres of economic activity appears to be increasing year on year, maintaining the general downward pressure on costs.

Property, often the second or third most expensive overhead for most businesses, remains an essential but inflexible cost driver for most businesses, despite the much-anticipated advent of the virtual organisation. In this context, understanding and control of property costs, as they impact on business performance, remains a critical management focus. Internal rents are one of a range of management approaches to the proper measurement, allocation and control of these costs. In light of the levels of usage found in previous studies into internal rents (Avis and Gibson, 1995 and Hillier Parker, 1993), it is reasonable to infer that there has not been any increase in the level of usage by the wider population of UK-based corporate property occupiers during the 1990s. On the basis of the survey, the conclusion is that the majority of businesses in the sample (59%) introduced internal rents in order to calculate true profits. Informing occupiers of the true costs of holding real estate was the second most frequently cited reason (35%). Less than 10% of the businesses in the survey introduced internal rents primarily to evaluate and capture the return on property assets. There is nothing in the data gathered to explain why some organisations choose to use internal rents and others do not. Given that charging organisations seems on the whole convinced of the benefits, this question would be worth further research.

One explanation could be that market conditions are now improving and , generally ,companies are less inclined to concentrated efforts on the cost side when equal efforts on the revenue side might prove more rewarding. Equally, given the retail dominance of the sample. Decision making might not be driven by cost cutting (at the margins) when the company's position in the market and physical location might be considered to be more pertinent. Similarly, the behavioural influences in the decision making process might restrict the logistical implementation of such a system if the benefits of such benchmarking are not fully explained and dissipated down to the operational staff. People in all businesses are generally reluctant to embrace change unless they can see tangible benefits of so doing. Lastly, given that the introduction of an internal rent system needs to be "top-down" in implementation, then it relies upon the directors appreciating and understanding the significance of the property input into their business strategies.

Avis & Gibson concluded their 1995 study by observing that: "There appears to be an increasing gap between organisations at the top and bottom ends of the property management spectrum. At least a third of organisations do not appear to treat their property as a significant and dynamic input into operational performance and are not in a position to monitor its contribution."

Whilst internal rent systems are only one manifestation of good practice in property management, there is nothing in the results of this study to suggest the situation has changed since then. The conclusion is that, despite academic and professional views such as those expressed above, opinion on the need for, and benefits of using, internal rents remains firmly divided at the individual business and operational level. Property, however, is still considered by many companies as being a reactive resource. Current accounting principles means that the effect of property rationalisation is not necessarily translated to the balance sheet in a meaningful way and as a result the transfer pricing of space only impacts upon operational and internal systems. Once the proposed changes to the way in which property is dealt with in the accounts start to take effect, property will become an important consideration to all businesses and the more efficient use of space will impact directly on all companies' balance sheets. At that point it is likely that any system of

accounting for property costs in a more regimented and uniform manner will gain more credence. Internal rent charging could yet become the normal procedure for most corporate occupiers.

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APPENDIX A: RESPONDANTS TO SURVEY

(Of the 55 respondents, 1 anonymous reply was received.)

1. Abbey National plc
2. Alliance & Leicester Building Society
3. B & Q plc
4. Birthdays
5. Boots the Chemist
6. Brightreasons Restaurants Ltd
7. C M Pleeth
8. Comet Group plc
9. Country Casuals Holdings plc
10. Dixons Stores Group Retail Ltd
11. Do It All Ltd
12. Dunn & Co Ltd
13. Electronics Boutique
14. F Hinds
15. Going Places
16. Granada Technology Group
17. Greggs plc
18. H Burgess
19. HFC Bank plc
20. Homebase Ltd
21. I Philips
22. John Cheatle Group
23. Kwik Save Stores
24. London Electricity
25. M Barrie
26. MAG Allen
27. Magnet Ltd
28. Marks & Spenser plc
29. Martins
30. McDonalds Restaurants
31. Mister Minit plc
32. Nationwide Building Society
33. Noble Organisation
34. Northern Electric Properties Ltd
35. Norweb Retail
36. Oddbins Ltd
37. Oxfam
38. Pizza Hut
39. Portsea Island Mutual Cooperative Society Ltd
40. Post Office Property Holdings
41. Poundstretcher Ltd
42. Scottish Power Retail Division
43. Sketchley plc
44. Somerfield Stores Ltd
45. Stead & Simpson
46. T Stone
47. Tesco
48. The Edinburgh Woollen Mill Ltd
49. The Woolwich Building Society
50. Thorntons plc
51. Thresher
52. W H Smith Ltd
53. W Powell
54. Wilkinson