Indicative for Corporate Real Estate (CRE) Performance in Malaysian Public Listed Companies

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Abstract—**Corporate real estate management (CREM) is about the management system for non-real estate company. While, corporate real estate (CRE) is about an asset owned by non-real estate company. Since CREM is still new in Malaysia, many corporate members does not know the right way to manage their CRE and how to generate profit from it. They do not see the potential of CRE performance if it is fully utilised. So, the purpose of this research is to find out a tools that can measure CRE performance in a firm. The existence of CRE performance measurement tools will help to prove and convince the corporate members about CRE potential in generating other income for company. At the end of this research, it may guide the corporate members in planning their CRE strategically to generate more income for firm.**

Keywords—corporate real estate; performance; indicator; public listed company.

I. Introduction

A. CREM in Malaysia

CREM is about a management of a company that run a non-real estate business as their core business [1]. In another meaning, company from sectors of construction, real estate, real estate investment trusts (REITS) and plantation are not considered as corporate firm because their core business is in the field of real estate.

Corporate world in Malaysia does not really know about CREM and they are lack of knowledge about CREM [2]. Management team doesn't know how important for them to manage their CRE efficiently and effectively. The company has to aware that CRE is important to them because CRE help to add value to their company. Even though corporate people recognize CRE as their non-core activities but, management team in the company should manage their corporate real estate in a good way so their assets are fully utilized [6][5].

B. Significant of Corporate Real Estate (CRE)

CRE has its own roles in a company. CRE acts as an indicator in measuring its company's strength. A company that has many portfolios is recognized as a strong company in the market. The public and investors view this property as a good investment. CRE is important to many people in a corporation such as investors because CRE helps investors create profit and wealth for them through ownership of equity in the company. So, it is important for all corporate firms have at least a basic CREM knowledge to help them manage their corporate property efficiently.

C. Problem statement

Real estate is scarce and it is increasingly recognized as an important competitive factor among non-real estate related firms [3]. So, firm need to be more serious and creative in managing their property such as land, buildings, plants and machineries. The company is recognized as a high value company if they owned many portfolios. So, it is important for CRE executives in a company to manage the assets they own efficiently [4].

Efficiently managed CRE helps contribute income and supporting the firm's core business activities. An effective CREM are important to meet the needs of the company and act as company's investment in order to enhance their company's value. Some companies fail to make up the profit on their potential CRE assets to increase overall return and in the long run increase shareholder value [2].

Global changes of capital markets, advancements in technology and the current economic conditions have increased the awareness of the importance of the CRE's contribution to the company performance [5].

But, the effect of CRE on the company's performance is still unclear [6]. This is because there is no financial indicator to measure CRE performance and its relationship with the company's performance. It is possible to convince the top management if there is no evidence proving that CRE able to

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increase company's profit or revenue. So, this research will help to prove the relationship between CRE performance and company performance and how to measure CRE performance.

D. Purposes of Research

Before starting a research, researcher must set up his or her aim of research. The research question for this research is what is CRE performance in public listed company? The research question was constructed based on current issues.

While, the purpose of this research is to determine the CRE performance for Malaysian public listed company.

Scope for this research will be the top 100 companies listed on Bursa Malaysia. The top 100 companies were chooses based on the highest market capitalisation. Then, from the list of top 100 companies, only three sectors will be selected which are trading and services, industrial products and consumer products. After eliminating the other sectors from the top 100 companies, sample for this research would consists of 54 non-real estate companies.

Findings of this research will help to guide corporate members a better way to manage their CRE assets which has many significant for their business. The research also helps to increase company's income when CREM managers was informed about the benefits of fully utilised their CRE performance.

II. Research Methodology

A. Introduction

This research will use a quantitative approach which involved the use of company annual report. The sample for this research will be the top 100 companies listed on Bursa Malaysia. From the top 100 companies, only 3 sectors will be chosen. The sectors are trading and services, industrial products and consumer products. The data from annual report will be extracted for 5 years starting from year 2008 until 2012.

B. Document Analysis

Analysis of company's annual report document is needed to gather financial data for analysis process. Financial data will be extracted for five years for every company which is from year 2008 until 2012. Then, the extracted data will be documented in excel as a raw data. The raw data will be clean for analysis.

C. Correlation Analysis

Correlation analysis will be conducted to test the existence of relationship between the independent variable and dependent variable and identifying the direction of the relationship. The independent variable will be the corporate real estate ratio (CRER) while the dependent variable will be the arithmetic average return. CRER is calculated to determine the CRE intensity in a company. While, arithmetic average return will help to determine whether high intensity of CRER will bring a higher return to a company. From this correlation test, it will help us to find out whether CRER and arithmetic average return has positive, negative or no relationship.

D. Regression Analysis

Regression analysis is use to test the strength of relationship between the dependent variable and independent variable. From this test, it can determine whether high CRE intensity will contribute to high average arithmetic return. If the relationship's strength is high, it proved that ownership of high intensity of CRE gives high return to a company.

III. Conclusion

A. What is Corporate Real Estate (CRE)?

CRE is an important asset to a company. CRE is able to contribute more significant success to a corporation rather than saving costs. CRE has its own significant part in a firm [7]. So, it is important for a company to get to know what is CRE.

We defined corporate firm as a company that deal with a non-property business. So, the general understanding for CRE is about an asset that owned by a non-real estate company.

Based on Malaysian Accounting Standards Boards (2010)[8], they has conclude that CRE can be recognised as property, plant and equipment (PPE). While, Liow (2010)[1] stated that PPE also serve as a proxy for CRE assets value owned by a firm.

Malaysian Accounting Standards Boards (2010)[8] clarify that PPE are tangible item that :

(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and;

(b) are expected to be used during more than one period.

A class of PPE is a grouping of assets that has similar nature and use in firm operations. This standard also has grouped PPE in a separated classes which are :

(a) land;
(b) land and buildings;
(c) machinery;
(d) ships;
(e) aircraft;
(f) motor vehicles;
(g) furniture and fittings; and
(h) office equipments.

B. Corporate Real Estate (CRE) Performance

CRE has a large portion in company's total assets. But, CRE is the most abandoned assets among of all corporate assets [9]. Lack of knowledge and awareness of CRE makes them treat CRE as non-important corporate assets. If it is highly

performed, CRE can increase the profit of the company. So, it is important to have CRE performance measurement.

The main purpose to have property performance measurement (PPM) is to assess the achievement of the property investor in his investment by measuring previous performance against goals. PPM assist the investor to identify whether the goals for his investment are being achieved or whether the progress of his investment in moving positively towards those goals [10].

If there is no indicator that link CRE performance and company performance, people at the strategic level will not aware with their CRE contribution [5]. So, CRE will not able to prove their significant contribution to the managers and decision makers. Performance indicator act as a tool to gain the trust of people at the strategic level.

C. Corporate Real Estate Ratio (CRER)

CRER is used to calculate the PPE intensity in a firm. Intensity of PPE described the importance level of CRE assets in a firm. There are some previous research that has used CRER in the study [11][1][12][7]. CRER can be calculated using this formula:

Figure 1: CRER Formula [11]

$$CRER = \frac{Value\ of\ PPE}{Total\ Assets}$$

CRER has been used to measure CRE performance in the sector of retail and franchise [11][1][12]. Brounen et al. (2005)[11] has study on the effect of corporate real estate ownership on the stock performance of firms active in the international retail sector. He find out that corporate real estate ownership are diverges greatly across subsectors. Differences in location and customisation demands of real estate are the cause of the variation in his findings.

Park and Glascock (2010)[12], has study on the franchise sector. Results from his research show that the effect of corporate real estate (CRE) asset ownership on the performances of franchise organizations show negative performance effects of CRE ownership in general, but shows positive results for franchise organizations.

While, Liow (2010) [1] has studied on the effect of CRER level on individual retail firms'. From his study he has found that higher real estate intensity does not necessarily cause higher real estate exposure after controlling for firm size, leverage and growth.

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