

Survey of Approaches to Disposing of Surplus Corporate Real Estate

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Abstract. The purpose of this research was to test two hypotheses: 1. firms ignore profitable opportunities in disposing of surplus property because they do not believe they are in the real estate business; 2. firms treat surplus property as they would any new product and develop a marketing strategy to yield the greatest return. Half of the corporate real estate executives surveyed responded in a manner consistent with hypothesis 1; half responded in a manner consistent with hypothesis 2. The biases in the survey favor hypothesis 2, implying that a majority of corporations behave consistently with hypothesis 1.

In recent years a number of corporate real estate directors and consultants have written ideas on how corporations should more profitably manage their real estate assets [1,3,4,5,6]. In particular there are two hypotheses that have been suggested:

The "we are not in the real estate business" attitude of knowledgeable corporate executives is typical of a general ignorance about the corporate real estate business—and about how the intelligent management of the corporate real property inventory can have a positive impact on the traditional ratios which measure business success.[1, p.3]

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So when a plant or warehouse becomes expendable, the executive command is "Get rid of it! It's a financial drain and it's taking too much of our time."... A sales executive wouldn't dream of launching a new product by announcing, "Here it is. I don't know what it can do, or how you can use it, but make me an offer." He would study its potential uses, provide product application literature, package and size the product for the biggest market, provide his salesmen with the appropriate marketing tools, and motivate them to move the product.... It should be the same with surplus real estate. [5, p.3]

The purpose of this paper is to test two hypotheses: 1) firms ignore profitable opportunities in disposing of their surplus real estate because they do not believe they are in the real estate business; 2) firms treat surplus property as they would any new product and develop a marketing strategy to yield the greatest return. Previous surveys have found that many corporate managers are woefully ignorant about their real estate assets—not even having an inventory of those assets—and that they do not manage them as either a profit or cost center [4,7]. No one has surveyed actual disposition practices to see how this aspect of asset management is handled.

During the summer of 1986 we surveyed corporate real estate directors about techniques for disposing of corporate real estate. Questionnaires were mailed to members of the National Association of Corporate Real Estate Executives (NACORE), the Industrial Development Research Council (IDRC), and the American Institute of Corporate Asset Management

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(AICAM). Since some belong to more than one of these organizations, the mailing lists were screened for these duplications. A total of 2176 questionnaires were mailed, 11 of which were never contacted, and 24 of which were returned as not applicable, which leaves a base of 2141 questionnaires sent. Of these 228 were returned, a 10.6% return. At least one reason for the poor response rate was the length of the questionnaire, 5 pages.

An excellent perspective on the executives responding to the survey can be obtained from Exhibits 1 and 2. Exhibit 1 shows the distribution of respondents by kind of business and geographic dispersion of corporate property. As would be expected, conglomerates and manufacturers are significantly more than proportionately represented with world wide geographic dispersion of their property. Retailers are significantly more represented with property dispersed in 10 or more states and Canada, whereas the service sector is more than proportionately represented by geographic dispersion of property in less than 10 states.

Exhibit 1
Distribution of Executives by Kind of Business
and Geographic Dispersion of Property

Kind of Business	Geographic Dispersion of Corp. Properties			Total
	1-to-9 States	10-or-More States	Worldwide	
Conglomerate	5	7	22	34 14.91%
Retail	12	27	21	60 26.32%
Manufacturing	9	8	47	64 28.07%
Services	27	22	21	70 30.70%
Total	53 23.25%	64 28.07%	111 48.68%	228 100.00%
Chi-Square	DF 6	Value 40.521	Prob. 0.000	

To get some idea of the scale of real estate activities we asked executives to estimate the total number of leases, lease renewals, purchases, and sales that their corporation transacted last year. Our survey included firms recording no transactions to those recording more than 1,500, and one more than 10,000. Those institutions with more than 1,500 transactions were mostly public, quasi-public, or real estate companies. They were all included in the service sector.

Exhibit 2 shows that those executives dealing with property dispersed worldwide were significantly more likely to make 200 or more transactions. Those dealing with property in less than 10 states were significantly more likely to make less than 24 transactions and less likely to make more than 200 transactions. Finally, executives dealing with property in 10 or more states and Canada were significantly less likely to make fewer than 24 transactions last year.

There is probably some bias in the survey. Although the survey was sent to all members of NACORE, IDRC, and AICAM, those responding were those executives more involved

Exhibit 2
Distribution of Executives by Number of Transactions
and by Geographic Dispersion of Property

Transactions Last Year	Geographic Dispersion of Corp. Properties			
	1-to-9 States	10-or-More States and Canada	Worldwide	Total
0 to 23	23	8	20	51 22.97%
24 to 60	16	19	29	64 28.83%
61 to 199	9	17	25	51 22.97%
200 or More	5	18	33	56 25.23%
Total	53 23.87%	62 27.93%	107 48.20%	222 100.00%
Chi-Square	DF 6	Value 21.731	Prob. .001	

with disposition problems, and thus more likely to be engaged in more transactions altogether than a survey of all firms would reveal. Most important, however, is that these real estate managers are members of organizations promoting the profitable management of corporate real estate, so that the sample is biased against finding firms ignoring real estate opportunities.

The Problem

Of the 228 executives responding to our survey, 198 of them attempted to sell or lease 9,187 properties last year. Although 2 executives accounted for 2,000 of the 9,187 properties to be disposed, the remainder is still very large. As can be seen in Exhibit 3, manufacturing executives experienced significantly proportionately fewer attempts to sell or lease property than executives in other sectors.

Sold or Leased "As Is"

Of the 9,187 properties attempted to be disposed by executives, 92.5% were attempted to be disposed "as is," 5.8% were attempted by renovation, etc., and only 1.7% were attempted to be disposed by donation. Of the 8,497 properties that executives attempted to sell or lease "as is," 86% were disposed. These figures would imply that most firms sell "as is" without a marketing plan, but these data may be distorted by some executives selling few properties imaginatively, and some selling many properties unimaginatively.

Exhibits 4 and 5 show the number of executives by kind of business and the distribution of properties sold "as is" or leased "as is". Comparison of the total number of executives by kind of business in each exhibit and with Exhibit 3 shows that a high proportion of executives in each kind of business sold or leased property "as is". The one distinction is that manufacturing executives were significantly less likely to lease "as is," whereas retail

Exhibit 3
Distribution of Respondents by Kind of Business
and Number of Properties Attempted Sold or Leased

Kind of Business	Number Attempted Sold or Leased				Total
	0	1-to-5	6-to-25	26-or-More	
Conglomerate	1	11	13	8	33 15.28%
Retail	2	10	28	16	56 25.93%
Manufacturing	10	24	22	6	62 28.70%
Services	5	18	24	18	65 30.09%
Total	18 8.33%	63 29.17%	87 40.28%	48 22.22%	216 100.00%
Chi-Square	DF 9	Value 20.206	Prob. .018		

executives were significantly more likely to lease "as is". The reason is that manufacturing property is more likely to be greater than 50,000 square feet, which is much more difficult to sell or lease "as is". If such space is to be leased, it probably will have to be subdivided for multiple users.

The major problems in disposing of these properties were revealed by responses to the question, "For these "as is" dispositions with the longest time on the market, what problems made the properties difficult to dispose?" The most common difficulties were locations in depressed areas (the oil patch, depressed rural areas), inner cities, and small cities with properties that were old, inadequately maintained, over 50,000 square feet, and for which there was significant new or existing comparable space. Forty-nine percent of all problems mentioned fell within at least part of this definition. If we also include the number of times a poor market was mentioned, 57% of the responses would be included in the group. Finding a skillful broker was mentioned often. A number of respondents indicated that they had no problems. Some suggested that the special use of the property, or environmental issues were a problem. There were no surprises, and the problems confronted, or course, depended on the kind of space being disposed.

We asked, "What techniques did you find useful in overcoming these problems?" Since the question was open ended, quantitative analysis is difficult. It was exceedingly clear that hard work was required. Nonetheless, most responses had to do with finding and motivating brokers, or with pricing and terms, and not with market research determining potential buyers and adapting property to their use. Adaptive reuse, renovating, or upgrading the property was mentioned, but usually it was only in response to a buyer demand to complete a deal.

It is clear that firms, even with real estate managers, are not behaving as if the surplus property is a new product to be marketed to potential buyers through market research and expenditure of funds. There was a comment that it was hard to get excited about selling as opposed to buying property for the firm. In another question we stated that one of the most creative aspects of selling is identification of potential buyers, and asked what procedures executives used in this search. Of the 228 respondents, 210 (92%) suggested identifying an excellent broker, and 119 (52%) suggested undertaking or contracting for a study of the

Exhibit 4
Distribution of Respondents by Kind of Business
and Properties Sold "As Is"

Kind of Business	Properties Sold "As Is"				Total
	0	1-to-5	6-to-25	26-or-More	
Conglomerate	4	14	10	4	32 16.08%
Retail	7	20	20	7	54 27.14%
Manufacturing	8	27	15	2	52 26.13%
Services	7	24	16	14	61 30.65%
Total	26 13.07%	85 42.71%	61 30.65%	27 13.57%	199 100.00%
Chi-Square	DF 9	Value 10.739	Prob. 0.294		

Exhibit 5
Distribution of Respondents by Kind of Business
and Properties Leased "As Is"

Kind of Business	Properties Leased "As Is"				Total
	0	1-to-5	6-to-25	26-or-More	
Conglomerate	9	11	5	4	29 14.95%
Retail	14	16	23	4	57 29.38%
Manufacturing	22	18	9	0	49 25.26%
Services	12	24	14	9	59 30.41%
Total	57 29.38%	69 35.57%	51 26.29%	17 8.76%	194 100.00%
Chi-Square	DF 9	Value 22.207	Prob. 0.008		

highest and best use of the site. The evidence is mixed. There are a group of corporate real estate managers treating real estate as a profitable opportunity, but many are not.

Renovation, Subdivision, Modernization, or Development

Of the 538 properties attempted to be disposed by this method, 77% were disposed. Only 60 of the 228 executives indicated that they even tried renovation. Exhibit 6 shows that 47 (78%) executives actually disposed of property through renovation. The chi-square statistic

Exhibit 6
Distribution of Executives by Kind of Business
and Successful Disposition Using Renovation

Kind of Business	Successfully Disposed Using Renovation			Total
	0	1-to-3	4-or-More	
Conglomerate	2	6	3	11 20.37%
Retail	1	8	4	13 24.07%
Manufacturing	3	5	7	15 27.78%
Services	1	8	6	15 27.78%
Total	7 12.96%	27 50.00%	20 37.04%	54 100.00%
Chi-Square	DF 6	Value 3.632	Prob. .726	

reveals that no particular relation exists by type of business, but there is serious question about the test for the sample size and small numbers in each cell.

Given the recent success of adaptive reuse, and articles suggesting this approach to disposition, it is curious why so few tried the approach, and why there was a lower disposition rate using this approach. First, it may not be necessary in order to sell for a good price, as was suggested by 29 (18%) executives not choosing the redevelopment approach. Second, the return to redevelopment may be low relative to the risk, as was suggested by 34 (21%) of the 159 executives not using this approach.

Nonetheless, corroboration of the hypothesis that the "we are not in the real estate business" syndrome was clear. As can be seen in Exhibit 7, 61 (42%) executives responded that they

Exhibit 7
Distribution of Responses by Kind of Business
and Whether Development Risk Outside Skills

Kind of Business	Risk Outside Skills		Total
	No	Yes	
Conglomerate	11	7	18 12.33%
Retail	27	15	42 28.77%
Manufacturing	18	24	42 28.77%
Services	29	15	44 30.14%
Total	85 58.22%	61 41.78%	146 100.00%
Chi-Square	DF 3	Value 5.842	Prob. 0.120

did not engage in redevelopment because the development risks were outside the skills of their business. Another 18 executives wrote in the comments section that their firm was "not in the real estate business." We had purposely not even suggested that answer on the grounds that it was too leading a question. In total 79 executives, 50% of the 159 not using the redevelopment approach, justified their actions on the grounds that they were not in the real estate business in one way or another. As can be seen in Exhibit 7, manufacturing executives were more likely to respond yes to the question whether development risks were outside the skills of their business. There is only a 12% probability that the relation is simply a chance occurrence.

There appears to be an opportunity for investigating the actual profitability of adaptive reuse and demonstrating ways for corporations without the skills to take on development risks to do so by joint venture arrangements with developers. One problem is getting executives to take the longer time span required to evaluate real estate opportunities compared to the short-term period in which they usually expect profits. One reason for some of the projects not being disposed by redevelopment was that the project did not have enough time for completion and marketing. The process was still underway.

Donation

Of the 152 properties that were attempted to be disposed by donation, 93 (61%) were actually disposed. Exhibit 8 shows that only 51 executives even attempted this approach. Executives in conglomerates and manufacturing firms were significantly more likely to try the technique. This was probably because of the kind of property being disposed. It is more likely that large land tracts that could be donated to cities, universities, or land trusts would be owned by such firms.

The real problem here is that most executives think of donation as a last resort for properties that cannot bring a good price on the market. In fact, however, the approach does not pay financially unless the appraised value exceeds book value because one cannot take losses

Exhibit 8
Distribution of Executives by Kind of Business
and Whether Disposition by Donation Attempted

Kind of Business	Attempted Dispositions by Donation		
	0	1-or-More	Total
Conglomerate	19	12	31 14.29%
Retail	47	8	55 25.35%
Manufacturing	45	18	63 29.03%
Services	55	13	68 31.34%
Total	166 76.50%	51 23.50%	217 100.00%
Chi-Square	DF 3	Value 8.069	Prob. .045

on donation. Only the appraised value is deductible. Most executives could sell their properties and did not have properties with high appraised values and no market, which is the profitable condition for donation. A majority of respondents simply did not even consider the alternative.

Some executives, however, were very creative and found ways to make a bargain sale in which they sold property for its adjusted basis, or slightly higher to avoid capital gain taxes. The present value of such sales may be greater than a direct sale or donation [2]. There may be few such opportunities, but given the overwhelming response to sell or lease "as is," it is hard to believe that more opportunities do not exist.

Property Disposal in Communities in which Closing Has Significant Impact

A sensitive question is the handling of closings in a community in which the firm has a significant impact on total employment. This is not so much a problem for retail firms, but for others it is clearly sensitive. One executive responded that corporate policy on the issue could not be disclosed. Another indicated that the corporation had a policy of avoiding establishing plants in such situations for this very reason. Since this argument has not appeared in the location literature, it would be useful to investigate how common this factor is in plant location. If widespread, it will make development of small communities even harder than it already is.

It was very clear from the executive responses that the general wisdom is to create no surprises, to work with local community leaders to find another user of the facility who will hire displaced workers, to give generous severance pay, to assist workers in finding new jobs and relocation, and to hire local lawyers to assist in the negotiations.

Conclusion

The purpose of this research was to test two hypotheses: 1) firms ignore profitable opportunities in disposing of their surplus real estate because they do not believe they are in the real estate business; 2) firms treat surplus property as they would any new product and develop a marketing strategy to yield the greatest return.

Half of the respondents to our survey responded in a manner consistent with hypothesis 1. They indicated that renovation, modification, or subdivision was not considered as an alternative to selling or leasing "as is" because development risk was outside the skills of the firm, or the business was not in the real estate business. No mention was made of considering such possibilities even as a selling tool. When asked about procedures used to search for potential buyers, 92% suggested identifying excellent brokers.

The other half, however, responded in a manner consistent with hypothesis 2. When asked about procedures used to search for potential buyers, they responded by not only identifying an excellent broker, but they (52%) also suggested undertaking or contracting for a study of the highest and best use of the site. Sixty of the executives, 26%, did try renovation, modification, or subdivision. There were also excellent reasons given for not undertaking such development: it was unnecessary to sell the property (18%), or the potential return was not worth the risk (21%). A few executives were imaginative in their use of donation.

Since the survey was biased against hypothesis 1 and for hypothesis 2 because the respondents all belonged to organizations promoting the profitable management of corporate

real estate, and since only 10.6% of those responded, the implication is that a majority of corporations behave consistently with hypothesis 1, and not with hypothesis 2.

Our findings suggest two types of further research. One would be a detailed analysis of the returns from disposition by renovation, modification, or subdivision. The other would be a study of plant location to determine the extent that firms avoid sites where they would be the dominant employer.

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