Corporate Real Estate: A Course Outline and Rationale

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Abstract. **The topic of corporate or business real estate as a college course has been widely discussed but the specific nature and content of such a course needs to be specified. This article is an attempt to construct a course outline for such a course, and it briefly discusses the major topics that could be presented in a corporate real estate course. The outline and the course are designed to provide flexibility in topic coverage, student background and instructor preferences toward the many topics. The authors also offer their suggestion concerning the positioning of this course in a real estate curriculum.**

Introduction

The need for a Corporate Real Estate course is often expressed but the specific nature and content for such a course has yet to be explicitly stated. Many articles have been written about the various aspects of the topic, and text books have been written discussing and explaining its important elements. However, a course outline has yet to be offered for review and debate. To fill this need, this article provides a rationale, an outline (Exhibit 1), and a partial bibliography (Exhibit 2) for a high quality senior/graduate level course, taking these earlier works into account. The intent is to give a "flow" to the material, with all important topics taken into consideration.

This article and course syllabus focus on "corporate" real estate but this focus should not be perceived as a limit on the full perspective of the topic by turning our thoughts away from the noncorporate forms of ownership. "Business real estate" could be the broader and more inclusive focus to the course and it may be the more appropriate title.

The initial assumptions in the construction of this course are:

- In the short run, only a single course could be installed at a typical university. Additional courses would have to await the successful implementation of this first course.
- The course would be taught in a real estate program in a finance or real estate department, with the real estate department being the friendliest arena for its development.
- The course would be designed to minimize duplication of topics and concepts presented in other real estate courses.

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- The students enrolling in this course would have a foundation in several important aspects of the common body of knowledge in business administration. Specifically, the students would have taken Principles of Accounting, Principles of Economics, and Introduction to Corporate Finance.

The students enrolling in the course could have a varied background in real estate depending upon the instructor's view of the subject matter and the purpose of the course in the curriculum. One option is to require a strong foundation in the principles of real estate and a thorough grounding in real estate investment and finance. Income property valuation might also be a prerequisite but is not necessary, in our opinion. This set of requirements would make the course an advanced course for real estate majors at the senior and/or graduate level. Another option is to design the course as a introductory course to the topic of corporate real estate for real estate majors and thus make it a companion course to other upper division courses in real estate. In this event, principles of real estate may be the only prerequisite.

Exhibit 1
A Course Outline for Corporate Real Estate

I. Introduction
   A. Definitions
      1. Corporate Real Estate
      2. Asset Management versus Property Management
      3. User Orientation versus Investor Orientation
   B. Nature of the Firm and the Real Estate Decision
   C. Space Needs, Use and Administration.
      1. Physical Dimensions of Space Needs
      2. Design Requirements
      3. Use of Space
      4. Measures of Space Needs and Use
   D. Decision Criteria and Concerns
      1. Economic Analysis
      2. Situational Analysis (Judgement)
   E. Documents and Tools
      1. Purchase Offers and Sales Contracts
      2. Options
      3. Commercial and Industrial Leases

II. Real Estate in the Corporate Environment
   A. The Real Estate Function in the Organization Structure.
   B. Responsibilities and Objectives of the Real Estate Function
   C. Intra-firm Relationships
   D. Strategic Planning for Real Estate and the Firm

III. Financial Management and Analysis of Real Estate in the Corporate Setting
   A. The Role of Discounted Cash Flow Analysis
   B. Real Estate in the Balance Sheet and Income Statements
   C. Ratio Analysis
      1. Efficiency Ratios
         a. Sales per Square Foot
         b. Output and Employment per Square Foot
         c. Square Feet per Employee
         d. Net Rentable per Gross Building Area
      2. Debt or Leveraging Ratios
         a. Loan to Value
         b. Debt Service Coverage
         c. Breakeven or Default

3. Performance Ratios and Payback Periods
   a. Equity Dividend
   b. Gross Return (Cash Flow Plus Mortgage Reduction)
   c. Average Returns over the Holding Period

D. Yield Measures
   1. Net Present Value
   2. Internal Rate of Return Models

IV. Location Analysis—Use Specific (Industrial, Office, Retail)

A. Dimensions of the Location Decision
   1. Use vs. Function
   2. Identifying the Space Needs
   3. Identifying the Location Strategy
      a. On-site or Adjacent Site Expansion
      b. Relocation
      c. Branch Plant
      d. Initial Location Selection
   4. Managing the Decision Process

B Linkages
   1. Use Specific
   2. Function Specific

C. Site Requirements
   1. Use Specific
   2. Function Specific

D. The Community and Site Selection Process
   1. Major Economic Variables
   2. Noneconomic Considerations
   3. The Internal Decision Process

E. Business Climate Concerns
   1. In the Decision Process
   2. Evaluation of the Published Studies

F. Quality of Life Concerns
   1. In the Decision Process
   2. Evaluation of the Published Studies

G. Employee Relocation Issues

H. Risk and Return Analysis and the Location Decision

V Tenure Decisions and Control-of-the-Space Concerns

A. Ownership Analysis and Decisions—Buy/Build Decisions
   1. Acquire Improved Property and Modify
   2. Land Acquisition with Construction
   3. Build to Suit Concerns (Turnkey Acquisition)

B. Lease Analysis and Decisions
   1. Ground Lease
   2. Build to Lease Arrangement
   3. Sale & Leaseback

C. Own vs. Lease Comparison: Risk/Return Impacts

VI. Space Utilization

A. Allocation within the Firm

B. Excess Property
   1. Identification
   2. Disposition
   3. Legal Constraints to Disposition
   4. Conversion to Alternative Use(s)

C. Acquisition as Part of a Strategic Plan

VII. Space Valuation and the Firm's Decisions

A. Market Value—Its Use and Purpose to the Firm

B. Investment Value/User Value

C. Going-Concern Value

D. Liquidation Value

E. Fixed-Asset Valuation Methods and Techniques

VIII. Local Community Relationships
- A. The Impact of the Local Community on the Plant/Facility
  - 1. Property Taxation and Special Assessments
    - a. Impact on the Facility and Its Operation
    - b. Impact on the Firm and Its Decisions (especially Location and Relocation)
    - c. Challenging the Assessment Process and the Assessed Valuation
  - 2. Police Power Regulation and Social Responsibility
    - a. Land Use Planning and Zoning
    - b. Subdivision Regulations Including Development Exactions
    - c. Codes (Construction Code, Occupancy Code, Fire Safety Code, etc.)
    - d. Other Regulations (Handicap Access, Day Care Provision, etc.)
- B. The Impact of State and Federal Government on the Plant/Facility/Firm
  - 1. Environmental Legislation
    - a. Clean Air and Water Acts
    - b. Hazardous Waste Acts
  - 2. Plant Closure Legislation
  - 3. Industrial Zoning and Performance Standards
- C. Impact of the Plant/Facility on the Community
  - 1. Economic Impact Studies
  - 2. Fiscal Impact Studies
  - 3. Environmental Impact Studies
  - 4. Impact on Demographic and Social Composition

IX. Selected Issues and Topics
- A. Managing Industrial Plant Liability and Hazard Risk
- B. Real Property and Organizational Restructuring
  - 1. Acquisitions and Takeovers
  - 2. Mergers
  - 3. Divestitures
  - 4. Bankruptcy
- C. Real Estate Management Information Systems
- D. "Green Field" Issues
  - 1. Dealing with Frustration and Delay in the Location Process
  - 2. Handling New and Unexpected Requirements
- E. Real Estate Development by Business Firms
- F. Negotiating

A third option is to design a service course for the students in other major fields in the business college. In other words, the course would or could take on a general management perspective and meet the needs of finance, accounting and management majors. In this case the only prerequisites would be the common body of knowledge course in the business curriculum, and the course could be taught at the junior, senior or graduate level (an MBA course).

The decision about the nature and purpose of the course is ultimately the individual's decision. We are not suggesting which direction the course should take for every instructor, nor are we attempting to mandate the strict structure of every instructor's course offering. What we hope to provide is a useful structure to the course and a taxonomy of its many and varied topics. Admittedly, the course outline presented in Exhibit 1 may be too extensive for an instructor's purposes. The instructor can pick and choose the appropriate topics to meet the needs of the students and the positioning of the course in the curriculum. In addition, the outline in Exhibit 1 should be viewed as suggestive rather than immutable. Depending upon the background of the students in the program in which this course is being taught, the instructor can tailor the list of topics to suit the needs of those students and their prior course work. However, the

Exhibit 2
Business Real Estate
Bibliography with Selected Annotation

BOOKS

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course should not be a replacement for any of the traditional real estate courses; rather, it should complement them.

The Course Outline

Given the previous statements, the topic outline (Exhibit 1) can be used by the instructor to structure the course and outline lectures. This topic outline also serves as the outline for the ensuing explanation of course content. The sections of the article that follow are discussions of the major topics shown in that outline. The instructor can draw from the materials identified in the bibliography (Exhibit 2) to select a text, identify supplemental readings and prepare lectures. One of the problems that the instructor will face is that much of the material is dated and very few current articles are being written. The expectation is that this article will serve as an incentive or greenhouse to expand research and communication about the varied topics. The course and the literature may have to grow in tandem.

Introduction (I)

The first section of the course opens with explicit statements concerning three important concepts. Corporate real estate is defined and contrasted with the concept of business real estate which includes sole proprietorships and partnerships in addition to corporations as forms of ownership. Also, at the instructor's discretion, the topic of governmental and non-profit enterprises can be introduced.

The concept of asset management is examined and explained by juxtaposition with the more familiar concept of property management. Asset management focuses on the operation and subsequent profitability of a business rather than the operation and profitability of an individual property. User orientation can be explained by comparison to the more familiar investor orientation. User orientation connotes the use of real estate as an input into the firm's overall operation. Such an orientation considers the firm's production and administration decisions concerning location, space utilization, space possession (own or lease), space design, etc. and the effect of these decisions on the profitability of the firm.

The second major task to accomplish is a discussion of the nature of the site and/or space user. The differing nature of retail and manufacturing activities require different site and locational needs that should be discussed. A full discussion of the underlying concepts should be held until a later point in the course (section IV in Exhibit 1), but here in the introduction the issues should be raised and put in perspective. In addition, the differing nature of retail and manufacturing activities also brings up the point that the decision process within the entity may be substantially different. The full impact of this discussion can be explored later in the course, but it should also be introduced early in the course (Exhibit 1, section IV, 4).

The third major task to be accomplished in the introductory material is an explanation of spatial concepts. Specific real estate users have specific, or at least minimal, standards for the space that they require. For example, fast food restaurants have locational requirements (minimum traffic volume), site design requirements (parking spaces, drive-through window lane, curb cuts, etc.), and structural standards (square footage, floor plan, ceiling heights, architectural style, etc.). These same general considerations apply to shopping centers, office buildings, industrial plants, and business parks, but with differing relative weights. These points comprise the subject matter of the physical, design and use requirements identified in the outline.

In addition, the measurement of space needs to be clarified and explained in detail. Several measures of real estate and space are important; two aspects are explicitly listed in the outline—physical and economic. The physical units of measurement are gross building area, gross leasable area, net rentable area, floor area ratios, etc. The economic units of measure focus on sales/output per square foot and might also include such concepts as customer counts, occupancy/vacancy rates, absorption rates, traffic volume estimates, and room nights.

The third section of the course introduction is a discussion of decision criteria and items of concern in the decision process. The topic is divided into two parts—economic analysis and situational analysis. As part of the discussion of economic analysis the student should be introduced to the concepts of maximization, optimization and satisficing as business objectives in attaining profit. Discussion of these concepts in a business environment should follow. Situational analysis arises when decisions have to be made under informational and/or time constraints. Here, judgement about the situation often supersedes more formal economic analysis. The student should realize that many location and design decisions are made under these forms of pressure. The role of strategic planning may be introduced at this point as one way of avoiding circumstances that necessitate decisions made with minimal information.

The last section of the introduction to the course that deals with real estate documents may be as lengthy as necessary. In some programs the students are well prepared concerning contracts, options and leases in other courses. For these students a quick review followed by a discussion of each instrument's contents for specific uses such as retail, office, and industrial, is all that will be necessary. This is the manner of instruction that the authors favor. If the students are not sufficiently knowledgeable about the basics of contracts and leases, then this section would require a great deal of time, with perhaps insufficient time to cover the remaining, more directed topics in the course.

Real Estate in the Corporate Environment (II)

This section focuses upon the nature and structure of the real estate activity within business organizations, with emphasis on large corporations. The first component discusses the organizational models in which a real estate function can exist. One way of approaching this topic is the use of case studies about corporations that contain different real estate functions in various organizational structures.

The second component discusses the nature of the responsibilities assigned to real estate departments and divisions. Case studies could examine the exact list of activities currently delegated to these departments and reveal the reasons for any recent changes or any changes currently being considered.

The third topic in this section, intra-firm relationships, examines the nature of the real estate department's responsibilities relative to the other departments in the firm. Here the significance of the real estate function as one aspect of corporate strategic planning can be examined. Basic questions that could be asked and answered are whether the existing departmental or divisional structure is effective and efficient in terms of operating costs, production levels, distribution time and shipping costs, inventory adjustment, etc.

The topic of corporate strategic planning can be continued with an analysis investigating the firm's strategic plans for its real estate, owned property and leased space, and its relationship to the strategic plan for the business or corporate entity. Basic issues to resolve are whether the firm visualizes its real estate as trade property or investment property: using real estate transactions to affect the firm's financial position; etc.

Financial Analysis and Management of Real Estate in a Business Environment (III)

The first topic in this section should examine discounted cashflow analysis, the basic tool of analysis for real estate decisionmaking. The extent of this discussion will depend upon the background of the student. But the focus of DCF analysis in this course should be on its use to make acquisition and retention (i.e., hold or sell) decisions, analyzing operating characteristics of properties and leased space, and planning for changes in the use of the property or space.

The next topic in this section should examine the impact that real estate can have on the business' reporting documents—balance sheet and income statement. The results of the decisions made by means of DCF analysis are reflected in these reporting documents for the firm. Suggested items for discussion are comparative rates of return among various assets, evaluation of the effect of ownership forms, and evaluation of the extent of ownership (excess land and land banking; facility mergers and space reduction; relocations and plant closures; acquisition and divestiture, for example).

This section of the course should not be used as a primer on financial analysis. Rather, the students should be well acquainted with these concepts from previous coursework. Here the concepts are discussed in light of their significance in business decisionmaking, with emphasis on real estate. For example, the topic of efficiency ratios might be covered through a discussion of sales per square foot of retail space as a means of comparing performance against the competition, or output per square foot being used to judge the efficiency of a productive facility or technology. This same approach could be applied to the discussion of other ratios and yield measures.

Location Analysis (IV)

The first subsection, "Dimensions of the Location Decision," should start with a discussion of the two dimensions of a location decision—use and function. Use relates to concepts such as "land use" and "space utilization". The focus is on broad classes of users such as residential, retail, office, or industrial and suggests a community aspect that is external to the firm. Function relates to concepts such as showroom footage, storage space, parking area, and production space. The focus here is on the firm's immediate need for and utilization of real estate or space; thus it is an internal concept. The discussion can now turn to two aspects of the firm's locational decision. First, the company's current and future needs must be identified and integrated into its planning process. The firm must ask if current markets are being served efficiently and economically, if new markets are being sought, if alternative sources of critical inputs are more cost effective, and similar questions. Then the business needs identified can be linked to real estate needs through the traditional forms of location decisions—initial site location, on-site expansion, relocation, and location of branch plants. Each of these topics would be defined and explored later in the course.

The discussion of linkages should relate back to the "use and function" distinction. What are the critical linkages that the firm must maintain? If, for example, the firm is a steel plant, what links to other land users must it have? Which are the most important? Which are the most costly? The same set of questions can be posed for a retail establishment, whether a fast food restaurant or a supermarket, and for a speculative office space user. In this section the student should be introduced to the process of identifying linkages if this is not already an integral part of other coursework, but emphasis in this discussion should be on evaluating linkages in light of their impact on the costs and revenues of the business.

In addition to the user links that a firm must maintain, there are functional links that it must also evaluate. Here the analysis turns to internal relations within the firm that are governed by the functional integration principle. Can the production and administration of the firm be spatially separated? Can production and distribution occur at different points in space? Should front office and back office space be placed in different sections of the community in different cost space? These are but a few of the issues that can be addressed in this discussion.

Site requirements also have both a use and a functional perspective. These issues are handled in this next segment. Issues of concern under the "use" dimension are: access to the site, utility service to the site, transport mode alternatives to the site, and physical features of the site. The functional issues relate to the manner in which the site fulfills the business' needs. Can the site serve the firm's need for production and distribution facilities to be in close proximity to each other? Is the site cost low enough to allow for its profitable operation as a free-standing retail outlet linked to a central administrative and distribution facility?

Once the use and function dimensions are discussed, the community and site factors that may be important at the two levels of the location decision are examined. The task is twofold. First, a complete list of factors should be introduced and examined. Then their relevance to a specific firm should be examined. For example, wage rates might be of primary importance for a labor-intensive firm but only of minor significance to a capital-intensive firm. Site selection in a specific community might be crucial for a firm serving the whole community, but less important for a firm serving a national market. At the very least, the site requirements would differ for two such firms serving different markets.

After these factors are discussed, a look at some less tangible locational concepts is in order. What is a community's business climate and quality of life? How can these concepts be measured? A quality of life study can be examined to demonstrate that, typically, quantifiable variables are emphasized and individual perceptions about the amenities being measured are ignored. Then, after the content of the study is examined, its role in business location decisions can be analyzed. The issue of business climate can be presented in the same manner. Then, the issue of employee relocation can be considered from both the employee's and the firm's perspective. Employee relocation plans can be discussed at this point.

The final topic in location analysis is the impact of location decisions on the firm's financial situation. How are location choices reflected in the financial documents? How do location decisions affect the company's level of risk and rate of return?

Tenure Decisions and Control of Space Concerns (V)

In this section attention is given to evaluation of the firm's options with regard to controlling the space it needs to conduct its principle business activity. The outline reveals the topics of interest concerning fee simple ownership and leaseholds. Two perspectives are important in this analysis. First, each mode of property possession, fee simple and leasehold, and the various options under each of these options, should be fully explored so that the student understands the concepts. Second, the selection of the mode of property possession should be discussed by showing how each choice for controlling the property affects the financial position of the firm.

Space Utilization (VI)

The issues important to space utilization are allocation of current space within the firm, disposition of space not needed for current use or future expansion, and acquisition of new space for future expansion. The means by which the firm allocates this scarce resource among intra-firm competitors must be considered. A related issue is the manner in which the cost of the space is handled. Is it considered as a cost of operation for a unit or division, or is it an aggregate cost of the firm? Is it considered as part of the cost of production or the cost of goods sold, or is it considered only as part of the firm's total costs?

The issue of disposition starts with an understanding of what constitutes excess property, with the understanding that there are many dimensions to this topic. Current unused real estate is not excess property if it is being held for future use. Thus, the definition of excess property is linked to the issues of current allocation of space and plans for future use of space. Moreover, the future use of space can be a use that is part of the firm's main operation, or it can be an investment based on expected price appreciation and subsequent disposition. Ultimately, it is the effect on profits that is the critical issue.

The disposition of excess property can be a multifaceted process. Foremost in the process is the manner in which the search for a buyer will be conducted. To what extent will personnel of the firm be involved? What is the marketing plan? How will a broker be utilized? Then, after such initial questions are considered, very often, a disposition will require financial deal structuring in order to facilitate the transaction. This could involve the payment of the purchase price over several years, an exchange of assets, a sales leaseback arrangement, or a variety of other arrangements.

An alternative to disposition is a real conversion to another use. The excess property can be put to a use that is not directly related to the activities of the firm but kept under the firm's ownership. This could be accomplished by means of a ground lease. A simple example of this approach could be an industrial firm that leases excess land along the highway adjacent to its employee parking lot to a restaurant or tavern. Another alternative to disposition is a financial "conversion". Here the excess property is "converted" to an investment and held until price appreciation generates sufficient return to the firm.

Finally, the issue of space utilization is directly linked to the strategic plans of the firm. This could involve reallocation of existing space among departments, redefining of excess property, or development of a property acquisition strategy.

Space Valuation and the Firm's Decisions (VII)

This section can include the topics of industrial, office and retail valuation if the students in the course have not been exposed to the subjects in another course. If this is the case, the focus of the instruction should be directed to understanding the nature of an appraisal, not to the process of conducting the appraisal. The student needs this knowledge as background to understand decisions that the firm may have to make regarding purchases and dispositions.

A matter of primary importance in this section is the understanding of the different measures of value. The concepts of market value of the real property, investment value of the real property and going-concern value of the business must be differentiated. The issue of highest and best use should be brought in along with the different value measures and the relationships among them discussed. In addition, the issue of market value versus liquidation value should be addressed. For example, the market value of an industrial property can be "the most probable sales price . . . after reasonable exposure in a competitive market . . . ," but reasonable exposure is estimated at two years and the firm needs to dispose of the property by the end of the fiscal year. What list or offer price should be assigned to achieve a timely disposition; in other words, what is the liquidation value? The obvious answer is to discount the sales price, but this requires an estimate of the extent of the discount and a reporting of the transaction in the financial statements of the firm.

The discussion of going-concern value can incorporate expanded coverage of the topic of business valuation by including the topics of valuing fixed equipment and intangibles. In addition, the relationship to the value of the firm's stock can be discussed.

Local Community Relationships (VIII)

Each firm locates within a community and, therefore, must relate to that community in a number of ways. The next section focuses on these relationships by offering a list of possible issues for discussion. Depending on the manner in which the individual instructor decides to structure the course, and depending upon the extent of coverage given to earlier topics, some subset of these issues can be incorporated into the instructor's course outline. The topics can be organized in a variety of ways. One possibility is to simply list a series of topics. An alternative way to present the topics is to divide the emphasis between governmental effects on the firm and effects of the firm on the local community. This is the approach used in the outline displayed in Exhibit 1.

Selected Issues and Topics (IX)

The last section focuses on issues and topics that are not easily categorized into one of the preceding sections. The topics listed in the course outline deal with business insurance and risk management. The location of the plant can expose the firm to different levels of risk and thereby influence the magnitude of the hazard and liability insurance premiums that must be paid. Discussion of this topic can include the locational and community factors that can determine the exposure to risk. The issue of when and what to acquire and divest was handled in a previous section. Here the issue of internal management after the acquisition, merger or divestiture becomes the focus of attention. When two businesses are merged into a single entity, problems of restructuring the management function can arise because each of the original firms probably had different organization schemes for handling real estate activities. How can these management systems be integrated? Is integration the best alternative? Should one of the two existing systems be imposed on the other firm? Should each of the real estate departments continue to operate in the same manner as it did before the merger?

Restructuring of the management of a real estate department may also be a serious consideration after a divestiture if a major component is sold. Also, bankruptcy will necessitate a restructuring of the business.

The selection of a management information system for real estate activities is an important issue of concern for the business. The choices made will depend on the firm's activities in different real estate areas such as ownership versus leasing, joint venture agreements, and current use of space versus future needs for expansion.

The term "green field" is used to refer to the set of last-minute issues or problems that can affect a firm searching for a site or an improved property, or affect a firm that has just acquired a property. There are many last-minute changes in negotiations that can cause delays and increased expenditures in the site selection process. Also, the time period just after acquisition of a site can lead to frustration, delay of operations and unanticipated expenses as misunderstandings and unintentional misrepresentations become evident after the fact. Can such problems and sources of frustration be identified in advance, allowing contingency arrangements to be made? Which aspects of the acquisition process are most likely to be affected by such delays? What aspects of the negotiations are most susceptible to misunderstanding?

Conclusion

All businesses must make real estate decisions, whether their concern is the initial location of a firm's operations, a relocation of existing operations, establishment of a branch plant, or on-site expansion. Acquisition and disposition of property enters into all of these decisions. In addition, acquisition and disposition of property by the firm can be undertaken as a economic investment without regard for the firm's production process. Many larger companies in a variety of industries staff entire departments or divisions to make such real estate decisions. These decisionmakers need to understand how to determine space needs, how to establish location selection criteria, how real estate transactions affect a firm's profitability, and the interactive effects between the firm, the local government, and the community within which the firm locates.

To achieve these objectives, the authors suggest the consideration of a corporate real estate course as a part of the real estate curriculum in a college of business administration. The outline presented in this article provides a framework for such a course. The authors tried to present a comprehensive list of potential topics for a corporate real estate course at the senior or graduate level. Each instructor can tailor to fit the course to his or her own perspective of the overall topic, the students' preparation, the university's existing business program, and, more specifically, the college's existing real estate program.

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