DISPOSAL STRATEGIES IN CORPORATE REAL ESTATE PORTFOLIOS

EVIDENCE FROM THE DUTCH BANKING SECTOR

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CONFERENCE DETAILS

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STRUCTURE

INTRODUCTION

- PROBLEM ANALYSIS
- RESEARCH OBJECTIVES

RESEARCH

- METHOD AND DATA COLLECTION
- RESEARCH FINDINGS
- CASE STUDY ANALYSIS

CONCLUSIONS

- OPERATIONAL FRAMEWORK
- CONCLUSIONS
- AREAS FOR FURTHER RESEARCH
PROBLEM IDENTIFICATION

INEFFICIENT CORPORATE REAL ESTATE DISPOSAL DECISIONS

- Organizational space-use fluctuations;
- Growing business uncertainty;
- Illiquidity of real estate;
- Reduced organizational agility;
- Inefficient disposal decisions.

1) Gibson (2000; 2001)
2) Remøy et al. (2016)
4) Louko (2006)
PROBLEM IDENTIFICATION

TRANSITION OF THE DUTCH FINANCIAL SECTOR

OFFICE-RELATED EMPLOYMENT
+2% (224,000 FTE’s 2020)

EMPLOYMENT FINANCIAL SECTOR
-60,000 FTE’S (2008-2020)

CONTRIBUTION THREE LARGEST BANKS
39.5%

MAIN EXPLANATION
Digitalization

CONSEQUENCE
Large-scale property disposal

NUMBER OF JOBS IN THE FINANCIAL SECTOR

1) CBRE (2017)
2) Bökkering (2016)
3) Van Est & Kool (2015)
4) NSIT (2001)
5) Gibler & Black (2002)
LITERATURE REVIEW

IMPACT OF INCREASED SPACE-USE FLUCTUATIONS

FINANCIAL FLEXIBILITY

- Future space-use fluctuations
- Financial portfolio structure
- Peripheral concept

CORPORATE IMAGE

- Steer reputation and image
- Business communication
- Strategic CSR

1) Gibson, 2000
2) Gibson, 2001
3) Balmer, 2009
4) Vaaland et al. 2008
LITERATURE REVIEW
CYCLICAL BEHAVIOUR OF CRE DISPOSAL STRATEGIES

FINANCIAL DISTRESS

Bad deal terms and future problems

ECONOMIC LONG-WAVE

- Economic saturation
- Fluctuating economy
- Changing innovation

REAL ESTATE MARKET

- Vacancy and rent level fluctuations
- Repeating cycles (8-10 yrs)
- Economic conjuncture
- Reactive to market developments

ORGANIZATIONAL LIFECYCLE

- Organic model
- Five development stages
- Steer transition through innovation

1) Louko, 2005
2) Morris, 2010
3) Forrester, 1981
4) Vermaas 2007
5) Remøy, 2010
6) Haire, 1959
7) Lester et. al, 2003
LITERATURE REVIEW | OBsolescence

PROPERTY OBsolescence

Obsolescence - Changing business requirements

1) Remoy (2010)
2) Langston et al. (2008)
LITERATURE REVIEW

CORPORATE REAL ESTATE DISPOSAL STRATEGIES

1) Remøy et al. (2016)
METHODOLOGY & DATA COLLECTION

RESEARCH DESIGN

PROBLEM ANALYSIS

- Inefficient decision-making in corporate real estate disposal processes

THEORETICAL FRAMEWORK

- Corporate real estate disposal drivers
- Corporate real estate disposal selection variables
- Peripheral portfolio management model
- Corporate real estate disposal strategies
- Trends in the Dutch banking sector

EMPIRICAL RESEARCH

- Expert interviews
- Document analysis

CASE STUDY RESEARCH

- Case 1
- Case 2
- Case 3
- Case 4
- Cross case comparison

Operational framework

Discussion

Conclusions & recommendations

Improvements to the decisions-making steps in corporate real estate disposal processes
METHODOLOGY & DATA COLLECTION

TRIANGULATION

DATA SOURCES

- Multimedia Historical documents
- Scientific literature
- Expert interviews

DATA TRIANGULATION

CONTEXTUAL EVIDENCE

- Scientific evidence

EXPERIENTIAL EVIDENCE

METHODS

- Document analysis
- Literature study
- Semi-structured interviews

METHODOLOGICAL TRIANGULATION

Findings
METHODOLOGY & DATA COLLECTION

CASE STUDY SELECTION

TYPICAL

CASE 1
- Netherlands-based
- System-bank
- Portfolio size
- Organizational size
- Universal bank

CASE 2
- Netherlands-based
- System-bank
- Portfolio size
- Organizational size
- Universal bank

CASE 3
- Netherlands-based
- System-bank
- Portfolio size
- Organizational size
- Universal bank

DEVIATION

CASE 4
- Netherlands-based
- System-bank
- Portfolio size
- Organizational size
- Retail-bank

COMPARATIVE CASE STUDY ANALYSIS

Research findings - similarities

Research findings - differentiations
## RESEARCH FINDINGS

**CASE STUDY RESEARCH**

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THE OPERATIONAL FRAMEWORK (1/3)

SUGGESTED IMPROVEMENTS TO THE DISPOSAL DECISIONS OF DUTCH BANKS

THREE-TIER DECISIONS

1. CORPORATE BUSINESS STRATEGY
2. CRE PORTFOLIO CHARACTERISTICS
3. ORGANIZATIONAL CHARACTERISTICS

MULTI-DISCIPLINARY TRANSACTION TEAM

1. CROSS-DISCIPLINARY EXPERTISE (FIN – RE)
2. EXECUTIVE INVOLVEMENT
3. TRUST & AUTHORITY

PROACTIVE ALIGNMENT TO REAL ESTATE MARKET

1. POSITION OF STRENGTH
2. FAVOURABLE CONDITIONS & SPACE-USE FLUCTUATIONS
3. NEGATIVE BUSINESS GROWTH DEVELOPMENT

1) Nourse & Roulac, 1993
2) Morris, 2010
3) Louko, 2005
THE OPERATIONAL FRAMEWORK (2/3)

SUGGESTED IMPROVEMENTS TO THE DISPOSAL DECISIONS OF DUTCH BANKS

TECHNOLOGICAL INNOVATION
- STEER TRANSITION OF DEVELOPMENT PHASE
- INCUBATOR FOR DISPOSAL PROCESS
- COMPETITIVE ADVANTAGE & SPACE-USE EFFICIENCY

INITIAL VALUATION
- INCORPORATION OF VISION DEVELOPMENT
- PRESUMED REDEVELOPMENT VALUE
- NEGOTIATION POSITION & REVENUES

EXERCISE SELECTIVE CONTROL ON FUTURE USE
- BUSINESS COMMUNICATION FOR CORPORATE IMAGE
- RISK OF REPUTATIONAL REPERCUSSIONS
- BUSINESS DISRUPTION
- REFLECTED IN CONDITIONS

1) Lester et al., 2003  3) Balmer, 2009
THE OPERATIONAL FRAMEWORK (3/3)

SUGGESTED IMPROVEMENTS TO THE DISPOSAL DECISIONS OF DUTCH BANKS

PERIPHERAL MODEL

- APPLICABILITY FOR LARGER PORTFOLIOS
- ACTIVE BUYING AND SELLING ACTIVITY
- FINANCIAL RELEASES FROM PREMIUM TRANSACTIONS
- INVESTMENT RISK IN SHORT-LEASES

ALIGNMENT TO BUYER PREFERENCES

- OPTIMIZE REVENUES FROM SALE
- 1) BOND-LIKE INVESTMENT PRODUCTS
- 2) OPPORTUNISTIC INVESTORS
- CORE AND DISPOSAL PROPERTIES

OPTIMAL BUSINESS CASE OF THE EXIT SCENARIO

- WEIGHTED CONSIDERATION
- (TEMPORARY) FUNCTIONAL REQUIREMENTS
- FINANCIAL REVENUES
- PHYSICAL CONSTRAINTS
- CONTROL ON FUTURE USE AFTER DISPOSAL

CONCLUSIONS

CONCLUDING STATEMENT

The use of proactive corporate real estate management established competitive advantage and financial organizational value in corporate real estate disposal decisions, whereas the reactive management of corporate real estate caused inefficient decision-making.

Typically, banks do not search for alternative ways to cope with the friction between the illiquidity of real estate and the increasing space-use fluctuations.

The main solution to the current lack of agility in the real estate portfolios is to shift the mind-set of owners and managers of corporate real estate towards active execution of corporate real estate management.
AREAS FOR FURTHER RESEARCH

ECONOMIC CONTEXT

FINANCIAL CONTEXT

LEGAL CONTEXT
THANKS FOR YOUR ATTENTION!

QUESTIONS? LET’S DISCUSS!
REFERENCES


