Impact of Corporate Real Estate on Business in the UK

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Introduction

- Business continually seeks ‘competitive advantage’ (Porter)
- All operational aspects should be aligned with business strategy
- Hence, CRE should be aligned with business strategy
- CRE: a ‘strategic resource’ (Apgar) or a liability or both?
- If aligned then during the financial crisis and recession (2007 to 2012) there should be signs of alignment:
  - Profile of CRE
  - Correlation to business metrics
  - Potentially sectoral variation
Focus on ownership and theory of alignment:

- Issues with changing Accounting Regulations (Baltussen et al. 2014)
- Lease v Buy decision (Barkham & Park 2011)
- Ownership position (Brounen & Eichholtz 2003)
- Optimal Own - Lease ratio (Lasifer 2007)
- Models of CRE and alignment with business (Gibson & Barkham 2001; Gibson & Lizeri 2001; Jordon et al. 2009; Haynes 2012)
- Commitment to CRE - limited work and historic
Research Approach

- 233 Companies in FTSE 350 for 2007 to 2012
- Analysis by Sector
- Establish through the recession
  - Cost of CRE to the business
  - CRE as an Asset
  - Scale of provision for surplus property
  - Length of commitment to CRE
  - Response to business change
Profit 2007 & 2012

- Finance
- Retail
- TMT
- Consumer Goods
- Construction
- Prof Services
- Health
- Engineering
- Utilities
- Leisure
- Transport
- Industrial
- Portfolio Avg.

![Profit Graph](image-url)
CRE Relative Cost

CRE as a Percentage of Total Costs - 2007 & 2012

Core Consult
Proportion of Lease Commitment Over 5 Years

Lease Commitment
Portfolio Metrics

Total Portfolio - Key Metrics Rebased to 2007


Metrics:
- Turnover
- PBIT
- People
- Lease Commitment
- Property Provision
- NBV as % Total Assets

2007 = 100

2007 - 2012
Retail

Retail - Key Metrics Rebased to 2007

- Turnover
- PBIT
- People
- Lease Commitment
- Property Provision
- NBV as % Total Assets


2007 = 100
Research Outcome - Portfolio

- FTE’s not aligned to Turnover or PBIT
- Lease Commitment not aligned to Turnover or PBIT
- FTE’s & Lease Commitment aligned
- PBIT & Property NBV inversely aligned
- PBIT & Property Provision loose inverse alignment
- CRE accounts for 11% of total costs (range 3% to 26%)
Research Outcome - Sectors

- Retail –
  - Reasonable alignment overall
  - Negative alignment on PBIT & Provision

- Finance –
  - Reasonable alignment overall
  - Negative on PBIT & Book Value

- Consumer Goods –
  - Some alignment
  - Atypical
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