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CORPORATE REAL ESTATE DISPOSAL IMPACTS ON CORPORATE PERFORMANCE

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ABSTRACT

The discussion of whether to own or lease corporate real estate has increased a lot in Europe during the past ten years. Academic writings have indicated that corporate real estate is a non-core function that should be outsourced to professionals.

This doctoral thesis´ first aim was to describe the main reasons for the major corporate real estate disposals carried out in Europe in recent years. The second aim was to identify how the corporations have been able to meet the goals set for the disposals and what has been the disposal impact on their performance. The corporations' main achievements and difficulties during and after the disposal process were also discussed. The thesis also gave views on how the market for real estate sale and leasebacks is going to develop in the future in Finland. Based on the information gathered from the previous European real estate disposals, this doctoral thesis built a framework which corporations can use when they are making decisions about their real estate ownership.

Corporate real estate often requires several strategies because of the different business functions that need to be supported. This means that also the optimal technique to finance corporate real estate should differ between asset types. Nevertheless, when the opportunity cost of the capital tied in corporate real estate and the different risk-return profile of real estate compared to corporate core businesses have been taken into account, the ownership of CRE seems often questionable. Further, there seems to be proof that the stock markets often valuate corporate real estate incorrectly meaning that corporations can obtain abnormal stock market gains through real estate disposals. Despite these facts, still many successful corporations own a lot of real estate. One common reason for this is that lease contracts can in the worst case be very inflexible long-term commitments.

It is clear that if a corporation decides to divest its corporate real estate holdings, it should do this during good times. Disposing real estate in financial distress will usually lead to bad deal terms that can create problems in the future.

TIIVISTELMÄ

Keskuskelu siitä, onko yrityksen järkevää omistaa vai vuokrata kiinteistönsä, on lisääntynyt merkittävästi Euroopassa viimeisten kymmenen vuoden aikana. Akateemisissa kirjoituksissa on tuotu esille, että kiinteistöjen omistaminen ei ole yrityksen ydinliiketoimintaa ja siksi se olisi syytä ulkoistaa ammattilaisille.

Tämän tutkimuksen ensimmäinen tavoite oli kuvata pääsyyt yritysten kiinteistöomistusten huomattaville myynneille Euroopassa viime vuosina. Tutkimuksen toinen tärkeä tavoite oli selvittää, miten yritykset saavuttivat kiinteistömyynneille asettamansa tavoitteet ja kuinka myynnit vaikuttivat yritysten suorituskykyyn. Myös kiinteistömyyntien mukanaan tuomat päähyödyt ja –haitat sekä ongelmat myyntiprosessin aikana selvitettiin perusteellisesti. Tutkimus toi myös lisävalaistusta siihen, miten kiinteistöjen myynti- ja takaisinvuokrausmarkkinat tulevat jatkossa kehittymään Suomessa. Lisäksi tutkimuksessa rakennettiin yrityksen omistaa vai vuokrata -problematiikkaan viitekehys perustuen havaintoihin ja kerättyyn tietoon.

Yritys tarvitsee monesti useita eri kiinteistöstrategioita, koska yrityksen kiinteistötoimen täytyy tukea monenlaisia toimintoja. Siksi myös optimaalinen tapa rahoittaa kiinteistöjä vaihtelee usein kiinteistötyypin mukaan. Tästä huolimatta, kun pääoman vaihtoehtoiskustannus ja kiinteistöjen ydinliiketoiminnasta poikkeava riskiprofiili huomioidaan, kiinteistöjen omistaminen vaikuttaa usein kyseenalaiselta yrityksille, joiden ydinliiketoimintaa ei ole kiinteistösijoittaminen. Lisäksi vaikuttaisi siltä, että osakemarkkinat eivät osaa arvostaa yritysten kiinteistöomistuksia oikein, minkä takia yritysten on mahdollista saavuttaa epänormaaleja osakemarkkinatuottoja kiinteistömyyntien avulla. Tästä huolimatta monet yritykset omistavat yhä merkittäviä kiinteistömassoja. Yksi yleinen syy tälle on, että pitkäaikaiset vuokrasopimukset voivat pahimmillaan olla hyvin joustamattomia sitoumuksia liiketoiminnan muutostilanteissa.

Selvää on, että jos yritys päättää ulkoistaa kiinteistöomistuksiaan, tämä tulisi tehdä hyvänä aikana. Kiinteistöomistusten myynti ja takaisinvuokraus huonona aikana saattaa johtaa merkittäviin ongelmiin.

PREFACE

This doctoral thesis was made for a large part in 2003-2004 in a research project called ‘Corporate Real Estate Disposals’, which was financed by the National Technology Agency in Finland and six corporations (Catella Property Consultants, Fortum, Kesko, Metso, NCC Property Development and Wereldhave). I would like to thank financiers of making this Thesis possible.

In addition, my special thanks go to Professor Kauko Viitanen from Helsinki University of Technology, Hannu Korpisaari of Metso Corporation, Juhani Rontu of Kesko Corporation, Jukka Saarnio of Catella Property Consultants, Jorma Ahokas of NCC Property Development, Arto Asikainen of Wereldhave Finland and Mikko Tavastila of Fortum Corporation who all helped me throughout the research project by sharing their extensive knowledge with me. Without their valuable advice and significant support this thesis would have been difficult to make.

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1. INTRODUCTION

1.1 CRE research in the past and this study's contribution

There has been a fast increase in large corporate real estate (CRE) divestments in Europe during the late 1990s and the beginning of this century. Many corporations have been divesting their real estate holdings, outsourcing related services and focusing all their efforts on corporate core businesses. This has happened in the wake of the fast adaptation to the shareholder value principles in Europe in the 1990s.

Many corporations have recognized that by redirecting the capital tied in CRE into the corporate core business, it is possible to obtain competitive advantage through, among others, increased corporate capital-use and real estate asset management efficiency. The outsourcing boom has not only touched the CRE function, but corporations have been outsourcing also other business areas. In general, corporations tend to concentrate on areas where it is possible to create highest possible economic profit through superior industry knowledge.

There is still a clear lack of empirical literature and studies in the field of CRE ownership and finance, particularly concerning the leasing and buying decision of CRE. Krumm (1999) suggests that the majority of the CRE research available is primarily focused on describing the current role and position of real estate departments, and in general the amount of CRE research available in comparison with the amount of research available in the other corporate management fields is still very little. It is easy to agree with Krumm in this issue.

In addition, it is easy to notice that most of the empirical CRE research comes from the Anglo-Saxon countries (the USA and the UK), and research on CRE issues in continental and Northern Europe is still rather rare. Nevertheless, the CRE holdings' significant role in corporate asset portfolios is today recognized more clearly than ever before also in continental and Northern Europe and the amount of empirical research is increasing also in these countries. This is because many continental and Northern European corporations are already in need of reorganizing their real estate functions to be able to create flexibility due to today's fast changing global business environment and to be able to release capital that could be used better in the corporate core business areas.

During the past few years, this has led to an increasing interest on CRE research also in Finland. Many corporations have understood that CRE can have also other roles than just an input in the corporate production process and that by reorganization CRE and its management, corporations can achieve significant benefits.

This thesis aimed to increase the awareness of the Finnish and European corporations and academics concerning the significant importance of CRE holdings in corporate asset portfolios. The thesis intended to show how divestments and sale and leasebacks (SLBs) of CRE assets could be used to increase shareholder value and corporations' competitiveness. Even today, at a time when shareholder value is one of the most talked about topics in the corporate world, many corporations still neglect the possibilities that CRE holdings can provide in driving up the share prices.

The significance of CRE in a corporate asset portfolio can be illustrated simply as its share of total corporate assets. For instance, buildings and land (B&L) at historical acquisition costs corresponded for, on average, around 28% of Helsinki Stock Exchange (HEX) listed corporations' market capitalization in July 2004 when real estate investors were excluded (Louko 2005b). Over 15% of these HEX listed corporations had B&L to market capitalization ratios of over 50% at historical costs of real estate (Louko 2005b). Thus, it is not surprising that an efficient CRE management is becoming an issue that no stock exchange listed corporation can simply afford to neglect. This is especially because there is evidence that large inefficiently managed CRE holdings can expose corporations to hostile takeovers (Ambrose 1990).

This doctoral thesis was made for a large part during the years 2003-2004 in a research project called 'Corporate Real Estate Disposals', which was financed by the National Technology Agency in Finland and six corporations (Catella Property Consultants, Fortum, Kesko, Metso, NCC Property Development and Wereldhave).

1.2 Definitions

In this thesis sale and leaseback (SLB) is determined as a combination of two simultaneous transactions: sale of a property and a simultaneous contract to lease it back. Leasing period can usually vary from very long leases (so called financial leases) to shorter leases (operational leases). An SLB with long-term financial leases might lead to a situation where the leases are left on the seller-corporation's balance sheet based on the International Financial Reporting Standards (IFRS) standards. This is because the actual property related risks are not transferred to the buyer. Operational leases, on the other hand, resemble more traditional rental agreements and are usually off-balance sheet financing from the tenant's perspective. Financial leases can include all kinds of arrangements providing occupational flexibility for the occupier (for instance buy-back, renewal or break-options). Operational leases cannot usually include buy-back options, but renewal options and rights of first refusals are often acceptable for the accountants.

In this thesis, corporate real estate (CRE) disposal is a more general term for selling a large number of CRE. A large CRE disposal can include SLBs on some properties, sale of empty space and sale of space already let to third parties. However, disposal does not necessarily include restructuring of property asset management services or complex inbuilt flexibility.

Corporate real estate (CRE) outsourcing, on the other hand, can include also restructuring of CRE management functions in addition to SLBs and sales of empty space or space let to third parties. Further, an outsourcing contract may include also inbuilt flexibility regarding the properties that are leased back. The flexibility can consist, for instance, of break options or renewal options leases, contracts of different length and even of possibilities to swap properties or leases in and out from the outsourced portfolio. Usually, in the connection of CRE outsourcing also the property management functions are reorganized and outsourced. Therefore, CRE outsourcing can be a more complex and far-reaching way of performing property portfolio restructurings than CRE disposal or a traditional SLB. The intention is to free the corporation from several real estate worries at the same time.

1.3 Aim, scope and structure

The thesis aimed firstly at describing the main reasons for the major CRE disposals and outsourcings conducted in Europe during the late 1990s and in the beginning of this century, and secondly at finding out how the corporations have been able to meet the goals set for these disposals and what has been the disposal impact on the corporate performance. The corporations' main achievements and the problems during and after the disposal procedures were also discussed throughout. Additionally, the thesis gave views on how the market for real estate SLBs and outsourcings is going to develop in Finland and in other European countries in the future. The overall research problems presented above were divided into sub-problems and therefore different research questions that were posed in the separate research papers.

Based on the information gathered when writing the different research papers and based on the overall corporate management and finance theory, this doctoral thesis built also a framework that corporations can use when they are making decisions concerning their real estate ownership. This framework is presented in this summary of the thesis and it tries to answer to the big questions of in which situations a corporation should own its real estate holdings and in which situations not.

This doctoral thesis consists of five separate research papers. All of the research papers have been scientifically reviewed to meet the requirements of academic publications. The author of this doctoral thesis has been fully responsible for planning and writing four out of five of these research papers and has contributed significantly in the planning and writing of the fifth research paper.

The paper (1) introduced the topic of CRE disposals and SLBs by reviewing the most relevant and current research on CRE finance and management from corporate value formation's point of view. It formed a framework of CRE finance and management for the other research papers and also introduced the main ways of financing CRE. The paper (1) was published in International Journal of Strategic Property Management (Vol. 8, No. 1, 2004). The paper (2) and (3) continued where the first one ended by discussing empirically and more distinctively the major reasons for real estate disposals, outsourcings and SLBs.

The paper (2) studied empirically the relationship between the CRE disposals and corporate performance ratios. The impact of real estate disposals on corporate performance ratios is often mentioned as one of the major reasons for real estate SLBs. This paper tried to find out empirically whether the corporations carrying out real estate SLBs were achieving major improvements in their performance rations or not. The paper (2) was published in International Journal of Strategic Property Management (Vol. 8, No. 3, 2004).

The paper (3) concentrated on describing and analyzing four different large-scale CRE disposals/outsourcing cases that were carried out in Europe during the past few years. The paper (3) discussed on one hand the major drivers for the large real estate disposals/outsourcings conducted by the case-corporations and on the other hand the outcomes of these disposals. The paper showed how the corporations had reached the goals set for the disposals and how the chosen outsourcing structures had functioned. The paper (3) was published in Journal of Corporate Real Estate (Vol. 7, No. 1, 2005).

The paper (4), on the other hand, contributed to the CRE research in Finland by investigating the real estate ownership ratios of corporations listed in the Helsinki Stock Exchange's (HEX) main list and by finding out the SLB volume during the past few years in Finland. Also the development of these figures was discussed. The hypothesis that CRE ownership decreases in time across countries and industries was put to a test. In addition, the general argument that Finnish corporations would own clearly more real estate than the corporations in the US was discussed by comparing the Finnish figures with the US figures presented in the previous studies. The paper also made suggestions about the future directions of CRE ownership in Finland. The paper (4) has been published in Nordic Journal of Surveying and Real Estate Research.

The paper (5) was written in co-operation with Prof. Mika Vaihekoski, Ph.D. and Tomi Grönlund, M.Sc. (Econ). It discussed the corporate real estate sale and leaseback effect on share values in Europe during 1998-2004. This subject has been studied several times with a US or UK based data, but never before with a pan-European data. Further, this study used exceptionally large sample of transactions and presented how the sale and leaseback impact varied across deal sizes, countries and industries. In this paper, the author of this thesis contributed mostly to developing the theoretical framework and building up the data. The calculations were conducted mostly by Mika Vaihekoski.

As stated above, the study methods of the papers vary from a critical literature review and a multiple-case study to quantitative empirical investigations to cover the subject better from different points of view. All the studies concentrated on describing the reasons for CRE disposals and assessing the main outcomes of these transactions. Throughout the thesis it was assessed to which extent and in which situations real estate outsourcings are a useful tool for corporate management. Further, the different real estate outsourcing approaches were presented and analyzed (see Figure 1).

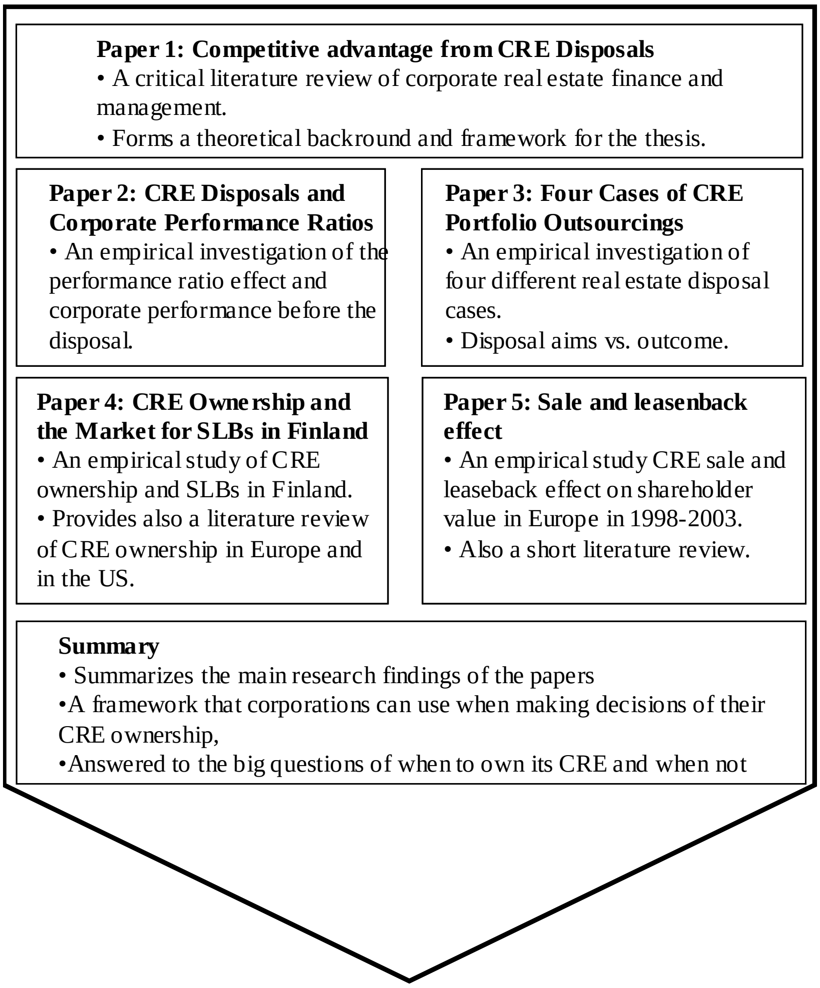

Figure 1: Thesis structure

As said, the doctoral thesis consists of five different research papers. The topic 'Corporate Real Estate Disposal Impacts on Corporate Performance' was discussed from several different points of view in the research papers.

Paper (1) *Competitive Advantage from Corporate Real Estate Disposals*. International Journal of Strategic Property Management, Number 8, Issue 1, 2004.

Paper (2) *Corporate Real Estate Disposal Impact on Corporate Performance Ratios*. International Journal of Strategic Property Management, Number 8, Issue 3, 2004.

Paper (3) *Four Cases of Corporate Real Estate Portfolio Outsourcings*. Journal of Corporate Real Estate, Volume 7, Number 1, 2005.

Paper (4) *Corporate Real Estate Ownership and the Market for Sale and Leasebacks in Finland*. Nordic Journal of Surveying and Real Estate Research, Volume 2, Number 1, 2005.

Paper (5) *Corporate Real Estate Sale and Leaseback Effect*. European Financial Management, accepted to be published. Co-author, other authors are Tomi Grönlund, M.Sc and Prof. Mika Vaihekoski, Ph.D.

1.4 Methodology

Each of the five research papers discusses the overall research topic from its own carefully chosen point of view and has thus its own structure, methodology and research questions. The doctoral thesis was structured in this way, because there is not only one variable that could be studied to understand SLB impacts on corporate performance since corporate performance can be measured in so many ways. Many previous studies have discussed just some particular phenomenon related to real estate divestments or CRE in general and have not discussed the issue from a wider perspective.

Although both quantitative and qualitative research papers are included in this doctoral thesis, the overall methodology of the thesis is still primarily qualitative.

Qualitative research methods were generally preferred in the thesis since there was, on one hand, a need to discuss the subject from several different angles and, on the other hand, because it would have been extremely difficult only to quantitatively find answers to the research problems that were discussed. Since the studied corporations had several qualitative goals for their real estate disposals (such as need for flexibility etc.) and many goals that would have been very difficult to measure quantitatively (such as space-use and capital-use efficiency), it would have been practically impossible to study how well the corporations have achieved their goals purely quantitatively.

Further, also the research question of what the main problems in the real estate disposals were would have been practically impossible to answer purely quantitatively, because the problems can occur in so many ways. Additionally, as Yin (1994) has indicated the "how" and "why" questions such as how and why the corporations carried out the real estate disposals would have been also nearly impossible to answer purely quantitatively. Quantitative research methods were preferred in the research papers if there were quantitative goals set for the real estate disposals or other research problems that were appropriate to measure quantitatively (such as the improvement of the performance ratios or increase in share price).

It was, however, important to have also quantitative data to base the research results on, because otherwise it would have been difficult to get neutral and clear evidence of how well the corporations had succeeded in their real estate disposals. For instance, it can be a difficult task to get unbiased information by just interviewing people because it is obvious that corporations like to tell about the issues that succeeded and not about the things that went wrong.

In total, two out of five research papers were more quantitative and three out of five papers used mainly qualitative research methods. Also the additional research problems presented and solved in this summary part of the doctoral thesis were tackled qualitatively.

The thesis started with a literature research, which aim was to create a theoretical framework and an introduction to the other more empirical papers. The paper (1) discussed the main advantages and disadvantages of operational CRE disposals and outsourcings on the basis of the findings in previous scientific literature and studies. It also discussed extensively the theoretical real estate disposal effect on corporate value formation and the development of the real estate disposal market. Further, it described the main techniques and ways to carry out operational CRE disposals and outsourcings as well. Because of the extensive literature review in the first paper, it was not seen necessary to go through the same literature extensively in all of the five papers. However, a comprehensive literature review was added to this summary part of the Thesis to support the overall goals of the thesis.

Papers (2), (4) and (5) were based mainly on a quantitative sample, but the research methods used in the paper number four were qualitative. The paper (2) consisted mainly of a time-series analysis of a sample of corporate financial ratios, which was performed to find out on one hand if the sample corporations' performance ratios were enhanced by the CRE disposals and on the other hand if poor performance prior to the disposals could have been the reason for the transactions. Statistical testing was not originally carried out in the paper number two, because of the small sample of data. However, the statistical testing for the data presented in paper (2) was added to this summary part of the Thesis to make the study more comprehensive.

The paper (4), on the other hand, investigated the real estate ownership and the real estate assets to total assets (and market value) ratios of non-real estate investing companies listed in Finland and compared these to the similar data from other countries. Statistical testing was not used in the paper number four due to the fact that the role of the comparative data which was gathered from the previous studies was regarded as more descriptive than exact. The preparation of the research papers one, two and four included also an amount of professional interviews that were conducted to support the quantitative and qualitative data that was gathered.

Paper (3) was a multiple-case study introducing four different CRE disposal/outsourcing cases based on corporate interviews. The paper (3) applied a multiple-case study methodology, because this way it was possible

1) to compare the differences in portfolio outsourcing structures and deal terms and find out the strengths and weaknesses of different portfolio outsourcing approaches, and

2) to present practical real-life examples of property portfolio outsourcings for corporations that are currently considering these kinds of procedures.

The paper (5) used standard event study methodology to discover the effect of the sale and leaseback announcements on the lessee firm's stock price from several samples. The paper (5) introduced a large new data from the European sale and leaseback market. This was the first time that the sale and leaseback effect on corporate share prices has been studies so comprehensively and the first time it has been studied in Western and Northern European countries at all.

This summary part of the doctoral thesis was prepared, on one hand, to summarize the main findings of the five research papers and, on the other hand, to make conclusions from the findings of the papers and to present all of the ideas that came up during the research process, but were not included in the published research papers. In addition, the summary part provides an exhaustive literature review to support the findings introduced in the thesis.

Based on the findings of the five research papers and overall view on the topic of the CRE disposals, this summary part aims to create a theoretical framework that corporations can use when making real estate sale and leaseback and/or buy vs. lease decisions. This thesis is the first one which carried out such an exhaustive analysis of the topic.

The summary part of the thesis can be divided into four parts: introduction, theoretical background, summaries of the five research papers and conclusions.

2. THEORETICAL BACKGROUND

2.1 Corporate real estate asset management

First studies concerning CRE asset management were carried out in the late 1970s and in the beginning of 1980s in the USA. Zeckhauser and Silverman (1983) were one of the first researchers who clearly indicated that at least American corporate managers were regularly neglecting their firm's real estate assets. They suggested that by neglecting their CRE assets, which were at that time comprising anywhere from 25% to 40% of the total assets of major American corporations at market values, the corporations were left open to takeovers, lost profits and lower stock price performance. Zeckhauser and Silverman (1979) published their well-known study in the Harvard Business Review. Even before Zeckhauser and Silverman, there had been American studies that were indicating that corporations' real estate holdings were generally undermanaged.

After the study of Zeckhauser and Silverman, the interest in CRE asset management started to increase steadily in the USA. For instance as early as in 1984, Hite et al. noticed that by spinning off CRE, corporations could gain abnormal returns for their shareholders indicating that CRE holdings might be generally undervalued by the stock markets. This undervaluation might have been due to inefficient management of the real estate assets or stock-markets inability to valuate CRE assets appropriately.

In 1987, Nourse and Kingery (1987) continued the research of CRE asset management by studying whether corporations ignore profitable disposal opportunities of surplus real estate, because they are not in real estate business. The answer was yes; Nourse's and Kingery's survey showed that a majority of corporations consistently missed profitable opportunities to dispose surplus real estate, which implies that still in the late 1980s, the US corporations did not manage real estate holdings carefully.

In 1988, by using standard study methodology, Rutherford and Nourse showed that the formation of a CRE unit inside a corporation is, in general, also associated with positive gains to shareholders. This result was obviously inline with Hite et al. and their suggestion that real estate spin-offs increase shareholder wealth. Rutherford and Nourse added that the largest gains were associated with the publicly traded subsidiaries and the second largest gains were associated with the master limited partnerships and the wholly owned subsidiaries. The main reasons given to the decisions to form the separate real estate units were cost control, income generation, suspected under valuation of real estate, special characteristics of real estate, risk reduction and tax benefits.

In 1989, Gale and Case (1989) studied the state of CRE management practices. They found out that while the dominant view of real estate continued to be as a production factor within the sample of corporations, there had been significant growth of CRE units during the 1980s in the US, which had been accompanied by increased influence and more active real estate resource management, which supported Rutherford's and Nourse's (1988) suggestions that corporations should do so to be able to maximize shareholder wealth. Nevertheless, Gale and Case (1989) also concluded that the dominant view of CRE resources as a cost factor of production was only slowly shifting and very few corporations saw at that time CRE resources as a profit unit. This, of course, meant that many corporations were still not fully using the value creation opportunities associated with their CRE holdings, although Rutherford and Nourse (1988) had implied that one of the reasons for the creation of real estate subsidiaries was income generation.

Rutherford and Stone (1989) contributed to the CRE research by doing a research of CRE unit formation process and found out that CRE unit formation by wholly owned subsidiaries was likely to be motivated by development and profits while centralized and decentralized real estate departments were likely to be motivated by contracting efficiency and cost control. Thus, the corporations forming wholly owned subsidiaries and following a profit strategy were attempting to make use of CRE in the most profitable way whereas centralized or decentralized real estate departments were attempting to manage their real estate consistent with the strategies of cost control. Therefore, it could be argued based on Rutherford and Stone (1989) that corporations forming real estate subsidiaries see CRE more as an asset and will try more actively to use it to make profit in the real estate markets than corporations establishing real estate departments, which see CRE holdings more as a factor in the production process. The question is which approach is better for the overall corporate success.

Pittman and Parker (1989), on the other hand, studied the factors influencing CRE departments' performance with a survey, which revealed that CRE executives consider communications and working relationships with management and operating divisions to be extremely important to a top-performing real estate department. Further, their results indicated that centralized real estate authority and a senior reporting level are significant factors in determining how well respondents' corporations are perceived to match importance with performance. It is difficult to assess the results of Pittman and Parker (1989) since they interviewed only CRE executives and not corporations' top management. CRE executives might not always have shareholder value development as their primary management goal as the top management usually does. Rutherford and Stone (1989) showed that centralized real estate department usually concentrates on cost-control and thus does not see real estate as a business of its own, which might lead to that the corporation misses possibilities for income generation in its real estate business. On the contrary, Rutherford and Stone (1989) indicated that by turning CRE department into "a profit unit" from "a cost unit", the CRE utilization should become more efficient as the real estate unit would seek continuously money making opportunities. Inefficient real estate asset management, on the other hand, might obviously lead to that corporation's real estate portfolio would not be valued to its correct value by the investors and hence the corporation itself would be undervalued by the markets. Nevertheless, as Pittman and Parker (1989) indicated that it is clear that a senior reporting level is necessary for a CRE unit or otherwise it might be difficult for the CRE people to react proactively to the possible changes in the corporation's core business.

Also Veale (1989) studied CRE management in large organizations, which are not in real estate business similarly as Zeckhauser and Silverman had done six years earlier. Veale (1989) surveyed 284 large US corporations and institutions. The research confirmed the fact, which Zeckhauser and Silverman (1983) and other researchers had brought up earlier. According to Veale (1989), CRE assets are often seriously under managed despite their great value. Further, Veale (1989) added that many CRE managers do not maintain adequate information about the real estate assets and thus efficient asset management is impossible.

Glascock et al. (1989) continued the study related to the acquisitions and dispositions of CRE by conducting an event-study with a data from 1981-1986. Glascock et al. (1989) did not find abnormal performance associated with the buyers of real estate assets. Nevertheless, they did find weak evidence of excess returns for the sellers. Glascock et al. indicated that the reason why previous studies had shown much larger returns for the sellers might be that a direct asset sale does not change the organizational forms of the company. On the other hand, for instance, in spin-offs the corporate organization changes which could make CRE management more efficient and thus lead to efficiency gains. Thus, the findings of Glascock et al. (1989) are inline for instance with the findings of Rutherford and Stone (1989) and Hite et al. (1984).

Also Miles et al. (1989) noticed that many corporations have the opportunity to increase their profitability through more effective management of their real estate. According to Miles et al. (1989), this entails evaluating real estate on an on-going basis using an approach that treats the interactions of real estate with the capital structure, debt capacity, cost of capital and the overall operations of the firm. Further, Miles et al. (1989) indicated that the market in general does not have the information to recognize the possible underutilization of CRE and cost of obtaining the necessary information across a wide range of firms is often prohibitive, which supported the suggestions of e.g. Hite et al. (1984) and many other researchers thereafter who has suggested that the investors are unable to valuate CRE correctly. Miles et al. (1989) summarized that it is very important for corporations to view real estate as an asset that can and should be actively managed to achieve corporate goals.

In 1989, Redman and Tanner (1989) surveyed the CRE acquisition and disposition decision making criteria and methods in the US. The results of Redman and Tanner (1989) indicated that already in the late 1980s over 50% of the US corporations were leasing more than half of their business premises. Thus, leasing had become already then a common solution for many corporations acquiring real estate in the US.

In addition, Avis et al. found out in 1989 that strategic planning of CRE matters was rather rare amongst corporations. Thus, corporations acted often more reactively than proactively to meet the corporate property needs.

Slovin et al. (1990) studied the corporate sale and leasebacks and their effect on shareholders' wealth. Their sample of announcements over the period of 1975–1986 included both real estate structures and airplanes with a total number of 53 observations from the US. Slovin et al. (1990) found out that two-day average abnormal return for the sale and leasebacks was 0.85% with t-statistic of 1.98, which is significant at 5 percent level. They suggested that unlike most other types of external leasing, the sale and leasebacks are value-increasing transactions. They also suggested that the positive market perception result from an overall reduction in the present value of expected taxes.

Rutherford (1990) and Alvayay et al. (1995) also studied the real estate sale and leasebacks and shareholder wealth in the US. The data of Rutherford (1990) consisted of 41 transactions that were carried out over the period of 1980–1987. Similar to Slovin et al. (1990), Rutherford suggested that the sale and leaseback of CRE has substantial benefits for seller-lessee common stockholders. Seller-lessee corporations gained an abnormal return of 1.59 % in their study. Rutherford (1990) also added that the sale and leasebacks produce an insignificant loss for the corporate purchase-lessor. On the other hand, Alvayay et al. (1995) reported positive abnormal returns for the seller-lessee corporations only prior to the US Tax Reform Act of 1986. After the Tax Reform Act of 1986, they found no significant abnormal returns accrued to firms involved in a sale and leaseback of CRE. Nevertheless, the sample of Alvavay et al. (1995) included only 17 transactions after the year 1986, which obviously raise questions. Alvavay et al. (1995) suggested that the changes in marginal tax rates in 1986 in the US had a significant negative impact on the profitability of sale and leasebacks for the seller-lessees.

Johnson and Keasler (1993), on the other hand, continued the earlier CRE research by being the first to provide a comprehensive analysis of the balance sheet data of the CRE holdings of US corporations. Johnson and Keasler (1993) provided an industry rank order by gross value of total real estate holdings and asset subtype, real estate as a percent of assets, and real estate relative to market value of the firm. Johnson and Keasler (1993) used balance sheet data from 1984-1991. They found out that the amount of real estate holdings of US corporations had on average grown. However, the growth of the real estate holdings had been much smaller than the average growth of the market values of these corporations during the same time period. Thus the relative magnitude of CRE ownership has already been decreasing in the US during the latter half of the 1980s. The same development is today ongoing in Europe according to several researchers.

In 1993, the Arthur Andersen (1993) study showed that there was a wide gap between a corporation's senior management and its senior CRE executives and managers. It concluded that the main challenge to CRE was to prove that it is a value-enhancing activity and not just an input cost-problem to be amortized as a factor of production. Benchmarking was the principal planned activity by CRE personnel for the future. Arthur Andersen's study interestingly showed that although studies had shown before that it is extremely important to have close contacts between the corporation's senior management and CRE executives (e.g. Pittman and Parker (1989)), this had not yet become reality in the beginning of 1990s.

In 1993, Ball et al. (1993) studied the wealth impacts of real estate spin-offs. They found out similarly as Hite et al. (1984) that parent firms of spin-offs experienced significant two-day abnormal return of 3.195%. Further, during the same year, Allen et al. (1993) were able to show also that in leasing decisions of CRE, the lessee firm accrues positive abnormal returns, indicating that leasing should be preferred method for real estate acquisitions. This takes some ground away from Glascock's argument that selling CRE does not increase shareholder wealth itself, but the source of the abnormal gain is more related to the changes in the organizational structures. In addition, the conclusions of Allen et al. (1993) supported the findings of e.g. Slovin et al. (1990) and Rutherford (1990), which indicated that shareholder wealth could be enhanced with sale and leasebacks.

Nourse and Roulac (1993) wrote about real estate strategies and CRE decisions, in their paper "Linking real estate decisions to corporate strategy". Nourse and Roulac (1993) point out that corporation's real estate decisions are effective if they support corporation's overall business objectives. This obviously supports the findings of e.g. Pittman and Parker (1989) who wrote that it is extremely important to have close contacts between the corporation's senior management and CRE executives. Nourse and Roulac (1993) emphasize also that too often CRE transactions are approached from a predominantly deal-making rather than strategic posture meaning that while many involved in CRE transactions recognize that the process involves a negotiation to optimize competing interests, their focus unfortunately is predominantly on economic issues, all too often at the expense of other important strategic priorities. Therefore, also Nourse and Roulac (1993) come to a conclusion that all too often the dominant emphasis tends to be on the financial goal of cost minimization. Thus, Nourse and Roulac (1993) see that corporations should be able to consider their CRE strategies from a wider perspective than just cost minimization. This supports the findings in earlier writings indicating that CRE should be rather regarded more as a profit unit than a cost unit for corporations to be able to create maximum added value from their real estate operations. Nourse and Roulac's research also supports the findings of However, Nourse and Roulac (1993) extend the previous findings by indicating that effective real estate management is not enough, but corporations should additionally link their real estate strategies and decision to their corporate strategy or otherwise to overall result is not optimal.

In 1994, Nourse (1994) studied CRE performance with a cross-case comparison of eleven firms. Nourse (1994) analyzed how real estate performance was measured and monitored for managerial feedback to make CRE decisions that will cause real estate performance to support overall strategic goals. Nourse (1994) found out that CRE performance was more regularly monitored by firms leasing property than by those owning property. Nourse (1994) suggested that firms that have good real estate information systems usually also have tighter linkage between corporate strategy and real estate operations, which also supported the findings of e.g. Veale (1989) who emphasized the significance of CRE information systems.

Nevertheless, based on Nourse (1994), we could say that usually corporations that prefer leasing instead of CRE ownership have better understanding of their business real estate and its performance, and thus can link its real estate strategy more effectively to their business strategy. For instance, one interviewee in Nourse's study said that once a building is owned it is used whether or not it is the best facility for the purpose, whereas if facilities are leased, operating units can be moved more easily to more profitable locations. This is only one example, but based on Nourse (1994), it seems to be clear that it is often easier for corporations to monitor what they actually pay and what kind of service they get if they buy it from outside.

In 1996, Cheong and Kim (1996) investigated the relationship between changes in real estate prices and the value of firms. The findings using a yearly cross-sectional test during 1987-1991 indicated that the proportion of a firm's real estate holdings to total assets had no significant effect upon the return on investment in its stocks. Nevertheless, Cheong and Kim did find out that the higher the debt ratio of the firm, the lower the co-efficient of the real estate holdings implying that the value loss of the growth opportunities forgone becomes larger as the firm uses more debt. According to Cheong and Kim this meant that expectations of real estate price increase raise the value of assets currently held by the firm on one hand. However, on the other hand, expectations for increases in real estate prices will cause a value loss to the firm by increasing potential investment costs for future growth opportunities. Thus, it is interesting to notice that real estate decisions influences the firm value through overall corporate strategy in Korea (i.e. increases in real estate prices might lead to a decline of firms' willingness to invest) as Nourse and Roulac (1993) showed in their study in 1993. Cheong and Kim also suggest that the loss of growth opportunity value due to expectations of a real estate price increase will be larger for debt-use firms than zero-debt firms.

Adams and Clarke (1996) extended the research of real estate sale and leasebacks and corporate value to the UK market by examining the stock market reaction to announcements of sale and leasebacks in the UK. Their results contradicted those from the US showing that the share prices of the seller-lessee corporations tended to fall on the announcement of a sale and leaseback transaction. They concluded that this generally negative reaction may be due to the fact that stock market treats many UK sale and leaseback transactions as a signal that the seller-lessee's net operating cash flow situation is worse than had previously been thought.

Manning and Roulac (1996) aimed at reviewing the tasks a CRE function should undertake to create more opportunities for a company's real estate department to increase shareholder wealth. Manning and Roulac (1996) concluded that this could be done best by organizing and managing the CRE function centrally, plus training a significant proportion of CRE staff to work closely with the operating business units, their support staffs and local business unit issues. Further, they indicate that CRE staffs need to be continually adding more valuable services customized to increasing business unit ROI. In their study refer to five levels of CRE function sophistication created by Lambert et al. (1995) and Cameron and Duckworth (1995) based on earlier work of Joroff (1992). These levels were

1. Taskmasters that work for business units to engineer and procure cost-efficient facilities
2. Controllers working with upper levels of management to standardize employee and operating space needs in order to minimize occupancy costs
3. Dealmakers creatively negotiating on behalf of the overall company to seize opportunities to save money through financial, organizational and site selection.
4. Intrapreneurs working with business unit executives as a competitive real estate operation in its own right, "benchmarking" their performance in terms of both cost and quality of the real estate services and products they provide.
5. Business strategists working with senior corporate and business unit managers to integrate workplace, workforce and technological trends into a broader strategy that will enhance competitive advantage, productivity and shareholder value.

In 1997, Manning et al. tried to explain why firms should consider outsourcing real estate management functions and identify both benefits and possible negative consequences of outsourcing. This paper was a natural continuation for the Manning and Roulac's previous paper discussing the tasks that CRE function should undertake to create shareholder wealth and therefore Manning et al. (1997) use the same framework of five levels of CRE function sophistication. They conclude that functions associated with "taskmasters", "controllers" and "deal makers" are more likely to be outsourced successfully whereas “intrepreneurs” and “business strategist” management functions are more likely to be carried out more effectively by internal managers. They add that outsourcing the appropriate real estate management functions, consistent with each company’s individual needs, should enhance shareholder wealth. Thus, this conclusion supports the theory that real estate ownership could be wise to outsource since seeking good real estate deals and managing cost efficiency are tasks to be outsourced.

Golan (1998) studied the own vs. lease decision. Golan (1998) argued that although the leasing is in many US corporations the preferred method to acquire real estate due to the fact that the corporate performance is in many cases measured with metrics such as economic value added (“EVA”) and ROA, each real estate decision should be assessed separately against a number of criteria. As Seiler et al. (2001) also Golan (1998) noticed that the stock markets do not recognize the specific risk-return profile of CRE. Golan (1998) argued that the stock markets might be in practice applying the same weighted average cost of capital to the CRE investments as has been used to the corporate core business, because stock markets simply do not see real estate as a business function itself. If this would be the case it would mean that corporations with higher risk profile should not own real estate at all and corporations which weighted average cost of capital is lower than what the real estate yield should own the properties it uses. Nevertheless, Golan (1998) adds wisely that as a general rule it is not good policy to base your long-term financial strategy to the premise that the market will remain permanently ignorant. Golan (1998) also argues that leasing is not necessarily more flexible solution than ownership, but the flexibility is more linked to the liquidity of the property i.e. how easy it is to get rid of the asset by selling or leasing it. On the other hand, the liquidity has a lot to do with corporation’s ability to create long-term plans and to be proactive.

Carn et al. (1999) studied three major categories of issues that CRE executives will face in the future. The study indicated that the CRE executives that took part in the survey were strongly aware of and influenced by the many ideas offered in the earlier studies. Further, the study found out that the gap between senior management and CRE executives and managers of which Arthur Andersen (1993) wrote about is narrowing.

In 1999, Schaefers studied the factors representing and influencing CRE management in Germany. Schaefers (1999) indicated that despite their significant value and associated costs, real estate assets are at present seriously undermanaged by vast majority of German companies. Neverthless, Schaefers (1999) noticed that in some companies the function is evolving into a recognized management activity that requires a more formal and systematic approach.

O'Mara (1999) discussed CRE management widely in her book ("Strategy and Place: Managing Corporate Real Estate and Facilities for Competitive Advantage"). O'Mara indicated among others that when it comes to own vs. lease decision, the right choice is not always easy. Even though leasing might seem to be the right solution from the opportunity cost of capital point of view, it should be remembered that when it comes to CRE, corporation's needs for the change rapidly. This is especially when it comes to properties that are highly specialized and more customized to a particular need (requiring extensive technological infrastructure such as manufacturing, data processing, research facilities or sometimes headquarters). In these cases long lease commitments can hamper a company's ability to invest in growing/changing its main line business and restrictive clauses in leases limit flexibility (O'Mara 1999). Therefore, it might be wise to own especially properties which house a highly specialized activity that requires large technological investments. On the other hand, O'Mara (1999) also wrote that CRE ownership can sometimes be profitable. For instance, if a corporation's presence in some area is going to attract a great deal of other corporations (and also real estate developers), it is potentially adding a great deal of real estate value to the location (O'Mara, 1999). However, O'Mara (1999) adds that in general corporations should concentrate on their core competencies (the business sectors in which they can add value the best). As Krumm (1999) indicated, it is clear that a corporation cannot forecast real estate market movements as well as a professional property market player, which increases risks and decreases the probability of success in the property markets.

McDonagh and Hayward (2000) expanded the study concerning CRE asset management and outsourcing to New Zealand's business environment by carrying out a survey of 457 organizations. They indicated that as in other countries it seems that also in New Zealand valuations, brokerage and building services are the most usual services to be outsourced and on the other hand strategic planning is the most common job to be kept in-house. Thus, McDonagh and Hayward (2000) imply that there is not that much difference in different developed countries when investigating what corporations tend to outsource. McDonagh and Hayward (2000) found out that the main difference is actually in how common it is to carry out outsourcing in the property industry. An interesting result was also found in the reasons for outsourcing. McDonagh and Hayward (2000) showed that there was a significant difference between the reasons for outsourcing among those with a large freehold portfolio and those with a large leasehold portfolio. The former most often quoted the reason "to provide greater flexibility in staff resources" whereas the latter were aiming to "reduce the cost of real estate services". It was also noticed that when a corporation has a large freehold portfolio, it usually tends to keep more functions in-house.

Further, McDonagh and Hayward (2000) noticed that those organizations that prefer leasing may do so because of the need for flexibility in their business. On the other hand, it could also be that the capital and infrequent nature of freehold portfolio property purchases mean that management does not see this cost clearly and as readily controllable on an ongoing basis. Therefore, lease payments and related costs are likely to be constantly on the management agenda for an organization meaning that they are much easier to control.

In 2000, Gibson (2000) wrote that CRE managers could gain more insight into the problem of how to manage real estate by recognizing that real estate should be considered from several perspectives: as a physical, functional and financial asset. Each of these perspectives leads to different source of flexibility, which can all help corporation to improve its "bottom line" figures. Gibson (2000) suggested that a CRE portfolio should be divided into at least three sub-portfolios to be able to maximize the flexibility from all angles. These portfolios would be so called core and peripherical portfolios determined based on the time span of the properties whether the properties are needed for long-term or short-term. The concept of core and peripherical labour has been used before in human resource management. However, it might be very difficult to determine which properties are core and which are not, because of the difficulty to predict future business environment. Gibson's (2000) property portfolio division could be one way to answer to the flexibility issues that have been raised by researchers (e.g. O'Mara, 1999).

In its paper ("Corporate Property is Integral to Corporate Business Strategy") Roulac (2001) aimed to illustrate the positive outcomes that can be realized from strategic property management. According to Roulac (2001), there are seven distinct ways how CRE can bring competitive advantage to a corporation. These are by creating and retaining customers, attracting and retaining outstanding people, contributing to effective business processes, promoting enterprise values and culture, stimulating innovation and learning, impacting core competency and enhancing shareholder wealth. Thus, as Gibson (2000) also Roulac (2001) emphasizes that CRE is a multi-dimensional asset that can add to corporate profitability and shareholder value in many ways.

In 2001, Laposa and Charlton (2001) extended the CRE research by calculating standard benchmarks based on accounting and balance sheet information as of 1999, and then tested the data for significant differences by two-digit standard industrial classification levels between European and US firms. They followed the method of Johnson and Keasler (1993) and compared the property, plant and equipment book values to a variety of non-property balance sheet and market value figures. Further, they extended the previous research through a comparative analysis of 1,573 US firms to 2,182 European firms. Laposa and Charlton (2001) suggested that there are significant differences between Europe and the USA, dependent on the specific benchmark and industrial sector. They explained this by saying that long-term European firms have always owned property and are resistant to leasing or selling corporate-owned property, that the European corporate property outsourcing firms have not yet developed the industry recognition in the non-property world and that European firms are reluctant to dispose of undervalued property through alternative financial vehicles as sale and leasebacks because of the lack of an established capital market.

Pottinger et al. (2001) were one of the first to provide a comprehensive analysis of the real estate outsourcing methods at that time. Pottinger et al. (2001) discussed the CRE divestment structures and the risks, drivers and barriers associated with the structures and outsourcings in the paper which was published in the journal called “Property Management”. It seems that researchers have started to study the more sophisticated real estate portfolio sale and leaseback outsourcing) structures only in 21st century. One reason for the researchers not to discuss the total outsourcing and real estate portfolio sale and leasebacks earlier is obviously that the first transactions of this size and complexity was carried out in Europe only in the late 1990s. Pottinger et al. concluded firstly that companies already experienced in other areas of outsourcing recognize the need to retain adequate in-house expertise. However, the advent of total property outsourcing represents an opportunity for in-house property teams to work more closely with operational business units. It is clear that to be successful in real estate outsourcing and sale and leasebacks, the occupiers need to be intelligent clients, which means that they should know a lot about their own business before successful outsourcing transactions can be initiated.

Seiler et al. (2001), on the other hand, attempted to ascertain the effect of corporate real asset ownership on the systematic risk (beta) and risk-adjusted return to the shareholders. Seiler et al. used a sample of 80 firms from 1985-1994 and found no evidence in support of a diversification benefit due to holding real assets at the corporate level. Therefore, Seiler et al (2001) was able to prove that stock markets do not recognize the CRE’s different risk-profile from the corporate core business, but see it more as a necessary evil which is needed to be able to create products and services. Seiler’s (2001) explain why corporations have been able to obtain abnormal gains by divesting CRE and allocating the capital tied in CRE into the corporate core business, which usually yields more.

As Gibson (2000), also Woollam (2003) divided corporate properties into three main categories in his article published in Journal of Corporate Real Estate. These categories were core, tactical and surplus and their ownership should be organized differently to be able to get maximum amount of flexibility into the CRE portfolio. Woollam (2003) provides also interesting information about the development of CRE management and the thrive for flexibility in the real estate portfolios. Woollam (2003) among other cites IPD, which has gathered information about the average length of leases in the UK. According to IPD, the average length of leases has decreased from

15-20 years to 10-13 years during 1992-2002. This illustrates how corporations have started to seek for flexibility in the fast changing modern business world.

Redman et al. (2002) analyzed the financing methods used by corporations to acquire CRE in the USA. It was found that companies rely on internal financing (operating cash-flows) and external financing such as long-term leasing, joint-ventures, property mortgages and sale and leasebacks when they carry out real estate acquisitions. Managers tend to look at tax advantages of debt and availability of cash-flows in deciding which financing methods to use, rather than theoretical corporate finance factors. Nevertheless, many of the external financing sources that were ranked "traditional" by Redman et al., have not been that traditional in Europe. For instance, joint ventures and sophisticated sale and leasebacks have only started to increase their popularity during the past 5-10 years in Europe. This also illustrates well the difference in the development phases of the European and North-American real estate sectors.

Asson (2002) offered a new solution for corporations interested in sale and leasebacks in his article ("Real Estate Partnerships: A New Approach to Corporate Real Estate Outsourcing"). Motivated by a couple of major outsourcing transactions in the UK, Asson (2002) claimed that what a real estate partnership does is take the germ of a good idea of sale and leaseback and take it to a more refined and sophisticated level. It is a solution driven not by the real estate market, but by a corporate's present and future needs. Nevertheless, the major problem in creating sophisticated outsourcing packages is that it is extremely difficult for corporations to predict future and on the other hand a flexible outsourcing package can be very expensive. Therefore, it can be fully efficient only in more stable businesses.

Brant Bryan (2003) aimed to help the senior CRE decision makers to identify opportunities for different types of lease finance in his research paper. According to Brant Bryan (2003), in the past, real estate SLBs were often seen as a capital source of last resort and SLBs were usually made by distressed companies. Nevertheless, Brant Bryan (2003) added that the cost of sale and leaseback financing has decreased lately quite significantly as the amount capital available for sale and leaseback transactions has increased rapidly. In addition, the sale and leaseback lessors have turned to structured finance solutions to respond creatively to corporate economic needs and have produced substantial cost reductions. According to Brant Bryan (2003), this continued creativity in real estate finance has provided more efficient, transparent and competitive financial structures for corporations, which has lead to a increased competitiveness for the lessee corporations. Brant Bryan (2003) discusses the issue from the American angle. In Europe, the development of structured real estate finance products is ongoing, but perhaps not as far as in Europe.

The most recent study on CRE sale and leasebacks and shareholder wealth in the US was conducted by Fisher (2004). By using a sample of 71 sale and leaseback events from the 1990s, Fisher documented a significant mean abnormal return of 1.3 % for shareholders of seller-lessee firms announcing relatively short leasebacks. The evidence shows that also after the 1986 tax reform the US corporations have obtained abnormal stock market gains through sale and leasebacks.

In 2006, Liow and Tay studied CRE management in Singapore. Ninety-seven firms were surveyed on three main business management perspectives: CRE planning, CRE organizational structure and CRE performance. Liow and Tay found out that CRE is generally under-managed also in Singapore. In addition, Liow and Tay showed that only the CRE planning and the existence of CRE unit have direct impact on CRE performance. The results of Liow and Tay support the findings of many of the previous studies. Further, according to Liow and Tay, the results support the current literature postulations on the importance of strategic planning as the key skills that CRE managers need to be equipped with to meet the challenges ahead.

2.2 CRE asset management and own vs. lease discussion based on previous studies

From 1983 American corporate managers have known that it is important not to neglect firm’s real estate assets, because neglecting CRE leaves them open to takeovers, lost profits and lower stock price performance. The first studies of this topic was made in Europe only in the late 1990s. For instance, in 1999 Schaefers 1999 showed that Europe has been somewhat behind the USA in CRE asset management.

After the first studies of CRE asset management a lot of development has happened in the field of CRE among the US corporations. For instance, in 1989 Pittman and Parker showed that a senior reporting level is a significant factor in determining how well CRE department performed. In 1993 Arthur Andersen indicated that the gap between the senior executives and CRE managers was still existing, but already in 1999 Carn et al. noticed that this gap had started to narrow.

On the other hand, it seems that the writings of e.g. Gale and Case (1989), Rutherford and Stone (1989), Miles et al. (1989) and Nourse (1988) about how CRE unit should be turned from a cost unit into a profit unit have led to that corporations have started to separate their real estate operations from other business functions and put more emphasis on how the real estate operations are run. One method of doing this has obviously been sale and leasebacks and outsourcings.

There are, of course, also other reasons for the increase in real estate divestments and decrease in real estate to total assets ratios in the US and in Europe. For instance, McDonagh and Hayward (2000) noticed that those organizations that prefer leasing may do so because of the need for flexibility in their business and because lease payments and related costs are likely to be constantly on the management agenda for an organization meaning that they are much easier to control. Also Nourse (1994) noticed that it is often easier for corporations to monitor what they actually pay and what kind of service they get if they buy it from outside. Further, Nourse (1994) suggested that corporations that lease have often tighter linkage between the corporate strategy and CRE strategy. Thus, coming back to the Arthur Andersen's (1993), Pittman and Parker's (1989) and Carn's (1999) notions, it seems that as leasing has become more usual in CRE departments in the USA at the same time the CRE strategies have started to have closer ties with the overall corporate strategy. This is supported by Johnson and Keasler who already in 1993 showed evidence that the share of CRE assets of total corporate assets had started to decrease.

Even though as Laposa and Charlton (2001) suggested that European firms are resistant to leasing or selling corporate-owned property, the European firms have clearly started to move towards real estate outsourcing (e.g. Pottinger et al. 2001). The change in CRE practices has been much faster in Europe than it was in the USA as the

European corporations have performed huge real estate sale and leasebacks during the past ten years or so. It is obvious that one reason for the fast development is the rapid decrease in the price of sale and leaseback financing which Brant Bryan (2003) refers to. The reason for this has been mainly the fast increase in the amount of capital available for sale and leaseback transactions, which has decreased investors' yield expectations rapidly. Further, the variety of different kinds of flexible sale and leaseback solutions has increased fast also in Europe during the past five years and today a corporate lessee has a significant amount of fairly prices solutions available when he starts to consider real estate outsourcings (e.g. Asson (2002), Pottinger (2001)).

3. SUMMARIES OF THE RESEARCH PAPERS

3.1 Competitive advantage from corporate real estate disposals

The paper discussed the main advantages and disadvantages of operational CRE disposals and outsourcings on the basis of the findings in previous scientific literature and studies. The paper reviewed a large amount of research related to CRE management and finance. It also described the main techniques and ways to carry out operational CRE disposals and outsourcings. In addition, it presented some new evidence concerning the increased activity in the European real estate SLB market. The study answered the following questions. What are the main advantages and disadvantages of operational CRE disposals and outsourcings? What are the most common ways and techniques available to carry out these disposals and outsourcings?

In modern shareholder value based corporate governance culture the markets tend to understand the value enhancement as maximizing company's asset base by focusing on the corporation's core competencies, which are usually the areas where the corporations can create the largest added value. Even though there is evidence that stock markets appreciate operational CRE disposals, nearly 50% of the value of the real estate SLBs during 1998-2003 has been carried out by corporations under serious financial distress. Other corporate sectors amongst this trend are hotel operators, retailers and other corporations with large freehold real estate base. Current and former governmental corporations form around 2/3 of the corporations.

The study found evidence that by restructuring CRE holdings and asset management, corporations can cut costs, decrease risks related to CRE functions and increase revenue stream by creating better support to the core business. Researchers have shown a number of times that CRE holdings are often under managed and corporations that have looked at rationalizing their real estate portfolio outperform corporations with large freehold real estate asset bases. However, the rationalizing can be done in many ways and only a few corporations have decided to leave the real estate sector entirely.

It is known that CRE often needs multiple strategies because of the multiple factors concerning products and markets that need to be supported. Therefore, it is clear that the optimal technique to finance CRE differs between asset types and uses. In addition, corporation's own distinctive features and the overall market situation have a significant influence on what financing techniques a corporation should use.

It is important to decide clearly which property related risks a corporation can efficiently bear. If the corporation transfers risks that it could handle better than service providers, it pays for nothing. Furthermore, when rushed, CRE disposals can create more problems than they solve. For example, long lease agreements on wrong properties could create inflexibility. In addition, as in Modigliani and Miller's theories of agency problems between shareholders and corporate management, problems could arise with service subscribers and providers (Louko 2004a). It is also important to remember that the rules for off-balance sheet financing are changing rapidly and therefore obtaining off-balance sheet finance cannot be the main reason for real estate sell-offs.

When done correctly disposals of operational CRE can be a useful method in the process of unlocking inefficiencies and creating strategic advantages. It is usually not only possible to cut costs and improve key performance ratios with disposals, but disposals can also be an efficient way to finance corporate activities without increasing leverage levels. By outsourcing CRE and related services to a professional service provider, the corporation can also get an access to property industry knowledge that it would not otherwise get. In addition, a professional property manager can often provide services more efficiently than an in-house organization, which can make outsourcing more cost effective than is commonly believed.

3.2 Corporate real estate disposal impact on corporate performance ratios

The study investigated if large operational CRE disposals carried out between the years 1998-2001 in Europe had a positive impact on the seller corporations' performance ratios. In addition, the study focused on finding out whether the performance ratios of retail and telecom corporations, which carried out major operational CRE disposals between the years 1999-2002, were significantly worse before the transactions than the performance ratios of other corporations at the same business sector. This research paper answered the following questions. What kind of impact did the large operational CRE disposals have on the corporate performance ratios in general? Did the corporations in the retail and telecom sectors perform significantly worse before the operational CRE disposals than the industry benchmark?

3.2.1 Results and statistical testing (not included in the original paper)

There was some evidence that the retail corporations that have been disposing operational CRE were less profitable as opposed to other corporations in the same business sector before the transactions. Also the results of paired t-test illustrated in the Table 1 support this assumption. The mean of the differences from the benchmark of the before transaction two-year average return on assets (ROA) of the sample retail corporations is statistically different from zero even at 1% significance level. Also the mean of the differences of the after transaction two-year average turnover growth (TG) figures is statistically different from zero at 1% significance level, which on the other hand indicates on some level that the sample corporations have not allocated the money obtained from the transactions to corporate growth immediately after the transaction.

Table 1: Sample corporations' average performance ratios 2-years before and after the disposal

Corporation	Year	ROA before	ROA after	Benchmark before[1]	ER before	ER after	Benchmark before*	CR before	CR after	Benchmark before*	TG before	TG after	Benchmark before*
Kesko	1999	6,7 %	6,4 %	11,2 %	54,4 %	55,9 %	50,4 %	0,92	0,81	1,08	10,4 %	2,6 %	15,3 %
MFI	1999	4,9 %	6,6 %	11,2 %	44,0 %	55,6 %	50,4 %	0,62	0,66	1,08	-1,7 %	5,7 %	15,3 %
Metro	1999	3,0 %	6,6 %	11,2 %	35,1 %	29,8 %	50,4 %	0,90	1,00	1,08	27,4 %	0,3 %	15,3 %
Kesko	2000	8,7 %	3,8 %	10,4 %	56,2 %	54,2 %	48,5 %	0,90	0,72	1,02	2,0 %	0,9 %	14,5 %
Marks&Spencer	2001	9,2 %	9,8 %	8,9 %	58,8 %	43,9 %	47,4 %	0,98	1,12	0,96	-0,9 %	0,0 %	15,7 %
Somerfield	2001	-3,0 %	1,7 %	8,9 %	44,2 %	49,4 %	47,4 %	1,02	0,74	0,96	-11,5 %	0,6 %	15,7 %
Sainsbury	2000	7,0 %	6,6 %	10,4 %	46,1 %	45,3 %	48,5 %	0,77	0,82	1,02	6,0 %	2,3 %	14,5 %
Carrefour	2001	6,7 %	6,9 %	8,9 %	25,1 %	24,1 %	47,4 %	0,90	1,34	0,96	54,9 %	3,1 %	15,7 %
Carrefour	2002	6,7 %	7,8 %	8,0 %	25,0 %	24,2 %	47,2 %	1,62	0,83	0,97	16,0 %	0,8 %	14,1 %
Somerfield	2002	0,8 %	2,0 %	8,0 %	48,3 %	49,7 %	47,2 %	0,84	0,75	0,97	-7,5 %	-1,3 %	14,1 %
Average		**5,1 %**	**5,8 %**	**9,7 %**	**43,7 %**	**43,2 %**	**48,5 %**	**0,95**	**0,88**	**1,01**	**9,5 %**	**1,5 %**	**15,0 %**
Median		**6,7 %**	**6,6 %**	**9,6 %**	**45,2 %**	**47,4 %**	**48,0 %**	**0,90**	**0,82**	**0,99**	**4,0 %**	**0,8 %**	**15,3 %**
p-value (paired t-test)		**0,00**	**0,00**		**0,12**	**0,10**		**0,26**	**0,06**		**0,20**	**0,00**	

[1] Average performance of the benchmark group during 2-years before the disposal
ROA= Return on assets, ER=Equity ratio, CR=Current ratio, TG=Turnover growth

On the other hand, the telecom corporations that have been performing real estate sell-offs had generally worse short-term solvency than the corporations in the same business sector before the transactions as shown in the Table 2. The mean of the differences from the benchmark of the before transaction two-year average current ratios of the sample telecom corporations is statistically different from zero even at 1% significance level. Further, as in the case of the retail corporations, also the mean of the differences of the after transaction two-year average turnover growth (TG) figures of the telecom corporations was statistically different from zero at 1% significance level, which indicates that the sample corporations have not allocated the money obtained from the transactions to corporate growth immediately after the transaction. In addition, the equity ratios of the sample corporations were in all the other cases except for Deutsche Telecom worse than benchmark, but because of the DT's exception, the differences were statistically significant only at 10% significance level.

Table 2: Sample corporations' average performance ratios 2-years before and after the disposal

Corporation	Year	ROA before	ROA after	Benchmark before[1]	ER before	ER after	Benchmark before[1]	CR before	CR after	Benchmark before[1]	TG before	TG after	Benchmark before[1]
Telecom Italia	2000	12,4 %	11,3 %	10,5 %	44,8 %	38,3 %	45,0 %	0,73	0,68	0,88	8,2 %	6,6 %	15,3 %
BT	2001	8,0 %	8,5 %	8,4 %	23,0 %	4,7 %	42,2 %	0,49	0,62	0,90	27,8 %	-17,5 %	16,6 %
FT	2001	6,7 %	4,9 %	8,4 %	31,5 %	11,4 %	42,2 %	0,55	0,48	0,90	25,7 %	6,6 %	16,6 %
DT	2001	8,6 %	5,9 %	8,4 %	47,6 %	43,1 %	42,2 %	0,62	0,39	0,90	-3,7 %	-4,3 %	16,6 %
SwissCom	2001	10,8 %	16,0 %	8,4 %	35,7 %	50,3 %	42,2 %	0,76	0,39	0,90	16,7 %	2,1 %	16,6 %
Telecom Italia	2002	11,3 %	10,5 %	2,7 %	38,3 %	26,2 %	40,4 %	0,68	0,82	0,84	6,6 %	0,1 %	15,0 %
Average		**9,6 %**	**9,5 %**	**7,8 %**	**36,8 %**	**29,0 %**	**42,4 %**	**0,64**	**0,56**	**0,88**	**13,6 %**	**-1,1 %**	**16,1 %**
Median		**9,7 %**	**9,5 %**	**8,4 %**	**37,0 %**	**32,3 %**	**42,2 %**	**0,65**	**0,55**	**0,90**	**12,5 %**	**1,1 %**	**16,6 %**
p-value (paired t-test)		**0,14**	**0,21**		**0,09**	**0,06**		**0,00**	**0,01**		**0,31**	**0,00**	

[1] Average performance of the benchmark group during 2-years before the disposal
ROA= Return on assets, ER=Equity ratio, CR=Current ratio, TG=Turnover growth

All the corporations that sold over 10% of their total assets in CRE disposals between the years 1998-2001 were able to improve their profitability in terms of return on assets. Most of them also improved their capital structure and short-term solvency, even though the business cycle at the same time was not very good. In addition, approximately half of the total 20 corporations under investigation were able to improve their profitability, capital structure or short-term solvency despite the slump in the world economy. The effect on performance ratios was clearest in the retail sector, where seven out of the total ten studied corporations were able to improve average return on total assets, when at the same time only 30% of the other corporations were able to do this. Similarly, seven out of the total ten retail corporations increased their dividend payments after the real estate sell-offs, when at the same time only one corporation from all other business sectors managed to do this.

Nevertheless, the improvement in the performance of the corporations was rather rarely statistically significant as paired t-test results below show (Table 3). For instance, the mean of the differences of the two-year averages of the before and after transactions ROA of the retail corporations was statistically significant only at 10% significance level. Also it seems that there is a difference between the before and after transaction growths of the corporations. However, this growth has been negative, perhaps due to the small recession in the beginning of this century.

Table 3: p-values (Paired t-test)

	Sample size	ROA	Equity	CR	Divident	Growth
Retail sector	12	0,09	0,44	0,25	0,16	0,11
Telecom sector	6	0,47	0,09	0,22	0,11	0,04
Other corporations	5	0,10	0,28	0,07	0,09	0,37
Total	**23**	**0,47**	**0,11**	**0,10**	**0,11**	**0,03**

The entire sample of the sample corporations before and after transaction performance ratios is shown in the table 4.

Table 4: The real estate disposal effect on corporate performance ratios

Corporation	Year	Deal value, m€	ROA before[1]	ROA after[1]	Equity before[2]	Equity after[2]	CR before[3]	CR after[3]	Dividend before[4]	Dividend after[4]	Growth before[5]	Growth after[5]
Kesko	1998	200	3,8%	8,7%	52,6%	56,2%	0,93	0,90	0,42	0,59	9,6%	2,0%
Kesko	1999	94	6,7%	6,4%	54,4%	55,9%	0,92	0,81	0,59	0,75	10,4%	2,6%
MFI	1999	154	4,9%	6,6%	44,0%	55,6%	0,62	0,66	0,04	0,02	-1,7%	5,7%
Metro	1999	2700	3,0%	6,6%	35,1%	29,8%	0,90	1,00	1,53	1,02	61,3%	0,3%
WH Smith	1999	57	10,1%	11,5%	62,7%	67,4%	0,96	0,95	0,23	0,27	-0,2%	-3,5%
Kesko	2000	67	8,7%	3,8%	56,2%	54,2%	0,90	0,72	0,59	0,80	2,0%	0,9%
Marks & Spencer	2001	580	9,2%	9,8%	58,8%	43,9%	0,98	1,12	0,06	0,06	-0,9%	0,0%
Somerfield	2001	40	-3,0%	3,4%	44,2%	49,4%	1,02	0,74	0,01	0,19	-11,5%	0,6%
Sainsbury	2000	809	7,0%	5,5%	46,1%	45,3%	0,77	0,82	0,20	0,21	6,0%	2,3%
Carrefour	2001	1940	6,7%	6,9%	25,1%	24,1%	0,90	1,34	0,48	0,60	14,9%	3,1%
Carrefour	2002	104	6,7%	7,8%	25,0%	24,2%	1,62	0,83	0,53	0,69	16,0%	0,8%
Somerfield	2002	30	0,8%	2,0%	48,3%	49,7%	0,84	0,75	0,07	0,28	-7,5%	-1,3%
Telecom Italia	2000	2900	12,4%	11,3%	44,8%	38,3%	0,73	0,68	0,23	0,31	8,2%	6,6%
British Telecom	2001	3800	8,0%	8,5%	23,0%	4,7%	0,49	0,62	0,10	0,03	27,8%	-17,5%
France Telecom	2001	3300	6,7%	4,9%	31,5%	11,4%	0,55	0,48	1,00	0,50	25,7%	6,6%
Sireo / DT	2001	1100	8,6%	5,9%	47,6%	43,1%	0,62	0,39	0,62	0,19	-3,7%	-4,3%
SwissCom	2001	1636	10,8%	16,0%	35,7%	50,3%	0,76	1,64	8,39	5,16	16,7%	2,1%
Telecom Italia	2002	2900	11,3%	10,5%	38,3%	26,2%	0,68	0,82	0,32	0,22	6,6%	0,1%
Thalès	2001	467	3,4%	2,5%	22,3%	19,8%	1,08	2,66	0,60	0,35	18,1%	13,9%
Ericsson	2000	404	10,2%	1,2%	35,8%	32,0%	1,36	2,08	0,04	0,02	13,4%	5,9%
Thomson Multimedia	2000	91	6,4%	8,2%	52,3%	53,8%	0,88	1,84	0,00	0,00	7,5%	25,7%
SAS	2001	334	5,3%	-0,2%	43,6%	32,4%	0,95	0,86	0,47	0,00	55,2%	-6,4%
The Hilton Group	2001	448	8,3%	7,0%	21,6%	28,2%	1,26	1,10	0,07	0,07	-8,1%	18,5%

[1] Average return on total assets for a two-year period before and after the disposal.

[2] Average equity ratio for a two-year period before and after the disposal.

[3] Average current ratio for a two-year period before and after the disposal.

[4] Average divident per share for a two-year period before and after the disposal.

[5] Average turnover growth for a two-year period before and after the disposal. Metro's and Telecom Italia's TG before includes only one year before the deal.

[5] For Metro and Telecom Italia (2000) only one year has been taken into account before the deal.

3.3 Four cases of corporate real estate disposals

The first objective of this study was to find out more about the true reasons for the CRE outsourcings that many European corporations have been carrying out roughly from the beginning of this decade. The second goal was to study how these corporations have reached their goals and what kinds of difficulties occurred in these outsourcings. The study found answers to the following questions:

1) Why did the case-study corporations carry out large-scale CRE outsourcings and how did the corporations reach their goals?
2) How did the outsourcing methods and processes differ between the corporations studied?

Representatives of all of the case-corporations were interviewed for the study. In addition, several other experts involved either as investors or advisors in the transactions were interviewed for the study. Based on the interviews, the main reason for executing the CRE outsourcings was the immediate cash payout. In addition, the corporations generally aimed at increasing their capital and space-use efficiency as well as occupational flexibility. Real estate was considered, in many ways, as an under-performing asset on the corporate balance sheet.

The study showed well that leases of wrong length or wrong amount of flexibility could become extremely expensive. As we know, an investor will give a price for every risk it identifies before executing a deal, which means that the tenant can be successful in leasing only if it can predict its future occupational needs well when structuring the transaction. However, it might well be that sometimes the benefits from redirecting the capital tied in the real estate to the corporate core business and transferring real estate related risks to service providers could justify the flexibility problems caused by the disposals. After all, the stock markets do often appreciate property outsourcings.

It could be suggested that corporations should not make too detailed and long-term planning when making decisions about lease lengths and flexibility. It could be more appropriate to try either to structure break options to rental agreements or to sign shorter leases. Flexibility is always expensive and if it is not needed, the corporation pays for nothing. In addition, it was noticed that corporations should aim at disposing their real estate holdings when the corporation is performing well (during booms), because this way they can usually get better deal terms. During booms real estate prices are normally high, corporation’s credibility as a tenant usually good and the properties that are sold are usually occupied. These factors together lead to the best possible deal terms.

3.4 Corporate real estate ownership and the market for sale and leasebacks in Finland

The aim of this study was to gather new information on CRE ownership and the market for real estate SLBs in Finland. The property ownership and related ratios of the corporations listed in the HEX main list were investigated and compared with the respective figures in other countries. In addition, the development of the Finnish SLB market during the past few years was illustrated by calculating the volume of the market between the years 2000-2003 and by gathering an indicative list of major SLBs in Finland during these past four years. Further, the real estate ownership and related ratios were calculated for the years 2000 and 2003, in order to see if there has been a decline in the ratios.

This study found out that the real estate ownership ratios are, on average, somewhat lower in Finland than in the UK and in Western Europe. Explanations for this might be, for instance, lower land prices in Finnish cities compared with major European hubs, as well as traditionally flexible short-term rental agreements in Finland. However, in the US these ratios seem to be lower than in our Finnish sample. The real estate assets to total assets ratios and owner-occupation ratios in major European countries are currently at about the same level of what these figures were in the US about a decade ago. Thus, we can assume that the current trend of decreasing corporate property ownership will continue in Europe in the future.

The sample of the HEX-30 corporations showed a clear decrease in the real estate assets to total assets ratios during the past three years. Also, the total real estate ownership at book values in the HEX decreased significantly during this period, even though at the same time the amount of total assets among the corporations grew a great deal. This notion is inline, for instance, with the previous findings of Seiler et al. (2001) and Brounen & Eichholtz (2003) who indicated that CRE ownership appears to be decreasing over time. The volume of SLBs in Finland increased somewhat in 2002-2003. It seems that there has been a constant flow of SLBs in Finland during this century, which is also likely to continue in the future. Additionally, a significant increase in the share of foreign investors providing SLB finance on the Finnish market has been noticed during the past few years.

It is likely that the corporations getting the most benefits from selling and leasing back real estate are the ones with large holdings of investment grade office and retail facilities. Further, there are many HEX-listed corporations, of which real estate holdings are worth nearly as much, or even more than the whole company. In these cases, the corporations should consider releasing these ‘hidden capital reserves’ by conducting SLBs. Otherwise the corporation might become a takeover target in the future.

3.5 Corporate Real Estate Sale and Leaseback Effect

Corporate real estate disposals have increased in Europe during the past few years. This study examined the market reactions to the corporate real estate sale and leaseback announcements made by publicly traded European companies. The empirical findings indicate that the impact of announcements of sale and leasebacks of major corporate real estate holdings on firm value is on average positive 0.877 % after controlling for the market risk. This effect is statically significantly different from zero at the 1 % level. This result is in line with the results of Slovin et al. (1990), Rutherford (1990) and Fisher (2004). Thus earlier results from the US and the UK can be generalized to the pan-European real estate market.

Dividing the sample according to the size of the transaction revealed that the positive announcement effect is mostly due to the largest one third of the deals where the deal size is measured as the ratio of the deal value to the market capitalization of the firm. Over a post-event period of ten days, these companies increased their market value on average by 2.494 % whereas companies with small- and mid-sized transactions experienced slightly negative development. The event day return for the largest transactions was 1.628 % (statistically significantly different from zero). Similar positive relationship between transaction size and event day return is observed in cross-section regression analysis.

It is widely accepted notion in finance that leasing is substitute for debt. However, earlier studies have found out that the price reaction to debt announcements have been on average negative. Finding a positive market reaction associated with sale and leaseback announcements indicate that sale and leaseback transactions create some gains for shareholders over debt. There are several potential sources for the wealth creation. A common explanation for such gains is the tax savings created through the transaction. Another explanation for such gains is the hidden value hypothesis which suggests that the sale and leaseback transaction reveals hidden value locked in corporations' real estate holdings. One can also argue the transaction gives the company a possibility to reallocate the capital tied in real estate to higher yielding core business, which makes the use of the corporate capital more efficient.

Our results do not give support for the tax savings hypothesis. Instead, the hidden value hypothesis of Brennan (1990) seems more plausible explanation for the results. Namely, the highest positive effect is found for the transactions of the industrial properties which are arguably the most difficult to value. Furthermore, the valuation effect varies across property types more than one could expect under the tax savings hypothesis.

We also observed that the company beta is positively and significantly related to the abnormal returns when the relative size of the transaction has been accounted for. We argue that this is hard to explain with the tax savings hypothesis. Instead the hidden value hypothesis offers an explanation since high beta companies have higher cost of capital and as a result their value increase should be larger because of the conversion of future cash flows into immediate value. Alternatively, the reaction could be the result of due to allocating capital tied in the low yielding real estate assets into the high yielding corporate core business. Again high beta companies should experience bigger value increases.

We believe that a sale and leaseback transaction should not be interpreted just as a simple debt transaction, which is the way many academics still view lease agreements. Our results support the argument of Lewis and Schallheim (1992), among others, that leasing and debt are more complements that substitutes. Thus, sale and leaseback deals could be interpreted as an external financing alternative that is usually value increasing, although most of the other external financing decisions have been found value decreasing.

Our results have several practical implications. From a firm's point of view, sale and leaseback transactions should usually be preferred over straight debt issues. Moreover, companies with substantial real estate holdings should consider of selling and leasing back their properties to be able to maximize shareholder value. A sale and leaseback can be seen as s a way to spread the information of hidden real estate value to the markets. On the other hand, investors who invest their time in analysing companies' real estate holdings have been able to achieve abnormal returns.

4. CONCLUSIONS AND DISCUSSION

4.1 The financial point of view

When the opportunity cost of the capital tied in CRE holdings has been taken into account, the ownership of CRE often seems questionable. The value of a corporation is usually defined as corporation's future cash flows discounted at the rate that reflects the risks of these cash flows. The most commonly used discount rate is the weighted average cost of capital (WACC), which should reflect the risks from both the equity and debt holders' point of view. In this case, debt commitments should also include leases that have significant importance. On the other hand, the cost of equity should be different between two companies with different kinds of asset bases. Therefore, both CRE ownership and leases should have their effect on corporate WACC, meaning that a corporation that owns its real estate assets should have a different discount rate and risk profile from a corporation that leases its facilities. Significant long-term lease commitments are often taken into account when corporate values are determined, but are real estate assets? If real estate assets are not taken into account, it leads to a valuation error that drives corporations with businesses yielding more than real estate only to lease properties and corporations with businesses yielding less than real estate to own properties. Thus, the valuation error would drive corporations towards riskier corporate asset portfolios, meaning also that corporations owning a lot of real estate could increase their profitability and create more economic profit simply by reallocating the capital tied in real estate into the corporate core business.

Therefore, it should be incorrect to apply same discount rate on corporation's future cash flows before and after a real estate SLB, because it should not be possible, in theory, to increase corporate values just by leasing assets instead of owning (Louko 2004a). Nevertheless, many event-studies have shown that real estate SLBs do create abnormal stock market gains for seller corporations (e.g. Grönlund et al. 2005). Therefore, could it be that the stock markets are applying the same WACC as discount rate for a corporation before and after an SLB? This should be incorrect, because corporation's risk-return profile is likely to change when real estate assets are disposed. Of course, this is true only when the amount of real estate disposed is significant in comparison with corporation's market capitalization.

Many corporations actually use WACC as cost of capital when evaluating real estate investments and therefore accept only real estate projects that yield more than the corporate WACC, which of course often leads to favoring leasing instead of owning due to the low returns of real estate investments. Thus, we could say that the argument that corporations' lower yielding assets such as real estate should be sold and the money invested in better yielding core business is partly false due to the different risk-profiles of different asset classes. However, it is true that corporations can usually create much more economic profit or economic value added in their core businesses than in real estate business, which means that it could be wise to direct most of the capital into the core business.

But why do the markets not see real estate as an asset that has its effect on corporate risk-return profile? The answer might be that CRE is perhaps seen more as an input in the production process rather than as a financial asset that diversifies corporate asset portfolio and has a significant residual value. Therefore, an SLB is often seen as a straightforward way to release the capital tied unnecessarily in the corporation's production process without affecting the corporate risk profile. If a corporation can create the same added value by tying less capital, it should do that in order to keep its shareholders satisfied. However, it is commonly known that property values usually correlate negatively with other asset classes. Therefore, in most cases real estate's risk profile should differ from the corporation's overall risk profile and have its effect on the WACC.

Nevertheless, as stated earlier, in the real world it might well be that the stock markets do not fully recognize real estate's unique risk-return profile, which leads to CRE ownership not being appropriate for corporations with a cost of capital higher than what real estate assets yield, which very often is the case. This would lead to a collective under-valuation of CRE assets by the stock markets.

Another distinctive feature in corporate valuation is that it is often very difficult to know the market values of CRE holdings due to depreciations and inflation. The historical acquisition prices shown in the corporate balance sheet tell only little about the true values of the properties in question. Therefore, even if an analyst wanted to assess the true value of a corporation’s real estate holdings, it would be extremely difficult. Thus, it is much easier to consider real estate as an input in the production process like corporate equipment for instance, which ends up to that many corporations may have significant ’hidden reserves’ in their real estate holdings, which could be used to expand the corporation’s core businesses or distributed back to the shareholders. Therefore, by outsourcing CRE ownerships, a corporation can make its balance sheet more transparent and easier to value from the financial markets point of view and usually also release hidden value.

Another simple way to demonstrate why corporations that are not in real estate business should not invest in real estate purely from the financial point of view is simply to view this kind of action from the shareholders’ point of view. A firm can either keep and reinvest its cash or return it back to the shareholders. If cash is reinvested, the opportunity cost is, of course, the expected rate of return that shareholders could have obtained by investing in financial assets of same risk profile (see figure 2). When it comes to real estate investments, corporations’ ability to make profit in real estate sector should be compared to a real estate investment trust, for instance. This is because the shareholders could take the same amount of real estate risk just by buying shares in real estate investment trusts or companies instead of investing in real estate through the corporation. It seems clear that a professional property investor such as a real estate investment trust would be able to handle the real estate related risks and make profits better than an unprofessional real estate owner who is furthermore unable to diversify its real estate holdings or to choose the best possible investments from the property market.

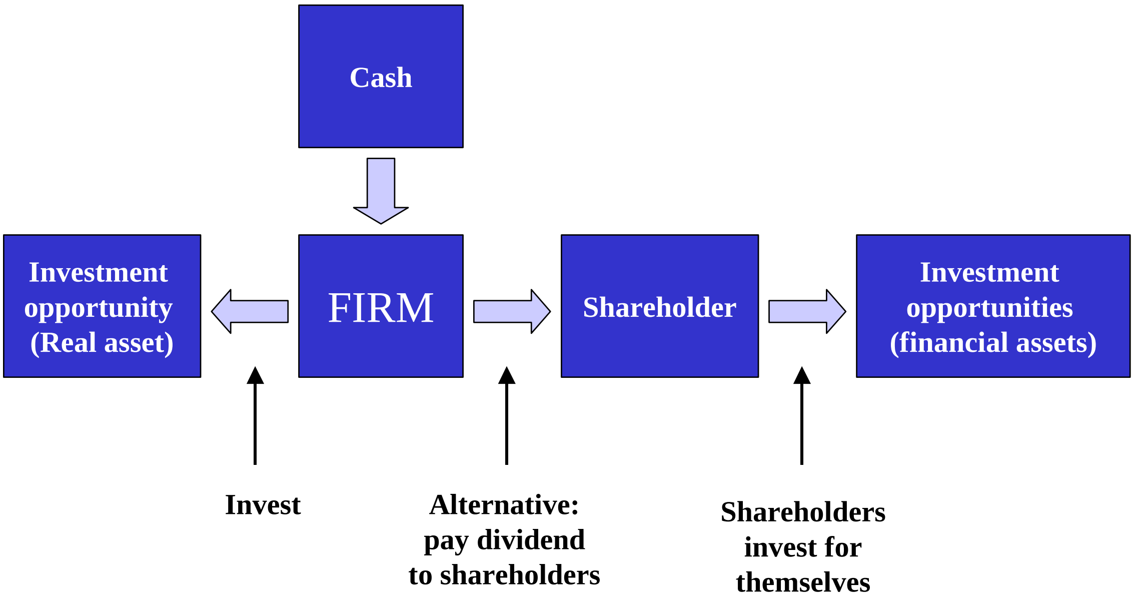

Figure 2: A firm's capital spending possibilities (Brealey and Myers, 2000)

These features of CRE and corporate valuation explain at least partly why several researchers have been able to prove that real estate SLBs and disposal decisions have usually a positive impact on shareholder value (see figure 3).

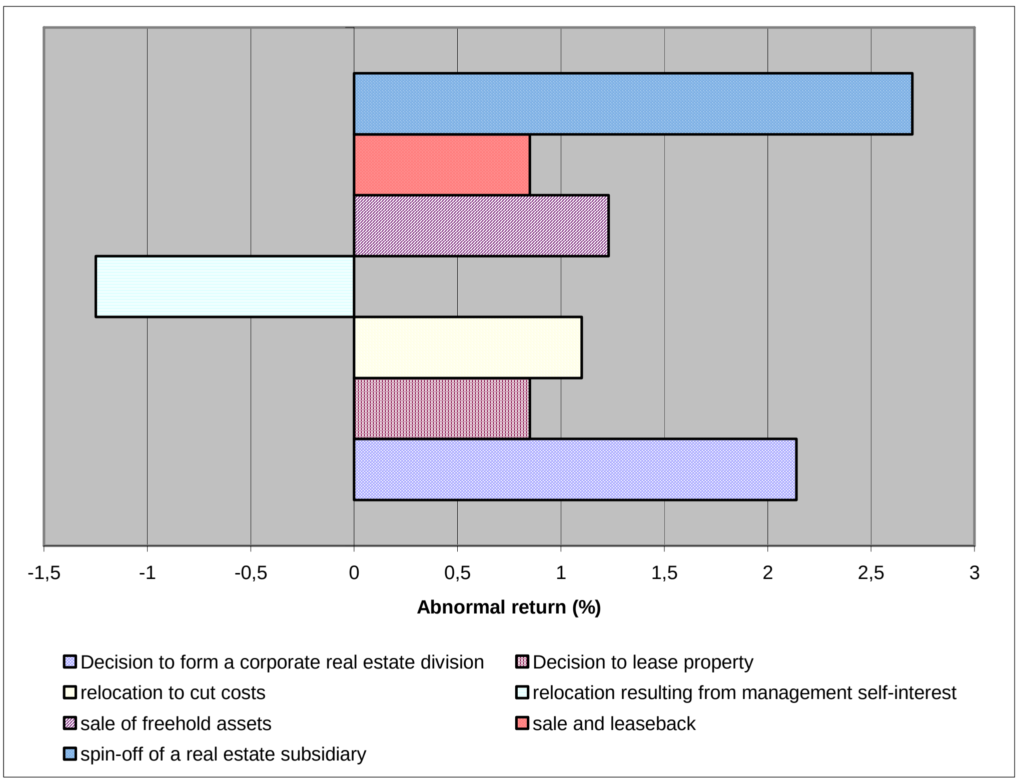

Figure 3: The effect of real estate decisions on corporate value (Rodriguez and Sirmans, 1996 and PwC, 2000)

Another part of the positive impact on shareholder wealth could perhaps be explained by the significant efficiency gains that corporations might be able to obtain through outsourcing real estate activities to professional service providers (Louko 2004a and Louko 2004b). As this doctoral thesis has shown, there is a large variety of possible efficiency gains associated with real estate outsourcings such as

- the possibility to increase corporate capital-use efficiency and performance ratios,
- the possibility to focus on the core businesses where the corporation can create value the best,
- the possibility to increase occupational flexibility,
- the possibility to increase space-use efficiency,
- the possibility to increase real estate asset management efficiency,
- the possibility to transfer property related risks to experts that can handle them better,
- the possibility to change volatile occupancy costs to fixed payments to decrease risks,
- the possibility to create tax advantages if the investor is able to use the depreciation tax-shields more efficiently,
- the possibility to diversify corporate financing sources and
- the possibility to release 100% of real estate value (instead of 70-80% with mortgage).

In addition, a professional real estate investor has the possibility to diversify its real estate portfolio better than the corporation itself ever could, which should be reflected as lower occupancy costs to the tenant. Thus, in a way, it would make more sense for a corporation to lease the real estate associated with its core business and then to invest in a perfectly diversified real estate portfolio rather than to invest in the CRE as indicated above.

4.2 Operational and real estate strategic point of view

It could be asked that if CRE divestments increase corporate share prices and create significant efficiency gains, why do so many successful corporations still own real estate? This might well be because a corporation cannot base its lease versus own decision only on short-term financial reasons. Usually also the operational and strategic aspects should be considered throughout. It is clear that real estate SLBs can tie corporations to inflexible and long-term commitments that can become very expensive in time if not planned well. Therefore, the benefits from CRE outsourcings should be substantial enough not only to allow the investor to gain adequate profit, but also to outnumber any potential losses caused by unexpected problems to make the outsourcing worthwhile in the long run. In a nutshell, the traditional disadvantages of SLBs are

- the difficulty in choosing the lease length and terms, which often leads to flexibility problems,
- the loss of power in redevelopment and alteration issues of the property, which can lead to inflexibility,
- the loss of potential increases in real estate values,
- the fact that investor's yield demand is in some cases clearly higher than interest rate levels and
- the fact that most of the longer leases and leases that include buy-options will be on-balance sheet in the future.

A lease agreement can be a significant long-term commitment that cannot be based on inaccurate assumptions of corporation's future plans. If an SLB creates inflexibility it can become extremely costly. A common problem for many corporations carrying out SLBs is the difficulty in predicting corporation's future occupational needs, which leads to signing leases of wrong length. Nevertheless, flexibility does not merely relate to the occasional need for right-size operations. Studies have shown clearly that it relates also to the continuous change of the products and markets that the CRE holdings have to support (see Louko 2005a). The production methods and business trends affecting CRE changes fast which means that at least properties in production use are nowadays under a continuous need for redevelopment.

Corporations' real estate operations should be able to answer to core businesses' space demand, which means that successful CRE strategies are the ones that are aligned with the corporate core business. Simple put, if a corporation uses mainly leases instead of ownership, it should be able to match its business needs to the lease lengths and structures. In addition, these leases should not create any additional barriers to the expansion or changes in the core business processes. As Figure 4 shows, aligning CRE strategy to the corporate strategy with leasing can often be very difficult. The Figure 4 shows the results of a survey conducted in the UK, which demonstrated that the UK lease lengths usually vary between 5-15 years while occupiers' business outlook ranges from less than one year to the maximum of five years. While five years is a minimum in lease terms, it can be a lifetime in business planning. Therefore, despite the many advantages leasing arrangements can provide, many successful corporations still prefer ownership when it comes to properties, which outsourcing could cause inflexibility.

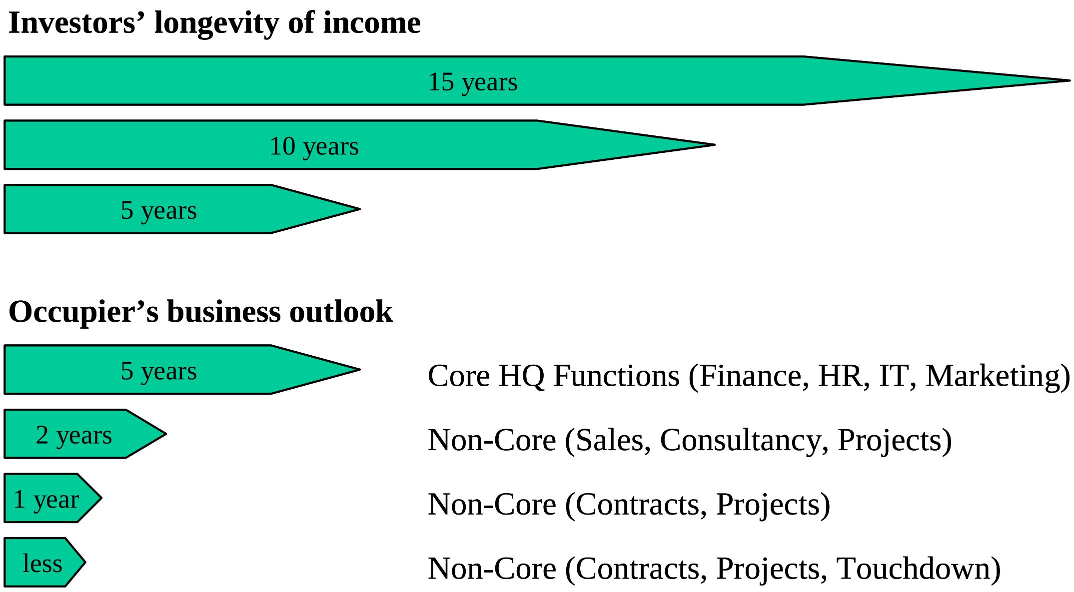

Figure 4: Property is often not aligned with the core business (Woollam 2003)

Owned property may actually sometimes provide a competitive advantage. This is usually when the corporation's needs for the properties change. Especially when it comes to properties that are highly specialized and more customized to a particular need (requiring extensive technological infrastructure such as manufacturing, data processing, research facilities or sometimes headquarters) unwieldy real estate commitments can hamper a company's ability to invest in growing/changing its main line business as O'Mara (1999) said. Restrictive clauses in leases might limit flexibility and can make it more difficult to expand businesses at will. This is why the properties many corporations own are often the ones which house a highly specialized activity that requires large technological investments.

As already discussed earlier O’Mara (1999) listed other downsides of leasing such as expensive lease payments when compared to the interest rate levels and the loss of possible capital gains. This has, however, changed somewhat lately. Due to falling yield levels across Europe, property investors are today requiring much smaller initial yields for their investments than a few years ago (e.g. Brant Bryan 2003). Nevertheless, it is definitely true that CRE ownership can also sometimes be very profitable. For instance, if a corporation’s presence in some area is going to attract a great deal of other corporations (and also real estate developers), it is potentially adding a great deal of real estate value to the location. Under these circumstances it would perhaps make sense to own the property so that the company can benefit from the potential appreciation. However, corporations should be careful not to be seduced into making real estate decisions which may be profitable in the short term but lead to poor logistics or impaired operations for the core business in the long term as O’Mara (1999) put it. In general, corporations should concentrate on their core competencies (the business sectors in which they can add value the best). Profits from the real estate markets are appropriate to see just as a welcomed by-product of the core businesses, not the ultimate goal of the company. It is clear that a corporation cannot forecast real estate market movements as well as a professional property market player, which increases its risks.

4.3 When to carry out CRE disposals and outsourcings?

If one major question is which properties a corporation should outsource, another important question is when this outsourcing should be conducted. Several empirical studies have discussed this question (see e.g. Chapter 2.1 or Louko 2005a). In the past, real estate SLBs were often seen as a capital source of last resort and SLBs were usually made by distressed companies. This seems still to be the case in many occasions. During the so far largest real estate outsourcings boom between 1998-2003, over 1/3 of the value of large SLB transactions was carried out by corporations in the IT / telecommunications sector. These corporations were usually wrestling with huge amounts of debt at the time of the real estate disposal (Louko 2004a).

Many studies that have discussed CRE ownership issues have shown that divesting CRE in financial distress is seldom a good option, although it sometimes might be the only option for a cash-trapped corporation (Louko 2005a). This is because the corporation will usually suffer at least a triple penalty when divesting CRE in financial distress. Firstly, corporations are in financial distress usually during a recession when property prices are not the highest possible. Secondly, during financial distress a corporation's credibility as a tenant and its negotiating power are worse than normal. Thirdly, when a corporation is in financial distress, it has usually already begun to downsize its operations, which means that it has a lot of vacant space of which investors will not pay the maximum price.

Therefore, as stated in the paper (3) of the thesis (Louko 2005a), the best real estate disposals are always made during booms, not during busts. During booms, a corporation's credibility is high, which means better lease terms and lower rental payments. Similarly, during booms also the property prices are usually high. Unfortunately, corporations have rather rarely been able to divest real estate at good times. Many times in the past we have heard stories of corporations making SLBs during financial distress with terrible terms. In these situations, the CRE disposals are not usually well planned, because the divestments do not initiate from the corporate long-term strategy, but from a short-term need for cash.

However, unfortunately, the fact usually is that companies build and buy real estate when their business growth requires it, not when there is a good investment market, meaning that they usually make property commitments in a growing economy when the prices are high. On the other hand, it is similarly clear that companies typically sell real estate when they no longer have a business use for the property. Thus, corporations' real estate strategies have traditionally been more reactive than proactive, which has in many cases lead to very difficult situations. By aligning CRE strategies with the core businesses, it is possible for corporations to proactively manage their real estate holdings, which should lead to increased profitability by decreasing real estate related costs.

4.4 ‘Perfect solution’

As stated in the first research paper, it is clear that CRE often needs multiple strategies because of the multiple factors concerning products and markets that need to be supported. Therefore, it is clear that the optimal technique to finance CRE differs between asset types and uses. In addition, a corporation’s own distinctive features and the overall market situation have a significant influence on what financing techniques it should use.

A perfect overall CRE financing solution may be impossible find. Nevertheless, as a guideline, it could be said that based on the principles of shareholder value management, a corporation should not own any real estate assets if it can produce higher yield to its shareholders with the same overall risk-level without them. On the other hand, if owning some properties makes the corporation less risky and makes it possible for the corporation to have a much higher income stream in the future, ownership is certainly not a bad idea. This might often be the case with specialized and ‘tailor-made’ facilities, such as industrial, that need continuous alterations and redevelopments and form only a minor part of corporate balance sheet. These kinds of facilities could perhaps be considered more as an input in the corporate production process, which means that they would often have less value in some other corporations use. An SLB of them could cause significant inflexibility and could also become extremely expensive simply because an investor would not see much residual value potential in these kinds of properties. Thus, lease payments of specialized properties and of also other property types in difficult locations could be very high due to the lack of alternative use and residual value. The lack of residual value also drives potential investors towards wanting rather long-term lease commitments from corporations, which creates risks concerning future flexibility needs of the corporation. Therefore, in many cases, it could be wise to own the specialized property or, in general, property types that do not have possible alternative uses or users.

Another example of a situation when corporations should consider of owning its properties is if the corporation has no clear picture of how long it needs the property. In these kinds of situations long rental agreements contain high risks, which the corporation cannot control. Another alternative in these kinds of situations could of course be leasing the spaces for a short-term, if possible. However, also short-term leases can become rather expensive especially if the investor does not see much residual value potential in the property.

Real estate is a difficult asset to handle because of its many perspectives. One way to create a solid real estate strategy could be to divide real estate assets to ones that are very near the corporate production functions and do not have an established rental or investment market and to investment grade assets that have a both vibrant rental and investment market. The first ones could be treated only as inputs in the production process and the others as financial assets that are appropriate to own only if the corporation is in real estate business.

4.5 Examination of the research results

This thesis presented a lot of evidence on which corporations can base their real estate financing decisions by describing the main reasons for the major CRE disposals and outsourcings carried out in Europe during the past years and by finding out how these corporations met the goals set for these disposals. Further, based on the information gathered from the previous real estate disposals and outsourcings, the study built a framework that corporations can use when they are making decisions regarding their real estate ownership. It is clear that the question of whether to own or lease real estate can be extremely difficult and complicated, but this study brought suggestions and guidelines into a research area, in which research has so far been limited.

The study has shown among others:

- why corporations in general should not own their CRE and what have been the main drivers for real estate divestments in the past,
- why it, nevertheless, in some cases can make sense to own CRE and how corporations that own a lot of real estate justify their strategy to own CRE,
- when corporations should carry out their real estate divestments and how corporations can maximize the value of their CRE when they are thinking of divesting CRE,

- how corporations can obtain operational flexibility to their freehold and leasehold real estate portfolios,
- what kinds of difficulties corporations might face and have faced in the SLB procedures and how the corporations can try to avoid them
- what kinds of outsourcing techniques are nowadays available for corporations considering real estate divestments and
- how the Finnish CRE disposal and SLB market has developed and what the future looks like.

Nevertheless, in all, it is rather difficult to draw an exact line on whether to own or lease CRE holdings, which is natural since corporations can be in totally different situations when they are considering their real estate ownership strategies. Thus, there cannot be a single solution for every corporation and corporations should see the thoughts presented only as basic guidelines to follow.

Further, as pointed out during this study it is definitely clear that previous research in the field of CRE management and finance is rather limited and that this subject should be studied more. The question of whether to own or lease real estate has several different points of view and the answer is always dependable on many factors such as the corporation's profitability, its growth prospects, its future need and use for the premises in question, timing of the divestment and property market conditions. Corporations should also be able to see the situation from the potential investors' point of view, because if the property has a high residual value, an SLB can become clearly less expensive than in a situation in which the investor does not see much potential in the property. This often means that the properties that a corporation is divesting should have also other possible uses and users.

It is also very difficult to assess how well a corporation has achieved its goals when carrying out large-scale real estate sale and leasebacks since in many cases the real success will be seen only in the long-run and not during the first couple of years after the transaction. Also since a large number of the data in this doctoral thesis is based on interviews of different parties, it is similarly important to notice that some of interviewees might have had a temptation to give biased information during the interviews. This problem was tackled by choosing the interviewees from different sides of the table in each of the real estate sale and leaseback transactions that were analyzed (sellers, buyers, advisors etc.).

In all, a large amount of literature was reviewed, a significant amount of professionals was interviewed and a large amount of quantitative data was gathered and analyzed during the research to be able to provide as accurate results as possible.

4.6 Further research

There are several things that need further research concerning CRE ownership and corporate performance. First and the most interestingly, the source of the positive SLB reactions on shareholder value should be studied throughout. What determines the magnitude of abnormal return? What is the role of hidden value in this context and are the stock markets unable to see to actual market values of CRE?

Additionally, it would be extremely interesting to see more studies about SLBs effect on the corporate performance in the long run? Are there any long-term advantages from real estate outsourcing? In this context it might be interesting to see more evidence on the CRE disposal impacts on corporate performance ratios and how the corporations that have outsourced their entire real estate holdings have succeeded in building flexibility into their real estate portfolios. Also CRE outsourcings’ impact on corporate occupancy costs should be studied throughout.

Thus, there are a lot of issues yet to be studied in the field of CRE management and outsourcing especially in Europe. The European researchers and corporations should finally understand the significant role of CRE as an important part of corporate asset base and at the same time as an input in the corporate production process. Thus, this subject should be studied throughout. The corporations that notice the potential that lies on their real estate holdings can make their capital use, space use and asset management more efficient and have a clear competitive advantage.

In all, this study has shown that it is definitely possible to create competitive advantage and added value by more efficient CRE asset management. Therefore, it is extremely important that corporations begin at least from now on to pay appropriate attention to the management of one of their largest investments and cost items.

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