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Disposal strategies in corporate real estate portfolios

Dutch banking sector

Evidence from the Dutch banking sector

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Abstract

Purpose – The purpose of this paper is to develop an operational framework with guidelines and lessons to improve the current real estate portfolio disposal procedures of freeholds, based on empirical evidence from the banking sector.

Design/methodology/approach – The empirical research is based on a comparative analysis of four case studies, representing approximately 80 per cent of the Dutch banking sector. The case studies comprise a systematic document review of corporate business and real estate strategies and semi-structured interviews with decision makers who steer the organisation's corporate real estate (CRE) portfolio composition.

Findings – This research shows a strong relationship between organisation characteristics, legacy and strategy, disposal drivers and CRE disposal strategies. The weighing of drivers and order of steps in strategy execution strategies largely depend on organisational objectives.

Research limitations/implications – This paper reports empirical findings from Dutch case studies. To generalise, further research is needed in different legal, financial and economic contexts and in other sectors. This paper suggests a more thorough study of the relationship between space-use efficiency and technological innovation implementation.

Practical implications – The framework proposes strategy improvements and a proactive approach to corporate real estate management (CREM) to create value through real estate portfolios.

Originality/value – This paper provides a thorough analysis of the CREM of the Dutch banking sector and is applicable to CREM in this and other sectors.

Keywords Corporate real estate disposal strategies, CRE portfolio, Dutch banking sector, Operational framework, Property disposal, Corporate real estate management (CREM)

Paper type Research paper

1. Introduction

The rapidly changing real estate market conditions have increased the business uncertainty for corporations, significantly shortening the planning horizon of office occupiers. The growing deviation between investors' longevity and occupiers' outlook leads to increased friction between the illiquidity of real estate and increased space use fluctuations of corporations, driving the need for an agile real estate portfolio management (Gibson, 2001;



Woollam, 2004). Owners and managers of corporate real estate (CRE) experience an increasingly dynamic context, pressuring the financial efficiency of their decision-making (Remøy *et al.*, 2016).

CRE disposal strategies of freeholds are generally used as short-term tools for capital generation during financial distress, leading to bad deal terms and future problems (Gibson, 2002; Louko, 2005). CRE disposal is commonly executed in retracting real estate markets, resulting from business contractions and downturns in occupier's markets (Gibson, 2002). To create organisational value, corporations should execute CRE disposal strategies from a position of strength (Morris, 2010). To achieve this, corporations should proactively align their CRE disposal processes to the cyclical behaviours of economies, real estate markets and organisational life (Louko, 2005).

The current positive business sentiment is encouraging organisational expansion strategies in office-related sectors (CBS, 2016; CBRE, 2017). In contrast, during the period 2008-2013, the Dutch banking sector lost approximately 30,000 full time equivalents (FTE's), with a projected negative development of another 30,000 FTE's in the period 2013-2020 (Bökkering, 2016). This development is primarily driven by technical innovations that allow banks to meet new customer requirements, retain market share and seize competitive advantage through enhanced efficiency, staff-reductions and reduced operating expenses (NVB, 2015; NSIT, 1998; Gibler and Black, 2002 and Nenovski *et al.*, 2012). Consequently, Dutch banks have disposed of a large share of their historically large CRE portfolios. The increasing space-use fluctuations pressure CRE disposal decision-making, making it financially inefficient (Remøy *et al.*, 2016). This paper proposes improvements to the CRE disposal decision-making process of freeholds for Dutch portfolios in times of changing banking sector requirements.

This paper takes an evidence-based research approach through a comparative analysis of four cases that together represent a market share of approximately 80 per cent of the Dutch banking sector. Section 2 presents a literature review. Section 3 elaborates on the data collection and analysis. Section 4 presents the main case study findings, the comparative analysis and an operational framework suggesting improvements to the CRE disposal process of Dutch banking institutions. Finally, Section 5 concludes based on the main findings and describes areas for further research.

2. Literature review

2.1 *The changing banking sector*

The banking industry is a dynamic sector, driven by the market and technological developments (NVB, 2015; Nenovski *et al.*, 2012; Jayawardhena and Foley, 2000). Globally, increased competition in the financial sector forces banks to establish new products and increase efficiency by using new technologies and new distribution channels (Nenovski *et al.*, 2012). Advantages of digitalisation are reduced operating costs, increased consumer convenience and the opportunity for cross-selling products.

As the banking business changes, so do the real estate portfolio requirements. Traditional banking is physically decentralised to make banking services geographically accessible (Jayawardhena and Foley, 2000). The current global trend shows significant reductions in banks' real estate portfolios (Nenovski *et al.*, 2012). Simultaneously, whereas banking retail-offices were historically designed as transactions centres, technological innovations are now applied to enhance corporate image and improve the consumer experience (Nenovski *et al.*, 2012). This transformation also occurs in back-office locations, where the shift from IT implementation towards development drives changes (NSIT, 1998;

Barras, 1986), leading to more sophisticated office needs (Jayawardhena and Foley, 2000; Hagel *et al.*, 1997). Dutch banking sector

2.2 Lease-versus-buy decision, financial flexibility and the peripheral model

CRE is either an asset (ownership) or a liability (lease obligation) on the balance sheet. The lease-versus-buy decision is one of the most important considerations for managers and owners of CRE (Brounen and Eichholtz, 2005; Gibler and Lindholm, 2012), depending on the demand for flexibility. On the one hand, having capital tied up through ownership disables investment opportunities in the core business. On the other hand, a freehold interest enables the possibility to sell, adapt or expand property at all times (Buijsen, 2001). Other advantages of leasing are reduced debt, sustained liquidity, prevented high initial investments and improved financial conditions (Lasfer, 2007). To increase organisational flexibility and decrease capital burdens by avoiding negative opportunity costs of capital (OCC), the lease is preferred (Brounen and Eichholtz, 2005). However, leaseholds are relatively harder to dispose of compared to freehold properties that can just be sold. For this reason, CRE managers aim to achieve flexibility through shorter lease terms with typically 5 + 5-year contracts and in some cases even three-year lease agreements. Obviously, this comes with higher rent levels. However, it preserves the above-mentioned lease benefits while achieving some degree of flexibility.

Globalisation and competition increase the demand for flexible, efficient, innovative and productive work environments (Lindholm *et al.*, 2006; Gibson and Louargand, 2002). Because of increased friction between the desired use-flexibility and the static character of real estate, organisations pay more attention to financial flexibility in their CRE portfolios. Financial flexibility is the ability to respond to future space-use fluctuations through the financial structure of the portfolio on building and portfolio-level, and is influenced by the occupier tenure, lease terms and the service-level provision of the property provider (Gibson, 2000). On portfolio-level, financial flexibility is for instance achieved by following the peripheral model (Gibson, 2000, 2001). This model (Figure 1) structures the portfolio in layers (core and periphery) based on the duration of the lease commitments, allowing a flexible response to the business cycle (Gibson, 2001; Haynes and Numington, 2010). While the core layer indicates a high ownership level, the peripheral layers show higher lease levels. More frequent changes, rapid workforce reduction and space need makes it necessary

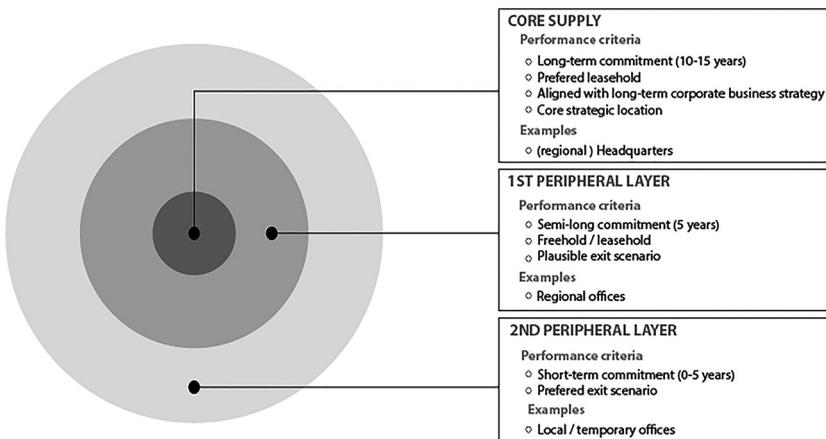


Figure 1. Peripheral real estate model

to re-evaluate the portfolio and its composition (leasehold/freehold). On a property-level, this research investigates the applicability and execution of disposal strategies on freehold properties.

2.3 *Corporate real estate strategies*

CRE is all property held or used by an organisation for its own operational purposes (Krumm, 2001). This includes all properties, plants and equipment where an organisation has a freehold or leasehold interest. CRE is often recognised as the fifth resource next to the capital, human resources, information and technology (Joroff *et al.*, 1993; Krumm, 2001), adding organisational value (Den Heijer, 2011). Within the investment portfolio, CRE management (CREM) is needed to maximise stakeholder's wealth, which is the main goal of rational managers (Nappi-Choulet *et al.*, 2009).

CRE decisions impact the financial corporate performance directly and indirectly. Effective CRE operating decisions are linked to organisational objectives, reflected in an integrated corporate business strategy embodied in the CRE strategy (Nourse and Roulac, 1993; Lindholm *et al.*, 2006; Gibler and Lindholm, 2012). The internal alignment between the CRE and corporate strategy occurs multi-directionally: vertically between CRE and corporate strategies and horizontally across the different business units. External alignment, the relationship with the real estate market, can be overlooked due to the absence of real estate expertise and market knowledge (Heywood and Arkesteijn, 2017).

Nourse and Roulac (1993) stated that strategies must be “translated to the specifics of the organisation's scope of products and markets” to guide operating decisions. However, corporate managers generally lack interest in the relationship between their real estate and the corporate business strategy. CRE is commonly not recognised for its added value but is seen as a means of production (Remøy *et al.*, 2016). De Vries (2007) identified how real estate can add value to the organisation through increasing financial value, controlling risk, decreasing cost, increasing flexibility, supporting user activities, increasing (user) satisfaction, supporting image and culture, stimulating collaborations and innovation. Based on the balanced scorecard approach of Kaplan and Norton (2006), Lindholm *et al.* (2006) operationalised real estate strategies by categorising them into two financial strategy types that support the overall objective of maximising (shareholder) wealth, namely, profitability and revenue growths.

Recessions generally encourage companies to re-evaluate their portfolio and business, focusing on their core business while enhancing efficiency (Gibler and Lindholm, 2012). In this process, companies can use three business strategies:

- (1) retrench, reduce costs and dispose of assets to secure survival;
- (2) invest, innovate and diversify; and
- (3) combine these to achieve a competitive advantage through cost-cutting by enhanced efficiency and investing to expand sales, profits or market share (Gibler and Lindholm, 2012).

2.4 *Disposal of corporate real estate*

In early nineteenth century, building cycles were seen as local phenomena. As cyclical understanding matured, the influence of the wider economic context on property market fluctuations became apparent in the past decade of the twentieth century (Jadevicius and Huston, 2017). Current understanding acknowledges the strong correlation between

economic performance, international capital flows and real estate property cycles (Jadevicius and Huston, 2017; Vermaas, 2007).

The classical business cycles comprise short from four- to five-year cycles (Barras, 1994). Ball *et al.* (1998) stated that the transition between cycles is driven by general economic activity affecting occupier-demand and triggering market activity. Haire (1959) described organisational lifecycles, comprising five development stages, namely, start-up, growth, maturity, decline and death. Through proactive strategic management, organisations can revert back to earlier stages or remain in a development stage for a long time (Lester *et al.*, 2003).

Property cycles in this regard are defined as vacancy and rent level fluctuations around a long-term equilibrium, in which cycles follow subsequent periods of 7-10 years. Each cycle includes the phases recovery, expansion, oversupply and recession, dependent on the economic performance (Korteweg, 2006; Jadevicius and Huston, 2017; Geltner *et al.*, 2001). The real estate market responds to economic cycles with a delay of two to three years, as the development of real estate is reactive to market developments (Phyrr *et al.*, 2000; Remøy, 2010).

Technological advances encourage economic prosperity, followed by increased property demand (Ball *et al.*, 1998; Barras, 2009). When reaching economic saturation, the capital attraction and investment move beyond demand. Forrester (1981) identifies that the economic long-wave determines the type of innovation that is needed. Organisations should align innovation in their corporate business strategies to these macroeconomic developments.

2.5 Decomposing the disposal process: different decision-making steps

The disposal process comprises three different phases such as choice for disposal, asset type specification and strategy adoption.

2.5.1 Choice for disposal. The decision-making in CREM is predominantly influenced by strategic and organisational goals, embodied by the corporate strategy (Nourse and Roulac, 1993). Hence, CRE disposal largely depends on changes in the organisational context, divided between the internal and the external context (Nourse and Roulac, 1993; Pojasek, 2013). The context is in its turn influenced by the most important sector trends. Based on the global trends, the Dutch banking association identified the most influential trends in The Netherlands (NVB, 2015): revised European regulations, introducing Basel III, digitalisation, recovering economy and real estate market, sustainability performance and corporate image, trust and reputation. Based on the above, five CRE disposal drivers are identified:

- (1) *Investment momentum:* seizing the facilitating effect of economic up-turn to execute disposal strategies from a position of strength.
- (2) *Financial distress:* deploying CRE disposal as a short-term tool to raise capital.
- (3) *Decreased organisational footprint:* functional obsolescence following decreased space use.
- (4) *New working concepts:* functional obsolescence following an altered type of property use.
- (5) *Sustainability requirements:* technical obsolescence following misalignments between organisational sustainability ambitions and building characteristics.

2.5.2 Asset type specification. The selection of disposal properties is based on weighting different variables through four stakeholder perspectives, namely, strategic, functional, financial and physical (Den Heijer, 2011). The strategic perspective is expressed by policymakers in executive positions, establishing competitive advantage through meeting

its organisational objective (Den Heijer, 2011). This is largely based on the corporate investment decision for freehold or leasehold (Lasfer, 2007). The functional perspective is expressed by users (employees and consumers) and focusses on the quantitative and qualitative fitness for use (Den Heijer, 2011). Changes in organisational objectives and needs cause use-changes (Langston *et al.*, 2008) and can lead to quantitative and qualitative functional obsolescence.

The financial perspective is created by CRE managers and describes value, resources, operating costs and replacement costs (Den Heijer, 2011). The property value can change throughout an ownership-period and becomes visible at moments of disposal. The risk for owner-occupiers is that the sales (or market) value of an object is below the book value (Keulen, 2002). The most valuable assets are generally associated with high marketability and have a low disposal risk (Morris, 2010). The physical perspective is put forward by technical managers and concerns the physical property, its technical conditions and legal requirements (Den Heijer, 2011). The marketability of a property is determined by its physical characteristics (Remøy *et al.*, 2016) described in three domains, namely, market, location and building (Roberts *et al.*, 2012; DTZ, 2012; Langston and Smith, 2011; Remøy, 2010).

2.5.3 Strategy adoption. Changing business requirements can cause use alterations and functional obsolescence in parts of CRE portfolios, due to a mismatch between the property characteristics and the use (Langston *et al.*, 2008; Remøy, 2010). If a property becomes obsolete, an intervention is needed (Langston *et al.*, 2008). Remøy *et al.* (2016) identified four interventions to react to obsolescence, namely, sale of owned properties, renegotiate rental contracts before lease expiration, buy leased properties and improve CRE ownership. The suggested interventions were developed into four CRE disposal strategies.

Direct sale is the most straightforward way to dispose of a real estate object, hence, the fastest way to generate equity. As the asset marketability is determined through both external (market) and internal aspects (obsolescence), the suitability of direct sale depends on specific building characteristics (Remøy *et al.*, 2016) and a significant market demand from institutional or private investors (Hordijk and Teuben, 2008). The main drawbacks resulting from this strategy are the loss of control over assets and probably a less flexible CRE portfolio.

In a sale-leaseback (SLB) transaction, the building is sold and directly rented back through a (mostly) long-term lease (Organek *et al.*, 1968). SLB transactions are commonly perceived as an alternative financing method to generate capital for core business investments (Buijsen, 2001). SLB transactions occur at financial premiums (Mansour and Scott, 2012) following the absence of vacancy periods, enhanced credit profiles and tenants' history on that location (Sirmans and Slade, 2010). As most SLB transactions result in longer lease terms to attract potential investors, they also result in reduced portfolio flexibility. This is an important strategic decision for the corporations in a clear trade-off between CRE flexibility and increased business operation liquidity (mainly to avoid negative OCC). Revised accounting regulations International Financial Reporting Standard 16 – leases, effectuated on the 1 January 2019, will increase the capital reservations on the balance sheets and decrease the capital ratios of organisations (PWC, 2016).

Adaptive reuse comprises retrofitting of vacant real estate for a different use and provides extended opportunities for corporations to dispose the parts of their portfolio (Mattson-Teig, 2012). Adaptive reuse can secure durable use of the location and building. The requirements for adaptive reuse are best described by the highest and best use analysis of the property (Remøy *et al.*, 2016). When there is little reason to believe that the market will take up obsolete buildings, these should be extracted from the market through adaptative

reuse (Remøy, 2010). The main obstacle to this disposal method relates to lack of expertise for relevant decision-making within corporations.

Demolishment and new construction can be deployed in a portfolio strategy to tailor the CRE portfolio to the quantitative and qualitative organisational demand. The strategy is best used, when the current use of a property is appropriate, but the physical characteristics of a property no longer align with qualitative user demands (Remøy, 2010). The biggest drawback to this disposal strategy is a loss of image, particularly for multinationals that have built environment sustainability clearly outlined in their corporate social responsibility-related documents.

3. Methods and case description

3.1 Methods

The theoretical framework is based on findings from the literature review and structured by a predefined template (Research template). Four case studies were conducted that represent all Dutch system banks (with corresponding additional capital requirements) with a real estate portfolio and headquarters in The Netherlands. The four cases comprise a market share of 80 per cent of the Dutch banking sector. The data were gathered through a review of publicly available company documents and eight semi-structured interviews with decision-makers in the analysed cases, all with mandate to operate and make decisions on a national-scale and working directly with or under the organisation's board. Subsequently, a cross-case analysis was conducted. One case differs from the other three with regard to the organisation size, the outset of corporate strategy and the real estate portfolio size and composition. International banking activities are not included.

Research template:

- (1) Trends:
 - revised European regulations;
 - digitalisation;
 - recovering economy and real estate market;
 - sustainability performance; and
 - corporate image, trust and reputations.
- (2) Choice for disposal:
 - investment momentum;
 - financial distress;
 - decreased organisational footprint;
 - new working concepts; and
 - sustainability requirements.
- (3) Asset type specification:
 - ownership versus lease;
 - client-activity;
 - working concepts;
 - competition for talent;

- value;
 - operating costs; and
 - sustainability.
- (4) Strategy adoption:
- Disposal strategy:
 - direct sale;
 - SLB;
 - demolition and new construction; and
 - transformation (adaptive reuse).
- (5) Moment of sale:
- after initial valuation;
 - explorative research;
 - vision development; and
 - collaboration with the developer.
- (6) Control on future use after disposal.
- (7) Marketability.

3.2 Case description

Data on the three key features identified in the literature review and central to the scope of this study, namely, choice for disposal, asset type specification and selection of a disposal strategy, were collected for the four cases. The summarised data are presented in [Table I](#) and further elaborated in the following paragraphs. Quantitative historic data is corrected for inflation according to the consumer price index (CPI), meaning +1 per cent for 2014 and +0.6 per cent for 2015.

The developments of core business and CRE-related indicators over the period 2013-2016 are shown in [Table II](#). The data are derived from the financial statements found in the annual reports of each bank for the period under investigation. The raw data has been expressed in year 2015 euros following the CPI indexation of the Dutch Statistical Agency, *Centraal Bureau voor de Statistiek*. For confidentiality reasons, we have indexed the data with the year 2014 as baseline. The more obvious starting year (2013 in our data) is not chosen particularly because of the recorded negative profit of Case 4 in this year. This loss was mainly attributed to shareholder equity following central government measures.

The cross-case comparison revealed a clear division between the publicly listed, more consolidated banks (Cases 1 and 3) and the other two (Cases 2 and 4). In this regard, year 2014 is a clear dividing point, as it constitutes a dip for the publicly listed entities while it can be seen as a comeback year for the other two. It can be explained because in 2014 large banks across the Eurozone adopted the single supervisory mechanism under the supervision of European Central Bank. This also relates to a series of structural changes in both non-listed banks (not detailed here for confidentiality reasons). When comparing across core business and CRE indicators the two groups show some dissimilarities. The smaller non-listed banks recorded increased sale of property and equipment (PE) in 2014, which appears to be a time of distress. In contrast, the publicly listed banks had relatively increased activity in the year 2015, which appears to follow the logic of doing business from

Case data summarised	Case 1	Case 2	Case 3	Case 4
Company history and strategy	Dutch publicly listed bank Rich merger and acquisition history	Cooperative governance structure	Historical real estate expertise Publicly listed	Governmentally owned Retail-office network expansion strategy.
Size	15,000-20,000 people Universal bank 15-20% of the Dutch market	20,000-25,000 people Cooperative bank 30-35% of the Dutch market	10,000-15,000 people Universal bank 40% of the Dutch market	4,000 people Retail bank 1-5% of the Dutch market
Portfolio	250-300 buildings (2017), ca 1,000 in 1997 215 retail offices 600,000 m ² Centralised	500-550 buildings in 2017 (722 in 2013)	200-250 buildings (stable since 2014) Dominated by leasehold	200-210 buildings Dominated by rental properties
Choice for disposal	Dominated by functional drivers Limited influence of financial drivers	Dominated by functional drivers	Dominated by functional and financial drivers, financial most important	Dominated by functional drivers Inapplicability of macroeconomic drivers following limited size
Asset type specification	Exclusion of strategic perspective Peripheral model applicable to bigger office clusters	Exclusion of strategic perspective Peripheral model applicable	Use of the peripheral model to achieve book profits High importance of marketability	Peripheral model inapplicable Preference for leasing Selection-based on HR objectives
Strategy adoption	Direct sale or SLB Exclusive focus on core business activity Based on the optimal business case	Direct sale or SLB Exclusive focus on core business activity neutral towards ownership versus leasing	Exclusive focus on core business activity Based on the optimal business case Prioritisation of risk-mitigation	Exclusive focus on core business activity Based on the optimal business case Marketability can serve as disposal disabler

Table I.
Summary case description

a position of strength. It must be pointed out that the sales increase in the two smaller bank portfolios also reflect the sheer portfolio size differences with the banks in the other grouping. Considering the relatively low impact that PE activity has on the overall balance sheet of corporations, we undertake a detailed qualitative study to further investigate these developments. Section 4 reports empirical findings from this study.

4. Empirical analysis

4.1 Findings

The following sections elaborate on the analysis and findings of the cross-case comparison. The research template (research template) was used to evaluate the applicability of the different research themes. This section aims to analyse and explain the differences and similarities between the different case studies. [Table III](#) shows an overview of the differences per topic.

Three of the four Dutch banking organisations studied do not actively align their CRE disposal strategies to the real estate market cycle, as they have an exclusive focus

Years	2013	2014	2015	2016
<i>Case 1</i>				
Cash and cash equivalents	360	100	730	598
Profit	101	100	171	161
Total equity	90	100	119	129
Land and buildings*	103	100	96	87
Total PE	100	100	97	101
Purchases of PE	91	100	110	158
Proceeds from sales of PE	149	100	175	138
Proceeds from sales as % of "Total property and equipment" in the previous year**	7	5	9	7
<i>Case 2</i>				
Cash and cash equivalents	98	100	151	196
Profit	76	100	85	78
Total equity	102	100	107	105
Land and buildings*	106	100	99	89
Total PE	96	100	109	65
Purchases of PE	75	100	107	97
Proceeds from sales of PE	41	100	51	50
Proceeds from sales as % of "Total property and equipment" in the previous year**	10	24	11	10
<i>Case 3</i>				
Cash and cash equivalents	78	100	120	95
Profit	250	100	322	375
Total equity	102	100	94	98
Land and buildings*	121	100	97	87
Total PE	115	100	97	96
Purchases of PE	93	100	95	94
Proceeds from sales of PE	104	100	135	116
Proceeds from sales as % of "Total property and equipment" in the previous year**	2	2	4	3
<i>Case 4</i>				
Cash and cash equivalents	278	100	115	118
Profit	-887	100	232	220
Total equity	86	100	112	121
Land and buildings*	129	100	70	75
Total PE	60	100	90	86
Purchases of PE	4	100	27	25
Proceeds from sales of PE	42	100	14	0
Proceeds from sales as % of "Total property and equipment" in the previous year**	4	14	1	0

Table II.
The key core
business and CRE
indicators across
case studies

Notes: *Land and buildings is reported differently across cases (not explicitly stating "for own use"); **for the reason explained in (*) we use the total of PE rather than the more suitable "Land and buildings held for own use"

on core business activities. Real estate disposal in the current upward economy is better explained by the coincidental alignment of business decline and a favourable investment climate. The only organisation in the study that aligns its property disposal strategies to the real estate market (Case 3) realised a competitive advantage and mitigated capital loss through optimising disposal revenues. Financial benefits were

Case characteristics compared	Case 1	Case 2	Case 3	Case 4	Dutch banking sector
<i>Choice for disposal</i>					
Investment momentum	×	✓	✓	×	
Financial distress	×	✓	×	×	
Decreased organisational footprint	✓	✓	✓	✓	
Cost efficiency	✓	✓	✓	✓	
Client-activity	✓	✓	✓	✓	
Digitalisation	✓	✓	✓	✓	
New working concepts	✓	×	✓	×	
Sustainability performance	✓	✓	✓	×	
<i>Asset type specification</i>					
Ownership versus lease	×	×	✓	✓	
Client-activity	✓	✓	×	✓	
Working concepts	✓	×	✓	×	
Competition for talent	✓	✓	✓	✓	
Value	✓	✓	✓	✓	
Operating costs	✓	✓	✓	×	
Sustainability	✓	×	✓	×	
<i>Strategy adoption</i>					
Disposal strategy					
Direct sale	✓	✓	✓	✓	
SLB	✓	✓	✓	✓	
Demolishment and new construction	×	×	×	×	
Transformation (adaptive reuse)	×	×	×	×	
Moment of sale					
After initial valuation	✓	✓	✓	✓	
Explorative research	✓	✓	✓	×	
Vision development	✓	✓	✓	×	
Collaboration with developer	✓	✓	✓	×	
Control on future use after disposal	✓	×	✓	×	
Marketability	✓	✓	✓	✓	

Table III.
Cross-case comparison – overview

achieved by aligning the CRE portfolio with favourable conditions, preparing it for future space-use fluctuations and economic downturns. Interviewee E stated: “Case 3 needs to dispose now to adapt faster to organisational fluctuations in the future”.

Aligning property disposal to the real estate market cycle is only possible when the (local) business growth is negative. If business growth and the real estate market cycle align, organisations can strategically reduce capital loss through optimising sale revenues. Not aligning property disposal to the real estate market cycle is financially inefficient. Interviewee D emphasised this through a reference property:

The property (Utrecht) was disposed in 2013 because of its high operating costs. This was an unfortunate decision as the future potential value proved much higher. There is a difference between short-term orientation (costs) and long-term financial value (revenues or value increase). Aligning the disposal decision to the real estate market cycle can be a smart decision. However, real estate speculation is not the core business of the bank.

Real estate expertise is found essential to successfully implement proactive CREM. Following the exclusive focus on core business activity, Dutch banking institutions solely dispose of their assets in their current state through direct sale or SLB transactions. As Interviewee D pointed out:

The executive boards of the banks focus on establishing a well-performing and lean banking business with a mitigated risk-profile to be competitive with other banks in that field. Shifting attention to other business activities is considered as misaligned with strategic objectives and can endanger core business continuity.

The case studies identify a strong relationship between the organisational decision-making structure and the efficiency of CRE disposal decisions. Case 3 showed that having a multi-disciplinary transaction team enhanced the ability to deal with space-use fluctuations and led to optimisation of the real estate portfolio, significant financial revenues and competitive advantage. Interviewee E pointed this out:

In order to respond fast to chances and developments, a transaction team and committee were constructed with people from different layers of the organisation. Trust together with an international track record made the significant capital reservation for this transaction possible.

The transaction team aligned the interests and perspectives of the different organisational departments at the right moment and place. Trust and authority seem essential to establish the mandate required to successfully deploy this decision-making structure.

The corporate image plays an important role in CRE disposal strategies and is secured by keeping control of future use after disposal. Next to image and reputation, risk mitigation for business disruption is important. However, organisations are selective in controlling future use after disposal as it negatively affects sales revenues and the number of potential buyers. Interviewee C stated:

Reputational repercussions predominantly play a role when the organisation retains a part of the object after sale. Control is exercised on the future use and redevelopment of the object, as it may never lead to business disruption. Mitigating clauses can therefore be included in disposal processes. However, the demand for more clauses inherently affects the terms of the sale (less revenues or less buyers).

Interviewee E complemented this: “the bank carries a responsibility for the buyer, as for the future destination of the object as people keep associating the building with the bank after their departure”.

Applicability of the peripheral model in the Dutch banking sector is found to depend on the organisational characteristics and CRE portfolio characteristics. The peripheral model was used in large CRE portfolios and office clusters with a specified composition but was inapplicable to small and scattered portfolios. The larger banking organisations strategically aligned the functional requirement in their core supply and disposal properties to buyer preferences, facilitating the disposal process or enhancing disposal revenues.

The use of long-term (10-15 years) lease commitments is identified in two of the four cases, establishing investment products that enable accessibility to fixed-income investors with premium sale revenues. In the core supply of Case 3, expiration dates were diversified to achieve flexibility. Interviewee E:

The bank believes in a rent-portfolio with varying duration commitments and a mixture of expiration dates to achieve flexibility. The current market conditions shape the perfect context to facilitate the shift to a rent-oriented portfolio.

Including active acquisition and selling in SLB transactions enhanced the profitability of long-term core commitments through expanding the difference between economic value and book value.

On the contrary, Case 1 reduced the size of its core layer and the duration (five years) of the rental commitment as a response to uncertain future organisational fluctuations. The alignment of disposal properties to short-term buyer preferences can enable organisations to access an increased number of buyers, enhancing the likelihood for disposal. Simultaneously, alignment to short-term buyer preferences can allow organisations to optimise disposal revenues through accessing opportunistic buyers. Interviewee A:

When an asset is subject to an exit scenario a sale-leaseback transaction is constructed, which enhances the resale revenues. The buyer preferences are considered in this decision: vacant for a developer and with a rental agreement for investors.

The selection of the most suitable CRE disposal strategy in the four cases was found to depend on the asset complexity. Small and generic assets (dominantly small retail-offices) in the real estate portfolio are disposed of through determining its marketability and then selling the asset. The disposal of large and remarkable assets (large back-offices) comprises three steps, namely, analysis, strategy and sale. The analysis phase maps the expected organisational demand and assesses the marketability and potential development of the asset based on its physical characteristics and (local) market conditions. Interviewee D:

The selection of the most suitable disposal strategy is primarily determined by the local context, as the local demand determines the redevelopment potential. The strategy is selected based on the optimal business case.

In the strategy phase, the most suitable disposal strategy is selected by selecting the optimal business case for the exit strategy based on functional requirements, physical constraints, financial revenues and control on future use after disposal. In the third phase, the asset is sold accordingly.

The functional CRE disposal drivers were identified as the most influential. Their applicability depends on organisational objectives. The financial drivers had a weak influence, caused by the low share of real estate on the balance sheet, marginalised achievable book profits, the exclusive focus on core business activities and the lack of real estate expertise across Dutch banking institutions. The applicability of physical disposal drivers primarily depends on the real estate portfolio characteristics.

The applicability of strategic disposal selection variables depends on the flexibility in the CRE portfolio. Interviewee B: “the bank is ambivalent towards an ownership/lease interest in its properties, which originates from the average terms of usage and considerations on risk and flexibility”. The influence of the functional disposal selection variables is predominantly determined by digitalisation. Interviewee B: “the main driver for disposal is the decreasing organisational footprint following the reduced corporate space-usage and decreasing physical consumers, caused by the digitalization of consumer-contact”. Following the saturated IT employment market, the war for talent is becoming increasingly important in CRE decisions. The financial disposal selection variables are disposal enablers in case of a negative difference between market value and book value or disposal enablers in case of enhanced cost efficiency. Interviewee G refers to a reference property:

The sale- leaseback transaction could not go through due to the discrepancy between book value and market value. The insufficient technical state influenced to marketability to such an extent that disposal against favourable terms was not possible.

The physical disposal selection variables proved dependent on the CRE portfolio characteristics and corporate business strategy.

4.2 *Towards an efficient corporate real estate disposal framework*

Based on the empirical study and the literature study a nine-point framework was developed that proposes improvements to the currently applied decision-making process. The framework advocates proactive and agile accommodation of Dutch banking organisations through combining financial optimisation with enhanced flexibility:

- (1) Weighing and selecting variables independently at each different step of the disposal process should be done to allow for flexibility and increase disposal efficiency.
- (2) A multi-disciplinary transaction team with real estate expertise and an extended decision-making mandate should be the norm in CRE disposal strategies, particularly in times of expected real estate activity.
- (3) Organisations should deploy technological innovations to respond to the organisational changes, enable CRE disposal processes and achieve competitive advantage.
- (4) Organisations should take any opportunity to proactively align their CRE disposal strategies to the real estate market cycle to exploit this position of strength.
- (5) The peripheral model should be tailored to the flexibility needs of the organisation and be applied to achieve organisational agility in a financially efficient way.
- (6) Organisations should strategically align their commitment in core and disposal properties to buyer preferences to facilitate the disposal process or enhance financial revenues from disposal.
- (7) Organisations should approach the disposal of an individual asset based on its complexity, weighing size, functional requirements, financial revenues, physical constraints and (potentially) control on future use after disposal.
- (8) To improve the negotiation position and subsequently the revenues from disposal, vision development should be included in the disposal process in case of expected future redevelopment value.
- (9) Control on future use after disposal should be exercised selectively as the use of (perpetual) clauses is generally reflected negatively in the sale conditions. The control on future use after disposal can mitigate the risk for business disruption and reputational repercussions.

5. Conclusions

This paper provides an evidence-based evaluation of the decision-making process of the disposal strategies of Dutch banking organisations. A nine-point framework to guide decision-making is developed that adds to the theoretical body of knowledge on this topic. The decision-making points in this framework serve as guidelines for practical implementation. With the appropriate context-related modifications, the framework can be adopted in other industry sectors. The results show a strong relationship between the corporate organisational characteristics, legacy and strategy, the CRE portfolio characteristics, the identified disposal drivers and the decision-making in CRE disposal strategies. The weighing of the different drivers and variables in the disposal decision-making largely depends on the organisational goals and objectives. This research further showed that the proactive alignment of the CRE portfolio to the cyclical behaviour of the real estate market and organisational lifecycle establishes a competitive advantage, financial value and organisational agility.

Including active acquisition and selling activity in the disposal process increases the financial value. Cross-disciplinary decision-making in the disposal process creates competitive advantage compared to conventional decision-making structures. Regarding the disposal

strategy selection, incorporating buyer preferences in core and disposal properties facilitates the disposal process and optimises sale revenues. Disposal strategies for large, back-office assets are selected by defining the optimal business case for the exit scenario, weighing the (temporary) functional requirements, financial revenues, physical constraints and (potentially) control on future use. Control on future use serves to mitigate business disruption and potential reputational repercussions. The cross-case analysis showed that Dutch banking institutions only dispose of their assets in their current state through direct sale or SLB transactions following their exclusive focus on core business activities.

This paper shows that proactive CREM established competitive advantage and financial organisational value in CRE disposal decisions, whereas reactive CREM caused inefficient decision-making. Typically, banks do not search for alternative ways to cope with the friction between the illiquidity of real estate and the increasing space-use fluctuations. The CREM of these organisations is generally reactive to the business development. The main solution to the current lack of agility in the CRE portfolios for owners and managers of CRE is to shift their mindset towards active CREM.

Our study is of particular interest to the CRE managers of corporations in the banking and ICT sectors as they have very similar requirements for space and human capital. It provides a clear operational framework for proactive portfolio strategies that adds value to the firm through CREM. Other sector CRE managers could use these findings to build up proactive portfolio strategies with specific considerations to business sector differences. Our research focussed on analysing corporate performance and portfolio transactions that predominantly occurred within the four years period ahead of the research. Expanding the timeline of the analysis to include business cycle peaks and troughs would help improve our understanding of the relationship between economic cycles and CRE disposal. Further research should focus on exploring the applicability of the findings to different business sectors and to different legal, financial and economic contexts.

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