**FINM3406 - Tutorial Run Sheet for Week 12**

Purpose of this tutorial is to consolidate the very high-level concepts about Corporate Real Eastate (CRE) discussed in the Week 11 lecture. The students should form small groups for the tutors to facilitate a discussion on the following topics:

* 1. **What is corporate real estate (CRE) and how does it differ from other types of real estate?**
* Corporate real estate (CRE) refers to the real estate assets that a corporation acquires, manages, or leases to support its core business operations. CRE differs from personal or investment real estate primarily in its strategic alignment with corporate goals versus personal or pure investment goals.
  1. **Explain the role of a corporate real estate manager in a large corporation.**
* A corporate real estate manager oversees a company’s real estate assets, focusing on maximizing asset value and minimizing occupancy costs and risks while supporting the company's operational needs.
* CRE Manager is responsible for ensuring Property Strategy aligns and supports Corporate Strategy
* CRE Manager is responsible for the following activities regarding the company’s real estate:
  + Financial Mgt (ie controlling/minimising operating costs such as leases/rates/land tax/insurances, facilities management costs such as security, cleaning, repairs and maintenance) which would include detailed financial plans and asset management plans that incorporate all relevant legal and regulatory rights to use and occupy the property (ie leases/titles and planning permits)
  + Physical Mgt – keeping the property functioning to ensure optimal productivity for the company is achieved by controlling the day to day running of the property and managing any planned capital works programs for the property (ie fit out or refurbishment/rebuild)
  + Risk Mgt - ensuring lease/tenure, HSE and planning permit obligations are understood by the Company and complied with and/or resolving instancing of non-compliance.
  + Customer Mgt – ensuring internal and external stakeholders’ requirements are satisfied.
  + Strategic Mgt – participation in asset life cycle planning for current and future property needs.
  1. **Discuss how corporate real estate can contribute to a company’s strategic objectives.**
* CRE contributes to a company's strategic objectives by ensuring the optimal use of real estate assets, reducing costs, enhancing employee productivity through better work environments, and aligning real estate strategy with overall business strategy.
  1. **Discuss the impact of corporate real estate decisions on the financial performance of a firm.**
* CRE decisions can significantly impact financial performance by affecting operational costs, capital expenditure, and asset liquidity.
* Discuss the substantial percentage that real state takes up in balance sheets (ie 30 – 50%) and the substantial percentage of annual operating costs (approx. 20%) and the overall lack of structured thinking and management in this space (only 40% Public Sector / Private Sectors 20% have detailed policies and procedures for management of property). This provides a major opportunity for competent CRE professionals to improve a company’s financial performance.
  1. **How should a company manage its real estate portfolio to align with its business strategy?**
* A company should manage its real estate portfolio by aligning it with its long-term business strategy, assessing each asset's contribution to corporate goals, and considering divestitures, acquisitions, or leases based on strategic fit.
* Discuss the iterative relationship between IT strategy (eg how wireless technology has changed the need for office workers to be stuck inside offices), HR Strategy (eg how does the company employ people, such as short-term contracts that bring people on when needed means space demand fluctuates. Another example to discuss could be FIFO staff – do you need ot provide accommodation etc) and Procurement Strategy (eg what does a Company insource vs outsource and how does relate to the requirements for space)
  1. **What are the key considerations in the site selection process for a new corporate facility?**
* Site selection for new facilities includes analyzing factors such as location, cost, logistics, workforce availability, and regulatory environment.
  1. **Name at least five factors that a company should consider when deciding to lease or buy a property for its operational purposes?**
* Availability of capital (either debt, equity or a combination of both) to pay for the acquisition costs.
* Does ownership vs leasing impact the image of the company (ie does not owning your property cause negative sentiment about the company to its customers/investors/suppliers?)
* Degree of strategic vulnerability vs potential competitive advantage that the property has for the company’s operations (ie high strategic vulnerability combined with potential competitive advantage derived from the site/property would suggest ownership)
* Duration of occupation (longer tends towards ownership)
* Remaining economic life of the asset (higher percentage of duration of occupation vs remaining economic life suggests ownership)
* Predictability of occupancy demand (higher degree of predictable demand suggest ownership)
* Net Present Value calculation of ownership vs leasing to see which is better financially.
  1. **Choose a company that effectively utilizes its real estate assets to support strategic goals. Discuss the strategies used and the outcomes achieved.**
* A positive example could be Google, which strategically locates offices to optimize talent acquisition and operational efficiency, often revitalizing areas and focusing on sustainability.
* Similar concept applies to most of the major consulting firms and Big 4 accountancy firms. Fancy CBD offices to attract ambitious and comparatively inexpensive graduates.
* Another example could be Guzmen Y Gomez that has expanded its fast food offering to include drive through and the way it uses locations to facilitate this new form of growth/offering.
  1. **Discuss a case where poor real estate management had a significant negative impact on a company's performance. What lessons can be learned from this?**
* A negative example could be Telstra, which had strategically located telephone exchanges through-out Australia which are now almost entirely unused due to the advent of the NBN and these sites have challenges in relation to removing substantial amounts of copper (which is a windfall for Telstra) and remediating asbestos (which is very costly) before they could repurposed into alternate uses
* WeWork provides a compelling case study in the potential pitfalls of aggressive expansion and mismanagement in corporate real estate.

Here’s an analysis of how poor real estate management impacted WeWork's performance and the lessons that can be learned from it:

**Background**

WeWork's business model involves leasing large spaces, renovating them into co-working spaces, and then subleasing them to tenants ranging from freelancers to large corporations. The company pursued rapid growth and massive scale, leveraging high amounts of debt to finance leases and buildouts in prime locations globally.

**Impact of Poor Real Estate Management**

1. **Overexpansion**: WeWork aggressively expanded into numerous markets simultaneously without fully establishing demand sustainability in these locations. This overexpansion led to significant financial obligations (long-term leases) without proportionate or guaranteed revenue, particularly risky if the market conditions changed.
2. **Long-term Leases vs. Short-term Revenue**: The mismatch between the long-term lease commitments WeWork took on and the short-term nature of its customer contracts created financial vulnerability. During economic downturns or shifts in market demand, WeWork remained locked into fixed lease payments despite fluctuating income.
3. **High Operating Costs**: Extensive customization of leased spaces led to high upfront capital expenditures and operating costs, which were difficult to recoup, particularly when tenant acquisition rates failed to meet expectations.
4. **Valuation and Business Model Concerns**: The high valuation of WeWork was partly based on its portrayal as a tech company rather than a real estate entity, leading to unrealistic growth expectations and investment. When it failed to perform as expected, investor sentiment soured, significantly affecting its IPO plans and overall market standing.

**Lessons Learned**

1. **Risk Management**: It's crucial for companies to balance growth with risk, especially in real estate commitments. Ensuring that lease terms are flexible and more closely aligned with revenue models can mitigate financial exposure.
2. **Market Analysis and Expansion Strategy**: A more measured approach to expansion, prioritizing markets based on solid demand analysis and organic growth, can prevent overreach. Understanding local market conditions and tailoring offerings to those specifics can enhance stability.
3. **Financial Resilience**: Companies should maintain a resilient financial structure that does not rely heavily on continuous external funding or market booms. Building reserves and having diverse revenue streams can cushion against market downturns.
4. **Corporate Identity and Investor Relations**: A clear and realistic representation of the company’s business model and prospects is essential for maintaining trust and support from investors and stakeholders.

By learning from WeWork’s challenges, companies can strive for a more sustainable balance between growth ambitions and operational realities in corporate real estate management.