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Corporate Real Estate Management in Japan

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Abstract:

Like in other countries, Corporate Real Estate (CRE) is also one of the most important assets for companies in Japan. Until early 1990's, Japanese corporations predominantly acquired real estate in order to obtain huge capital gains. However, bad debt problems caused them serious financial losses. Therefore, the importance of CRE management has been recently recognized. Some Japanese companies have integrated CRE management into their corporate strategy. The principal CRE management in Japan is categorized as cost reduction, workplace strategy, and portfolio optimization. These strategies are separate from each other. Consequently, many managers don’t understand the essence and existential reason for CRE management. There is a need to unify of CRE management. In addition, this paper explains CRE statistics, CRE management guideline and manual, and case studies on Nissan and Japan Post.

Introduction

In Japan, real estate is one of the most important assets for companies as well. Real estate which corporations utilize is described as Corporate Real Estate (CRE). Until the first half of the 1990's, many Japanese companies tended to acquire domestic and foreign real estate actively. Because land prices have almost constantly risen since the 1950's (but not during the 1970's oil shock), the potential profit of owning real estate (mainly, land) caused many companies not only to gain huge capital gains, but also to borrow large amounts of funds from banks. These were predominant during the bubble period (from the latter half of the 1980's to the early 1990's).

The volume of real estate transactions by Japanese companies increased dramatically, with the amount of purchase exceeding the amount of sale. In 1990 alone, land purchased by Japanese companies amounted to about 50 trillion yen. That accounts for about 60 percent of the total real estate transactions in Japan.

On the other hand, after the economic bubble burst, the amount of land purchased by companies reversed itself and caused a sudden drop in the amount of buying and selling. The amount of land purchased by companies decreased to about 20 trillion yen in 1994, signifying a 30 trillion yen decrease in four years. As well, there was a drop of 40% in the same year.

The downward trend has continued into the twenty-first century. Land prices keep falling except in a few metropolitan areas e.g. Tokyo. As a result, the advantage of owning real estate has disappeared. Owning real estate generates vast expense for Japanese companies. Therefore, they have sold surplus real estate such as offices, factories, and commercial buildings, in large amounts.

In those days, many CEOs did not know the distinction between necessary and unnecessary CRE. Therefore, they sold real estate, which was actually necessary for their companies. They realized the mistake afterwards. In short, many Japanese companies do not have a substantial real estate strategy. And in companies which do have strategy, real estate is managed in a haphazard and short-sighted manner.

In the USA and the UK, CRE management research has a history of over 20 years. On the other hand, it is only in the past two or three years that CRE management has come to the fore in Japan. As a result, the number of managers that recognize the importance of CRE is now increasing. The ratios that Japanese companies hold real estate in total assets exceed 25 percent and consequently, real estate cost is second only to payroll costs. It is necessary for managers to utilize CRE effectively and efficiently, and integrate the real estate strategy into their business strategy.

Otherwise, the business environment is severely competitive and constantly ever-changing. Companies need to adjust to changes and utilize business resources effectively and efficiently. However, a few corporations have gained competitive advantage based on CRE. In order to spread CRE management, it is especially necessary to bring up talented persons who have expertise in CRE. Also, further improvement of studies about CRE is needed in Japan.

The purpose of this paper is to explain the present circumstances and characteristics of CRE in recent Japan and to make clear the prospects and problems on establishing CRE management. It is also hoped the national economy benefits from the improvements caused by effective CRE management.

1 Overview of CRE in Japan

1-1 Surveys on Corporate Land and Buildings

The Basic Survey on Land is the only official statistical survey providing comprehensive information of land utilization in Japan. The survey has been carried out every five years to obtain the information on land availability and landowner's characteristics. The backdrop to this was an increasing need for comprehensive and systematic arrangement of information on real estate to execute policy on land and housing. From mid-1980's to early 1990's, land prices rose substantially, but the government had a shortage of information on real estate. The central government enacted the Basic Land Act in 1989. Under the law, the Basic Survey on Land has been conducted since 1993.

The Basic Survey on Land consists of three components: (1) Corporation Survey on Land, (2) Household Survey on Land and (3) Corporation Survey on Buildings. Survey (1) and (2) focus on the situation on land ownership and usage by corporations or families. On the other hand, Survey (3) focuses on the situation on survey of building ownership and usage by corporations. Therefore, (1) and (3) are referred to as CRE statistics in Japan (Figure 1-1). Both surveys are carried out recently in 2008. The 2008 Corporation Survey on Land and Buildings are fourth and third, each.

Figure 1-1: CRE Statistics in Japan

The Corporation Survey on Land is carried out using information current as of January 1 at the survey year. The subject companies of the Survey are as follows.

(1) All companies with capital amount of 100 million yen or more are sampled
(2) Some companies with capital amount of less than 100 million yen are sampled using the method designated by the Ministry of Land, Infrastructure and Transport.
(3) The Central government, local governments, and foreign companies are removed.

As a result, approximately 490,000 companies are sampled. They answer the questionnaire by mail. If they hope, they can answer it on the Internet.

The Corporation Survey on Land has two sorts of survey forms (Form A and Form B). Form A is the survey form for all of the corporations which are covered by the survey. Form B is the survey form for the corporations classified as "electrical industry", "gas industry", "domestic and international telecommunication industry", "broadcasting industry" and "railway industry". Those industries have a lot of land. Therefore, the specific questionnaire is made to investigate the circumstances in detail.

Each survey form consists of the following items:

<Form A>

(1) Information on your Company/Organization

Name of Company/Organization, Location of the Headquarters, Type of Organization, Amount of Capital, Investment or Fund, Type of Industry, Number of Permanent Employees, Number of Regional Offices, Branch Offices and Branches

(2) Whether or not your Company/Organization owns any land

Whether or not your Company/Organization owns any land, Name of the Owner of the Land for the Headquarters or your Company/Organization

(3) Information on the Land owned by your Company/Organization.

Type of land (Building Site, etc., Farm Land, Forest Land, and Stock Land [1]), Location, Type of Land Ownership, Tenure Size, Year of Acquisition of the Land, Whether or not the Land is for Rent, Present Usage of Land

<Form B>

Location, Usage of the Land, Number of Lots, Total Size of the Land

Corporations Survey on Buildings takes the position as the supplemental survey of Corporation Survey on Land. In short, Corporations Survey on Land is central, and Corporations Survey on Buildings is subsidiary. Therefore, the survey method is similar to Corporations Survey on Land (subject and time of the Survey, etc).

The difference includes survey items. The Corporations Survey on Buildings consists of the following items.

(1) Information on your Company/Organization

Name of your Company/Organization, Whether your Company/Organization owns any Building(s) or not

(2) Information on Building(s) your Company/Organization owns

[the Building(s) with a total floor space of less than 200m^2] Number and Gross Total of Floor Space

[the Building(s) with a total floor space of more than 200m^2 outside factory sites] Location, Total Floor Space, Structure, Year Construction of the Building was Completed, Title of the Site, Present Usage of the Building, and Whether or not the Building is Leased

[Building(s) inside factory sites] Location, Total Floor Space, Structure, Year Construction of the Building was Completed, Title of the Site, Tangible Fixed Assets (Buildings) in each Factory Site, Total Tangible Fixed Assets (Buildings) owned by Company/Organization

1-2 Current Status on CRE in Japan

This section will take a detailed look at ownership and usage states of land and buildings in Japan. According to the 2008 Corporation Survey on Land and Buildings (as of January 1, 2008)[2], the number of corporations owning land is 623,250, which represents 34.4 percent of all corporations in Japan. On the other hand, the number of corporations owning buildings is 738,710 which accounts for 40.8 percent of all corporations. Compared with the results of 2003, the number and percentage of corporations owning land decreased by 18,150 (2.8 percent). Similarly, the number and percentage of corporations owning buildings decreased by 31,390 (4.1 percent).

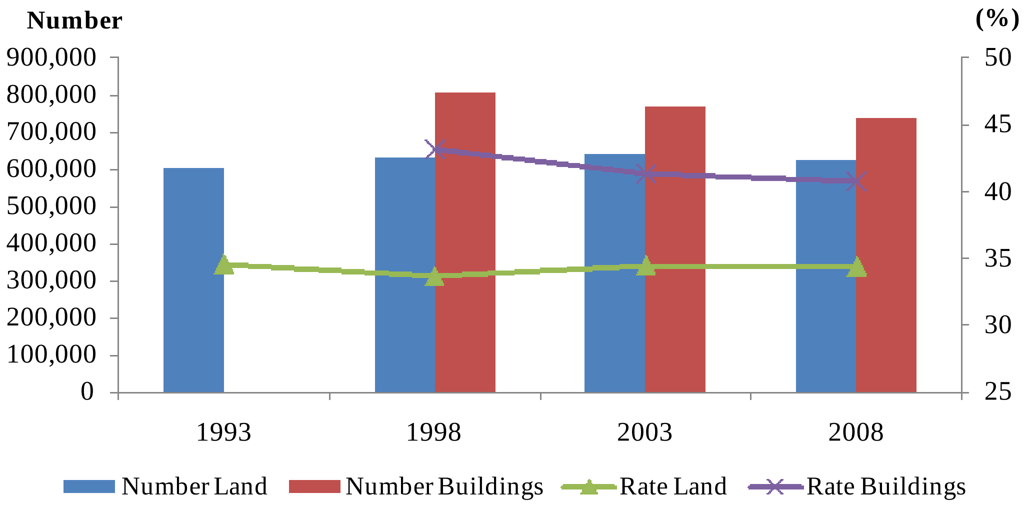

Figure 1-2: Number and Rate of Corporations Owning Land and Buildings

Source: Kokudokoutsuusho Mizusigenka (2009)

Looking at corporations owning land, corporations with capital of less than 100 million account for 95.5 percent of all corporations owning land. Unsurprisingly, this is because 97.5 percent of all corporations in Japan have capital funds of less than 100 million yen. As for the land ownership rate by amount of capital, it is apparent that the rate rises in line with larger amount of capital with a few exceptions. Compared with the results of 2003, the land ownership rate dropped in all groups. Especially, the group with capital amount more than 500 million yen and less than 1 billion yen has decreased drastically from 69.4 percent to 62.2 percent.

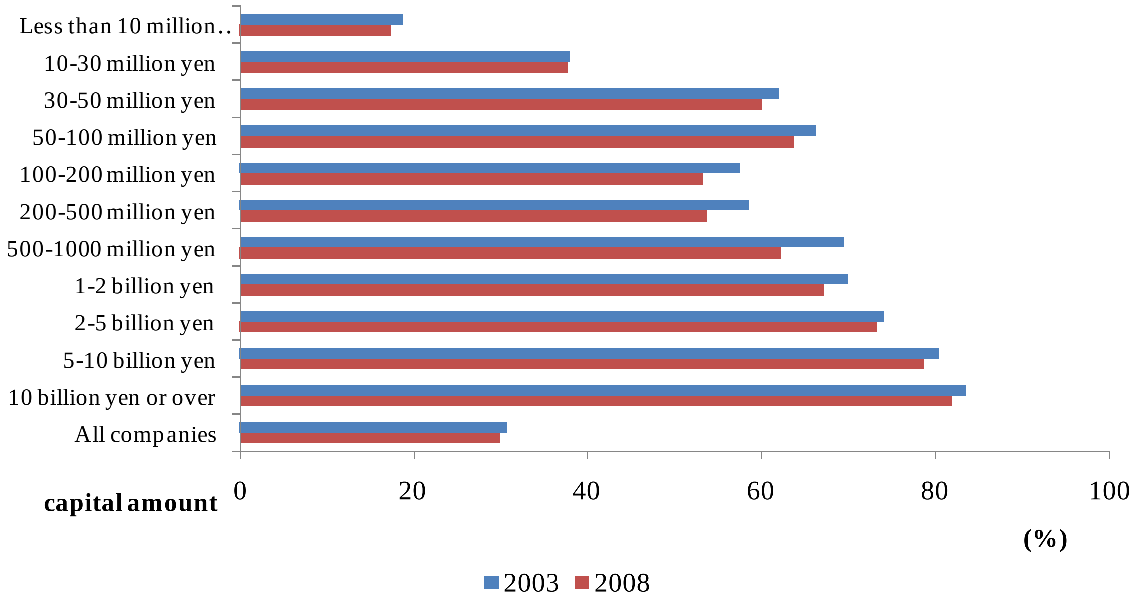

Figure 1-3: Ownership Rate for Land by Amount of Capital

Source: Kokudokoutsuusho Mizusigenka (2009)

As for the ownership rates for buildings by amount of capital, it is apparent that the rate rises in line with larger amount of capital as well. The rates of all groups except for “5-10 billion yen” decreased in comparison with 2003. In particular, the rate of the group with capital amount more than 500 million yen and less than 1 billion yen group has decreased substantially from 71.3 percent to 64.9 percent. The previous rate of this group also fell over 10 percent.

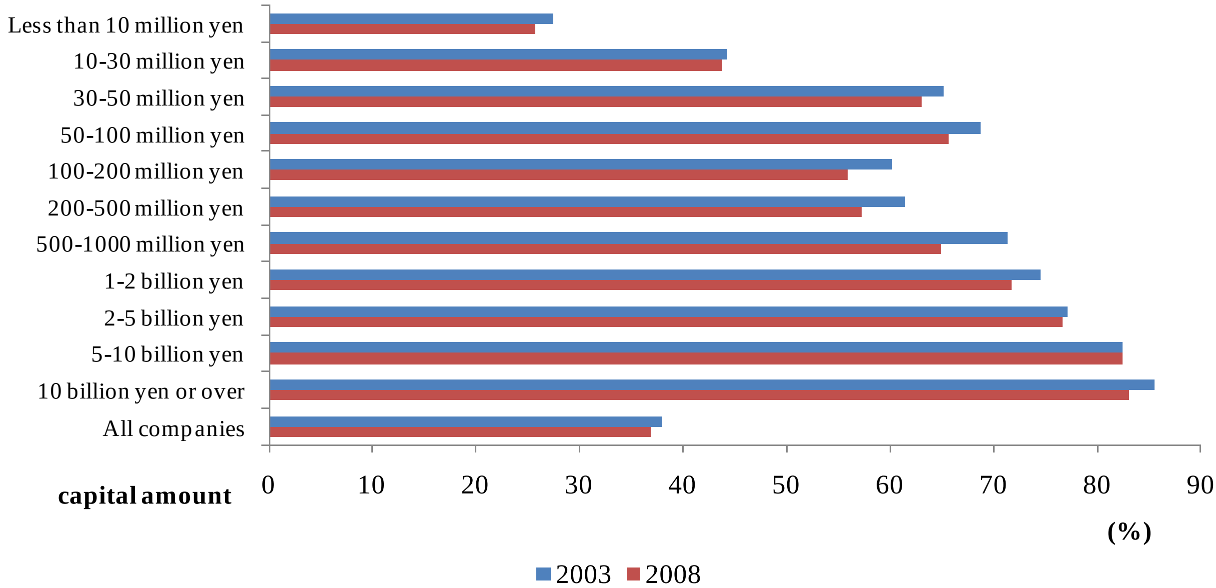

Figure 1-4: Ownership Rate for Buildings by Amount of Capital
Source: Kokudokoutsuusho Mizusigenka (2009)

Looking at the number of corporations owning land by type of industry, "wholesale and retail trade" had the largest number (117,480) and share (18.8 percent), followed by "religion" (17.7 percent), "manufacturing" (16.0 percent), "construction" (14.9 percent), "services (excluding religion)" (8.8 percent), and "real estate" (8.0 percent). In particular, the number of corporations owning land increased substantially in "religion" (22,700) and "real estate" (5,010) between 2003 and 2008.

As for the land ownership rates for major industries, the average for all corporations is 34.4 percent, almost the same as in the 2003 Survey (34.5 percent). Among major industries, "religion" has an obviously high rate (85.5 percent). Other types of industry with comparatively high land ownership rates include "forestry" (71.4 percent), "mining" (57.5 percent), "electricity, gas, heat supply and water" (54.0 percent), "Education, learning support" (46.4 percent), and "real estate" (46.1 percent).

Looking at the number of corporations owning buildings by type of industry, "Wholesale and retail trade" had the largest number, which is 148,500 (20.1 percent). It is followed by "manufacturing" (17.5 percent), "religion" (15.1 percent) and "construction" (13.9 percent). The number of corporations owning buildings increased drastically in "real estate" (5,740) and "medical, health care and welfare" (3,940) during the same five-year period.

As for buildings owned by major industries, the average for all corporations decreased from 41.4 percent to 40.8 percent. Among major industries, "religion" has a obviously high rate (86.0 percent). Other types of industry with comparatively high building ownership rates include "electricity, gas, heat supply and water" (61.9 percent), "real estate" (55.3 percent), "mining" (53.9 percent), and "education, learning support" (53.2 percent). On the other hand, the following industries show low values: "information and communications" (14.1 percent), "finance and insurance" (21.5 percent) and " forestry" (28.3 percent).

Corporate-owned land includes sites for factories, parking lots, storage space, open space, graveyards, parks and uncultivated fields etc. They are referred to as building sites, etc[3]. in Japan. As of January 1, 2008, the number of building sites, etc. owned by corporations increased to 1,807,520, a 4.3 percent increase over that of 2003. Looking at the purpose of building site, etc., 70.3 percent is used as building site, while 21.9 percent is used for other purposes and 6.7 percent is vacant. Compared to 2003, the share of land used for purposes of building site is falling (3.0 percent), while the share of land used for purposes other than building site is growing (2.6 percent).

Taking a further look at specific purposes of building site, etc., the three categories of "factory/warehouse" (24.6 percent), "office" (22.6 percent), and "store" (14.7 percent) make up over 60 percent of all of building site, etc. Also having high shares are "religious facilities" (10.1 percent), "rental housing" (8.6 percent), and "housing/dormitory for employees" (6.4 percent). As for purposes other than building site, "parking lot" has a 43.8 percent share. Also having high shares are "storage yard" (16.4 percent) and "religious area" (16.3 percent). Compared with the 1993 result, the number of "housing/dormitory for employees" has declined by over 40 percent, while that of "parking lot" has increased by over 50 percent.

Looking at year of acquisition of building sites, etc., 36.1 percent of the land was acquired in 1991 or later. The percentage of rise is 7.6 percent in comparison with 2003. Year of acquisition differs among types of industries. The proportion of the land acquired in 1991 or later is large in industries such as "medical, health care and welfare" (58.4 percent), "construction" (48.1 percent), "services (excluding religion)" (53.2 percent) and "real estate" (42.9 percent). In particular, it is clear that over half of building sites, etc. was acquired in 1991 or later in "medical, health care and welfare."

Looking at types of land ownership of building site, etc., almost every building site, etc. is owned by a single corporation or organization. On the other hand, the number of sites that are jointly owned with other parties is 105,620, which represents 5.8 percent of the total. The number and ratio has fallen in these five years. Leased out building site, etc. has an 11.4 percent share. "Religion" (22.3 percent) and "real estate" (22.1 percent) are the types of industry of many landowners.

This section focuses on buildings on building sites, etc. and describes the state of ownership and building usage[4]. As of January 1, 2008, the number of buildings owned by corporations in building sites, etc. other than factory sites, was approximately 752,930 (excluding buildings with total floor space of less than 200 m^2. The same applies hereinafter). The number of factories at the same point in time was 223,680, and the aggregated number of both was 976,610. All of these numbers showed a minimal increase compared with 2003.

Looking at usage of the buildings (present main usage), the "factory" category accounts for the largest proportion, 22.9 percent. Following this, "office" (22.3 percent), "store" (15.6 percent) and " warehouse" (12.1 percent) occupy large proportions. Combined, these buildings account for 72.9 percent. This result is in agreement with that of Building site, etc. Until 2003, "office" was in the first place and "factory" was in the second place, but the position has been reversed. This is because the figure for "factory" increased by 3.0 percent, while the figure for "office" decreased by 5.8 percent. Moreover, it is indicated that the figure for "hotel or inn" dropped dramatically by 13.4 percent.

As for structure of buildings, " steel frame" buildings account for 51.9 percent of all buildings and occupy the largest part. Following this, "reinforced concrete" buildings account for 20.5 percent, "wooden" buildings account for 14.1 percent and "steel frame reinforced concrete" account for 10.8 percent. In comparison with 2003, the ratio of "steel frame" buildings and "reinforced concrete" buildings came up: 1.8 percent and 0.5 percent, respectively. "Steel frame" buildings account for about 70 percent of factories and warehouses. On the other hand, the rates of "reinforced concrete" buildings are high at "educational facilities" (48.9 percent), "facilities for employee welfare" (44.1 percent) and "hotel or inn" (34.8 percent).

The 2003 Survey shows that the total size of land owned by corporations is 22,432 km^2, which represents approximately 6 percent of Japan's total land area. As for the type of land, the total size shows building site and others 9,487 km^2, forest land 10,849 km^2 and stock land (1,071 km^2). Stock land continues to decline, showing a particularly large decrease of 40.9 percent during the 1998 to 2003 period.

The total asset value of land owned by corporations is approximately 406 trillion yen in 2003, a 34.2 percent drop compared to 617 trillion yen in the 1998 survey. In particular, the asset amount of stock land has fallen considerably by 59.7 percent. The reasons include a decrease in owned land size. As of 2003, the combined value of all land in Japan was estimated to be about 2,300 trillion yen. Corporate-owned land, all combined, is equivalent to about 17.7 percent of the national total.

In my opinion, the size and asset value of land might increase in the 2008 Survey. This is partly because the Japanese economy has been booming in the past 5 years and the Survey was carried out using information current as of January 1, 2008. However, the current situation has changed rapidly.

The Corporation Survey on Land and Buildings explains CRE circumstances in Japan. As a result, Japanese companies own a lot of real estate and have control over real estate market. If they consider CRE as speculative asset, Japanese real estate market might be thrown into confusion. At the same time, Japanese companies acquire surplus CRE, which is not linked to their corporate strategy. As a result, they cannot accomplish the efficient business activity.

2 CRE Guideline and Manual

2-1 Background and Context

The Corporation Survey on Land and Buildings indicates that Japanese companies play a prominent role in the real estate market. Thanks to the booming economy during the mid-2000s, the central government became aware of a possible real estate bubble, such as the one in the late-1980s, during which the government could not carry out an effective policy for real estate market. As a result, land price rose substantially. Afterwards, the Japanese economy was depressed and suffered from a bad debt problem.

In order to prevent the bubble and bust again, the government, especially Ministry of Land, Infrastructure, Transport and Tourism (MLIT), discussed the necessary polices. It has been concluded that appropriate CRE management is needed as one of the policies. Concurrently, the corporate environment is becoming increasingly crucial. Corporations have to utilize all management resources effectively and efficiently in order to overcome enterprise competition. Naturally, CRE need to contribute to the core business.

In order to encourage the concept and ways of CRE management, MLIT has completed the Guideline and Manual on CRE in 2008. The Manual has been updated, in 2009. The Guideline intends that managers understand the concept, institution, and practice on CRE. However, the Guideline does not provide the concrete know-how and is not enforceable. On the other hand, the Manual is the fundamental reference to planning and implementing CRE management. The Manual includes a lot of know-how and materials. The Guideline and Manual supplement each other and indicate the standard, by which corporations understand the concept and practice on CRE management.

In the introduction of Guideline, first of all, it is pointed out that real estate is one of the important assets for corporations. Moreover, CRE management (strategy) is defined as the approach that corporations emphasize CRE from the point of view of corporate strategy, and maximize the corporate value and realize the best efficiency of investment through CRE. As corporate strategy varies by company, CRE management seems different by company. However, it is important that managers should recognize CRE management as the one of the necessary business activities and take the lead positively. Specifically, they have to discuss acquisition, sales, lease, etc. and carry out the highest and best use of CRE in a strategic way.

The corporate environment is always changing. Recently, companies need to comply with and correspond to institutional reforms such as J-SOX, IFRS, etc. Therefore, corporations have to carry out CRE management.

The next section will take a detailed look at methods, e.g. management cycle and CRE indicators.

2-2 Content of CRE Management Guideline

1) CRE Management Cycle

CRE management cycle consists of 5 parts (Research, Planning, Practice, Review, Research and Act), which are organically-combined and constructed as the circulation model (Figure 2-1). CRE management cycle is similar to PDCA cycle. Through CRE management cycle, corporations can decide on concrete practice and process, and enhance the effect.

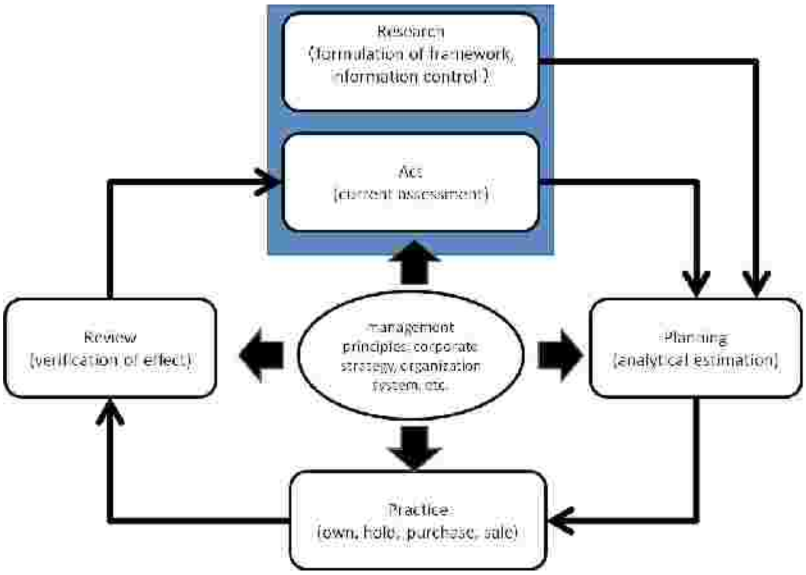

Figure 2-1: CRE Management Cycle

Source: Gouritekina CRE senryaku no suishin ni kansuru kenkyukai (2008a)

The first step, “Research” is defined as laying the groundwork on the CRE management and is a very important step. Generally, the process is divided into conducting CRE framework and examining CRE information. CRE framework means the way of controlling CRE management (rule and bylaw). The purpose of CRE framework is to specify a variety of risk, strengthen internal control, and develop governance and management. The framework has to be updated and improved continuously.

CRE information is enormous and is difficult to deal manually. Therefore, ICT is indispensable to examine CRE information. Corporations have to construct a CRE information system, which is based on ICT and linked to the overall organization. The requirement for CRE information system includes full coverage, uniform management, accessibility, timeliness, and security.

The second step, “Planning”, is defined as making the optimal program on CRE. In order to construct the optimal program, CRE information system is needed to reflect on decision-making of CEOs. The planning process is categorized into positioning analysis, separate CRE analysis, CRE optimization simulation, and financial performance.

CRE positioning analysis means to classify CRE from two points of “for business use or not” and “core business or not”, delineate the result, and analyze each quadrant in detail. CRE for core business becomes central in terms of business strategy. According to positioning analysis, each company understands the trend of CRE ownership, and realize CRE optimization suitable for business category, company size and financial health. Figure 2-2 shows an example of positioning analysis.

Figure 2-2: CRE Positioning Analysis

Source: Gouritekina CRE senryaku no suishin ni kansuru kenkyukai (2008a)

Separate CRE analysis is referred to as investigating the efficiency, importance and risk on each CRE. In particular, corporations need to understand life-cycle costing, profitability, and compliance. In CRE optimization simulation, corporations make alternatives on CRE optimization (holdings, acquisition, sale, etc.) which are based on various results. The financial performance means to analyze the impact on financial statements (P/L, B/S, C/F, etc.)

The third step, “Practice” is defined as executing CRE optimization program based on the “Planning” process. The specific measures are categorized as (1) continuous holding including leasing and outsourcing, (2) acquisition and (3) sale including securitization and sale-leaseback.

When the corporation decides on continuous holding, managers need to monitor the circumstance on a day-to-day basis. The data include cost, value, usage, etc. If the situation changes, corporations examine the CRE and judge the practice again. In some cases, the CRE is categorized as sale. If the CRE has the potential value, corporations might develop the CRE into office and commercial building by itself. However, real estate ventures have a lot of risk so, corporations need to conduct careful examination.

When the corporation decides on acquisition, the CRE department has a responsibility and takes the lead in the operation. At the same time, the department needs to report to the board of directors. The department discusses financing, law, operation planning, etc. with stakeholders.

Similar to acquisition, when the corporation decides on sale, the CRE department has a responsibility and takes the lead in the operation. In particular, the department conducts due diligence in detail. If CRE with soil contamination is sold, corporations suffer from lack of reliability in addition to claim for damage. Therefore, corporations need to constantly update their CRE database.

The fourth step, “Review” is defined as measuring the achievement of “Practice”. The corporation needs to verify the result and analyze the difference between target and result.

After the “Review” process, the CRE management cycle comes back to the “research” process again. At the same time, “Research” needs to link to “Act”. This completes the CRE management cycle. If the flow from "research" to "review" continues, the CRE management cycle evolves better.

2) CRE Indicators

Corporations utilize a variety of CRE, such as land, office, factory, housing for employees, etc. Some CRE contribute to their business, and others don't. Through CRE management, managers need to examine individual CRE in detail and get a clear grasp of the importance. Therefore, CRE management calls for extensive analysis in the point of view of corporate value maximization. The necessary indicators for the analysis are as follows.

(1) Market Value

Market value is essential for business activity and represents for price, which is based on the highest and best use in rational real estate market. Managers always take their notice of market value. If the market value has changed suddenly, they need to discuss the policy as quickly as possible. Real estate appraisal is used as a way of calculating market value, such as cost approach, market data approach, and capitalization approach. Recently, capitalization approach, in particular net present value method (NPV) is popular.

Meanwhile, value in use is an important indicator, too. In the case of CRE management, Managers need to calculate the use vale of CRE and decide on the investment by comparing the market value and the value in use. If the value in use is more than the market value, they should make investment. Otherwise, they shouldn't. The calculation procedure includes weighted average cost of capital (WACC). That is, value in use is calculated by discounting prospect cash flow at present time.

(2) Financial Indicators

The main purpose of CRE management is to maximize the corporate value by utilizing real estate effectively and efficiently. Corporations monitor many financial indicators closely, but financial indicators are not linked to CRE well. Managers should emphasize the relation of corporate value and CRE management, quantify the relation, and set their target. Therefore, financial data of other competitive enterprises is effective. They can set their benchmark on CRE by analyzing characteristics and trend according to the segment and type of business. some of financial indicators on CRE include return on asset (ROA), return on investment capital (ROIC), and price book value ratio (PBR).

(3) Facility Cost Analysis

More space is needed in the process of corporate growing. On the contrary, more space is not needed in the process of corporate declining. In addition, M&A may bring drastic space increase. If corporations have difficulty in responding to space change, it is predicted that facility cost increases. Therefore, managers should set the adequate proportion of facility cost to total sales or total spending. The proportion allows them to reduce or stabilize the facility cost.

At the same time, corporations can analyze the relation among profit, total assets and facility efficiency by introducing the following computation expression.

$$\frac{\text{Profit}}{\text{Total Assets}} = \frac{\text{Profit}}{\text{Sales}} \times \frac{\text{Sales}}{\text{No. of Employees}} \times \frac{\text{No. of Employees}}{\text{Size of Floor Space}} \times \frac{\text{Size of Floor Space}}{\text{Total Assets}}$$

Through the breakdown of this computation expression, managers understand whether individual indicator is suitable, or not. Additionally, elementary items of facility cost are important to examine, such as utilities cost, maintenance cost etc.

(4) Taxation

In the case of sale and lease-back, the tax cost might have an impact on the business activity. The tax system for land and buildings is in a different position. In the case of meeting the necessary requirement, corporations can receive favourable treatment from the central government, for example, tax and income deduction, etc. Therefore, managers need to understand the system and control tax charge. Naturally, they should make the best use of the benefits, but the tax system for land and buildings is frequently-changed. Prediction might not work out as planned.

3 Formulation of CRE Management

3-1 Case Studies

According to the Guideline and Manual, more and more corporations get to emphasize CRE management. Meanwhile, some corporations have carried out CRE management for some time past. This section looks at case studies of CRE management by Japanese companies: Nissan and Japan Post.

1) NISSAN MOTOR CO., LTD.

Nissan is a leading Japanese automobile company. At the same time, Nissan is also known as the advanced company which manages CRE well. The opportunity that Nissan started CRE management is the financial crisis at the end of 20th century. Nissan had much debt with interest with 2.1 trillion yen. In 1999, Nissan has formed a business tie-up with Renault and Carlos Ghosn has assumed CEO. Ghosn finalized the "Nissan Revival Plan". It aimed at (1) restoring profitability by 2000, (2) achieving more than 4.5 percent operating income margin by 2002, and (3) cutting the motor business interest-bearing debt to less than 700 billion yen by 2002.

Under the plan, Nissan was willing to sell land and buildings. In those days, the value of their CRE totalled 1.5 trillion yen. At first, Nissan abolished the subsidiary real estate company and consolidated the business reform promotion group, which was located in treasury department and had control over overall business reform and CRE planning. In 2000, world headquarters organization called Global Nissan (GNX) was established, and NISSAN CRE has responsibility for global assets as one of GNX functions. All real estate and facilities function for Nissan group in Japan has been consolidated into in-house asset management department. The part of execution works has been outsourced to specific service provider. Nissan targets to separate ownership from control of CRE management.

Moreover, Nissan made the database of information on real estate from FY 2003. The database includes domestic and international consolidated subsidiaries. CRE department can gain the information on all owned land and leased land of over 3 million yen annual rent, and access readily via intranet. The purpose is to carry out record management, simplification of approval process, and optimization of the cost for construction and facility management.

Nissan has conducted the organizational reform and introduced matrix texture. The CRE department has control over the foreign section as well as the domestic section and each section needs to receive CRE department's approval. GNX has played a central role from 2000.

Figure 3-1 shows Nissan's CRE sales volume from FY 1999 to FY 2007. The accumulated total is equivalent to 497.4 billion yen. In addition, Nissan paid off the debt with interest in mid-2000s. The proportion of the value of land to sale has improved drastically from 14.49 percent (2000 March) to 6.66 percent (2008 March). Likewise, the proportion of the value of land to total assets has improved drastically from 13.24 percent (2000 March) to 6.03 percent (2008 March).

Figure 3-2: CRE Sales Volume of Nissan

Source: Kokuryo (2008)

Through CRE management, Nissan aims at optimizing CRE from the position of overall organization or global scale. For this, CRE is recognized as the important business resource. The management is based on expertise on real estate, architecture, and finance, and is led adequately at the core of business. At the same time, the corporation needs to utilize outside human resources and skills effectively and efficiently. In particular, Nissan emphasizes on the coordination of financial indicators, such as return on invested capital, free cash flow, and general administration expense.

2) JAPAN POST

Japan Post (JP) used to be a fully government-owned in 1871 and started the postal service. Thereafter, JP worked around to savings and insurance and developed a big organization. In particular, JP purchases a huge amount of government bonds. The money from JP is utilized for public works. Since 2001, the prime minister at the time, Junichiro Koizumi had reformed JP positively. As a result, JP turned into a public company in 2003 and has been privatized as the holding company in 2007. Japan Post Group (Japan Post Holdings Co., Ltd.) consists of 4 sections: Japan Post Service, Japan Post Network, Japan Post Bank and Japan Post Insurance.

Because JP was a government organization, it owns a lot of real estate. Table 3-1 shows the book value of real estate on B/S in JP Group as of October 1 2008. JP holds post offices, logistics centres, distribution centres and business centres as main CRE. In addition, JP owns houses for employees, hotels, training facilities, hotels, hospitals, etc. some post offices are located in urban areas and are of considerable value. Recently JP has abolished some old post offices and developed the high-rise buildings, such as offices, commercial facilities, hotels, etc.

Table 3-1: Book Value of Real Estate on B/S in Japan Post Group (as of October 1 2008)

(In Billion of Yens)

Corporate Name	Land Price	Building Price	Total
Japan Post Holdings	95.8	48.3	144.1
Japan Post Service	634.2	744.1	1,378.3
Japan Post Network	609.7	402.3	1,012.0
Japan Post Bank	27.1	83.3	110.4
Japan Post Insurance.	40.7	38.0	78.8
Total	1,407.6	1,316.0	2,723.6

Source: Saito (2009)

The core business of JP includes post service, savings service, and insurance service. However, real estate business is on par with these services. The JP Annual Report (*Postal Services in Japan 2007.9*) states:

JAPAN POST NETWORK will engage in the real estate development business and rent, manage and sell its three central post offices as offices, commercial facilities and housing. It will also conduct the real estate leasing/management business, including operations of parking lots and shops for rent by effectively utilizing less or unused properties, as well as the mail-order business such as catalog sales.

JP has installed the CRE department in-house in order to succeed real estate business. CRE department is consisted of 3 sections: real estate planning section, real estate solution section, and facility management section. These sections have the responsibility of overall CRE management (planning, coordination, etc.)

JP aims at realizing the highest and best use of real estate, improving the business worth of the whole group and contributing to the community. The principles of CRE management at JP are as follows.

(1) JP complies with various laws and regulations, and carries out the practice based on the group agenda.
(2) JP coordinates at the profit maximization as a private enterprises and social contribution as a corporate citizen.
(3) JP understands the characteristics of each operational company, and promotes the value maximization of the whole group as a matter of priority
(4) JP emphasizes the efficiency and optimization of the whole group asset, through closer cooperation with finance strategy
(5) JP keeps pace with changes of external environment quickly and flexibly and pursues to realizing fundamental value of real estate
(6) JP attempts maximization usage of outside know-how and internal human resources development in order to search the best solution and provide continuous and stable service at the same time
(7) JP establishes the scheme that the profit is distributed to the whole group in order to conduct real estate business efficiently.

There is a reason why JP has created and showed the principles of CRE. This is because JP tries to mitigate severe criticism that JP has earned a lot of money by taking advantage of valuable CRE during its prosperous years as a government organization.

At first, CRE management at JP focuses on the improvement of Return on Asset (ROA). The ROA of JP is lower than that of the other express companies. Because the asset is too big, JP cannot utilize the asset effectively and efficiently. JP plans to sell surplus real estate and reduce the facilities cost.

It is pointed that JP holds many company housing for employees. Company housing constructed for employee's welfare. However, the costs such as maintenance, tax, depreciation, etc. bear a heavy burden to JP. JP considers abolishing or merging company housing. Concurrently, JP plans to take advantage of the potential of company housing. This is because a lot of housing company are located in urban areas[5].

Secondly, JP considers applying the balanced scorecard to CRE management. the balanced scorecard is defined to as ways of clarifying business vision and strategy and linking them to action plan. Through the balanced scorecard, JP conducts CRE management form four points of view (financial, customer, business processes, learning and growth).

3-2 Characteristics of CRE Management

The preceding section explains the representative examples of CRE management by Nissan and JP. Nissan and JP have begun CRE management because of financial crisis and privatization, respectively. In other times, they were not interested in CRE management at all. Thus, many Japanese corporations have started CRE management when confronted with serious incidents such as management difficulties, institutional reform and hostile M&A. In 2005, an investment fund had acquired a stake of about 40 percent in Hanshin Electric Railway Company, which was one of the largest railway companies in Japan. The purpose of the investment fund was to acquire its CRE. The reason is because the carrying value of CRE was much lower than the market value at Hanshin Electric Railway Company. that is, Hanshin Electric Railway Company had a lot of unrealized gain on CRE. If the investment fund acquired its CRE, enormous profit has been realized. However, Hanshin Electric Railway Company bought back the stocks from the investment fund at a higher price.

As of current, CRE management in Japan can be fallen into 3 principal strategies: (1) cost reduction (2) workplace strategy, (3) portfolio optimization.

1) Cost Reduction

Real estate cost is second only to payroll costs. Therefore, the reduction has a big impact on the business finance. For example, it is assumed that the operating profit ratio is 30 percent (that is operating cost ratio is 70 percent) and the proportion of CRE cost to the administrative and general expense is 20 percent in the operating cost. If this company reduce CRE cost by 10 percent, the operating income to sales rises of 1.4 percent (70 percent x 20 percent x 10 percent = 1.4 percent).

Generally, CRE cost is referred to as repair expense, renovation costs, administration cost, and tax and public dues at the time of possession or rent, insurance, common service fee, maintenance cost at the time of lease. The means for analyzing CRE cost include lifecycle costing analysis, facility cost analysis, internal rent, etc. In particular, some corporations owning CRE trend to consider owning cost as very low and downplay the impact, in comparison with lease. Internal rent analysis allowed them to familiarize the whole organization with cost-consciousness by showing the feasibility of each business.

Originally, many Japanese corporations are willing to save not only real estate cost, but also their total cost. However, CRE cost reduction is not carried out by the whole organization but by only specific departments. In short, many corporations do not have their own strategy about CRE reduction. In addition, their low levels take a major role, but their activities are seldom reported to the top management. Therefore, corporations need to discuss cost-effectiveness, avoidance of opportunity loss, risk management about CRE and develop CRE cost reduction strategy of the entire organization.

2) *Workplace Strategy*

The optimal location and environment of facilities such as headquarter, factories, offices, research institutes, stores, etc., allow employees to improve motivation and productivity. That is, workplace strategy is closely linked to human resource management. Therefore many corporations focus on workplace strategy and discuss the planning and management in detail.

Sony, the major consumer-electronics corporations, has relocated more than a dozen offices in Tokyo and consolidated into new premise recently. Through the new premise, communication between employees has improved. Therefore Sony has made large conversation lounge, introduced one-stop service centre and facilitated easy access to each floor, Fujifilm holdings has concentrated three headquarters operations of holdings company, Fujifilm corporation, and Fuji-Xerox into single building when reorganized into a holding company in 2007. Fujifilm holdings introduce common standard on office (universal layout, uniformity of furniture and equipment, etc.) and promote collaboration such as commoditizing reception, meeting rooms, cafeterias).

As in the examples just described, workplace strategy is essential for improving the corporate value. Corporations need to decide on the location and workplace environment based on employee motivation and space availability. Some corporations refer workplace strategy as cost reduction measure. However, managers need to construct the progressive strategy in the projects such as consolidation of headquarters operations and erection of new premises.

3) *Portfolio Optimization*

As indicated the examples of Nissan and JP, Corporations has started CRE management if they confronted to crisis. Then, many Japanese companies discuss head-count reduction and asset disposition (mainly CRE) and consider their own optimal asset or organizational size. Therefore, portfolio optimization has been carried out in order to the improvement of CRE function and value.

As a first, corporations need to evaluate whether the real estate is integrated into their corporate strategy, or not. In this case, CRE Portfolio Analysis is considered of value. At CRE Portfolio Analysis, managers evaluate every CRE from two points of view. The one thing is internal value and the other is asset utilization. The perspective of internal value is divided into 3 parts: “High”, “Middle” and “Low”, according to the importance. CRE for core business falls under high internal value section. On the other hand, managers classify CRE for non-core business as low internal value section and explore some of the alternatives. For example, high internal value section includes research institutes and core factories and low internal value section includes welfare facilities and housing for employees. The perspective of asset utilization is divided into “Effective”, “Low” and “Unutilized”.

Because each point of two perspectives divided into 3 parts, CRE Portfolio Analysis is composed of 9 segments. Figure 3-1 shows the outline drawing. Corporations discuss the characteristic of 9 segments and construct individual strategies of all segments. In the case of CRE whose the internal value is high and the usage is effective, managers decide on holding it and invest aggressively to heighten its corporate value, such as longer operating life, sustainability and higher performance. On the other hand, CRE, which is low internal value and unutilized, needs to be disposed as quickly as possible.

The other ways of portfolio management include sale & lease-back, securitization, consolidate, lease out and outsourcing.

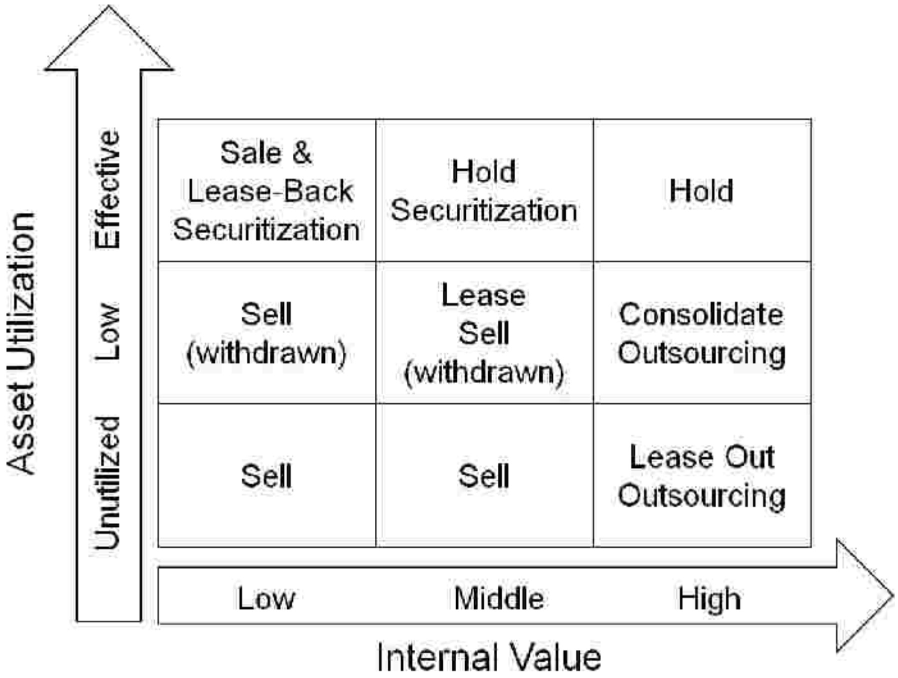

Figure 3-1: CRE Portfolio Analysis
Source: FM suishin renraku kyougikai (2003)

Conclusions

As in the sections above, principal CRE management in Japan includes three strategies: cost reduction, workplace strategy, and portfolio optimization. In addition to these, there are a variety of other strategies such as development of human resources, outsourcing, site selection and securitization.

However, it is pointed out that the 3 principal strategies are based on various approaches. In other words, cost reduction is based on property management, workplace strategy is based on facility management, and portfolio optimization is based on asset management. Lindholm et al. (2006) argue that the corporate real estate strategies are implemented through 3 approaches: asset management, property management, and facilities management. The characteristic of CRE management in Japan shares their point of view. However, the problem seems to lie in fact that these 3 principal strategies are not integrated into one. That is, the 3 strategies are separate from each other.

According to this separation, it is difficult for managers to understand the essence and existential reason for CRE management. As one of the solutions, further CRE management research is needed in order to construct the unified theory. CRE management is led mainly by the corporations and organizations such as CoreNet Global and CRE Management Promotion Consortium[6]. On the other hand, Japanese academic societies do not accumulate much study results on this field. Because the unified theory is difficult for managers to construct, academic researchers need to contribute to it.

Japan has announced a 25 percent reduction in CO_2 emissions. This goal causes the Japanese to make drastic changes in lifestyle and business environment. If corporations conduct CRE management positively, they can have a certain contribution to CO_2 emissions.

Konosuke Matsushita, the founder of Panasonic, stated the adage “A Company is a Public Entity of Society”. This adage means that since all those things necessary to a company - people, money, land, and goods - come from society, thus, the company itself is something entrusted to us by society and is actually of the society, and is, therefore, a public entity[7]. With that in mind, CRE management is essential for improving the society. Through it, corporations can develop and promote corporate social responsibility.

Notes:

[1] Stock land means land that the Company/Organization owns for the purpose of selling to any third party(ies). If a farm is for sale, it is classified as the stock land.
[2] The result of 2008 survey is quick estimation released on November 2009. Therefore, the information on size and asset amount has been not made up yet. The final result will be published by the end of 2010.
[3] The word "building sites, etc." means land owned for purposes other than sale to a third party; the present condition of which is classified in a category other than "Farm land", "Forest Land", etc.
[4] Among corporate-owned buildings, those for residence such as corporate-owned housing and those built outside of "building sites, etc." of the Corporations Survey on Land are not subjected to the Corporations Survey on Buildings. Furthermore, for buildings with total floor space of less than 200 m^2, only the number of buildings and the total floor space are inquired, and not included.
[5] There was a critic that real estate transactions by JP was not fair in 2009. In short, It is suspected that JP sold real estate such as hotel, company housing, etc. to specific companies at a low price. Therefore, Kunio Hatoyama, internal affairs minister (at the time) made JP freeze real estate transactions.
[6] CRE Management Promotion Consortium (CREC) was founded in 2007 in order to spread CRE management in Japan. As current, more than 20 corporations such as real estate companies, banks, think tank, etc. are affiliated with CREC.
[7] Source: http://panasonic.net/csr/one/phi/

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