

Financial reporting on corporate real estate: A study of the annual reports of non-investment companies listed on the New Zealand Stock Exchange (NZSE)

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Abstract

Corporate Real Estate (CRE) is a significant asset, which has been shown to add value to businesses if it is efficiently and effectively managed. Globalisation of capital markets, advancements in technology and the current economic condition have again increased the awareness of the importance of CRE's contribution. In order to be successful businesses need CRE to create and maintain their competitive edge in the marketplace.

Advancement in terms of Corporate Real Estate Asset Management (CREAM) and the positive attitude shift of executives towards corporate real estate (CRE) have been made possible through research into the contribution CRE makes to a business's bottom line.

The objective of this study is to describe the financial reporting practices of companies (excluding investment companies) listed on the New Zealand Stock Exchange (NZSE) in order to reveal the current attitudes of management towards CRE. The results showed that information chaos exists behind the façade of the Balance Sheet, revealing that management have a surface level attitude and lack a real focus towards CRE assets. In New Zealand and overseas there is minimal literature that this study could build upon. The methodology involved an exploratory study of the 2008 annual reports; the results formed a snap shot of the current reporting practices of CRE and revealed the current attitudes of management in entities towards CRE.

Introduction

Poor decision making has been blamed for business failures. The attitudes and knowledge of management in an organisation affect the decisions that are made and ultimately the survival of an organisation. Directors and management have a responsibility to make operational, investment and financial decisions that ensure the success of a business. Strategic utilisation and effective management of assets will enable executives to better meet their responsibilities.

CRE is a significant asset, which has been shown to add value to businesses if it is efficiently and effectively managed (Zeckhauser & Silverman, 1983). Globalisation of capital markets, advancements in technology and the current economic conditions have increased the awareness of the importance of CRE's contribution to the business. In order to be successful organisations need CRE to create and maintain their competitive edge in the marketplace.

Management attitudes towards resources will change depending on the pressures they are experiencing. During tough economic times management will focus on tightening the budget for the business. The sale and leaseback options, which emerged in the 1960's, provide a financial solution for many non-investment businesses to free up the balance sheet (Jefferies et al., 1990). Other ways of utilising resources (partial leasing) or cutting back on resources (divestiture) have also provided reprieve in economic conditions, characterised by limited credit availability.

Studies have shown that the effect of operating, financing and investing decisions can be seen in the financial statements (Stickney, Brown, & Wahlan, 2007). As businesses weather difficult economic conditions, how CRE is reported in the annual reports can reveal the attitudes of executives towards CRE.

The performance of CRE is a persuasive tool. The better the evidence that supports the real estate strategy (based on accounting principles and management insight), the more likely that the Chief Executive Officer and the Chief Financial Officer can be persuaded to use real estate as a corporate asset to help the business to succeed.

The review examines literature that explores how the annual reports, specific to non-investment publicly listed companies (PLC's), account for CRE assets and what this reveals about the attitudes of decision makers towards CRE.

Recent studies have been examined through a thematic approach. To assist in reviewing the literature, the following three questions were formed:

- (1) How have attitudes been measured in relation to CRE?
- (2) Why is accounting information a useful tool?
- (3) What are the financial reporting practices and issues for publicly listed companies (PLC's) in New Zealand?

Literature Review

Since the early 1980's most CRE research has focused on entities in Europe (UK predominantly) and North America (USA predominantly), with some studies focusing on entities in Australia, New Zealand and Singapore (Kenley et al., 2000).

The contribution these studies have made include the areas of: CREAM practices to provide value, IT, benchmarking performance and outsourcing, attitudes to CREAM, metric tools, the value of CRE, a meta-model for CREAM, workplace needs, the flexibility of service providers to meet corporate requirements, and corporate investment and ownership.

The traditional methodologies primarily used to collect data on CRE have been surveys (mail, email, web-based) and one-on-one interviews with people directly responsible for the management of CRE. More recently, time series analysis of data collected has been made possible, through identical or similar questions in multiple surveys and interviews, enabling researchers to determine emerging CREAM trends and patterns in different countries (Bon, Gibson, & Luck, 2003; Liow & Ingrid, 2008; McDonagh, 2008).

How have attitudes been measured in relation to CRE?

During the late 1980's businesses failed. The tough economic conditions increased the need for organisations to have credit to maintain business cash flows, which proved to be difficult as property values were falling resulting in reduced asset values (Weatherhead, 1997).

Evaluation of the attitude of the key decision makers in a business towards the organisations CRE assets has traditionally been researched by scholars through surveys and interviews (Gale & Case, 1989; Hurtt, 1988; Kenley et al., 2000; Teoh, 1992; Veale, 1989; Zeckhauser & Silverman, 1983).

The contribution CRE made to a business was a driving force in early research. Founding US studies by Zeckhauser and Silverman (1983) showed that CRE at market value, ranged between 25% and 41% of an organisation's net worth. Veale (1989) found that for US corporations property occupancy costs ranged from 10% to 20% of operating expenses (or 41% to 50% of net operating income). UK studies by Avis, Gibson, & Watts (1989) and Currie & Scott (1991) both found that CRE ranged from 30% to 40% of total assets. Johnson & Keasler (1993) found that based on historic cost data, sourced from corporate balance sheets that CRE represented 19% of total assets. A later study by Nelson, Potter, & Wilde (1999) found that based on an inflation adjusted historic cost CRE represented 40% of total assets.

The early US studies took into consideration the effect of management attitudes on whether or not CRE assets were being managed. Based on the findings in the Zeckhauser and Silverman (1983) study, a challenge was issued to directors and senior management to change their attitudes and start managing their real estate for profit (and not look at it merely as a necessary overhead cost) also to know the fair market value of this significant asset and utilise real estate information to aid their understanding. "If a company does not exploit its real estate, these assets will almost certainly exploit the company" (Zeckhauser & Silverman, 1983, pg. 111).

Studies towards the end of the 1980's supported these founding studies and revealed that management had an ambivalent attitude towards CRE (Gale & Case, 1989; Pittman & Parker, 1989; Veale, 1989). These studies showed that management's attitude affected the role of CRE within organisations and both the performance and lack of CREAM.

Two of these studies (Gale & Case, 1989; Pittman & Parker, 1989) identified similar determinants of the performance of CREAM, which were used as proxies to measure the level of CREAM performance in an organisation. The results showed a positive relationship between CREAM performance and chief executive attitudes. The study by Gale & Case (1989) found that many corporate executives believed that their business 'was not in the real estate business' and 90% of the executives felt that there was no need to manage CRE as it was deemed an accounting exercise; the cost of acquiring real estate used in operations was a cost of production that the businesses accountants capitalised in the Balance Sheet, less depreciation. Less than half the executives interviewed saw CRE as a potential source of profit or cash flow.

Further studies by Apgar (1993) and Noha (1993) measured attitudes towards CREAM performance by using direct objective benchmarks: for example, per employee information (the total occupancy cost or space use), per square metre information (occupancy cost), physical determinants (location, space quality) and weighted average lease term. The limitation of this methodology, due to the sector specific nature of these measures (consistency of data collection and comparison of results) was highlighted in McDonagh's thesis (2001).

A more recent survey of the people directly responsible for the management of CRE in Australian organisations was reported by Kenley et al. (2000). This study found that there had been a major shift in management's attitude towards CRE. The Chief Real Estate Officers (CREO) and other real estate (or facility) managers in the Australian organisation surveyed, no longer viewed CRE as a passive cost of production but believed that "CRE can impact significantly on the ability of a business to deliver its business aims" (Kenley et al., 2000, pg. 8).

CRE can create revenue, reduce costs, mitigate risk, build up corporate image, and also create more value for a business if it is strategically utilised and well managed (Kenley et al., 2000).

Why is accounting information a useful tool?

Management deploy information as a tool. "With the best information a business can produce useful documents and a game plan to achieve success" (R. K. Brown, Lapides, & Rondeau, 1994, pg 50). The best sources of information are the policies, the business plan, the operating plans, and any historical data, which include the company's financial statements.

Businesses have an accounting obligation to keep certain groups informed about the prospects, performance and condition of their business. The need for improved accountability globally has been an ongoing issue since the 1960's when the lines began to blur between the national boundaries of capital markets. A study on the 1999 annual reports of New Zealand electricity companies highlighted the issue of inadequate disclosure, with one of the key areas being asset valuation details based on a devised disclosure index (Hooks, Coy, & Davey, 2001).

The objective of the recently introduced (circa 2001) International Financial Reporting Standards (IFRS), was to encourage uniformity and a higher level of disclosure, enabling countries to share a common global accounting language and users of financial reports to benefit from comparable reports. Many countries have adopted standards equivalent to IFRS to meet their national markets needs.

Evaluation of annual reports previously have traditionally focused on the contribution CRE makes to the value of a business through analysing benchmarks from corporate and PLC's financial information, including the financial statements and market values (Dixon, Pottinger, Marston, & Beard, 2000; Gale & Case, 1989; Johnson & Keasler, 1993; Laposa & Charlton, 2001; Louargand, 1999; Nelson et al., 1999; Rodriguez & Sirmans, 1996)

Gale & Case (1989) highlighted that if CRE is managed well it can be a source of funds through divestiture with possible replacement buying or sale and leaseback. This study also showed that CRE can impact on profits, share prices, price-earning ratios, and dividend payout.

Research of annual reports has further contributed to knowledge in terms of the levels of owner-occupied property holdings of various companies in European countries, US and Australia (Kenley et al., 2000; Laposa & Charlton, 2001). The study of Australian organisations (Kenley et al., 2000) found that the proportion of owner-occupied property was higher than in the US and European countries. The study by Laposa & Charlton (2001) revealed that European corporates also prefer to hold owner-occupied properties.

More recently annual reports became an information tool for researchers evaluating management's attitudes towards key issues. The study by Zainol, Nair, & Kaspillai (2008) into the reporting practices of PLC's in Malaysia highlighted the level of research & development activities (important as a means of increasing the potential value creation abilities of firms). The research by De Silva (2008) of the annual reports of New Zealand and Australia PLC's from 2002 and 2003 highlighted reporting on sustainability. The reports were examined to reveal the reason why companies report environmental information, how they report it and what they report. No literature has been identified to date, which has evaluated what the annual reports of PLC's reveal about the attitudes of management towards the use and management of CRE.

What are the financial reporting practices of Publicly Listed Companies (PLC) in New Zealand?

The purpose of the Annual Report for a publicly listed company (PLC) in New Zealand is to "present a true and fair view of the financial position, financial performance and cash flows of an entity" (Deegan & Samkin, 2006, pg. 217) for a particular accounting period.

The three principal annual financial statements PLC's provide are the Balance Sheet, the Income Statement, and the Statement of Cash Flows. Many companies also prepare a fourth report, the Statement of Shareholders Equity (also known as the Statement of Retained Earnings), which provides further detail of the shareholders' equity section of the Balance Sheet (Stickney et al., 2007, pg. 14). If a business has RE used in operations they are required to record this in the Property, Plant & Equipment (PP&E) section of the Balance Sheet in accordance with the New Zealand Equivalent International Accounting Standards. The assets are reported at cost or at a revaluation amount less the accumulated depreciation (Alfredson et al., 2007).

How management decides to account for the business's PP&E can provide clues as to their attitude towards CRE. Management has four choices in accounting for PP&E: what classes PP&E will be divided into, how an asset/group of assets is valued, what method of depreciation is used and over what useful life the asset will be depreciated.

Classes PP&E

In the operations of an entity the non-current assets are grouped according to their similar nature or function (Alfredson et al., 2007), which are then reported as classes in notes to the financial statements under PP&E.

PP&E consist of physical assets, which tend to be traded in a market, for example machinery, land or land and buildings. Having identified an asset as an item of PP&E (the outlay is capitalised as an asset) the entity wants to recognise the expected benefits as they are consumed by the entity, hence various components of buildings can have various useful lives (for example the buildings structure typically has an estimated useful life of 50 years, whereas the building fit out may only be allocated an estimated useful life of 10 years).

Cost v Revaluation

The NZ IAS 16 standard (Accounting for Property, Plant and Equipment) does not require the annual revaluation of items of property, plant and equipment, but does encourage the adoption of a system involving annual revaluation, especially of land and buildings, in order to provide more relevant information to users (Alfredson et al., 2007).

The revaluation of non-current assets after initial recognition is a major discussion point worldwide. The option to report non-current assets at a revalued amount or at historic cost has been the focus of a number of studies (P. Brown, Izan, & Loh, 1992; Deegan & Samkin, 2006; Goodwin & Trotman, 1996; Louargand, 1999; Whittred & Chan, 1992). The choice of using the cost model or the revaluation model to account for an asset after initial recognition has various effects and researchers have studied both the effects and the motivations.

The first and main deterrent for managers not to change to the revaluation model was found to be the costs involved (Alfredson et al., 2007; P. Brown et al., 1992; Kenley et al., 2000). The perceived costs included: valuers fee, directors time spent reviewing figures and in discussion with auditors, record keeping and additional reviews by auditors. A second deterrent was the room for error in determining the fair value of the asset (Alfredson et al., 2007; Goodwin & Trotman, 1996). Managers thought the fair value would be less reliable because valuing an asset relied on subjective judgments. A third deterrent was that revaluation can make an organisation more visible in terms of the reported asset size (Whittred & Chan, 1992). Management contracts in place was also a fourth deterrent to change to the revaluation model (Deegan & Samkin, 2006), which may include management bonuses based on profit and interest coverage clauses. Kenley et al. (2000) found that businesses still have not embraced the revaluation model option, mainly due to cost being a key disincentive.

The motivational factors for management to revalue PP&E varied. The first incentive to show assets at current value is a perceived real expected benefit associated with revaluation (P. Brown et al., 1992). The second incentive is to avoid takeovers by not undervaluing CRE assets in the financial statements (Deegan & Samkin, 2006). A third incentive was loosening restrictive debt covenants through upward revaluation (P. Brown et al., 1992), as it was found that the higher the debt-to-tangible assets ratio the more likely it is that a firm will revalue its assets. By revaluing its assets a business can increase its debt capacity (potential for higher leverage, especially in a bull market or choose to reduce leveraging in a bear market). The fourth incentive for large firms was a reduction in profit (P. Brown et al., 1992; Whittred & Chan, 1992), to avoid scrutiny by regulators (tax authorities). The fifth incentive

was to strengthen the balance sheet prior to a proposed issue of shares to the public (Goodwin & Trotman, 1996).

Depreciation Method and Useful Life

Most businesses depreciate their real estate assets using the straight line method because the benefits are expected to be received evenly over the useful life of the asset (Alfredson et al., 2007). For each asset the costs or revalued amount is allocated over its useful life, which is “the period over which an asset is expected to be available for use by an entity” (Alfredson et al., 2007, pg. 1211). In the Balance Sheet at the end of the reporting period, the assets are reported at cost or the revaluation amount less the accumulated depreciation.

Depreciation is about conserving the capital not about an asset losing its value (Weatherhead, 1997). “Significant operating costs (41% to 50% of net operating income) are associated with maintaining these assets...second only to payroll in costs in most organisations” (Veale, 1989, pg. 1). So if a business is maintaining the assets used in operations, holding a sum back through depreciation (income statement) is important.

Depreciation includes physical depreciation and economic obsolescence. Even if a building is in good condition (due to work done on it) it can still suffer from obsolescence if it no longer meets current needs. The accounting policy that an entity must adopt depreciation is specified in the NZ IAS 16, although this standard “does not specify the use of any specific method of depreciation. The method chosen by an entity should be based on which method most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset” (Alfredson et al., 2007, pg. 396).

Weatherhead found (1997) that businesses traditionally argued that depreciation was immaterial if they were spending a lot on maintaining their CRE. Attitudes were found to be changing in regard to the role depreciation charges played (conserving the capital) due to the impairment in CRE values as a result of the affect obsolescence has on CRE.

Using the aforementioned literature as a basis, this study will attempt to validate the following proposition: Reporting practices of PLC’s reveal management’s attitude towards CRE.

Method

The first stage of the research involved reviewing relevant literature to gather information regarding the current theory and practice for accounting for CRE and the attitudes of management. The second stage of the research involved collecting data from the annual reports for the year ended 31 March 2008, of non-investment companies listed on the NZSE. A total of 68 annual reports of PLC’s were utilised in the study. The third stage of the research involved analysing the data using exploratory research methods to see how CRE was treated in the annual reports and draw conclusions as to what this may reveal about management’s attitudes towards CRE.

Results & Discussion

Figure 1 illustrates the various industry sectors that were represented in the population of non-investment Publicly Listed Companies (PLC’s) on the New Zealand Stock Exchange (NZSE). The top 5 sectors represented were as follows: 22% of the companies were from the “Consumer” sector, 13% of the companies were from the “Intermediate & Durables” sector, 10% of the companies were from the “Finance & Other Services” sector, 10% of the

companies were from the “Overseas” sector and 8.8% of the companies were from the “Energy” sector.

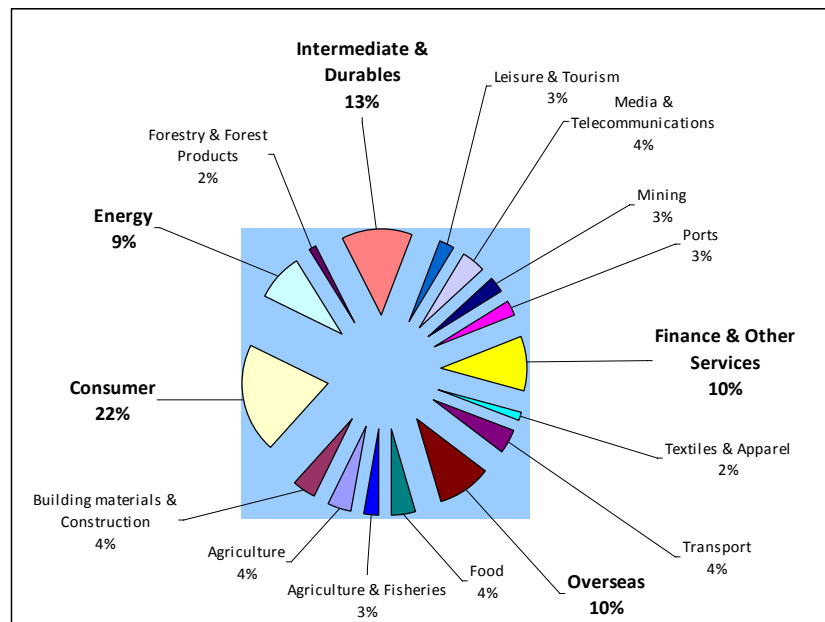


Figure 1. Industry Sectors (NZSE)

The New Zealand International Accounting Standard 16 (NZ IAS 16) prescribes the accounting treatment for Property, Plant and Equipment (PP&E) to meet the International Accounting Standards (IAS's) objective of enabling users to “discern information about an entity’s investment in its PP&E and changes in such investments” (New Zealand Equivalent to the International Accounting Standards, pg. 7).

The Financial Statements (2008 Annual Reports) for the population of PLC’s (non-investment) on the NZSE present a uniform approach for the treatment of Property, Plant and Equipment which is recorded as an item in the Balance Sheet under the heading Non-Current Assets (or Fixed Assets).

Beyond the Financial Statements there is information chaos, which limits the benefits users could expect from comparable reports. Under the Property, Plant and Equipment headings in the accompanying ‘Summary of Significant Accounting Policies’ and ‘Notes to the Financial Statements’ CRE assets are treated in various ways including: classifications, subsequent recognition methods utilised (cost or revaluation), estimated useful economic lives, depreciation method and depreciation rate.

Classes PP&E

In terms of classifying PP&E items, CRE assets are grouped typically according to the similar nature and use of those assets in an entity’s operations. Examples of separate classes that encompass CRE assets of PP&E are provided in the NZ IAS 16 (section 37): (a) land, and (b) land and buildings.

As illustrated in Table 1, there were 40 separate classes overall that the management of various PLC’s have used in reporting CRE assets (found in both the ‘Summary of Significant Accounting Policies’ and in the ‘Notes to the Financial Statements’ reported under Property, Plant & Equipment).

Table 1. Classes of PP&E that relate to CRE Assets

<i>Type</i>	<i>Classification</i>
1	<i>Land</i>
2	Land & Civil Works
3	Land and Site Improvements
4	Land and Improvements
5	Land and Leasehold Improvements
6	Freehold Land
7	Freehold Land and Improvements
8	Freehold Land and Land Improvements
9	Other Freehold Land
10	Distribution Land
11	<i>Buildings</i>
12	Freehold Buildings
13	Leasehold Buildings
14	Buildings and Leasehold Improvements
15	Buildings (including Leasehold Improvements)
16	Buildings (Structures)
17	Buildings (Fit Out and Other)
18	Buildings and Jetties
19	Other Freehold Buildings
20	Distribution Buildings
21	Generation Power Station
22	Harbour Improvements
23	Wharves and Hard Standing
24	<i>Land & Buildings</i>
25	Land & Buildings and Leasehold Improvements
26	Freehold Properties
27	Premises and Sites
28	Farm Land and Buildings and Improvements
29	Freehold and Leasehold Land and Buildings
30	Other Land and Buildings
31	<i>Leasehold Properties</i>
32	<i>Leasehold Improvements</i>
33	Communication Assets (including Leasehold Improvements)
34	Operating Lease Assets
35	Generation Plant (includes Land and Buildings)
36	Generation Assets
37	Finance Lease Assets
38	Capitalised Vineyard Lease Payments
39	Leased Assets
40	Distribution Systems
41	No Separate Class for CRE

These results highlight management's lack of consistency in naming separate classes and also suggest that management are confused as to whether or not to separate out freehold and leasehold CRE assets. Hence users of this information could be limited in making useful comparisons in analysing an entity's investment in its PP&E.

Due to a lack of discernable uniformity the results reveal that management appear to either have an ambivalent attitude towards CRE assets or they do not know what to do with CRE in the accounts. The results suggest that management have taken the easy road to classifying the company's CRE assets using the depreciation treatment (which also lacks uniformity) of PP&E to determine the separate classes arrived at.

Cost v Revaluation

CRE assets are recognised under PP&E initially at cost, and then a company has the choice of either subsequently accounting for each class of PP&E at either historic cost or at a revalued amount, less accumulated depreciation.

Table 2 illustrates that 67.7% of the companies account for the business's CRE assets using the cost model, 27.9% account for CRE assets using the revaluation model. 2.9% account for CRE assets using both models and 1.5% do not account for CRE assets using either model (as they hold no CRE assets).

Table 2. Asset value measurement of CRE Assets (Revalue and/or at cost)

<i>Method</i>	<i>Frequency</i>	<i>Percentage of Total</i>
Revalued	19	27.9%
At Cost	46	67.7%
Revalued and At Cost	2	2.9%
Not Applicable (no CRE assets)	1	1.5%
TOTAL	68	100%

The preference to use the cost model to measure the value of the business's real estate assets reveals that management does not feel there are any perceived benefits both to the business and to the users of the accounts, of adopting the revaluation model. This result supports Kenley et al.s (2000) findings that management have not yet embraced the revaluation model.

The results suggest that the motivational factors for management to revalue are not strong and that the deterrents for management to revalue dominate. Motivational factors to revalue include: avoiding takeovers (by not undervaluing CRE assets), loosening restrictive debt covenants (through upward revaluation), increasing debt capacity, reducing profit to avoid scrutiny (by regulators e.g. tax authorities and take over opportunists), strengthening the balance sheet (prior to a proposed issue of shares to the public). Deterrents to revalue include: the perceived costs involved (identified as the key deterrent), the room for error in determining the fair value of the asset (less reliable because valuing an asset relied on subjective judgments), an organisation can be more visible in terms of the reported asset size, the return on assets look better, and management contracts in place (bonuses based on profit and interest coverage clauses).

Depreciation Method

An appropriate depreciation method is used by management to arrive at a depreciation amount that is allocated over the useful life of that asset. The method selected is deemed by management to reflect the pattern of expected consumption of the future economic benefits for the specific asset class.

As illustrated in Figure 2, 66 of the companies (97.0%) depreciated corporate real estate using the straight line method, 1 of the companies (1.5%) depreciated corporate real estate using Diminishing Value method and 1 of the companies (1.5%) depreciated their CRE using

both methods. These results support the research (Weatherhead, 2007) that the straight line method is the preferred method of depreciation.

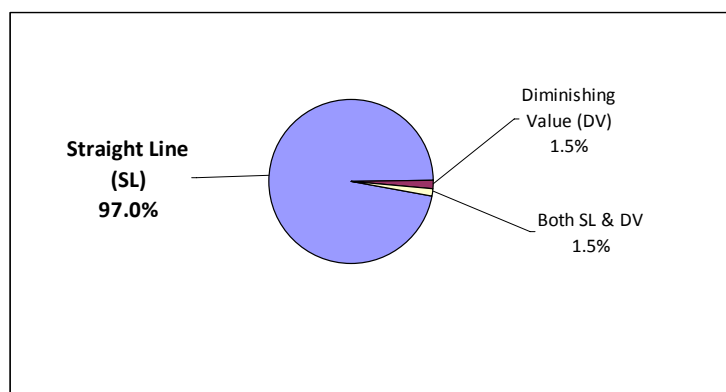


Figure 2. Method of Depreciation (Straight Line or Diminishing Value)

Useful Life

The period of depreciation is determined by the estimated useful life of the asset, which takes into account the estimated: usage, wear and tear, obsolescence (commercial or technical) and legal limitations of the asset.

Table 3. Estimated Useful Life (Buildings)

Type	Expected Useful Life	Frequency	Percentage of Total
1	18 Years	1	1.5
2	20 Years	1	1.5
3	30 Years	1	1.5
4	33 Years	2	2.9
5	40 Years	2	2.9
6	50 Years	10	14.7
7	55 Years	1	1.5
8	67 Years	1	1.5
9	Up to 50 Years	1	1.5
10	Up to 67 Years	1	1.5
11	5 to 75 Years	1	1.5
12	5 to 80 Years	1	1.5
13	8 to 55 Years	1	1.5
14	10 to 40 Years	1	1.5
15	10 to 50 Years	1	1.5
16	10 to 100 Years	1	1.5
17	13 to 100 Years	1	1.5
18	15 to 50 Years	3	4.4
19	20 to 40 Years	1	1.5
20	20 to 50 Years	2	2.9
21	25 to 50 Years	2	2.9
22	33 to 100 Years	1	1.5
23	40 to 50 Years	1	1.5
24	40 to 100 Years	2	2.9
25	50 to 100 Years	2	2.9
26	Not Stated	26	38.2
	Total	68	100.0

Table 3 (page 11), illustrates that that for buildings 23 companies (33.8%) stated useful life as a range of years , 19 companies (27.9%) stated useful life as a defined number of years

and 26 companies (38.2%) did not state a useful life (typically companies with only leasehold improvements in certain sectors including: Consumer, Finance & Other Services).

The lack of consistency in these results reveals that management is unsure about the pattern of consumption of the economic benefits of CRE assets to the company. The predominance of 50 years both in terms of a defined number of years and within the range of years stated, suggests that management chose to take the easy road and have referred to the 'General Depreciation Rates' (issued by the Inland Revenue Department).

Businesses tend to build/buy to hold CRE for long durations (eg typically EUL is 50-59 years). This suggests that management expect to use CRE assets until the end of their physical life (structural Building Code is 50 year requirement minimum) and they do not focus as much on the economic obsolescence of the CRE assets.

Table 4. Expected Useful Life (Leasehold Improvements)

Type	Expected Useful Life	Frequency	Percentage of Total
1	Up to 10 Years	1	1.5
2	1 to 10 Years	1	1.5
3	2 to 8 Years	1	1.5
4	2 to 10 Years	1	1.5
5	2 to 15 Years	1	1.5
6	3 to 10 Years	2	2.9
7	4 to 14 Years	1	1.5
8	5 to 20 Years	1	1.5
9	5 to 50 Years	1	1.5
10	6 to 7 Years	1	1.5
11	6 to 10 Years	1	1.5
12	10 to 20 Years	1	1.5
13	10 to 40 Years	1	1.5
14	18 Years	1	1.5
15	20 Years	1	1.5
16	5 years or the Lease Term (whichever is the shorter)	1	1.5
17	Over the Life of the Lease	4	5.9
18	Useful Life or the Lease Term (whichever is the shorter)	7	10.3
19	Not Stated	40	58.8
	Total	68	100.0

Table 4, illustrates that for leasehold improvements, 16 companies (20.6%) stated useful life as a range of years, only 2 companies (3.0%) stated useful life as a defined number of years, 12 companies (17.6%) stated over the life of the Lease (or useful life which ever was shorter) and 40 companies (58.8%) did not state a useful life.

The results suggest that management predominantly expect buildings to have a longer useful life and the leasehold improvements to have a shorter useful life. Companies that use a range to state the useful life for an asset class possible reveal a mix of CRE assets (new to existing older building stock) or laziness on the part of management.

Most companies preferred to state an estimated useful life for each class of asset. If the useful life was not stated then a depreciation rate was provided with reference to the (non-stated) useful life. Table 5, illustrates that the depreciation rate for buildings ranged from 1% to 33%.

Table 5. Depreciation Rate (Buildings)

<i>Type</i>	<i>Depreciation Rate</i>	<i>Frequency</i>	<i>Percentage of Total</i>
1	1%	2	2.9
2	2%	2	2.9
3	3%	2	2.9
4	1% to 2.5%	1	1.5
5	1% to 33%	1	1.5
6	2% to 3%	1	1.5
7	2% to 5%	1	1.5
8	2.5% to 18%	1	1.5
9	4% to 14%	1	1.5
10	Not Stated	56	82.4
	Total	68	100.0

Table 6, illustrates that the depreciation rate ranges between 1% and 50% for leasehold improvements. The 'General Depreciation Rates' (issued by the Inland Revenue Department) advocates a depreciation rate of 2% for building structures which was only encompassed by 6 companies out of the 12 companies that stated a depreciation rate for buildings.

Table 6. Depreciation Rate (Leasehold Improvements)

<i>Type</i>	<i>Depreciation Rate</i>	<i>Frequency</i>	<i>Percentage of Total</i>
1	6.15% to 18.6%	1	1.5
2	12.5% to 50.0%	1	1.5
3	10% or Life of the Lease (whichever is shorter)	1	1.5
4	Not Stated	65	95.6
	Total	68	100.0

Conclusion

Previous studies have considered the effect of senior management attitudes in terms of whether or not CRE assets were being managed and also the level of performance of CREAM. Zeckhauser and Silverman (1983) issued the challenge to management to change their attitudes towards CRE assets and exploit them and Kenley et al. (2000) found a shift in management's attitude with many believing that in terms of delivering the company's business aims, that CRE could have a significant impact.

This study explored the financial reporting practices of CRE assets by non-investment companies listed on the New Zealand Stock Exchange (NZSE) to reveal the attitudes of decision makers towards CRE assets.

The results showed that information chaos exists behind the façade of the Balance Sheet, revealing that management have a surface level attitude and lack a real focus towards CRE assets. The key findings of this study are: that real estate assets used in operations are accounted for under Property, Plant and Equipment and that they are classified into 40 classes (the main CRE classes include land, land and buildings, and leasehold improvements); that 67.7% of PLC's use the cost model when measuring CRE; that almost all PLC's prefer to use the straight line method to depreciate CRE assets; that the useful life for buildings selected by management range from 5 to 100 years.

Despite the desired IFRS objectives, to improve the information available in the annual report of New Zealand PLC's to users, this has not been achieved in the 2008 Annual Reports. Management have not embraced the call for uniformity revealing an ambivalent attitude of management towards CRE.

These results lead to further research questions and further research projects. Subsequent studies should seek to document a connection between the financial reporting practices of CRE assets by non-investment companies listed on the NZSE and the reason why management prepare and report in this chaotic manner. Methods to help test reasons could include surveying or interviewing management who are responsible for the preparation and presentation of the annual reports. Further studies could include yearly exploratory evaluations of the non-investment PLC's annual reports, which could provide trends and patterns of the reporting practices of CRE and possibly reveal any changes or similarities in management's attitudes towards CRE.

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