

**CORPORATE REAL ESTATE PRACTICES OF  
A DIVERSIFIED CONGLOMERATE:  
A CASE STUDY ON THE UEM GROUP**

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**ABSTRACT**

*This paper aims to examine the applications of corporate real estate (CRE) approaches and current real estate management practices of UEM Group, a diversified conglomerate listed on Bursa Malaysia. The CRE approaches and elements are evaluated using the Nourse & Roulac framework (Nourse and Roulac, 1993).*

*A deductive approach is used in this study. Survey questionnaires are completed by top management of various companies in the Group to examine the applications of the CRE management framework. The findings of this study indicate there are some elements of CRE practices in the UEM Group but there is a lack of systematic and comprehensive approach to CRE management of its CRE portfolio. Some deficiencies are also identified in the current real estate management practices among the UEM Group companies.*

*Recommendations are provided to address the inadequacies and issues of CRE management faced by the UEM Group.*

Keywords: corporate real estate, practices, conglomerate, Nourse and Roulac framework

## 1.0 INTRODUCTION

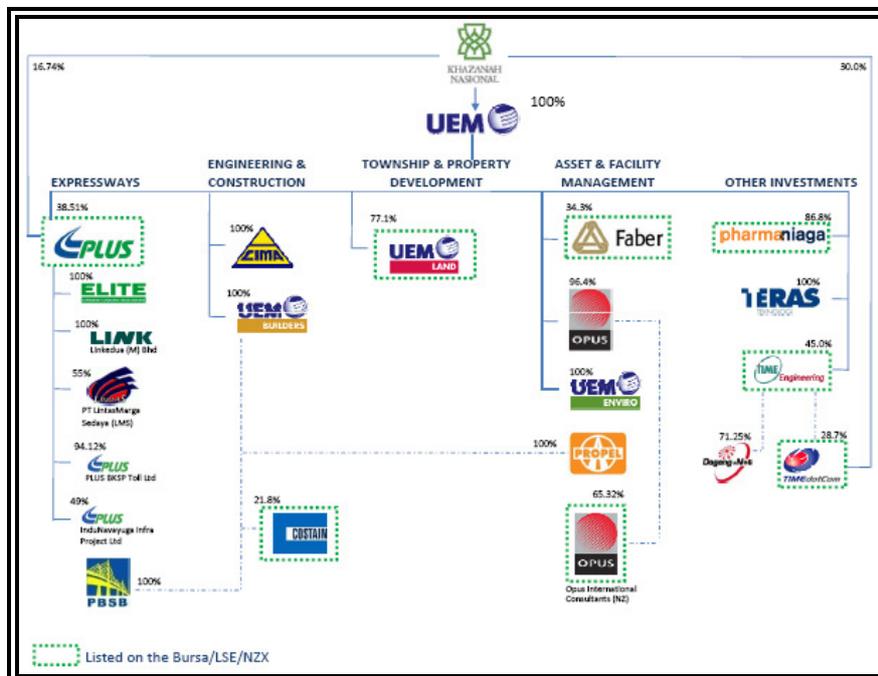
Corporate real estate (CRE) is an enterprise resource in the strategic management context. CRE can be categorised into three groups of resources i.e. commodity, operational and strategic resources. The impact of CRE on a firm can be examined from the following perspectives (Park and Glascock, 2010):

- (a) Impact of CRE management on firm performance
- (b) Impact of CRE organisational form on firm performance
- (c) Impact of CRE ownership level on firm performance.

A study by Zaiton, McGreal, Adair and Webb (2008a) showed that 76% of Malaysian companies had CRE strategies following the Nourse & Roulac framework (Nourse and Roulac, 1993) particularly the manufacturing (59%) and retail services (41%) sectors. Thus there has been an encouraging trend of companies adopting CRE practices. A study by Ting (2005) of the corporate sector indicated that the corporate real estate wealth in public listed companies contributes up to 36 % of the entire Bursa Malaysia stock market capitalization translating to approximately RM216 billion.

## 2.0 BACKGROUND TO UEM GROUP

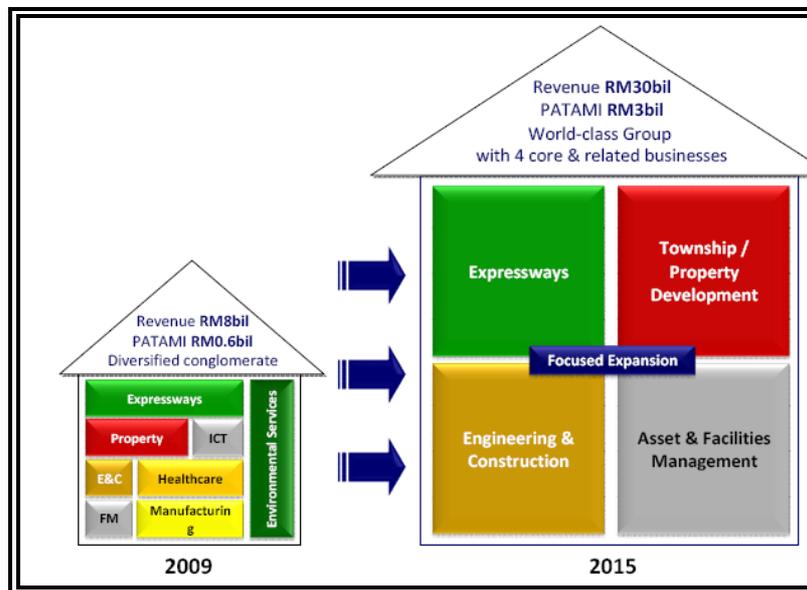
The UEM Group was established in 1966 and in recent years has positioned itself as the *Preferred Nation Building Partner* in Malaysia. It is a wholly owned subsidiary of Khazanah Nasional Bhd, the Malaysian Government's investment arm. The UEM Group's conglomerate corporate structure comprises eight listed companies and a host of related companies synergistically involved in four core business areas as shown in Figure 1.



Source: Sulaiman (2010)

Figure 1 : UEM Group Corporate Structure

In the financial year of 2009, the UEM Group (from its current diversified conglomerate) had generated a revenue of RM 8.0 Billion with a Profit after Tax and Minority Interest (“PATAMI”) of RM 0.6 Billion. From this base, the UEM Group targets to further grow its revenue to RM30.0 Billion with a PATAMI of RM 3.0 Billion by year 2015 based on a streamlined conglomerate focussed on the four core business groups as depicted in Figure 2.



Source: Idris (2010)

Figure 2: UEM Group’s Business Streamlining and Growth Targets

With a diversified conglomerate nature, significant financial strength of the UEM Group coupled with its ambitious growth targets, there is a need for strategic management of its resources particularly its real estate resources to support its business goals. Hence, the need for strategic CRE management practices within the UEM Group business operations.

The respective subsidiaries of the UEM Group are located at various corporate offices (mostly in Kuala Lumpur), which adopts a similar generic corporate structure (to UEM Group’s investment holding nature) coupled with additional operational / projects management structures at its numerous operating sites.

The UEM Group has established its fourth core division i.e. the Asset & Facilities Management Division (“AFM”) which comprises of Opus International Group (“Opus”), Faber Group Bhd (“Faber”) and Propel Bhd (“Propel”) which focuses on asset and facility management of built environment and infrastructure assets, whilst UEM Environment Sdn Bhd focuses on industrial waste management. These companies are mainly service providers of FM and PM consultancy / contracting services to its clients. Based on a review of the respective service profiles of these companies, none of these companies currently provide any specific CRE management services.

The UEM Group which had been a diversified conglomerate is now streamlined into four core businesses. With its ambitious financial and business growth targets, it will clearly need to maximize its efficiency and competitiveness. This will include strategically managing its substantial real estate portfolio to support its business operations. Based on the review thus far, there are some elements of real estate management managed through a combination of respective

companies' Administrative, Finance and Corporate Planning Departments. However, there are currently no dedicated CRE management units / functions within any of the organizations structures.

Based on UEM Group's corporate structure, there is currently no dedicated CRE department that strategically manage its corporate real estate. However, there is a Property Department headed by a Manager under the Corporate Services Division which assumes a Property Management (PM) role in managing the real estate portfolio of UEM Group. As for most of the UEM Group operating subsidiaries, this Property Management role is generally managed by the Administration Department often under the Corporate Services Division (among the larger subsidiaries) or under the Human Resource and Administration Department (of the smaller subsidiaries).

### **3.0 RESEARCH OBJECTIVES**

The aim of this study is to examine the role of CRE in the strategic management of UEM Group's overall real estate assets. In addition, the research will develop a generic CRE framework that can be applied to the core businesses of the UEM Group and to be applied to the respective operating companies to be considered for adoption in their CRE management practice. The research objectives are as follows:

- Identify the applications of CRE approaches and/or current real estate management practices of the UEM Group
- Evaluate the application of the UEM Group's CRE approaches or elements based on the *Nourse & Roulac* framework
- Present a set of value add recommendations using CRE strategies to enhance the Group's value creation via its real estate
- Establish a pragmatic CRE framework to be adopted by the Group or individual operating subsidiaries

### **4.0 RESEARCH METHODOLOGY**

Data are collected using self-administered survey questionnaires. The survey group are targeted at the top to senior management positions involved at the strategic management level particularly those involved in the planning and decision-making of real estate matters from the CRE perspective. The samples are drawn from four core divisions including the UEMG Corporate Headquarters. The respondents are from the following five divisions / departments of each organisation:

- i. Managing Directors / Chief Executive Officer Office
- ii. Finance / Corporate Affairs Division
- iii. Projects / Operations Division
- iv. Human Resources / Administration Division
- v. Management Information Systems Division.

The self-administered survey questionnaire is structured into three parts as follows:

- Part A : Respondent's profile

Part B : Organizations Real Estate Portfolio

Part C : CRE features based on the eight strategies of the *Nourse & Roulac* Framework

Due to the relatively conceptual nature of the subject matter, additional literature will be provided to aid the respondents understanding and grasps of the CRE concepts accompanying the survey questionnaires.

## **5.0 RESULTS AND ANALYSIS**

### **5.1 CRE Management Roles**

This section analyses the CRE management roles in relation to the existing generic organization structure of UEMG companies.

#### **Real Estate Record Keeping**

67.9% of the real estate record keeping is maintained by Human Resource (“HR”) & Administration Department whilst 21.4% is maintained by Finance department. This finding is consistent with the current practice and Standard Operating Procedure (“SOP”) of administrating the company’s properties / leases and asset tagging of fixed assets by respective Administration Departments. The Finance Department also maintains the records of all its property asset listings and accounts for it in the balance sheets. A well maintained inventory record i.e. well organized, up to-date will assist the CRE manager in planning and controlling the day to day corporate real estate activities (Silverman, 1987).

#### **Identification of New Real Estate Investment Needs**

48.1% of respondents state that it’s the respective Projects/Operations Departments that identify its new real estate investment needs whilst 18.5% state that the Managing Director (“MD”)/Chief Executive Officer (“CEO”)/Chief Operating Office (“COO”) identifies such needs. This explains that in most cases the identification arises from an operational need basis and the end users of the property will identify their own real estate requirements that meet its operational specifications i.e. organizationally demand driven. In some cases, particularly from an investment perspective, the MD/CEO will initiate such strategic investment needs.

The idea by O’Mara (1999) that strategic CRE management needs an assessment of company’s competitive environment and its impact of real estate decisions on customers, suppliers, labour, competitors for the formulation and implementation of a real estate strategy points to the concept that it should be an organizationally demand driven decision.

#### **Real Estate Decisions – Own vs Lease**

Analysis shows that the decision to own or lease properties generally lies with the top management i.e. 85.19% of respondents state that MD/CEO/COO decides on such property matters. This result is consistent with the Discretionary Authority Limits (“DAL”) of UEMG that assigns such approving authority limits i.e. property investment decisions to the MD/CEO/COO. This finding is aligned with the principle of CRE management from a strategic perspective as such investments are viewed as strategic decisions requiring direction from the top management.

## **Managing Property / Facility Management Functions**

50.0% of respondents state that the property / facility management is currently managed by HR & Administration department whilst 25.0% is managed by their own respective Projects / Operations units. Another 21.43% of respondents state that the function is outsourced to external consultants.

This finding is based on the current practice of most UEMG companies that do not have a dedicated property / facility management unit and thus this function is handled by the HR & Administration departments especially at the corporate headquarters. As for the project / site offices away from the corporate headquarters, the respective Project / Operations units will usually manage its own property / facility management matters. There are also a few companies that have outsourced such functions to external property / facility management consultants, particularly corporate offices which are investment holding entities without a full operational set-up e.g. UEMG Corporate HQ

## **5.2 Analysis based on Nourse and Roulac Framework**

### **Minimizing Occupancy Costs**

Minimizing occupancy costs is considered by all divisions in most cases when selecting a work place, with 41.4% of respondents stating it as a *consideration* and 41.4% stating it as a *key consideration*. Only 13.8% of respondents stated that it was *considered occasionally*, specifically from the Engineering & Construction, Township & Property Development and UEMG Group Corporate Office which place more importance on other factors e.g. operational / construction site requirements, corporate image over occupancy costs.

According to O'Mara (1999), this minimizing cost mindset that became popular during the re-engineering and downsizing era of the late 80's and 90's appears to be prevalent among CRE managers with FM backgrounds. It makes line managers more aware of the impact of its property costs to its bottom line. However, the risks associated with preoccupation of this mindset in cost reduction is the risk of adversely affecting the company's long term competitiveness, as it inhibits a value-based perspective on real estate and its facilities.

However, as pointed out by Kulichova (2003), the objective of using real estate to maximize company's profitability by minimizing occupancy costs has since evolved to viewing CRE management as a value-add proposition. This view is premised that CRE does not operate in isolation to other fundamental functions of the company (such as human resources, finance, technology etc.) but is aligned to a broader corporate strategy.

### **Accommodating Flexibility**

The majority of respondents recognize the importance of Accommodating Flexibility in their real estate matters to be on the move to meet their changing business environment. The crosstab analysis shows that accommodating flexibility is widely practiced by all divisions when selecting a work place, with 31.0% of respondents stating it is *practiced sometimes* and 55.2% stating it as a *practiced always* e.g. the Engineering & Construction and Township & Property divisions' project / site offices would depend on their construction contract period, whilst UEMG Corporate Office and Expressways division would require flexibility particularly within the interior office premises to accommodate changing layouts with minimal renovation costs when the need arises for expansion etc.

Only 13.7% of respondents stated that it was *seldom practiced* or *not practiced* at all, mainly from the Asset & Facility Management division. A distinctive feature of this division is that it's a service oriented business which entails the operations to be housed at the clients premises e.g. Faber Mediserve which provides facility management services for 79 public hospitals under its government concession.

### **Promoting Human Resource Objectives**

Analysis shows that Promoting Human Resource Objectives is important to all divisions in most cases when selecting a work place, with 31.0% of respondents stating it as *important* and 62.1% stating it as *very important*. This shows that most of the top-senior management recognizes that work environment affects job satisfaction and productivity.

However, there is a small minority of 6.9% of respondents, specifically from the Engineering & Construction division that state that it is a *less important* consideration. This may be due to the situational aspect of the division which its workplace are at its construction sites which may not be able to cater to an ideal / conducive work environment due to its operational requirements coupled with the construction site constraints.

As researched by Zaiton *et al* (2008b), this strategy that provides for more space per employee and better amenities to support their needs such as proximity to health and leisure activities and easily accessible location will result in more motivated and committed employees, which will ultimately lead to higher productivity.

### **Promoting Marketing Message**

There is a mixed response among the respondents and respective divisions on the importance of Promoting the Marketing Message as a strategy when selecting a work place, with 37.9% of respondents stating it as *less important*, 34.5% stating it as *important* and 20.7% stating as a *very important* factor.

A closer examination shows that all divisions have almost an equal view between *less important* and *important* consideration. Generally, the respondents from the operational / project site offices had a *less important* rating than the respondents from the corporate headquarters which had an *important* rating. This is evident from the crosstab analysis where 75.0% of respondents from the UEMG Corporate Office had placed a *very important* rating to this strategy of having a business location in a prestigious and highly visible area where priority is given to identity and image of the corporation.

It was reported by Chandler (2008) that Electrolux is one of the many companies to recognise that a workplace can be an important tool in the company's branding initiatives. Its new office and its design and innovation centre had boosted the company's marketing campaign. The senior management realized the benefit of aligning property strategy to their business branding and marketing strategy through designing their headquarters as a place to bring their key customers to show off their innovative products.

### **Promoting Sales & Selling Process**

Promoting Sales & Selling Process is important to most divisions when selecting a work place, with 34.5% of respondents stating it as *important* and 51.7% stating it as *very important*. This shows that most of the top-senior management recognise the importance of this strategy in attracting customers.

A closer examination of the crosstab analysis shows that this strategy is much relevant to the Township & Property Development division with 60% of its respondents rating it as *very important*. This is very much so with its sales & marketing offices located within the vicinity of its property development sites, which includes its sales gallery, sales office and built-up show units.

However, it's noted that the 66.7% of respondents from Expressways division has placed a *less important* rating. This is concurrent with its nature of business where the customers are basically expressway users travelling along its expressway infrastructure network entering / exiting through dedicated toll plazas. Hence, its workplaces such as toll offices at the respective toll plazas are fixated to the infrastructure network and thus this CRE aspect is not particularly significant.

As highlighted by Zaiton (2008b), these real estate operating decisions will have to include the selection of location and layout of premises, which meets the staff and customers' needs.

### **Facilitating Production, Operation & Service Delivery**

Analysis shows that Facilitating Production, Operation & Service Delivery is an important factor to most divisions when selecting a work place, with 44.8% of respondents stating it as *important* and 37.9% stating it as *very important*. This shows that most of the top-senior management recognise the importance of this strategy in emphasizing the design of facilities that supports the modus operandi of its core activities.

From the crosstab analysis, all the respondents from the Engineering & Construction division had favourably rated this aspect with 40% rating as *important* and 60% as *very important*. This finding concurs with the needs of the industry catering to its modus operandi of its construction activities, which requires an efficient logistical set-up to facilitate the job delivery e.g. location of its site offices, design of its facilities such as concrete batching plants, access to material supplies such as quarries etc.

However, 66.7% of respondents from the Expressway division had rated this aspect as *less important*. Similar to the explanation in previous section, this aspect is less significant from a customer point of view as design of its facilities are mostly fixated along its expressway infrastructure network. Nevertheless, 33.3% of its respondents feel that it's *important* which is relevant in the case of its Operation & Maintenance ("O&M") department responsible for the Network Maintenance Management ("NMM"). This stems from the logistical requirements of maintaining the North-South Expressway stretching over a length of 848 Km in Peninsula Malaysia. As such, the technical support facilities are geographically designed to 3 regional offices i.e. Northern, Central & Southern with respective O&M offices and depots.

### **Facilitating Managerial Process & Knowledge Framework**

Analysis shows a lack of applying the Facilitating Managerial Process & Knowledge Framework strategy in UEMG with 48.3% of respondents *never* applying and 31.0% applying it only *sometimes*.

As highlighted earlier in Section 2.0, there is currently no dedicated CRE unit with only a few companies having its own PM / FM units and some companies outsourcing such functions to PM / FM external consultants. The majority of UMEG companies rely on the HR & Administration department to manage its real estate matters. The management of its real estate matters by its HR & Administration departments are mostly limited to basic database record keeping using Microsoft Office and the monitoring is done manually with periodic reviews. As such, there is a lack of application of property management real estate inventory & tracking ICT tools for more efficient and effective management of its real estate matters.

As described by Zaiton (2008b), this strategy focuses on knowledge acquisition and emphasizes the technological aspects of the building using ICT to facilitate effective communication and effective working environments. This real estate strategy to facilitate knowledge work explicitly addresses how to design structures that will complement the doing of knowledge work.

### **Capturing Real Estate Value Creation of Business**

Analysis shows 69.0% of respondents agree that Real Estate Company Strategy Captures Real Estate Value Creation. This show that the top-senior management view that this strategy would lead to higher demand from customers, employees and suppliers. As pointed out by Zaiton (2008b), strategy is directly linked to Porter's (1979) five competitive forces to compete for a better market position.

### **5.3 CRE Strategies Significance by Divisions**

The survey questions were concluded with respondents rating the significance of each of the eight CRE strategies by placing a weight to the individual strategy. The results were compiled by the respective divisions as table in Table 1.

The overall scores ranged between 10% to 16% with Minimizing Occupancy being the highest score with a weightage of 16% followed by Promoting Human Resource Objectives and Facilitating Production, Operation and Service Delivery with a weightage of 14% each.

Table 1: CRE Strategies Significance by Divisions' Weightage

No.	CRE Strategies	Weightage by Division (%)					Overall Weightage
		Expressways	Engineering & Construction	Township & Property Development	Asset & Facility Management	UEM Group Corporate Office	
1	Minimizing Occupancy Cost	20	16	10	18	18	<b>16%</b>
2	Increasing Flexibility	13	12	9	8	16	<b>12%</b>
3	Promoting Human Resource Objectives	17	13	14	13	15	<b>14%</b>
4	Promoting Marketing Message	15	8	16	12	14	<b>13%</b>
5	Promoting Sales and Selling Process	7	11	16	11	11	<b>11%</b>
6	Facilitating Production, Operation and Service Delivery	8	21	15	17	9	<b>14%</b>
7	Facilitating Managerial Process & Knowledge Framework	10	11	9	12	8	<b>10%</b>
8	Capturing the Real Estate Value Creation of Business	10	8	11	9	10	<b>10%</b>
	Total	100	100	100	100	100	<b>100%</b>

Based on the results of the survey, a summary of the salient CRE features of the respective divisions is tabled in Table 2.

Table 2 : Summary of Salient CRE Features of UEMG Divisions.

CRE Features	UEMG Corporate HQ	Expressways	Engineering & Construction	Township & Property Development	Asset & Facility Management
<i>Real Estate Unit</i>	Property Management	Facilities Management	Administration	Administration	Property & Facility Management
<i>Type of Properties</i>	Corporate Office	Corporate Office, Toll Plazas / Office, Depots	Corporate Office, Site Offices, Plants	Corporate Office, Project Offices, Sales Offices	Corporate Office, Operation Offices
<i>Average Area Occupied</i>	> 5,000 sq.ft	3,001 – 5,000 sq.ft	1,501 – 3,000 sq.ft	> 5,000 sq.ft	1,501 – 3,000 sq.ft
<i>Real Estate Status</i>	100% Owned	100% Owned	100% Leased	75% Owned 25% Leased	100% Leased
<i>Key Real Estate Strategy</i>	- Occupancy Cost - Flexibility - HR Objective	- Occupancy Cost - HR Objective - Marketing Message	- Facilitate Production - Occupancy Cost - HR Objective	- Marketing Message - Sales & Selling - Facilitate Production	- Occupancy Cost - Facilitate Production - HR Objective

The above summary shows that the respective divisions have their own salient CRE features based on its nature of business and corporate objectives.

#### 5.4 A Proposed CRE Framework for UEMG

To develop a generic CRE framework for the UEMG of companies, based on the input of the four divisions the weightage obtain from the survey is used as a basis to form the CRE framework as shown in Table 3 below. The purpose of this framework is to assist the top-senior management or CRE manager in conducting a holistic CRE assessment leading to a strategic decision with regards to its real estate investment matters / requirements.

Table 3 : Proposed Generic UEMG CRE Framework

No.	CRE Strategy	Rating			Weight (%)	Rating (0-10)	Weighted Score
		10-9-8	7-6-5-4	3-2-1-0			
1	Minimizes Occupancy Costs				20		
2	Accommodates Flexibility				10		
3	Promotes Human Resource Objectives				15		
4	Promotes Marketing Message				10		
5	Promotes Sales & Selling Process				10		
6	Facilitates Production, Operation & Service Delivery				15		
7	Facilitates Managerial Process & Knowledge Framework				10		
8	Captures Real Estate Value Creation of Business				10		
	Total				<b>100%</b>		

Each of this eight CRE strategies comprise of its sub-components providing a more detailed quantitative and qualitative assessment of key CRE measurements comprising financial returns, ratios, physical characteristics and site observations of the proposed subject property.

This framework takes the form of a balance scorecard in considering and measuring all of the 8 CRE strategies with corresponding weighting given to each strategy based on its significance to the individual business / company. The CRE manager / top-senior management involved in the assessment would then rate the individual strategy sub-components

based on the proposed subject property. Finally, the actual weighted score will be summed up to obtain the overall rating. This result will be compared against a grading system based on overall ratings set by the respective company e.g. > 80% Go (Platinum), 65-79% Go subject to terms & conditions (Gold), < 65% No Go (Non Value Creation)

## 6.0 Case Study

### Introduction

The UEM Learning Centre (“ULC”) / UEM Academy (“UEMA”) site located in Petaling Jaya is selected as the subject property case study. The purpose of this case study is to determine if the subject site would be a suitable site from a CRE perspective for UEM Group’s operating subsidiaries. This site is currently utilized by ULC as the UEM Group’s centralized training centre.

### Overview of Subject Property

The subject property is comprises of 2 contiguous land parcels identified as Lot 96 & Lot 97 measuring approximately 2.52 & 1.46 acres respectively (totalling 3.98 acres) located at No. 5A, Jalan 51/217, Off Jalan Templer, Petaling Jaya. The detail of the subject property is tabled in Table 4.

Table 4: Land Title Details of Subject Property

Description	Lot 96	Lot 97
Title No.	PN 13074	PN 13075
Town/District	Town of Petaling Jaya	Town of Petaling Jaya
Land Area	2.52 Acres	1.46 Acres
Annual Rent	RM 23,669	RM 13,772
Tenure	Leasehold	Leasehold
Expiry of Lease	31 January 2060	31 January 2060
Registered Owner	United Engineers (M) Bhd	United Engineers (M) Bhd
Category of Land Use	Industrial	Industrial
Express Condition	Nil	Nil
Restriction In-Interest	Nil	Nil
Encumbrances	Nil	Nil
Endorsements	Nil	Nil

There are currently 2 buildings on the subject property with industrial structures which was originally a warehouse and an automotive workshop but had been converted into a staff training centre and office depicted in the site photos in Figure 1 & Figure 2 respectively.



Figure 1: Photo of ULC site (formerly a Warehouse)



Figure 2 : Photo of UEMA site (formerly an Automotive Workshop)

The location of the subject property is within the industrial zone of Section 51 in Petaling Jaya with its entrance fronting Jalan 51/217 and Jalan Templer on its southern side. It is a second layer lot from the Federal Highway.

## Existing Status of Subject Property

A summary of the existing use of the subject properties is tabled in Table 5.

Table 5: Summary of Existing Status of Subject Property

Description	Lot 96	Lot 97
Original Structure	Warehouse	Automotive Workshop
Current Use	ULC Training Centre	UEMA Training Centre/Office
Refurbishment Costs (RM)	RM3.5m	RM8.9m
Valuation of Land & Building (based on current unexpired lease period of 50 years)	RM 27,600,000 (Land - RM 13,000,000) (Building - RM14,600,000)	
Valuation of Land & Building (based on renewed lease period to 99 years)	RM 33,700,000 (Land - RM 19,100,000) (Building - RM 14,600,000) <i>Note : Estimated Lease Extension Premium – RM7.0M</i>	

Based on interview discussions with management personnel from ULC and UEMG's Property Department, it was explained that the considerable refurbishment investments of RM3.5M for the warehouse premising ULC in 2006 and RM8.9M for the automotive workshop premising UEMA in 2008 was to support UEMG's top management direction and Human Capital Development initiative objective of developing the leadership capabilities of the managerial staff and increasing staff competency through various training programmes.

From a CRE analysis, the rationale for this capital investment of refurbishing the existing industrial buildings into UEMG's centralized training centre was based on a CRE strategy of *promoting its human resource objectives* in developing its human capital talent.

In addition, part of the refurbishment exercise for UEMA in 2008 had also been used to showcase the Industrialised Building System ("IBS") which was then being promoted by a UEMG subsidiary known as Success Converge Sdn. Bhd. From the CRE perspective, this is an example of a CRE strategy of *promoting the marketing message* by showcasing the IBS product as a form of physical advertising.

## A CRE Assessment of Subject Property

Based on the abovementioned overview of the subject property's status, a scenario analysis is applied to the *UEMG CRE Framework* to ascertain if the subject property can be considered a corporate real estate for UEMG.

A hypothetical scenario analysis of using the *UEMG CRE Framework* of the five divisions is summarised in Table 6.

Table 6: Summary of CRE Scenario Analysis of Subject Property

No.	CRE Strategy	Rating					
		UEMG Corporate HQ	*ULC/UEM A	Expressways	Engineering & Construction	Township / Property Development	Asset & Facility Management
1	Minimizing Occupancy Cost	16	17	8	15	5	16
2	Increases Flexibility	13	14	7	11	5	7
3	Promotes Human Resource Objectives	13	15	12	12	8	11
4	Promotes Marketing Message	9	10	7	6	7	9
5	Promotes Sales & Selling Process	9	10	3	9	7	9
6	Facilitates Production, Operation & Service Delivery	8	8	3	19	7	15
7	Facilitates Managerial Process & Knowledge Framework	7	7	5	9	6	10
8	Captures the Real Estate Value Creation of Business	7	8	5	7	5	7
<b>Total</b>		<b>82</b>	<b>89</b>	<b>50</b>	<b>88</b>	<b>50</b>	<b>84</b>
<b>Verdict</b>		<b>Go</b>	<b>Go</b>	<b>No Go</b>	<b>Go</b>	<b>No Go</b>	<b>Go</b>

\* Note : ULC/UEMA CRE Assessment based on UEMG Corporate HQ CRE Framework

### Case Study Conclusion

Based on the above CRE assessment, it shows that the subject property is suitable to be utilized by the following divisions:

i. UEMG Corporate Office

Based on the CRE Framework assessment, the findings show that the subject property meets the key CRE strategies of the organization specifically:

- a) Minimizing Occupancy Cost
- b) Accommodates Flexibility
- c) Promotes Human Resource Objectives

This finding of the subject property addresses the issues currently faced at the existing UEMG Headquarters (MERCU) located at the CBD area of KL Sentral, Brickfields where the occupancy costs is very much higher

and the relatively limited floor area per floor which is somewhat constrained by the non-rectangular shape of the 29 storey office tower limits the amount of flexibility of its office layout.

Compounding these issues is the traffic congestion at Brickfields area and very limited car parking amenities for staff and visitors, which have become a frustrating daily problem faced by staff based there and also for staff from subsidiaries visiting the headquarters.

Overall, the CRE assessment points to a favourable “Go” for this subject property which offers better facilities based on the abovementioned aspects.

ii. ULC/UEMA

From ULC/UEMA’s perspective as a training institution, the CRE assessment of the subject property indicates it as a favourable premise based on the following considerations:

- a) Minimizing Occupancy Cost
- b) Accommodating Flexibility
- c) Promotes Human Resource Objectives

Being modelled as a cost centre, it is essential that operating costs are kept at a minimum and the rental costs of the subject property is relatively lower than the current options i.e. UEMG Headquarters and Faber Towers (its previous premise).

The spacious layout of the subject property also accommodates the flexibility of the requirements of its training activities e.g. an auditorium for large events, various training room size options utilizing collapsible wall partitions, smaller breakout rooms, cafeterias and sporting facilities. It was also highlighted by the Head of ULC that the offsite location (from where most of the UEMG companies are located from i.e. MERCU and Faber Towers) facilitates the training session better by having the participants more focussed on their training sessions as compared to when ULC was located at Faber Towers, which experienced many participants having distractions of conveniently returning to their offices.

The accessible location of approximately 5 km radius from most of the UEMG companies, ample free parking spaces and self-serving cafeterias make it convenient for staff attending training.

Overall, the CRE assessment of the subject property points to it a favourable “Go” for this premise.

iii. Engineering & Construction Division

The CRE assessment from the Engineering & Construction Division shows that it addresses key CRE strategies of:

- a) Facilitating Production, Operation & Service Delivery
- b) Minimizes Occupancy Costs
- c) Promotes Human Resource Objectives

Coincidentally, the subject property was the original premise of the parent company of the division i.e. UEM Builders / UEM Construction before relocating partly to Faber Towers and MERCU. From an operational perspective, the industrial nature of the subject property facilitates the production and operations of the division as the warehouse and workshop could also accommodate its machinery and construction equipment. The industrial location also provides supporting industries such as machining shops, iron welders, heavy machinery repairs workshops etc.

The office leasing costs is relatively lower than the current leasing costs at MERCU or Faber Towers. The nature of the industry does not require a corporate office address in the CBD area commanding premium rental rates. Affirming this analysis, the location in Petaling Jaya area is also the choice location for the corporate headquarters of some other prominent construction firms such as IJM Bhd and Gamuda Bhd.

The mature neighbourhood of Petaling Jaya (“PJ”) areas situated between PJ old town and PJ new town offers plenty of convenient amenities to the staff. Overall, the CRE assessment points to a favourable “Go” for this subject property.

iv. Asset & Facility Management Division

The CRE assessment for the Asset & Facility Management Division shows that it addresses its key CRE strategies, specifically:

- a) Minimizing Occupancy Costs
- b) Facilitation Production, Operation & Service Delivery
- c) Promotes Human Resource Objectives

As a service oriented business involved in consultancy and maintenance contracting, managing overhead costs is important as the operating profit margins are closely tied to operating expenses against its fixed per centum fee from its clients. As such, comparatively lower leasing costs at this subject property compared to MERCU and Faber Towers offers a comparative cost advantage strategy.

In connection with the above, this comparative cost advantage coupled with the accessible location to its clients in the Klang Valley, this premise facilitates the service delivery of its business. The accessible location, parking facilities and readily available amenities would promote the human resource objectives of the companies.

Overall, this CRE assessment points to a favourable “Go” for this subject property.

v. Expressways Division

The CRE assessment of this subject property for this Division does not appear to support all of its key CRE strategies, specifically:

- a) Minimizing Occupancy Cost
- b) Promoting HR Objectives

c) Promotes Marketing Message

The unique business set-up of the fixed expressway infrastructure network means that all its operations and logistical support is best located along its expressway network e.g. compared to its wholly owned current headquarters known as PERSADA located at the Subang interchange, its toll plazas, toll offices, depots etc. Thus, the CRE features of this subject property would not support its key CRE strategies.

This CRE assessment obviously points to a “*No Go*” for this subject property to be utilized by the Expressway Division.

vi. Township & Property Development

The CRE assessment of this subject property for this division does not appear to support all of its key CRE strategies, specifically:

- a) Promoting Marketing Message
- b) Promoting Sales & Selling Process
- c) Facilitates Production, Operations & Service Delivery

The business operations set-up of the Township & Property Development Division requires it to be close to its development site and accessible to its customers to visit its sales offices, sales gallery and property show units. As such, based on the current development focus areas of the division, specifically UEM Land Bhd’s focal township developments located in Nusajaya, Johor and Cyberjaya and Faber Development Holdings Sdn Bhd’s current developments located at Kepong and Taman Desa, the subject property does not offer any advantages over their current real estate set-up close to their respective developments.

As such, the CRE assessment points to a “*No Go*” for this subject property to be utilized by the Township & Property Development Division.

**Summary**

In summary, all the respondents groups i.e. top-senior management from respective core divisions, generally agree to the importance of CRE management based by their favourable responses to the survey questions on the respective CRE strategies. The respondents have given an objective and rationale feedback based on their current and expected real estate management practices. Statistical analyses of the respondent groups generally show a statistically normal distribution curve, as such there were no skew of opinion among the various groups.

The case study also provided an illustrated application of CRE management by conducting a CRE assessment using the proposed *UEMG CRE Framework* to the subject property in relation to the respective core divisions.

## **7.0 Key Findings**

### **7.1 Level of UEM Group's CRE Management Practices / Applications**

The research revealed that the level of UEM Group's CRE management practices / applications is minimally confined to PM and FM practices. There are currently no dedicated CRE units within the UEM Group of companies. The findings of the survey showed that a majority of the real estate matters of the operating subsidiaries are administratively managed (50% - 67.9% of the time) by their respective Human Resource & Administration departments with some smaller entities outsourcing such functions to external PM / FM consultants.

Based on the findings of the survey, there appears to be elements of CRE strategies being adopted in some cases more so, on an ad-hoc basis or in an incidental manner. However, there is no evidence of any systematic approach or formal structure of a holistic assessment (based on a CRE framework) when making strategic real estate decisions.

These findings are fairly consistent among all divisions with the addition of some PM and FM practices (subsets of CRE features) being practiced selectively in the Asset & Facility Management division.

### **7.2 Application of CRE Management Based on *Nourse & Roulac* Framework within the UEM Group**

Similarly to the above finding, the research reveals that there are some elements of CRE strategies being adopted by the operating subsidiaries. However, this application may not have been conforming to a consistent set of CRE strategies aligned to its business objectives but applied based on a case to case situation at management discretion. As such, the findings from the survey on adequacy of work site specifications show that 6.9% of respondents stated it as inadequate whilst another 6.9% stated that it was more than required.

Some of this real estate decisions are made on situational basis at the particular point of time or made as a matter of convenience. This poorly calculated real estate decision may result in a non-optimal occupancy ultimately leading to lower organizational performance as illustrated in the analysis of the case study using the *Proposed UEMG CRE Framework*.

### **7.3 Significance of CRE Strategies of UEM Group's Respective Core Divisions**

The research revealed that there are two common CRE strategies that appear significantly in all the core divisions i.e. Minimizing Occupancy Cost and 14% for Promoting Human Resource Objectives strategies with an overall significance weightage of 16% and 14% respectively.

This minimizing occupancy cost strategy arises from the management's cost control measures in most operating subsidiaries to minimize its overhead costs. This is also compounded by the fact that the management generally views real estate as a cost centre rather than profit centres as highlighted previously. There is also a tendency of FM managers to adopt a cost minimizing mindset in managing the real estate. Thus, these factors have lead to this CRE strategy to be one of the key significant strategies and objectives in all the divisions.

Secondly, the CRE strategy of promoting human resource objectives has also appeared significantly in all divisions. This is mainly due to UEM Group's emphasis on HR initiatives particularly in its Human Capital Development programmes which forms an integral part of its 5 -Year Strategic Plan ("SP") and reflected in the yearly Business Plans

("BP") / Annual Operating Plan ("AOP") budgets. The implementation of these HR initiatives were endorsed by its incorporation in the Performance Measurement Systems ("PMS") of all top and senior management with set Key Performance Indicators ("KPI") via a balance scorecard comprising 5 Key Result Areas ("KRA") with an acronym used by the UEM Group known as PEPSI i.e. Productivity, Expansion & Growth, People, Systems & Processes and Image & Perception. Thus, the KRA of *People* is set to a specific KPI which is then measured against the actual achievement. Thus, this process has embodied the importance of promoting human resource objectives in all aspects of its business including its real estate decisions.

However, there is still room for improvement for taking a holistic approach when assessing any real estate decisions using the CRE framework and not just limiting the assessment to few individual assessments.

### **7.3.1 Recommendations**

From the findings and analysis of the research, the following are some recommendations to improve the understanding and application of CRE management in the UEM Group:

i Establishing a CRE Unit(s) within UEM Group

The research has shown the importance and significance of CRE management in supporting strategic decisions with regards to real estate investments. As CRE management requires strategic management skills in relation to managing real estate, it is suggested that a dedicated CRE unit comprising of qualified staff be established, instead of solely relying on the current organizational set-ups which will be better off focusing on their respective core functions.

For the initial stage, the CRE unit can be centralized at UEMG or as a unit under the Asset & Facility Management Division which can oversee the UEM Groups CRE management from a strategic perspective and play an advisory role to the operating subsidiaries. Alternatively, CRE units could also be established at the larger operating subsidiaries with significant real estate portfolios.

ii Awareness Programme of CRE Management to Top-Senior Management

Feedback during the research showed that the level of awareness of CRE management is generally low among the strategic management of UEM Group. As such, a programme of CRE management seminars / lecture series could be organised by inviting prominent speakers / authority figures in the field of CRE to present the concepts and benefits of CRE management to the business and in particular the UEM Group.

iii Roll-Out of Proposed UEMG CRE Framework

As highlighted, the researcher did not discover any form of structured / systematic assessment tool currently used in the UEM Group for real estate investment decision making. As such, it is suggested that the *Proposed UEMG CRE Framework* developed from this research be rolled-out to the UEM Group of companies. This generic framework can be fine-tuned with its parameters calibrated to its respective businesses.

iv Conduct a CRE Review of UEM Group's Real Estates (Owned & Leased)

As highlighted in the introduction, the CRE wealth of UEM Group is estimated to be valued at approximately RM428 million of which the real estate portfolio and it does not include the cost-value of the leased properties. A complete real estate inventory would allow the CRE manager to plan and manage the day to day CRE activities effectively. At present, such inventory records are maintained either by the Administration departments or under the fixed asset registers kept by Finance departments. Thus, for a start, it is suggested that an exercise both at Group level and individual subsidiary level be initiated to identify and compile an updated comprehensive real estate inventory register to include both owned and leased properties. Subsequently, a review of this inventory / real estate portfolio can be conducted by assembling a real estate matrix of property control for strategic management of its real estate assets.

v Marketing CRE Management as a Value-Add Service to the Asset & Facility Management Business Proposition

Lastly, it is suggested that once the CRE management practice has proved its value contribution to the UEM Group and the CRE personnel have gained sufficient experience, this expertise in CRE Management can be added to the Asset & Facility Management division's services as a value-add service in its business propositions to external clients. Hence, the CRE unit can evolve from being a cost centre acting as a support service to the UEM Group to becoming a profit centre providing consultancy services to external clients.

## **8.0 Limitations of the Research**

The research had been carried out starting with a literature review using a deductive approach starting with an overview of CRE concepts and its applications within UEM Group. Subsequently, the research aimed to obtain data / findings for analysis in answering the research objectives and scope through field research using self-administered survey questionnaires to solicit feedback from the strategic management personnel of the UEM Group.

However, due to the strategic nature of CRE management which involves the strategic level management, the survey was extended to respondents primarily in the top-senior management positions, mostly heads of the relevant divisions such as CEO/MD/COO Office, Corporate Affairs / Finance division, Projects / Operations division and Human Resource / Administration division. These targeted survey respondents were drawn from the UEMG Corporate Office and its 4 core divisions. As such, due to the limited targeted survey respondents from this strategic management category from the selected relevant divisions / departments, the survey sample size may not be statistically ideal.

Another challenge of the research was the nature of the subject matter which is somewhat conceptually technical and generally unfamiliar to the respondents. Despite the effort of providing a brief literature on CRE concept together with the email on the survey questionnaires and some guided explanations of CRE management accompanying the survey questions, the respondents had apparently still faced some difficulty in comprehending a few of the survey questions. In the process, the researcher had to assist some of the respondents in providing additional clarification on the subject matter communicating via phone calls and emails. Inadvertently, this process also created a two way learning and discovery opportunity to both the respondent and researcher on the subject matter itself and UEM Groups' current real estate practices.

The management, availability and quality of data are subject to the level of respondents' involvement and experience in managing the organizations real estate matters. Secondary data and comparable studies was not available or of only limited reference at the time of this research as there is little local research on CRE management.

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