

# Corporate real estate management: More than clients' and users' procurement

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## Abstract

This paper draws on the emerging property discipline – Corporate Real Estate Management (CREM) – to more completely conceptualise the entity that is meant by 'clients' and 'users'. With CREM's focus on meeting CRE organisations' business objectives this theory provides a stronger definition of clients and users as it displays more of their multi-dimensional nature that can manifest in procurement relationships.

Six theoretical CREM models are presented, reviewed and integrated into a single, coherent model. These models are that: 1) Real estate is more than buildings; 2) CREM is the demand-side to the real estate economy; 3) The five roles of corporate real estate must be addressed and balanced; 4) CREM evolves in its strategic capacity; 5) CRE's levels of strategic-ness; and 6) CREM encompasses multiple domains of practice across strategic, tactical and operational levels. This reveals that, while there is much importance in procurement relationships, CREM is much more than procurement.

The paper provides cross-over theory applicable to both real estate and construction management theory and practice. There are potential implications for those researching how the demand-side (corporate real estate and facilities management) and supply-side (construction management) engage with each other but this requires further research. This model provides a basis for doing so.

**Keywords: Clients, Construction management, Corporate real estate projects, Theory, Users**

## 1. Introduction

The real estate economy – collectively the real estate, design, and construction industries – has many diverse entities and relationships. Broadly, these are its demand and supply sides where the former (conceptualised here as Corporate Real Estate Management (CREM)) consumes real estate and services and the latter provides them.

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This paper argues that corporate real estate (CRE) organisations are, essentially, the same entities as 'clients' and 'users'. The CRE literature provides a stronger, though still emerging theoretical basis for the entity as it displays more of CREM's multi-dimensional and evolving nature. This is useful when thinking about clients and users as it better displays the entity's internal dynamics that manifest in procurement and it also suggests contrasting perspectives on, and power dynamics in, that procurement.

Corporate real estate is a major part of the real estate economy's demand-side<sup>3</sup> and houses the productive or business activities of an organisation that owns or leases real estate incidental to its business objectives, where the primary business is not real estate (after: Brown et al. (1993), and Kenley et al. (2000)). This CRE organisation is the entity that acts as clients and contains many users. Consequentially, managing CRE is conceived as aligning real estate and its services with the core business to maximise the contribution to the core business rather than to maximise the real estate value, and to contribute in an optimal way to the overall business performance (from Dewulf et al. (2000: 14)).

CREM has emerged over the last 20 to 30 years as a distinct real estate discipline. In understanding CREM in relation to being clients and users distinction needs to be made between CREM as necessary organisational function and CREM as an organisational unit. The former is required by all organisations because they occupy space for business purposes. The latter is one or more personnel responsible for managing the CRE. These may be real estate people but this is not always the case with instances of clerical personnel being solely responsible for carrying out CREM. The distinction between the two forms of CREM recognises that while CRE decisions are always necessary they are not always supported by dedicated organisational resourcing.

## **2. The research problem**

The construction management discipline has expressed an interest in 'clients' and 'users' to build better bridges within the real estate economy, as evidenced by the creation of the CIB Working Commission W118. Concerns about clients are longstanding around the world, as exemplified by the UK's Latham and Egan Reports of 1994 and 1998 respectively, and similarly in Australia (Purchasing Australia, c1995). There are also numerous publications directed at construction and design industries to understand and help their clients. Boyd and Chinyio's (2006) reference lists contain useful examples. CREM's take on procurement in recent years has been framed in terms of outsourcing both the real estate through leasing, the partial or total outsourcing of the management function, or integrated into a single contract (Dixon and Pottinger, 2006). It is rare, though, for CREM to reflect on 'client-ness' and users has most recently been focussed on in considering workplace styles (Appel-Meulenbroek et al., 2011; Oseland, 2009).

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<sup>3</sup> The other major part is residential real estate and even here some is CRE for accommodation businesses. This paper focuses on CRE.

The use of 'clients' in the real estate economy conceptualises a relationship formed around procurement of construction products and services during construction, and occupation and use. The 'client' perspective is that of the supply-side, that is, the supply-side has clients. 'Clients' also contains connotations of an expert provider and inexperienced consumer with commensurate power dynamics.

'Users' represents a supply-side relationship with the demand-side post-procurement and also a concern with the demand-side's relationship to the constructed product. 'Users' can be differentiated into:

- The occupying (CRE) organisations;
- Their sub-entities or business units (if any);
- The individuals within those organisations; and
- Members of the general public that interact with the CRE.

Therefore, the question that this paper addresses is, how can the entities described as 'clients' and 'users' be better conceptualised to represent their multi-dimensional and evolving nature in the demand and supply relationships of the real estate economy, and what are some the implications of that.

### **3. Method**

The paper's contribution to knowledge is based on the authors' decade-long deep immersion in CREM theory through research and teaching. This provides insights into what it means to be the demand-side to the supply-side's real estate, design, and construction products and services. The deep immersion allows the synthesis of six theoretical models into a more complete conceptualisation of the real estate economy's demand side and discussion of its value in understanding CREM and its procurement.

### **4. The demand-side models**

Six models are presented here as a basis of forming a coherent theoretical basis to the demand-side. They are:

1. (Corporate) Real Estate is more than buildings;
2. CREM is the demand-side for supply chains for products and services when real estate and construction exists for consumption by clients and users;
3. CREM encompasses five roles in CRE organisations' economies that must be addressed and balanced in managing CRE;
4. CREM has evolved through levels of strategic development;
5. CRE has varying levels of 'strategic-ness' with implications for its management; and
6. CREM comprises multiple, inter-connected domains of practice.

## 4.1 Model 1: (Corporate) Real Estate is more than buildings

Real estate theory, to which CRE and CREM theories belong, is founded on real estate's heterogeneity with its uniqueness derived from a conflation of location, site and the improvements (commonly called buildings). This emphasises the physical artefact.<sup>4</sup> Location can be further disaggregated to the site's surrounding physical, economic and social contexts. The building can be disaggregated into (from a real estate perspective) its constituent sub-assets. These are very similar to the constituent building elements used in construction. Real estate value is often construed in terms of wealth founded on economic rents derived from occupation. For CREM, value is largely, though not exclusively, derived from functionality and utility afforded by the location and its improvements.

Called the real estate artefact here as the most complete conceptualisation it is clearly evident that various real estate economy entities fundamentally conceive the artefact differently. This gives rise to differences in semantics and cognitive concepts that need to be addressed if a common understanding is to be achieved. Construction sees the artefact as a 'building' (as consistently used by Boyd and Chinyio (2006)). This can be slightly expanded to include its site but only in so far as it impacts on the construction process, for example, ground conditions. For real estate generally, there are more dimensions as a 'property' tangibly consists of the site (land), its context (usually taken as location) and the building (improvements to the land), and the consequential non-tangible property rights. For CREM, these concerns are further enlarged to include the property's impact on the business and what the business requires of the property. The end result of this is that CREM brings with it multiple meanings when acting as a client or user and interacting with the supply side in a project, but may encounter a smaller set of meanings on the supply-side.

## 4.2 Model 2: CREM is the demand-side

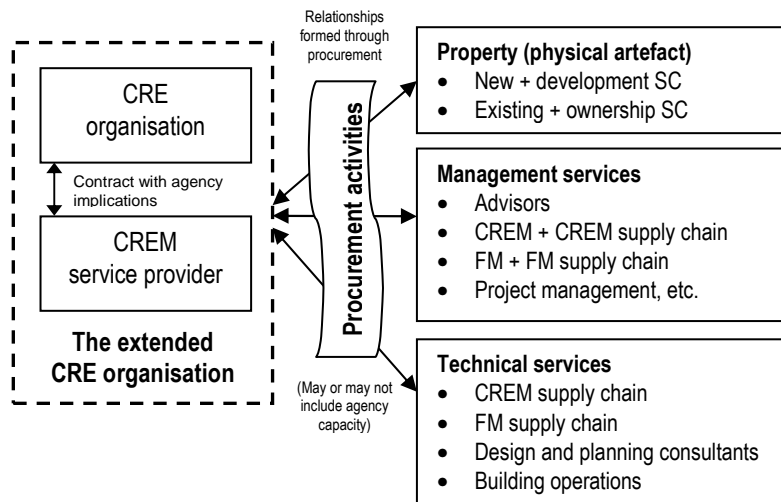
A consumption-based perspective on real estate, implicit in 'clients' and 'users,' defines two forms of real estate – CRE, that is the real estate for some 'business' purpose, and residential real estate. This perspective emphasises the real estate economy's demand-side characteristics as the driver in that economy and the economy's purpose in meeting that demand (Heywood and Kenley, 2010). This suggests a different dynamic from that frequently met in real estate and construction theory which is supply-side dominated. With a consumption perspective it can be argued that every other activity in the real estate economy exists to meet the demand-side's needs (Figure 1).<sup>5</sup> Three types of real estate products and services are identifiable. One is procuring new CRE requirements that can be met from the existing property stock. Two, is procuring new CRE requirements that needs new stock, and three, CREM requirements that need services to operate the property and the business. The services could be both management services and technical, operational

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<sup>4</sup> Another foundational real estate concept is that real estate is a bundle of rights where abstract, non-tangible concepts such as the legal foundation of rights, rights of use, rights of entry, and the like are emphasised (Reed, 2007).

<sup>5</sup> This is clearly contestable given that every participant in the real estate economy has a different stake in that economy's products and outcomes.

services. Furthermore, the demand-side has become complex with more extensive CREM outsourcing to replace or to augment the demand-side CREM capacity. Initially on the supply side, post-contract these service provider(s) move to create a hybrid demand-side entity. Such relationships raise issues in the service providers' agency capacity to represent or act for the CRE organisation (Gibler and Black, 2004). We note them but discussing these issues is beyond the scope of this paper.



**Figure: A framework for demand-supply entities and relationships (After: (Heywood and Kenley, 2010, Figure 1))**

At present, power tends to reside with the supply-side for several reasons. These include: 1) The semantics of 'client' and also 'customer' as supply-side concepts with expertise held by the provider; 2) The low weight of numbers in CREM research (Heywood and Kenley, 2013) compared to supply-side research in real estate and construction, 3) Real estate theorisation is most focussed on the supply-side's wealth in investment real estate; and 4) Consequently, there is a dominance of 'client' in the discourse about procurement. Recognising the importance of clients and users does shift power to the demand-side and it also opens up the conceptual space for 'customership' (Kuronen et al., 2011) to represent this changed power dynamic, customership being what the demand-side bestows on the supply-side as a result of being their customer.

### 4.3 Model 3: CREM encompasses five roles in CRE organisations' economies

One of the complexities of CREM is recognising that real estate plays five roles in CRE organisations' economies, and that these roles need to be balanced in any CRE action, including those that result in procurement. The five roles are:

1. A factor of production;
2. A corporate asset;
3. An investment;
4. A commodity; and
5. As public infrastructure (Heywood and Kenley, 2013).

The CRE as a factor of production is one of the most important CREM roles when clients and users are considered in procuring, producing and using real estate. Self-evidently, achieving property that functions well in production is a key outcome of any procurement. However, internal to the CRE organisation all the other roles do need to be considered in moving to procurement.

#### **4.4 Model 4: CREM's evolution through levels of strategic development**

As an emerging real estate management discipline CREM is developing its capacity to meet the strategic needs of its organisation. Joroff et al. (1993) conceived this in five-steps:

1. Taskmaster;
2. Cost controller;
3. Dealmaker;
4. Intrapreneur; and
5. Business strategist.

Each step can be defined in terms of the information used, personnel involved in management, decision criteria, treatment of capital costs and internal pricing mechanisms. Each evolutionary step above that exhibits greater strategic capacity as each step subsumes the strategic capacities of the lower levels. Individual organisations will be at one of the levels and (hopefully) will move to higher levels over time. The Taskmaster level is basic real estate competence with regard to technical requirements and specifications. CREM at this level can be very expert and may well adequately be able to write functional briefs and manage projects.

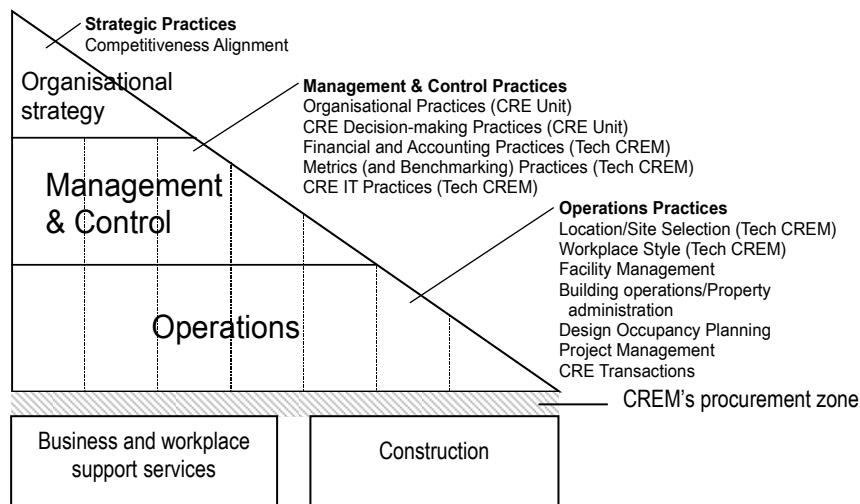
The consequence of this model in the real estate economy demand-supply model is that over time the supply-side will meet different levels of strategic sophistication, depending on CREM's evolution. The sophistication will be found in the demand-side's understanding of the strategic intent of procurement, and can play out in the procurement of the CREM function and its mix of internal and external staff and their skill sets (Joroff et al., 1993). In projects it is possible that a more strategic orientation to procurement methods will be evident, as will, in project initiation, the information used to create briefs – for instance, aspirational or performance briefs are more likely parts of that initiation at higher levels, though this is yet to be empirically tested

#### **4.5 Model 5: CRE's levels of 'strategic-ness'**

It is largely self-evident but not every project or real estate activity has the same strategic value to the CRE organisation (Kaya et al., 2004), and as a consequence, may not receive the same attention from CREM. To represent this value several CREM classification systems have been proposed though none of these are consistent or conceived on the same basis. For instance, Kaya et al. (2004) used the European Quality Management Framework, Adendorff and Nkado (1996) used need and redundancy, and Park and Glascock (2010) used a strict interpretation of the resource-based view of firms. This suggests that additional theorisation is necessary to resolve such inconsistencies (Heywood and Kenley, 2013).

#### 4.6 Model 6: CREM comprises multiple domains of practice

CREM is responsible for providing new CRE and managing existing CRE requirements, though the latter is often called Facility (or Facilities) Management (FM). CREM deploys multiple domains of practice organised into strategic, tactical (Management and Control here) and operational levels (Figure 2). Procurement intersects most with operational levels such as FM, project management, and CRE transactions in managing tenure in leases and purchase for ownership.



**Figure 2: The strategic CREM Framework (After: Heywood and Kenley (2008, Figure 4) and Varcoe (2000, Figure 2))**

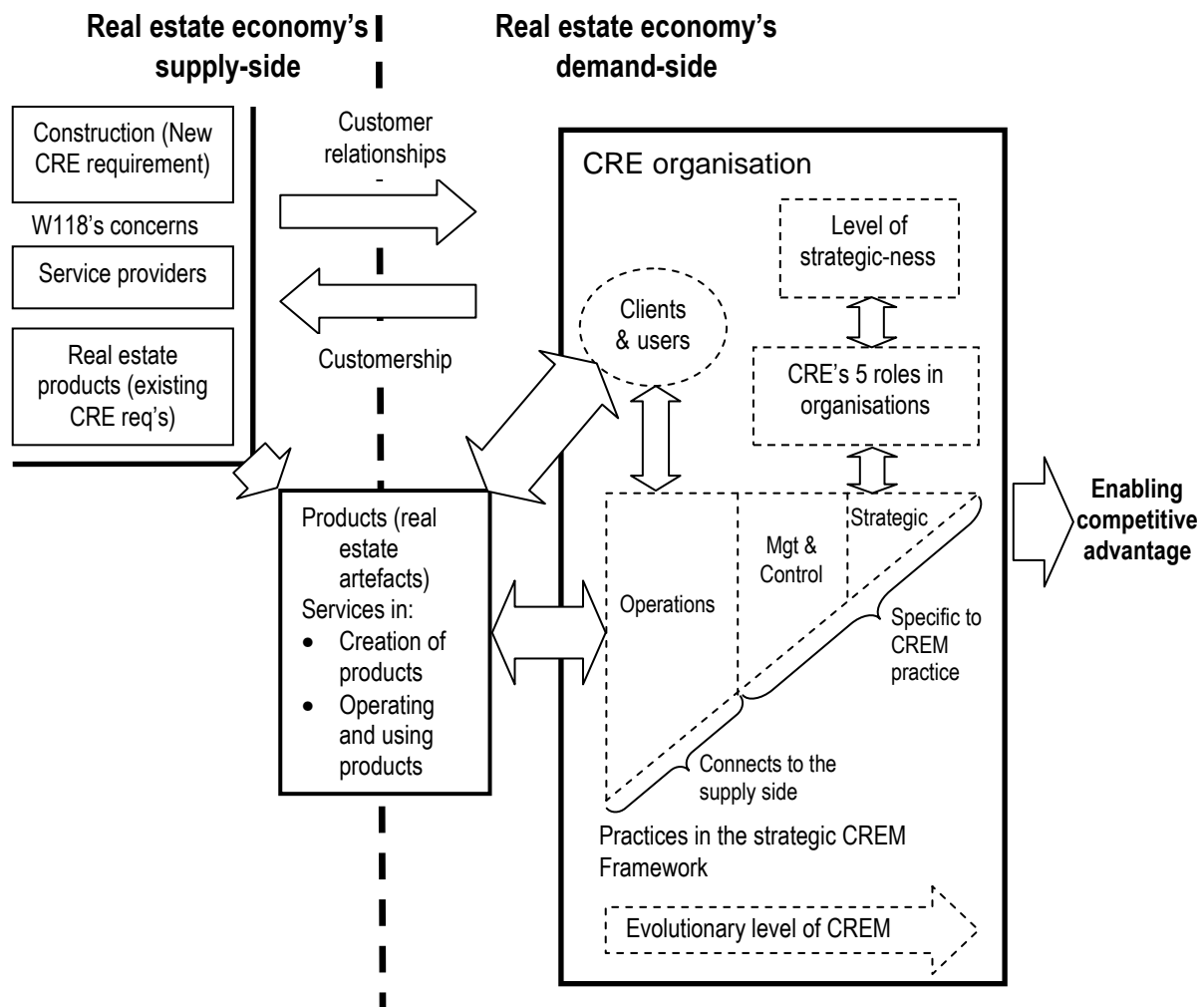
This model subsumes FM as a CREM domain of practice. An alternative, FM-centric view sees FM as the main activity and CREM's location and tenure aspects are peripheral to the FM (Jensen et al., 2012). We prefer the first model on two grounds. One is the criticality of location and tenure to the strategic management of business premises. The second is that it better accords with set theory's conceptualisation of relationships applicable to providing and managing business premises where CREM is the superset to FM's activities.

In this modelling of CREM 162 practices are categorised into the multiple domains of practice (Heywood and Kenley, 2008).<sup>6</sup> Within CREM many aspects across these domains of practice need to be resolved in any project. Changes within a domain, for example strategic management or transactions (lease expiries) can often trigger the need for supply-side delivered projects. Then location, tenure method, financial practices and workplace styles all need to be resolved in a demand-side statement of requirements.

<sup>6</sup> Varcoe's (2000) model is similar though it omits the allocation of specific practices and specifically includes construction and detailed workplace support practices as integrated in this Figure 2.

## 5. Synthesising the models

The six models presented above can be integrated into a coherent model of the demand-side entity, its constituent parts, and relationships with the supply-side (Figure 3). This coherent picture tells us more about the demand-side than 'just' describing them as clients and users but does point towards how the demand-side functions in coming to be clients and users.



**Figure 3: The coherent demand-side model in relation to procurement and the supply-side**

A key purpose of the CRE organisation is to achieve competitive advantage for its business with CREM an important enabler of that advantage (Heywood and Kenley, 2008). The CREM practices in the strategic CREM Framework, the evolutionary level of the CREM, the five roles played by CRE, and the criticality of the CRE (level of strategic-ness) all contribute to enabling competitive advantage. This model shows that though an emergent property of the CRE organisation connected to operational practices being a client or user, from CREM's perspective, is a by-product of core CREM activities.



The real estate economy's demand and supply-sides meet in the products and services required by the demand-side CRE organisation and provided by the supply-side. The products and services in the model are: 1) Constructed products new to the CRE organisation, either new or altered, where the relationship with construction supply is strongest; 2) Existing real estate products where the relationship is with investment in real estate; and 3) Service providers for management and technical CREM services. This meeting does give a substantial rationale for the demand-supply relationship to be conceived in procurement terms. Within that relationship CREM becomes a customer to the supply side and wanting to better understand clients and users is part of managing customer relationships. An inference of customer relationships or management is that they are related to or managed for the benefit of those doing the managing – the supply-side. The *quid pro quo* to the supply-side's customer relationships is the demand-side's customership bestowed on its suppliers. Customership inverts the usual client-provider dynamic shifting more power to the demand-side on the premise that the supply-side exists to meet its requirements.

## 6. Discussion

A concern about clients and users of real estate products and services opens up an opportunity to consider what are the entities represented by clients and users. This paper draws on CREM theory to identify the entity as being a CRE organisation and in doing so invokes a cross-over between demand and supply-side theories. Each side has associated professional disciplines, perspectives on the real estate artefact, and perspectives on the entities and their relationships in the real estate economy. These differences need to be resolved or at least accommodated in the cross-over modelling of relationships such as those of client or user.

CREM theory provides a basis for this cross-over though there are some issues with it as theory. CREM remains an emerging body of knowledge and it is far from accepted that CREM is the best term with which to label the demand-side's management. There is not yet a universally accepted definition of what CRE is, with some theorists separating ownership and use aspects (where leasehold may suffice), for example Dewulf et al. (2000). Others are more interested in corporate ownership of real estate which may be for use and/or investment, for example Yu and Liow (2009). There is also not yet widespread acceptance of what CRE's roles are in organisations with several models existing (Heywood and Kenley, 2013). It is debatable whether adding value to organisations (Dewulf et al., 2000; Haynes, 2012), or enabling competitiveness (Heywood and Kenley, 2008; O'Mara, 1999) is the core contribution that CREM makes. Nevertheless, the CREM body of knowledge has sufficiently matured to provide a basis for the required demand and supply-side cross-over theory.

The value of the model synthesised here is several-fold:

1. For CREM, the model shows its complexity and more comprehensively defines itself as is necessary for an emerging property discipline;
2. More relevant here, the model shows which internal factors are involved as precursors to procurement and explicitly shows their relationship to the internal client

and user dimensions of procurement. Though CREM has long been involved in procurement of real estate for use, and increasingly in externally sourcing the CREM function, what it means to be a client or user is rarely explicitly considered within CREM theory;

3. The mechanisms in internal CREM are more explicitly revealed. Specifically, the internal management practices that interact and the level of application based on strategic evolution are evident; as are the roles real estate plays and their strategic importance. These factors' dynamics prior to and during procurement provide uniqueness to every interaction regardless of existing demand and supply-side relationships. The model, potentially, provides dimensions to those circumstances;
4. The model shows the full extent of products and services procured by the demand-side; and
5. The customer-customer-ship dipole that is the basis of procurement is shown. There is a dominant theoretical paradigm of the supply-side's customers, customer relationships and their management, and by extension clients and users. Customer-ship provides the demand-side's reciprocal and provides a theoretical counter-balance to the prevailing conceptualisation of the relationship.

What the model does not show is CREM's treatment of innovation, and risk and reward. Other models for CREM competitive advantage include innovation as the key basis to sustainable competitive advantage (Heywood and Kenley, 2008). The internal CREM dynamics provide potential for innovation but innovation, *per se*, is rarely explicitly addressed in CREM theory. Risk and reward in general real estate theory is often considered on an investment basis, perhaps through selecting a discount rate for analysis, or the effect on corporate beta (an investment risk measure). There is some evidence of risk being attended to in CREM outsourcing practice (Heywood and Mottley, 2011), but, again, this is rarely found in CREM theorisation. These limits are a partial consequence of CREM's emergent nature, the scarcity of CREM researchers, and the diversity of domains of practice within which to theorise. In the models presented here, risk management would probably be a tactical (Management and Control) level domain of practice in the strategic CREM Framework. Its absence is indicative of the state of the CREM literature and clearly points towards areas for future research.

## 7. Conclusion

The integrated model presented here was motivated by a desire to provide a clearer picture of what constitutes the client and user entity that is a focus of current concerns. Arguably this model is better because it uses the demand-side's own theory to describe that entity. What this shows is that the CRE organisation is an entity with multiple interacting CREM factors, represented in the constituent models, and which contains clients and users as properties of that entity. These factors play out within the entity at strategic and tactical levels and emerge into operational requirements that the supply-side encounters in procurement.

In conclusion, using CREM theory, the entity that is clients and users is shown to be much more complex theoretically than just being clients and users. Nevertheless, there are benefits in this model in building bridges within the real estate economy because it shows both the internal CREM dynamics and the relationships between the demand and supply-sides of that economy. This, potentially, provides a stronger theoretical base on which to move forward in building bridges within that economy.

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