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Corporate Real Estate Ownership and the Market for Sale and Leasebacks in Finland

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Abstract. *The aim of this study was to gather new information on corporate real estate (CRE) ownership, and evaluate the market for real estate sale and leasebacks (SLB) in Finland. The property ownership and related ratios of corporations listed in the HEX main list were investigated. These ratios were then compared with the respective figures in other countries. In addition, the development of the Finnish SLB market was illustrated by gathering an indicative list of the major SLBs in Finland during the past four years.*

This study found out that the real estate assets to total assets and owner-occupation ratios are on a somewhat lower level in Finland than in the UK and other Western European countries. Reasons for this might be, for instance, that land prices are much lower in Finnish cities than in major European centres. Short-term rental agreements traditionally used in Finland can also have an effect on these figures. However, the ratios in the US are lower than in our Finnish sample. The current real estate assets to total assets ratios and owner-occupation ratios in major European countries seem to be on the same level with the figures over 10 years ago in the US. Thus, we might expect the current trend of decreasing corporate property ownership to continue in Europe in the future.

Moreover, the sample of HEX-30 corporations revealed a clear decrease in real estate assets to total assets ratios between the years 2000-2003. There seems to be a constant flow of single asset SLBs in Finland, which should also continue in the future. In addition, there has been a significant increase in the share of foreign investors providing SLB finance on the Finnish market.

Keywords: *Corporate real estate, sale and leaseback, real estate investment, Finland*

1 Introduction

Several studies have indicated that corporate real estate (CRE) ownership has been decreasing over time across industries and countries (e.g. Brounen & Eichholtz 2005 and Seiler et al 2001). Writings in the academic literature have at the same time indicated that CRE ownership is a non-core function that should be outsourced to professionals. In the US, CRE ownership generally started to decrease in the mid-1980s when corporations began to pay more attention to their capital-use efficiency (e.g. Seiler et al. 2001). In Europe, this development started about ten years later. The globalisation of the world's financial markets led to an increased attention to shareholder value also in the old continent (e.g. Nappi-Choulet 2002).

In Europe, the trend of CRE outsourcing hit its peak in the beginning of the new millennium when corporations began to view total outsourcing as an option to release capital and resources from CRE function for corporate core businesses. According to Nappi-Choulet (2002), this rapid emergence of the property outsourcing market over the past years undoubtedly originated from the globalisation of financial markets and the surge of institutional investors in the European financial landscape - two trends, which have been unfolding simultaneously. It is clear that the ongoing globalisation of the world's real estate markets has enabled corporations in countries such as Finland to get hold of innovative sale and leaseback (SLB) finance for the first time in history.

Strategic CRE management has, therefore, been a popular topic also in Finland during the past five years or so, and many Finnish corporations have considered releasing capital from their real estate assets to be used in more productive core business areas. However, it is surprising to notice that no academic research has previously been conducted concerning CRE holdings of major Finnish corporations and the real estate outsourcing potential in the Finnish market. This paper is the first empirical study to investigate these issues.

1.1 Aim and methodology

The purpose of this study is to investigate the CRE ownership and outsourcing market in Finland and give ideas for its future development. The study consists of two major parts. First, the development of the Finnish real estate market and the market for SLBs are described briefly by going through previous literature and by investigating the real estate SLB volume and major transactions during the years 2000-2003 in Finland. After this, the study will empirically investigate the real estate ownership and the real estate assets to total assets (and market value) ratios of non-real estate investing companies listed in the HEX main list (real estate and insurance companies are excluded).

Corporate Real Estate (CRE) is defined in this study as all non-investment buildings and land holdings in a corporation's possession that are included in fixed assets in financial statements. Therefore, the CRE holdings analysed in this

study might also include real estate that the corporation does not currently occupy (vacant space or space let to third parties) or large undeveloped land areas for instance. Real estate investors were excluded from the study.

The study uses buildings and land (B&L) ownership data at historical cost and at book values (gross book and net book values) to describe the size of the CRE holdings under investigation. These figures and total assets information were gathered from corporate financial statements. Corporate market values, on the other hand, were obtained from an Internet database (www.taloussanomat.fi). Further, the property, plant & equipment (PPE) to total assets ratios of the corporations are investigated in order to be able to compare the Finnish figures with the previous studies using PPE based ratios. The PPEs were also gathered from the corporate financial statements. See Table 1 for definitions.

Table 1. Definitions of the real estate measures used in the study

Definitions
Buildings and land (B&L) = Buildings and land (incl. water) areas shown in the notes to the financial statements. Does not include investment real estate, capitalized leases, natural resources, and constructions in progress, or in many cases real estate holdings in companies, of which a corporation owns less than 50%.
Property, plant and equipment (PPE) = Tangible assets shown in the consolidated balance sheet section of annual report. Excludes investment real estate, capitalized leases and usually real estate holdings in companies, of which a corporation owns less than 50%.
Total assets = Corporation's total asset ownership shown on the consolidated balance sheet. Includes all corporate assets, but excludes investment real estate and usually holdings in companies, of which a corporation owns less than 20%.
Values at book = Acquisition cost +/- revaluations – depreciations (book value at 31 Dec).
Values at historical cost = Historical acquisition cost at 31 Dec.

In addition to calculating the ratios with the most recent (year 2003) financial statement data, calculations were also made for the year 2000 in order to also see if there has been a decrease in corporate property ownership ratios during the past few years as might be expected based on previous research. After the calculations, the real estate ownership ratios were compared with the respective figures from other major markets, such as the UK and the US markets. The data used is described more clearly in the section 3.2 (CRE ownership among the Stock Exchange listed companies in Finland).

The study answers the following questions.

- Do major Finnish corporations have, on average, a smaller or greater amount of real estate on balance sheet as a share out of their total assets

and market capitalization compared with corporations in the US and in Western Europe?

- How have the CRE ownership and the volume of real estate SLBs developed between the years 2000 and 2003 in Finland?

Additionally, the study will draw conclusions for possible future developments of CRE ownership and the market for real estate SLBs in Finland.

2 Literature review: Development of CRE ownership in Finland and other countries

2.1 The development of the Finnish real estate market

The Finnish property market has gone through a huge transformation from a highly regulated and introverted market to an international market place during the past 15 years (e.g. Miettälä & Olkkonen 1993 and Kaleva 1998). Domestic institutions and owner-occupiers have traditionally dominated the Finnish property market. Kaleva (1998) suggested that over 60% of CRE was owner-occupied in 1998. At least three explanations have been given for the high level of owner-occupation in Finland. On one hand, the high inflation in the past made property ownership relatively advantageous. Secondly, the lack of sophisticated financiers and investors forced corporations many times to keep their real estate assets on the books. In addition, Kaleva (1998) suggested that another explanation for the high owner-occupation level has been the historic taxation system in Finland, which has made ownership of CRE beneficial. Further, shareholder orientation as corporations' principal management culture reached Finland as late as in the 1990s. Before that also Finnish corporations were more or less stakeholder oriented, and the share of state-owned corporations was relatively high in Finland.

The Finnish rental agreements have typically been short compared with, for instance, the UK and US standards. Kaleva (1998) estimated that office premises have traditionally been rented out for a period of 3 to 5 years, usually with gross-based consumer price indexed leases. Short gross leases give significant flexibility to the corporate occupiers and leave management worries to the landlord making it difficult to believe the high historic owner-occupation rate in Finland. Nevertheless, as Kaleva (1998) wrote, rental agreements in Finland are always the result of negotiations between two parties. Therefore, several kinds of contracts can be found in the market from 'until further notice / at will' contracts to long net-leases. During the recent years there has been a shift towards longer leases and net agreements in the wake of the globalisation of the world's property markets (Kaleva 1998).

Many researchers have noticed this significant difference in the traditions of lease agreements between different European countries. It has been stated that the long-term 'fully repairing and insuring' (FRI) leases are one reason for the high

amount of interest towards flexible property outsourcing in the UK (e.g. Woollam 2003, Asson 2002). This is because there has been a clear need among the UK corporations to try and get rid of long-term FRI commitments in today's fast-changing business environment.

2.2 International property investment in Finland

The fast increase in the demand for foreign property investment has created new innovative ways to finance CRE, and brought new expertise to the Finnish property market. The increasing international property investment has its roots in the idea that foreign investments offer additional diversification potential to further reduce the total risk of the investment portfolio (Geurts & Jaffe 1996). However, there are also other practical matters that drive property investors to seek investment opportunities from foreign markets. These are, among others, the lack of investment opportunities in domestic markets, which is usually more acute during times of high demand for property investment, and the fact that there is usually less competition in the smaller and less known markets.

The first foreign real estate investments in Finland were made during the late-90s and the first major investment was made in 2002. After this, Finland has attracted numerous foreign investors, and the share of foreign investment in the property markets has risen fast. The share of foreign investment in 2003 was 46% out of the volume of property investment in Finland (see Figure 1).

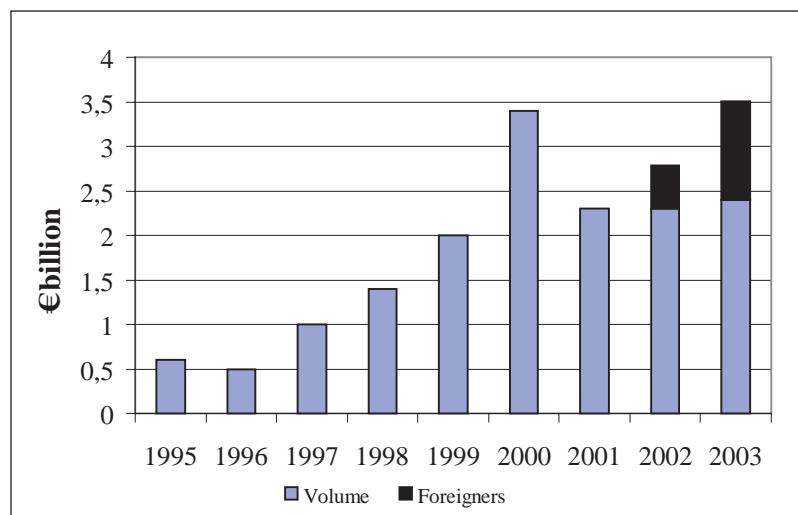


Figure 1. Real estate investment volume in Finland (Catella 2003)

According to Jones Lang LaSalle (JLL) (2003), the Nordic region (Sweden, Denmark and Finland) overtook France in 2003 as the most active investment market in Europe after UK due to a strong activity of foreign investors, especially

in Sweden. In 2003, the Nordic region accounted for 12% of the total investment volume compared with France (10%) and the UK (50%).

2.3 CRE ownership ratios in Europe and in the US

Even though research concerning CRE ownership ratios has been quite popular, it is still very difficult to obtain figures on a consistent basis, especially when trying to compare property ownership ratios across countries. This is, perhaps, because the real estate ownership ratios can be calculated in several different ways (from net book, historical cost or market values, from net assets, total assets or market capitalization etc.), and the accounting methods can also vary enormously across countries. In addition, the concepts of tangible assets and CRE can easily get mixed up (tangible assets also include equipment, natural resources etc.).

A survey made by Zeckhauser & Silverman in 1983 was the first major study to indicate that CRE represents a significant part of the US corporations' total assets and should, therefore, be managed appropriately. Zeckhauser & Silverman's survey indicated that CRE represents approximately 25-40% of US corporations' total assets at real estate market values estimated by senior CRE executives. Another survey of CRE assets to total assets ratios made by Veale in MIT in 1989 showed even more clearly that most corporations had an untapped source of capital, which had previously been almost totally neglected. In Veale's survey, 13% of the respondents claimed that their corporation's real estate holdings were worth more than the total corporate assets at book values. Also Nelson et al. (1999) indicated that CRE assets are sometimes more valuable than the corporate management and analysts could imagine. According to their study, when adjusted for inflation CRE holdings of corporations in the Standard & Poors (S&P) 500 list were in 1993, on average, worth twice as much when compared with their value at historical costs on corporate balance sheets (real estate was worth 19,7% out of corporate assets at historical cost and 39,4 % out of corporate assets when adjusted for inflation).

After the first studies related to CRE in the 1980s, several researchers have regularly studied CRE assets' share of total corporate assets with varying methods. The results have shown a clear decrease in the CRE ownership ratios. This indicates that corporations have seen it appropriate to direct the capital tied in non-performing real estate assets into more efficient use according to the principles of shareholder value management as stated earlier. For instance, Seiler et al (2001) showed that the average PPE to total corporate assets ratio decreased from 31,1% in 1985 (1Q) to 27,3% in 1994 (4Q) (a sample of 80 US corporations). Also, for instance, Brounen & Eichholtz (2005) found empirical evidence to support the assumption that corporate real asset ownership appears to be decreasing over time.

The most recent estimates of CRE ownership ratios in the US were calculated a couple of years ago. In 2002, Nappi-Choulet suggested that the CRE assets to

total operating assets ratio among the US corporations would nowadays be only around 15% at book values, which means that the ratio would have decreased significantly during the past ten years. However, Laposa & Charlton (2001) came to the conclusion that in the US the value of real estate assets averages out about 25% of corporate net worth. The CREMRU-JCI Annual Survey of CRE practices in 2002 (Bon and Luck, 2002) showed that CRE's share out of total assets among the sample corporations (58% from the US) was around 22%. The share had declined steadily every year since 1998 when it was still 34 %.

Previous research on property assets to total assets ratios in European context has been much more scarce than in the US. At least four studies have been conducted on UK data and a few researchers have tried to estimate an average real estate to total assets figure for the entire Europe. In 1989, Avis et al. suggested that real estate holdings at market value account for 30-40% of companies' capital in the UK (based on Laposa & Charlton 2001). Survey by Currie & Scott (1991) supported this assumption by estimating that real estate assets to total assets ratio lies between 30% and 40% among the UK corporations (based on Laposa & Charlton 2001). In 2002, a paper published by London City University indicated that in the UK CRE accounts, on average, for 18% of total assets when net book values of the year 1999 were used. Therefore, it could be suggested that companies in the US S&P 500 list had already in 1993 less real estate on the balance sheet than the UK corporations in London City University's study in 1999 (CRE at book to total assets ratio was approximately 18% in 1999 in the UK and CRE at cost to total assets ratio in the US was around 19,7% in 1993). Further, a study (Bootle, 2002) by Royal Institute of Chartered Surveyors (RICS) showed in 2002 that UK private sector commercial property at market values represents around 34 % of the total business assets. On the other hand, Nappi-Choulet (2002) estimated that the CRE assets to total operating assets ratio in Europe would be between 35-40%.

Many researchers have also noticed that real estate ownership appears to be more driven by industrial differences than national variations (e.g., Brounen & Eichholtz, 2005, Seiler et al, 2001 and Deng & Gyourko, 2000). This is the case, even though some researchers have indicated that the share of property out of total assets is higher in Europe than in the US. Laposa & Charlton (2001) tried to test the hypothesis that there would be significant differences in the PPE book values between European and US corporations. The results indicated that in some specific sectors US corporations own less real estate as a share out of total assets compared with European corporations.

Based on the latest estimates it seems that CRE (at market values) represents, on average, around 20-30% of total assets in the US depending on the sample, and in the UK it represents around 30-35% of total assets. In the Western Europe, these figures might be in general even a bit higher than in the UK (see table 2).

Table 2. *B&L (at market values) to total corporate assets in previous studies*

	US	UK	Europe
Zeckhauser and Silverman (1983)	25-40 %		
Veale (1989)	58% over 20%*		
Avis, Gibson and Watts (1989)		30-40 %	
Currie and Scott (1991)		30-40 %	
Flegel (1992)	20-35 %		
Bootle (2002) *		34 %	
Nappi-Choulet (2002) **			35-40 %
* 58% of the corporations in the study had real estate assets to total assets ratios of over 20%			
** It is not certain if the figures presented by Nappi-Choulet are at real estate market values basis			

Further, as table 3 shows, when the calculations are based on at historical acquisition costs of real estate, real estate assets to total assets ratios in the US were around 20% and real estate assets to corporate market values around 26% in 1993. As stated earlier, Nappi-Choulet estimated in 2002 that real estate to total assets ratios at real estate book values are nowadays around 15% in the US. Based on London City University, these figures were around 18% in the UK in 1998 as stated earlier.

Table 3. *Average B&L to total assets / market value ratios in the US in 1993 (Nelson et al. 1999)*

At historic cost to total assets	19,7 % (1993)
At historic cost to market value	25,7 % (1993)
Inflation adjusted to total assets	39,4 % (1993)
Inflation adjusted to market value	50,0 % (1993)

Based on previous research concerning PPE to total assets ratios in US, it can be estimated that the average figures are currently around 20 % depending on the sample (see Table 4). There is clearly less data concerning the UK and European PPE to total assets figures. Based on Brounen & Eichholtz (2005), these values seem to be somewhere between 30% and 40%. Thus, it seems that real estate at market values is worth, on average, nearly as much as the corporate PPE holdings at book values.

Table 4. PPE (at net book values) to total corporate assets in previous studies

	US	UK	Europe
Seiler & al (2001)	31,1 % (-85)		
Seiler & al (2001)	27,4 % (-94)		
Deng and Gyourko (2000)	20 % (84-93)		
Brounen and Eichholtz (2005)	9 countries around 28 % (-00)*		
Brounen and Eichholtz (2005)		42% (-00)*	32% (-00)*
* Incl. France, Germany, the Netherlands and the UK			

In addition to real estate assets to total assets ratios, CRE ownership can also be illustrated by owner-occupation ratios. JLL showed in 2001 that owner-occupied real estate in Europe forms nearly 70% of the total CRE. In 2002, JLL reported that this figure had declined to about 67%. According to Miles et al. (1991), corporations had invested in 1990 approximately \$1,7 trillion of the estimated \$2,7 trillion commercial real estate stock in the US. This means that already in 1991 the amount of CRE owned by US corporations was less than what the amounts are, on average, today in Europe (in 1991 around 63% in the US vs. in 2002 about 67% in Europe).

In 2002 Nappi-Choulet estimated that only approximately 30% of US CRE is currently owner-occupied. Nappi-Choulet presented the same figures for Europe as what JLL did (70 %). On the other hand, Wainwright (2000) claimed that there would currently be even wider gaps in the owner-occupation ratios between the old continent and the US by stating that the US corporate occupiers own around 18% of the property they occupy, whereas in Europe the figure is closer to 70%.

In Europe it seems that the UK corporations are leasing more of their premises compared with their continental European rivals. A study sponsored by RICS (Bootle 2002) showed that approximately 64% of commercial and industrial property in the UK is owner-occupied. In the Netherlands, Krumm & Linnemann (2002) estimated that around 75% of Dutch commercial real estate is owned by corporations, not investors (see table 5).

When comparing the US figures with the European ones, it must be remembered that the properties, which corporations usually outsource first, are valuable investment grade offices, retail and warehouse premises. This leads to an immediate decrease in real estate to total assets and owner-occupation ratios when corporations begin to carry out large scale SLBs. The effect of outsourcing accentuates also in business sectors that use valuable real estate, such as high-class offices or retail spaces. Moreover, the effects are more noticeable in countries and locations where land is particularly expensive.

Table 5. *Owner-occupation ratios based on previous research*

	US	UK	Nether-lands	Finland	Europe
Miles (1991)	63 % (-91)				
Kaleva (1998)				> 60 % (-98)	
Wainwright (2000)	18 % (-00)				70 % (-00)
JLL (2001)					70 % (-01)
JLL (2002)					67 % (-02)
Nappi-Choulet (2002)	30 % (-02)				70 % (-02)
Bootle (2002)		64 % (-02)			
Krumm& Linnemann (2002)			75 % (-02)		

When comparing real estate assets to total assets ratios across countries it is also important to remember the differences in prices of property in different areas. For instance, land is traditionally very expensive in the UK. Therefore, corporations might have higher real estate assets to total assets ratios when compared with corporations in smaller countries, although according to square meters they might lease larger parts of their facilities. It should also be kept in mind that the terms and regulations of leases may vary across countries. Hence, it might be more profitable for a corporation to acquire a facility with a lease in some country than in another. Further, because real estate assets to total assets ratios differ greatly across business sectors, it is obvious that different samples will give totally different results. Also, due to the differences in accounting principles across countries and companies, it is rather difficult to compare the CRE holdings in different countries. Additional calculation errors may be created when comparing countries, such as Finland, where it is customary for corporations to own most of their real estate through real estate companies. The real estate companies, in which the corporation has a minority share ownership, are not necessarily consolidated in the group balance sheet.

In addition, many of the previous studies on the property assets to total assets ratios have been calculated using the corporations' PPE figures (at least Brounen & Eichholtz 2003, Deng & Gyourko 2000 and Seiler et al 2001). In asset intensive business sectors, such as transport (aeroplanes, ships etc.), engineering and forest industry (expensive machines), it is clear that the equipment often represents an even larger part of the total assets than what CRE does. This easily leads to false assumptions when assessing the significance of CRE holdings, and when

comparing the average real estate ownership between corporations of different industries and countries.

3 CRE ownership in the Helsinki Stock Exchange and the market for SLBs in Finland

3.1 Evidence from the Finnish SLB market

Until now, a majority of the property outsourcings in Finland have been single asset leasebacks. Corporations have also been focusing mainly on rearranging their property functions by creating real estate strategies, selling non-core real estate (not occupied by the corporation) and outsourcing property services. In the late-90s and in the beginning of this decade, several large non-core portfolios were disposed of by Finnish banks (Nordea, OKO, Sampo) and industrial companies (ABB, Fortum, Metso, Uponor, Wärtsilä). It has been widely argued that the development has now come to a point where, in many cases, most of the non-core holdings have been disposed of and the corporations have begun to consider the role of their operational real estate.

The only corporations that have already carried out larger operational CRE disposal programs comparable with the big European outsourcings are Nordea Bank and Kesko (a large retailer). The property sell-offs of Nordea included three leaseback-portfolios:

- A long-lease portfolio that consisted of the corporation's head offices was leased back with long-term structured net-leases (around 20 yrs)
- A market lease portfolio that consisted of banking branches was leased back with usual Finnish market leases of different lengths (around 5-10 yrs)
- In addition, the corporation disposed of a third portfolio that consisted mainly of partially owned bank branches and non-core premises.

The investors were a US-based net-lease investor (Cardinal Capital Partners), a private equity fund established by Anglo-French Ixis AEW and a Swedish opportunistic investment fund situated in the Netherlands (Catella Investment). Two assets were also sold to traditional domestic investors.

Kesko, on the other hand, has been selling its operational property assets since 1998 in several portfolios. In 1998 and 1999, Kesko sold a large number of retail premises and shopping centres to a domestic listed property company called Citycon. It also sold a great number of warehouses to another listed property company called Castrum (today a part of Sponda). These transactions were paid partly by the shares of Castrum and Citycon. Hence, from Kesko's point of view, the deals were not finalised until 2003, after the corporation had sold its last shares in Citycon to a foreign investor consortium. Kesko also sold some of its shopping centre properties in 2000 to a net-lease financier called Nordisk Renting, which is currently owned by the Royal Bank of Scotland.

Table 6 below lists the major CRE SLBs and outsourcings that have been carried out during 2000-03 in Finland. The information has been gathered from transaction databases of the Institute for Real Estate Economics (KTI), The Finnish Association of Building Owners and Construction Clients (Rakli) and Catella Property Consultants (Catella).

Table 6. Major SLBs in Finland during 2000-2003

	Seller	Sector	Investor(s)	Lease	M€
2000	Instrumentarium	Life science	Tapiola Group	Not available	42
	Kesko	Trade	Nordisk Renting	Not available	67
	Tamro	Trade	Sponda and Kapiteeli	Not available	14
	OKO	Banking	OKO Pension Foundation	Not available	92
2001	Lemminkäinen	Construction	Etera	10 yrs	19
	Alma Media	Media	Nordisk Renting	18 yrs	18
	Nextrom	Engineering	Nordisk Renting	Not available	20
	VIA Group	Consulting	ETEK Fund	Not available	8
	Nokian Renkaat	Manufacturing	Skandrenting	15 yrs	8
	Dahl	Retail	Nordisk Renting	Not available	16
2002	NCC	Construction	Nordisk Renting	15 yrs	22
	Sonera	Telecom	Nordisk Renting	20 yrs	22
	Outokumpu	Metal	Varma	Not available	50
	Stockmann	Trade	Nordea Life Assurance	Not available	32
	Indoor Group	Trade	Skandrenting	Not available	18
	Perkin Elmer	Life science	WP Carey	20 yrs	28
	Sampo	Banking	Sigfrid Juselius Foundation	Not available	17
	Wärtsilä	Engineering	Varma	Not available	14
	DFDS Transport	Transportation	Nordisk Renting	18 yrs	11
2003	Nordea	Banking	IXIS AEW Europe	5-10 yrs *	100-150*
	Jaakko Pöyry	Consulting	Nordisk Renting	20 yrs	48
	Stockmann	Trade	Wereldhave NV	Not available	36
	Aspo	Manufacturing	Rautaruukki Pension Fund	Not available	11
	Sato	Real estate	Suomi Life Assurance	Not available	18
	Hansel	Consulting	Kapiteeli	Not available	10
	Kesko	Trade	Kesko Pension Fund	Not available	15
* An estimate. 280 m€ in Finland, Norway and Sweden. Total around 300 000 sqm.					

Despite the traditional short-term rental agreements in Finland, most of the SLBs have been done with rather long-term contracts as can be clearly seen from table 6 above. The market for real estate SLBs grew a little during the years 2003-2004 in Finland. There seems to have been a constant flow of single asset SLBs on the market.

A clear increase can, however, be noticed in the number of foreign investors on the SLB market (see table 7). This is likely to be continued due to the wide range of financing options foreign corporations can offer, and due to large amounts of capital they have currently available for these kinds of investments. It must also be remembered that currently many Finnish property companies are largely in foreign ownership (Citycon and Polar Real Estate).

Table 7. The Finnish SLB market 2000-2003 (MEUR)

	Finnish investor	Foreign investor	Foreign net-lease financier	Total	% of inv. volume*
2000	148	0	67	215	6,3 %
2001	27	0	62	89	3,9 %
2002	113	0	101	214	9,3 %
2003	39	156	48	220-270	10,1 %
* Investment volume is based on the estimates of Catella (2003)					

3.2 CRE ownership among the Stock Exchange listed companies in Finland

The Helsinki Stock Exchange (HEX) is heavily dominated by IT, telecom and services sectors, which together form 37% of the corporations in our sample. It is clear that especially software and IT consulting corporations tend to own significantly less real estate compared with corporations in more traditional business sectors. For instance, the IT and telecom sector, which represents approximately 28% of the sample corporations, accounts only for approximately 8,7% of the total number of B&L in the sample corporations' possession (see figure 2 and table 8). Therefore, it can be assumed that the average ratios of real estate assets to total assets among the corporations in the HEX might be relatively low.

In terms of book value (after depreciation), the total ownership of B&L amounted to 19,3 billion euros in the sample of 91 corporations in 2000. Between the years 2000 and 2003 the corporations' real estate ownership at book values decreased by approximately 500 million euros to 18,8 billion euros. On the other hand, the 91 corporations' real estate ownership at historical acquisition costs was approximately 26,1 billion euros in 2000 and approximately 26,5 billion euros in 2003. Thus, the decrease in real estate ownership at book values is likely to be a

consequence of depreciations during this period and not a consequence of major real estate sales, as one might expect.

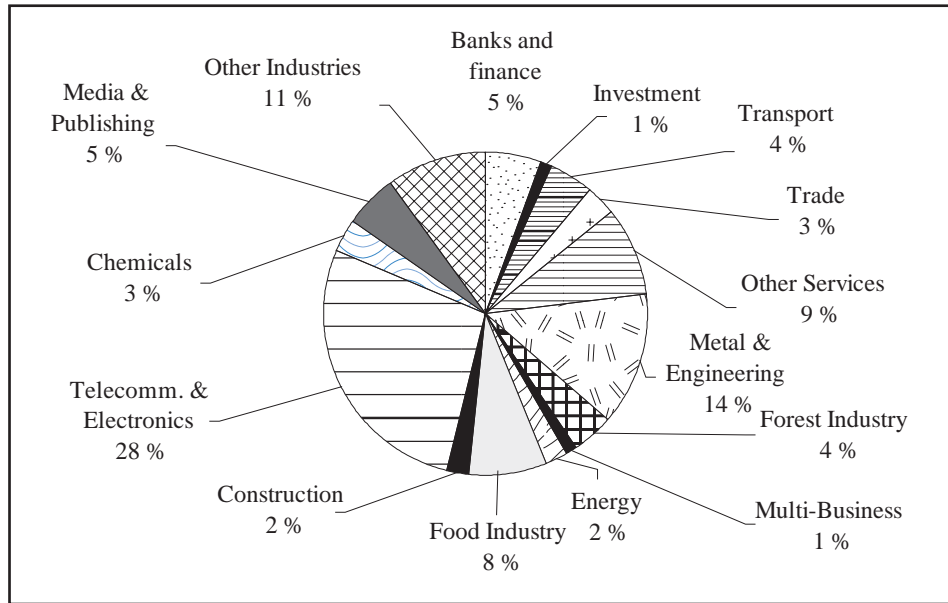


Figure 2. Corporations in the sample (n= 91)

At the same time, the book values of the sample corporations' total assets increased from 392,1 billion euros to 488,4 billion euros. Thus, it seems like during these years the total assets on the corporate balance sheets grew significantly faster than the amount of total CRE in their possession. This could perhaps be explained by the large number of mergers and acquisitions, which occurred during this period (Sonera, Nordea etc.).

Calculations of the CRE ownerships of different industry sectors indicate that the forest and energy sectors are currently the most significant real estate owners among the stock exchange listed corporations in Finland (see table 8). In 2003, these two sectors accounted for over half of the total real estate assets owned by the sample corporations. On the other hand, the banking sector has clearly been trying to exit the property industry. It used to be the third largest real estate owner of the sample in 2000, whereas in 2003 its property holdings were only the sixth largest in our sample. During this time, nine out of the 15 business sectors have decreased their real estate ownership at book values and seven out of the 15 business sectors have decreased their real estate ownership at historical acquisition costs, even though, on average, the sizes of the corporate balance sheets have increased.

Table 8. End-of-year B&L holdings of the different sectors in the sample

	Number (n)	At cost				At book			
		B&L'00 (m€)	%	B&L'03 (m€)	%	B&L'00 (m€)	%	B&L'03 (m€)	%
Banks & finance	5	3 426	13,1	1 295	4,9	2 312	12,0	884	4,7
Investment	1	0	0,0	0	0,0	0	0,0	0	0,0
Transport	4	244	0,9	240	0,9	141	0,7	121	0,6
Trade	3	1 120	4,3	1 263	4,8	880	4,6	960	5,1
Other Serv.	8	280	1,1	171	0,6	184	1,0	143	0,8
Metal & Engin.	12	2 165	8,3	2 696	10,2	1 538	8,0	1 941	10,3
Forest	4	9 237	35,4	9 146	34,5	6 964	36,1	6 042	32,1
Multi-Busin.	1	21	0,1	6	0,0	17	0,1	3	0,0
Energy	2	4 881	18,7	6 205	23,4	3 687	19,1	4 854	25,8
Food	7	1 152	4,4	1 136	4,3	809	4,2	735	3,9
Construction	2	91	0,3	82	0,3	56	0,3	47	0,3
Tele & Electr.	25	1 452	5,6	2 279	8,6	1 169	6,1	1 651	8,8
Chemicals	3	1 289	4,9	1 273	4,8	801	4,1	734	3,9
Media & Publish.	5	402	1,5	415	1,6	470	2,4	503	2,7
Other Ind.	9	352	1,3	330	1,2	281	1,5	217	1,2
Total	91	26112	100	26538	100	19 316	100	18 835	100

It is also very interesting to notice that the five largest real estate owners held around 60% of the total real estate in the sample corporations' possession. These corporations were Fortum (Energy sector), UPM-Kymmene (Forestry sector), Stora-Enso (Forestry sector), M-Real (Forestry sector) and Kesko (Trade sector). This shows how concentrated the real estate ownership generally is in Finland and it also highlights the huge differences in the sizes of the corporations in the HEX. A large number of the corporations listed in the HEX are smaller companies with high turnover growth. These companies generally tend to lease more real estate than the larger corporations. The median of B&L ownership at book values in the HEX main list was only approximately 23,7 million euros in 2003. The largest owner was Fortum with its B&L at book value worth 4,79 billion euros and there were several corporations that had no B&L ownership. Thus, the differences in real estate ownerships among the corporations listed in HEX are enormous. Therefore, it can be assumed that the property ownership ratios of a smaller group of large companies would probably describe the Finnish companies' property assets to total assets ratios better than the entire sample, in which the emphasis is far too much on technology and service sectors and on smaller companies.

Therefore, an additional sample was formed of the 30 largest HEX-listed companies based on corporations' market capitalization. In terms of market capitalization, the 30 largest corporations represented around 94% of the total market capitalization of companies in the HEX main list, and approximately 97% of the sample corporations' assets. In 2000, these corporations owned approximately 94,3% of the total amount of B&L in the entire sample at book values. This figure decreased to 93,8% in 2003 indicating that the larger corporations have clearly been trying to follow the international trend of CRE divestments. Figure 3 shows the representation of the different business sectors in the sample of the 30 largest companies.

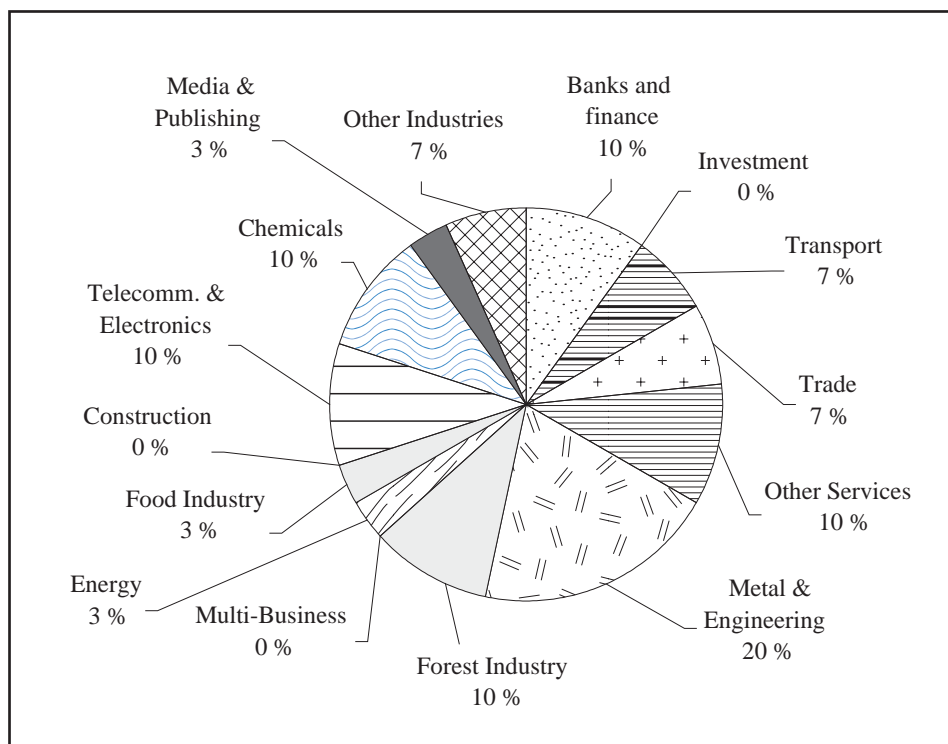


Figure 3. Breakdown of HEX-30 corporations

The property ownership ratios; B&L and PPE to total assets, B&L and PPE to market capitalization and B&L to PPE were first calculated for the entire sample, and then for the 30 largest corporations.

When estimating the property ownership ratios, it became clear that the finance and investment industries had the lowest real estate assets to total assets ratios, as well as, PPE to total assets ratios in the sample, which is understandable due to the huge balance sheets banks tend to have. In 2003, the highest average B&L ownership among the corporations was in the food industry (at cost 34,1%,

at book 21,7%), and the second highest in the energy sector (at cost 30,0%, at book 21,4%). In 2000, the highest average B&L ownership of total assets was in the chemicals sector, which has since then decreased its amount of total assets tied in real estate (at cost 37,5% in 2000 and 30,4% in 2003). The highest PPE to total assets figures were in the transport and energy sectors in 2003. In these sectors PPE accounted, on average, for almost 70% of the corporations' total assets at book values. The average B&L ownership at book values as a share of total assets has decreased in 10 out of the 15 business sectors between the years 2000 and 2003. On the other hand, during the same period the PPE to total assets ratios decreased only in eight of the corporations (see table 9). It is important to notice here that the amount of corporations vary a lot between different business sectors from a couple of companies in some business sectors to over ten companies in the largest sectors. Telecommunications & electronics sector was the largest and the investment sector the smallest having only one non-real estate investing corporation.

Table 9. B&L and PPE to Total assets in different business sectors in the HEX main list

	At cost		At book		At book	
	B&L to total assets 2000 (%)	B&L to total assets 2003 (%)	B&L to total assets 2000 (%)	B&L to total assets 2003 (%)	PPE to total assets 2000 (%)	PPE to total assets 2003 (%)
Banks & finance	1,3	0,7	1,1	0,5	1,3	1,1
Investment	0,0	0,0	0,0	0,0	0,1	0,0
Transport	6,2	6,2	4,5	3,3	71,2	68,2
Trade	22,0	24,3	17,7	19,2	25,1	27,2
Other Serv.	13,6	5,3	8,0	4,7	26,8	29,1
Metal & Engin.	13,0	15,3	8,9	10,9	27,8	28,1
Forest	20,8	22,3	14,8	14,2	55,6	55,5
Multi-Busin.	17,7	4,8	14,6	2,2	69,9	56,9
Energy	28,1	30,0	19,9	21,4	62,3	66,7
Food	32,0	34,1	23,4	21,7	42,2	42,9
Construction	25,6	19,0	16,1	15,0	35,3	29,5
Tele & Electr.	6,2	8,9	4,4	7,4	19,5	23,9
Chemicals	37,5	30,4	25,1	18,4	50,5	37,5
Media & Publish.	18,1	17,1	13,2	11,2	29,8	24,2
Other Ind.	13,6	16,5	11,9	10,8	28,6	29,9

The average B&L to total assets ratio in the sample of 91 corporations was 14,4% at historical acquisition costs and 10,1% at book values in 2003 (see table 9). The same figures were somewhat lower in 2000. This means that there has not been a clear decline in the average real estate assets to total assets ratios among the sample corporations during the past few years, although corporations own clearly less real estate at book values today than in 2000 (19,3 billion euros vs. 18,8 billion euros). An explanation for this could be that most of the large real estate sales during the past few years have been carried out by a few large real estate owners (Nordea, Fortum, OKO, Stockmann, Kesko etc.). This in turn, has had a direct effect on the total amount of real estate in the corporate balance sheets, but not on the average ownership ratios of the 91 corporations.

Based on book values of the 91 corporations, the PPE to total assets ratio was, on average, 30,8% in 2003 (30,1% in 2000). As table 10 shows the PPE to total assets ratios tell only a little about the real estate ownership. According to our calculations B&L accounted only for around 36,9% of corporations' PPE at book values in 2003 in the HEX main list.

Table 10. *End-of-year property ownership of the HEX main list companies in 2000 and 2003*

	2000	2003
B&L (at book) to Market cap* (mean)		18,2 %
B&L (at book) to Market cap* (median)		8,2 %
B&L (at cost) to Market cap* (mean)		26,7 %
B&L (at cost) to Market cap* (median)		11,9 %
PPE (at book) to Market cap* (mean)		54,3 %
PPE (at book) to Market cap* (median)		25,0 %
B&L (at book) to Total assets (mean)	9,7 %	10,1 %
B&L (at book) to Total assets (median)	8,5 %	9,4 %
B&L (at cost) to Total assets (mean)	14,1 %	14,4 %
B&L (at cost) to Total assets (median)	11,9 %	12,7 %
PPE (at book) to Total assets (mean)	30,1 %	30,8 %
PPE (at book) to Total assets (median)	24,0 %	25,9 %
B&L to PPE (at book) (mean)	34,0 %	36,4 %
B&L to PPE (at book) (median)	31,1 %	33,4 %
*Market cap as it was in 7/5/04		

Based on table 10, it seems that the property ratios among the Finnish listed companies are lower than one might expect. This is, perhaps, due to the technology and service oriented industry profile of the HEX and to the high number of small companies with high growth that tend to lease most of their facilities.

When the same calculations were made for the sample of the 30 largest corporations the figures were somewhat higher than the figures in the whole sample (see table 11). In addition, there has been a clear decreasing trend of CRE holdings as a percentage out of total corporate assets, which is something that was not clearly seen in the entire sample. This shows that when it comes to strategic real estate management issues the larger Finnish companies have chosen to implement a different strategy compared with the smaller companies during the past few years.

Table 11 shows property ownership ratios of the HEX-30 corporations (at book and at cost). The average B&L at book values to total assets ratio was approximately 10,9% and B&L at book values to market capitalization was around 19,6% in 2003. On the other hand, the average B&L at historical costs to total assets ratio was around 16,0% and B&L at historical costs to market capitalization was 28,3% in 2003. The PPE to total assets ratio was on average approximately 30,6% and PPE to market capitalization ratio around 61,2% in 2003.

Table 11. End-of-year property ownership of the 30 largest companies in the sample in 2000 and 2003

	2000	2003
B&L (at book) to Market cap* (mean)		19,6 %
B&L (at book) to Market cap* (median)		19,7 %
B&L (at cost) to Market cap* (mean)		28,3 %
B&L (at cost) to Market cap* (median)		19,8 %
PPE (at book) to Market cap* (mean)		61,2 %
PPE (at book) to Market cap* (median)		56,6 %
B&L (at book) to Total assets (mean)	12,2 %	10,9 %
B&L (at book) to Total assets (median)	12,4 %	11,1 %
B&L (at cost) to Total assets (mean)	15,8 %	16,0 %
B&L (at cost) to Total assets (median)	14,6 %	15,4 %
PPE (at book) to Total assets (mean)	33,4 %	30,6 %
PPE (at book) to Total assets (median)	32,4 %	29,5 %
B&L to PPE (at book) (mean)	44,3 %	44,4 %
B&L to PPE (at book) (median)	45,4 %	45,6 %
*Market cap as it was in 7/5/04		

It is clear that mainly due to inflation the market values of CRE are usually much higher than the historical costs shown in the financial statements. Thus, a sophisticated guess would be that among the HEX-30 corporations in 2003 the average B&L to total assets ratio at market values was at least over 20%, perhaps, even over 30%. Similarly, the average B&L to market cap ratio was, perhaps, around 40-50% at market values.

It is likely that the corporations getting the most benefits from selling and leasing back real estate are the ones with large holdings of investment grade office and retail facilities. Further, as table 12 shows, there are many HEX-listed corporations, of which real estate holdings are worth nearly as much, or even more than the whole company. In these cases, the corporations should consider releasing these 'hidden capital reserves' by conducting SLBs. Otherwise the corporation might become a takeover target in the future (see tables 12 and 13). Hence, single asset leasebacks might occur in every corporation that has appropriate real estate assets for this purpose, even though the most potential business sectors for real estate outsourcings usually are trade, energy, forest, metal & engineering and food.

Table 12. *Sample corporations of which B&L (at cost) to market capitalization ratio is over 50%*

Corporation	B&L at cost (m€) 12/31/03	Market cap (m€) 7/5/04	B&L/MC 2004
Atria Yhtymä	236,9	108,2	218,94 %
HK Ruokatalo	209,4	132,9	157,52 %
M-real	1 798,8	1 293,2	139,10 %
Componenta	60,0	43,3	138,59 %
Stromsdal	7,7	6,0	127,38 %
Olvi	51,2	48,9	104,60 %
Raute	20,0	21,7	92,17 %
Raisio Yhtymä	201,2	241,6	83,27 %
Okmetic	33,3	43,9	75,75 %
Lännen Tehtaat	62,8	85,4	73,55 %
Rautaruukki	638,0	918,0	69,50 %
Kesko	1 067,6	1 536,9	69,46 %
Fortum	6 104,0	8 902,2	68,57 %
UPM-Kymmene	4 087,0	8 078,8	50,59 %

Table 13. Average B&L (at cost) to market capitalization ratios across industries in the sample

	B&L'03/MC'04
Food	98,1 %
Forest	88,2 %
Energy	45,4 %
Metal & Engin.	36,9 %
Chemicals	33,6 %
Trade	32,0 %
Construction	27,2 %
Media & Publish.	15,9 %
Transport	14,2 %
Other Ind.	12,9 %
Banks & finance	10,6 %
Tele & Electr.	10,5 %
Other Serv.	3,7 %
Multi-Busin.	5,4 %
Investment	0,0 %

3.3 A comparison of CRE ownership between Finland, Western Europe and the US

As was indicated earlier, based on previous research the owner-occupation rates are probably somewhat higher (around 70% and 65%) in Western Europe and in the UK than in Finland (over 60%). In the US (under 30%) the rate is, however, much lower. Nevertheless, these figures are only indicative, as there is very little research available concerning the owner-occupation ratios in the Western Europe.

When comparing the B&L to total assets ratios, the US corporations are again leading the way, on average, with the smallest number of real estate holdings on balance sheets. In the US, the average real estate assets to total assets ratio at market values is probably around 20-30% or, perhaps, even less. However, the Finnish companies in our sample seem to have currently, on average, only a little larger amount of real estate on corporate balance sheet. The UK corporations, on the other hand, seem to have a higher amount of their total assets tied in real estate compared with the Finnish or the American companies (see table 14). For instance, in terms of book values, companies in the UK in 1998 had approximately 18% of their total assets in B&L. The same figure in Finland in 2000 was around 11%.

Also the PPE ratios indicate that the levels of property ownership in the Finnish sample are nearer to the US figures than the European ones. PPE to total assets ratio in our sample was, on average, around 31%, which is clearly more than in the US today, and slightly less than in the US in 1985 based on Seiler et al (2001). On the other hand, PPE to total assets ratios in Finland seem to be somewhat lower compared with the European figures. This is so, despite the small amount of benchmark data.

Table 14. *A comparison of property ownership ratios between different countries (Bootle 2002, Nelson et al. 1999, Nappi-Choulet 2002, Seiler et al. 2001, Brounen & Eichholtz 2000 and London City University 2002)*

	US	UK	Europe	Finland 12/2003**
B&L (at book) to Total assets	15 % (-02)	18 % (-98)		11 %
B&L (at cost) to Total assets	19,7 % (-93)			16 %
B&L (at market) to Total assets		34 % (-02)	35-40 % (02)	
B&L (at book) to Market cap				20 %
B&L (at cost) to Market cap	25,7 % (-93)			28 %
B&L (at market) to Market cap	50 % (-93)			
PPE (at book) to Total assets	27,4 % (-94)	42 % (-00)*	32 % (-00)*	31 %
PPE (at book) to Market cap				61 %

* Incl. France, Germany, the Netherlands and the UK

** Finland's ratios are based on this study's calculations

There are a couple of suitable explanations for the low real estate assets to total assets ratios in Finland. One explanation could, for instance, be the generally lower land prices of major hubs in Finland compared with, for instance, in the UK or the US. Secondly, the traditional short-term leases have made leasing more flexible in Finland than in some other European countries and as discussed earlier there are actually indications that the Finnish corporations were leasing, on average, larger parts of their facilities than their Western European equivalents already since the late 1990s (Kaleva 1998). In addition, there is a relatively high number of smaller corporations with high growth, as well as, technology and service companies in Finland that do not usually own as much real estate as the more traditional industries.

Further, when comparing the real estate ownership ratios shown in this study to the ratios of other studies, it must be remembered that the B&L figures here include only corporations' total B&L ownerships. The figures do not include construction in progress, capitalized leases or natural resources, which might be included in the real estate figures of some other studies. In addition, real estate

holdings in affiliate companies, of which a corporation owns less than 50%, are not usually shown in the tangible assets of corporations. This means that these kinds of real estate holdings are also excluded from this study. As corporations in Finland tend to have separate real estate companies for nearly all of their real estate due to the Finnish taxation system, the real estate ownership figures in this study might be a little too low. However, based on estimation, these errors should be very small, because it seems to be quite rare that a corporation owns less than 50% of its real estate companies. This is due to the fact that it is much more difficult for a corporation to make decisions in a real estate company with a minority share ownership than it is with a majority ownership in Finland.

The weights of different industries in the sample and the calculation methods can greatly affect the results, which means that the results are only indicative. However, it seems clear that the Finnish companies are in the forefront of the European corporations when it comes to the proportion of their leased real estate of total CRE assets.

4 Conclusions

The aim of this study was to gather new information on CRE ownership and the market for real estate SLBs in Finland. The property ownership and related ratios of the corporations listed in the HEX main list were investigated and compared with the respective figures in other countries. In addition, the development of the Finnish SLB market during the past few years was illustrated by calculating the volume of the market between 2000-2003 and by gathering an indicative list of major SLBs in Finland during these past four years. Further, the real estate ownership and related ratios were calculated for the years 2000 and 2003, in order to see if there has been a decline in the ratios.

This study found out that the real estate ownership ratios are, on average, somewhat lower in Finland than in the UK and in the Western Europe in general. Explanations for this might be, for instance, lower land prices in Finnish cities compared with major European hubs, as well as, short-term rental agreements that are traditionally flexible in Finland. However, in the US these ratios seem to be lower than in our Finnish sample. The real estate assets to total assets ratios and owner-occupation ratios in major European countries are currently at about the same level of what these figures were in the US about a decade ago. Thus, we can assume that the current trend of decreasing corporate property ownership will continue in Europe in the future.

The sample of the HEX-30 corporations showed a clear decrease in the real estate assets to total assets ratios during the past three years. Also, the total real estate ownership at book values in the HEX decreased during this period, even though at the same time the amount of total assets among the corporations grew a great deal. This notion is inline, for instance, with the previous findings of Seiler et al. (2001) and Brounen & Eichholtz (2003) who indicated that CRE ownership appears to be decreasing over time. The volume of SLBs in Finland increased

somewhat in 2002-2003. It seems that there has been a constant flow of SLBs in Finland, which is also likely to continue in the future. Additionally, a significant increase in the share of foreign investors providing SLB finance on the Finnish market has been noticed during the past few years.

It is likely that the corporations getting the most benefits from selling and leasing back real estate are the ones with large holdings of investment grade office and retail facilities. Further, as shown in this paper, there are many HEX-listed corporations, of which real estate holdings are worth nearly as much, or even more than the whole company. In these cases, the corporations should consider releasing these 'hidden capital reserves' by conducting SLBs. Hence, real estate leasebacks might occur in every corporation that has appropriate assets, although the most potential business sectors for real estate outsourcings seems to be trade, energy, forest, metal & engineering and food that own the largest real estate holdings.

It would be interesting to see more research concerning the real estate ownership and related ratios of different countries and different business sectors. Today, it is very difficult to compare the corporate property ownership ratios across countries due to a lack of appropriate data and research. Moreover, it would be interesting to see more research on the market values of the corporate property holdings and to find out how corporations take advantage of this 'hidden reserves' they in many cases have at their disposal.

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