DISPOSAL STRATEGIES IN CORPORATE REAL ESTATE PORTFOLIOS

EVIDENCE FROM THE DUTCH BANKING SECTOR

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FOREWORD

Before you lies my master thesis, the final part of the master track *Real Estate & Housing* at the Technical University of Delft. Within the contents of this work you will find a synergy of two of my personal fascinations; real estate and the financial sector. Throughout this work I aimed to synergize these two by penetrating the sensitive walls of the financial sector within the boundaries of my own discipline: real estate.

In order to achieve this ambition, I had to enter the realms of the Dutch banking sector through interviewing experts in the field. By arranging and conducting these interviews, I gained an understanding of the diverse and complex nature of the sector and its employees. Occasionally, words were minded, where in other occasions the counterparty proved extremely open during the interviews. This multilateral characteristic was also found in the real estate processes of the businesses, as each process contained unique features and incorporation of themes.

This research does not set out to provide a blueprint model on how to execute corporate real estate disposal processes. On the contrary, it encourages managers and owners of corporate real estate to grasp opportunities and shift from a reactive to a proactive stance on the management of their real estate. In order to reach this goal, it provides concepts and insights with suggested improvements to support this shift in mind-set.

Through this way, I would like to seize the opportunity to thank everyone who has supported me throughout the process, either knowingly or unknowingly. I would like to express special gratitude to those who helped me to arrange the interviews through their personal network, and the people who were willing to arrange time in their schedules for these interviews.

More than anything, I would like to thank my parents for their unconditional love and support throughout my academic career and my personal life until now and in the future. I would not have been able to do this without you.

Sander Rovers,
April 2017

EXECUTIVE SUMMARY

1. INTRODUCTION

Inefficient corporate real estate disposal decisions

Owners and managers of corporate real estate find themselves in a context that is much more dynamic and changeable than before, in turn pressuring the financial efficiency of their decision-making (Remøy et al., 2016). The growing deviation between investor's longevity and occupier outlook drives the organizational need for agility through its real estate, due to increased friction between the illiquidity of real estate and increased space-use fluctuations of organizations (Gibson, 2001; Woollam, 2004). Simultaneously, the last years showed high corporate real estate disposal activity, motivated by the current innovation climate, changing purchasing patterns, and lower economic growth (Ernst & Young, 2014). These corporate real estate disposal strategies are generally used as short-term tools for capital generation in times of financial distress, leading to bad deal terms and future problems (Gibson, 2002; Louko, 2006). In order to establish organizational value, institutes should execute real estate disposal strategies from a position of strength (Morris, 2010).

The transition of the financial sector

The current economic recovery and positive business sentiment is encouraging organizational expansion strategies, leading to declining unemployment and job creation in office-related sectors (CBS, 2016; CBRE, 2017). Since the financial recession, the Dutch banking sector experiences a contradictory development through the reduction of approximately 60,000 FTE's in the period 2008-2020 (Bökkering & Couwenberg, 2015). In a response, Dutch banks have been disposing of a large share of their historically large ownership portfolios (Keuning & Bökkering, 2016).

Problem identification

The increased organizational space-use fluctuations pressure corporate real estate disposal decisions, leading to financially inefficient decision-making. The main objective of this research is establishing an operational framework to improve the disposal decisions of owners and managers of corporate real estate in the Dutch banking sector.

The main research question of this work is as follows:

How can the decision-making in disposal strategies in corporate real estate portfolios in the Dutch banking sector be improved?

Following the research findings, this work suggests the following nine improvements to the corporate real estate disposal process of Dutch banking institutions:

- Weighting and selection of variables in the disposal process through the evaluation of three components, namely the corporate business strategy, real estate portfolio characteristics, and organizational characteristics;
- Forming a multi-disciplinary transaction team in times of expected real estate activity;
- Organizations should, when the business growth development is negative, proactively align their corporate real estate disposal strategies to the real estate market cycle;
- Using technological innovation to respond to changes in the organizational context, enable corporate real estate disposal processes, and achieve competitive advantage;
- Using the peripheral model tailored to the characteristics of the banking sector to achieve organizational agility in a financially efficient way;
- Strategic alignment of the organizational commitment in core and disposal properties to buyer preferences in order to facilitate the disposal process or enhance financial revenues.
- Selection of disposal strategies based on the optimal business case of the exit scenario;
- Incorporation of vision development in the initiation valuation of external advisors in case of presumed redevelopment value;
- Exercise selective control on future use after disposal in case of potential business disruption or risk of reputational repercussions.

The use of proactive corporate real estate management established competitive advantage and financial organizational value in corporate real estate disposal decisions, whereas the reactive management of corporate real estate caused inefficient decision-making. The number of organizations in the Dutch banking landscape that proactively seek for alternative ways to cope with the friction between the illiquidity of real estate and the increasing space-use fluctuations is limited.

The reactive orientation of real estate towards the business development of the organization has an inhibitory effect on achieving organizational agility through the corporate real estate portfolio. The main solution to solve the current lack of agility in the real estate portfolios is shifting the mind-set of owners and managers of corporate real estate towards the active execution of corporate real estate activity. The operational framework therefore provides concepts and insights that guide the user towards a proactive and agile accommodation of the Dutch banking organization through combing financial optimization with enhanced flexibility.

2. RESEARCH METHODOLOGY

As conventional theoretical knowledge and concepts are no longer sufficient to cope with increased organizational space-use fluctuations, this work applies an evidence-based research approach. The evidence-based design takes the best current best available evidence from three different sources (scientific, experiential, and contextual), and reflects this on the population (Spring, 2007; Pfeffer & Sutton, 2006). The research takes a qualitative and deductive orientation towards the theory and research, meaning its tests and verifies the theoretical premise as derived through an extensive literature review (Bryman, 2012). In order to do so, case study research is used to map the unique characteristics of the cases and their context, and provide a deeper understanding of the decision-making in corporate real estate disposal strategies (Cassel & Symon, 2004; Kumar, 2011). Four case studies are executed in order to enhance the robustness and reliability of the research. The case studies are selected through typical selection (three) and deviant selection (one). The data for the case studies is gathered through the execution of seven semi-structured, formal interviews with experts across the four cases and the conduction of document analysis (O'leary, 2004). Subsequently, the four cases are compared through a case comparison analysis. The research findings are used in the development of the operational framework.

3. MAIN FINDINGS LITERATURE REVIEW

Financial flexibility

The friction that arises in the implementation of flexibility in illiquid real estate has led to the introduction of financial flexibility. Financial flexibility is when an organization wants to be able to responds to future changing needs in space utilizations through the financial structure of the portfolio, embodied by the peripheral concept model. The peripheral concept provides corporate real estate managers with a way to establish financial flexibility by decomposing the real estate portfolio in layers based on the duration of the commitment in the properties (Gibson, 2001).

Corporate real estate for business communication

Corporate real estate provides an organizational instrument to create identity and thereby forms a means for business communication. Organizations can deploy strategic Corporate Social Responsibility (CSR) in their real estate interventions to improve the company image (Mentink, 2014). A strong reputation provides a competitive advantage as it directly increases turnover and profit. Strategic CSR is primarily driven by business profit and is thereby dominantly oriented at generating positive publicity and goodwill in order to enhance the company image (Vaaland et al., 2008).

The cyclical movements of corporate real estate disposal strategies

The disposal of corporate real estate is commonly executed within a retracting real estate market as downturn in occupier's markets that lead to business contraction often occur on a widespread basis (Gibson & Louargand, 2002). Conducting disposal strategies from a position of financial distress leads to bad deal terms and potential future problems (Louko, 2006). Deploying disposal strategies from a position of strength is thereby considered a crucial component in the use of successful disposal

strategies (Morris, 2010). In order to do so, one should understand the cyclical behaviour of economies, real estate markets, and organizational lifecycles.

- *The economic long-wave:* The repeating pattern of a rising and falling economy is known as the long-wave or Kondratiev cycle (Forrester, 1981);
- *Real estate market cycle:* Fluctuations of vacancy and rent levels around a long-term equilibrium, in which cycles follow subsequent period of 8 to 10 years (Geltner et al., 2001);
- *Organizational lifecycle:* The lifecycles of organizations, comprising five development stages: start-up, growth, maturity, decline, and death (Haire, 1959).

Corporations, however, have rarely been able to divest real estate at good times because of the general reactive orientation of real estate management to the business growth instead of market conditions. According to Louko (2006), the proactive alignment of the corporate real estate portfolio to the real estate market cycle should increase the profitability.

Property obsolescence

The disposal of corporate real estate is commonly a result of policy alterations, which makes it largely dependent on the organizational response to changes in its context (Van Dijk, 2007). Changing business requirements can lead to a situation in which parts of the corporate real estate portfolio become obsolete, as alterations in the nature of the usage can cause buildings can become inappropriate for their original purpose. There are six types of obsolescence (Langston et al., 2008), which can be categorized in functional, technical and financial obsolescence (Remøy, 2010) (**Table A**).

Table A. Types of obsolescence (Langston et al, 2008; Remøy 2010)

Functional obsolescence	Non-alignment of the property with its use due to functional change
Financial obsolescence	Best business case conform the business objective
Technical obsolescence	Object is no longer technically superior to alternatives

Corporate real estate disposal process

The definition of disposal for this work is: a disposal or sale transactions in which seller and buyer meet and seller is released from legal liabilities on the object (Investopedia, 2016). The corporate real estate disposal process is decomposed in three decision-making moments (Van Dijk, 2007):

- *Choice for disposal:* property disposal initiation based on organizational or policy alterations;
- *Asset type specification*: selection of assets to dispose of on a portfolio-level;
- *Strategy adoption:* determining the method and moment in which a property is disposed.

Disposal selection variables

The selection of disposal properties is based on the weighting of different variables through four stakeholder perspectives (Den Heijer, 2011).

- *Strategic perspective:* Ownership versus lease (Buijssen, 2001);
- *Functional perspective:* Decreased organizational demand and new working concepts (Louko, 2006; Langston et al., 2008);
- *Financial perspective:* Value and operating costs (Morris, 2010; Louko 2006).
- *Physical perspective:* Building characteristics and sustainability performance (REN, 2003).

Corporate real estate disposal strategies

When decomposing the four management interventions to act upon obsolescence into corporate real estate disposal strategies, this provides the following overview (Remøy et al, 2016):

- *Direct sale:* The most direct way to dispose of a real estate object is through direct sale, making it the fastest way to generate equity (Remøy et al, 2016; Hordijk et al, 2008);
- *Sale-leaseback transactions*: In a sale-leaseback (SLB) transaction the building is sold to a third party and directly rented back through a (mostly) long-term lease (Organek et al, 1968);
- *Demolishment and new construction:* Obsolete buildings can be extracted from the market through demolition, as sale or transformation may not form a viable option (Remøy, 2010);
- Transformation (adaptive reuse): Transformation (adaptive reuse) provides a responsible opportunity in the way corporates dispose of parts of their portfolio (Mattson-Teig, 2012).

Corporate real estate disposal drivers

Based on the most important business trends influencing the decision-making of Dutch banking institutions, five corporate real estate disposal drivers are identified:

- *Investment momentum:* Favourable market conditions providing the opportunity to execute disposal strategies from a position of strength (CBRE, 2017; Savills, 2016; Morris, 2010);
- *Financial distress:* Pressured capital positions, leading to the use of disposal strategies as a short-term tool to raise capital or pay off debt (Louko, 2006);
- *Decreased organizational footprint:* Enhanced space-use efficiency of organizations, creating functional obsolescence (Remøy, 2010; Langston et al., 2008; Louko, 2006);
- *New working concepts:* The digitalization of the business alters the used working concepts, thereby making buildings inappropriate for their original purpose (Langston et al., 2008);
- *Sustainability requirements:* Inferior technical performance, leading to technical obsolescence (Masalskyte et al, 2014; Langston et al, 2008).

4. RESULTS CASE STUDY RESEARCH

The case study research provided an in-depth elucidation of the four cases, shaping a deeper understanding of the unique characteristics of the cases and their context (**Table B**).

Table B. Cross case comparison - overview

	CASE 1	CASE 2	CASE 3	CASE 4
TRENDS				
Revised European Capital Regulations	✔	✔	✔	✔
Business digitalization	✔	✔	✔	✔
Digitalization consumer-contact	✔	✔	✔	✖
Economic recovery	✔	✔	✔	✔
Sustainability regulations	✔	✔	✔	✔
Corporate image	✔	✔	✔	✔
CRE DISPOSAL DRIVERS				
Investment momentum	✖	✔	✔	✖
Financial distress	✖	✔	✖	✖
Decreased organizational footprint	✔	✔	✔	✔
Cost efficiency	✔	✔	✔	✔
Client-activity	✔	✔	✔	✔
Digitalization	✔	✔	✔	✔
New working concepts	✔	✖	✔	✖
Sustainability performance	✔	✔	✔	✖
ASSET TYPE SPECIFICATION				
Ownership versus lease	✖	✖	✔	✔
Client-activity	✔	✔	✖	✔
Working concepts	✔	✖	✔	✖
Competition for talent	✔	✔	✔	✔
Value	✔	✔	✔	✔
Operating costs	✔	✔	✔	✖
Sustainability	✔	✖	✔	✖
STRATEGY ADOPTION				
Disposal strategy				
Direct sale	✔	✔	✔	✔
Sale-leaseback	✔	✔	✔	✔
Demolishment and new construction	✖	✖	✖	✖
Transformation (adaptive reuse)	✖	✖	✖	✖
Moment of sale				
After initial valuation	✔	✔	✔	✔
Explorative research	✔	✔	✔	✖
Vision development	✔	✔	✔	✖
Collaboration with developer	✔	✔	✔	✖
Control on future use after disposal	✔	✖	✔	✖
Marketability	✔	✔	✔	✔

5. DISCUSSION: RESULTS ON KEY RESEARCH THEMES

Size of organizations and their portfolios

The specified relationships to which the deviant case varied from the typical cases largely influenced the applicability of the research themes. Specifically, the organizational characteristics and real estate portfolio characteristics, in terms of size, led to varied findings between the typical and deviant cases.

Corporate real estate disposal drivers

The main driver for corporate real estate disposal is the *decreasing organizational footprint* following the decreased *client-activity* and *new working methods*. Digitalization thereby constitutes the most influential trend. The applicability of functional drivers showed strong dependency to the organizational objectives in the corporate business strategy. Where *financial distress* was identified as the most important driver for corporate real estate disposal in literature, its influence was negligible as long as organizations were centrally governed. The influence of the *investment momentum* also played a subordinate role following the marginal presumed profits that can be derived when compared to the overall organizational balance sheet. The applicability of the physical disposal driver *sustainability performance* proved dependent of the real estate portfolio characteristics.

Disposal selection variables

The case study research showed that an active stance on the *ownership versus lease* consideration is determined by the organizational conception of flexibility in the real estate portfolio. The applicability of the functional disposal selection variables *client-activity, new working concepts*, and *competition for talent* is predominantly determined by the degree to which digitalization is embraced in the business and consumer contact. The financial disposal selection variable *value* can function as a disposal disabler through a negative difference between the market value and book value of a property, leading to required depreciation at moment of sale. The application of *operating costs* is strongly related to the organizational objective cost-efficiency. The applicability of *sustainability performance* was dominantly influenced by the size and composition of the real estate portfolios.

Corporate real estate disposal strategies

All Dutch banking institutions dispose of offices in their current state through direct sale or sale-leaseback transactions. This was unanimously motivated by the exclusive focus on core business activity. The complexity of the strategy selection proved strongly related to the real estate portfolio characteristics in terms of size and composition. In all cases, the small and generic assets were disposed through direct sale involving the assessment of the marketability, plausible vision development, and marketing the property. Across the large banking institutions, the disposal strategies for large back-office assets were selected based on the optimal business case.

6. DISCUSSION: THE OPERATIONAL FRAMEWORK

Based on the case study research results, an operational framework is established to guide and improve the decision-making of owners and managers of corporate real estate in the Dutch banking sector. The operational framework is composed of concepts and insights (**Figure A**).

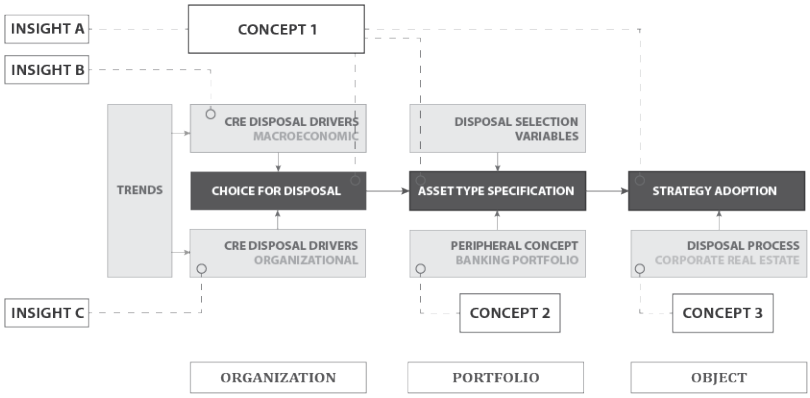

Figure A: Operational framework for disposal decisions in the Dutch banking sector (own ill.)

Concept 1: linking corporate real estate decisions to corporate business strategy

The real estate operating decisions of Dutch banking organizations are influenced by the corporate business strategy and the real estate strategy. The case study research, however, also identified the influence of the organizational characteristics and real estate portfolio characteristics on property disposal decisions (**Figure B**).

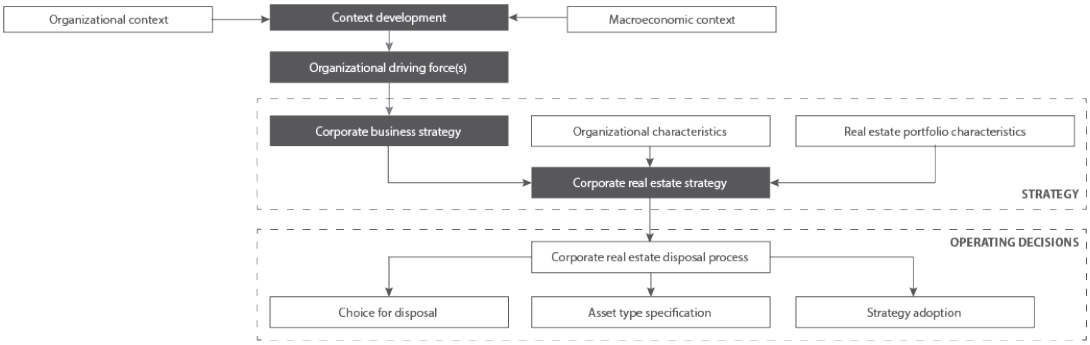

Figure B: Process scheme - alignment to property disposal decisions (adaptation to Nourse & Roulac, 1993)

Insight A: Multi-disciplinary transaction team

The different decision-making structures of Dutch banking institutions are visualized in **figure C**. The case study research showed that the traditional decision-making structure (left) led to inefficient decision-making and impeded the use of proactive real estate management. The implementation of a multi-disciplinary transaction team (particularly) in times of expected real estate activity can enhance the organizational agility through its real estate, lead to early-on optimization of the portfolio, significant financial revenues, and competitive advantage.

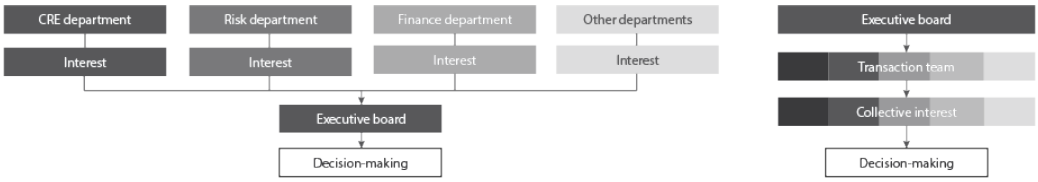

Figure C: Decision-making structures (own ill.)

The multi-disciplinary transaction team aligned the interests of the different departments at the right moment and time in the organization. Trust and authority are identified as bounding conditions for the successful use of the transaction team following the extended mandate this provides.

Insight B: Proactive alignment to the real estate market cycle

The case study research showed that Dutch banking organizations generally do not actively align their real estate disposal strategies to the real estate market cycle following the exclusive focus on core business activity, attaining a mitigated risk-profile, and the general lack of real estate expertise. The strong presence of disposal strategies in the current upward economy is thereby better explained by the coincidental alignment of negative business growth and a favourable investment climate, than the conscious alignment to the real estate market cycle.

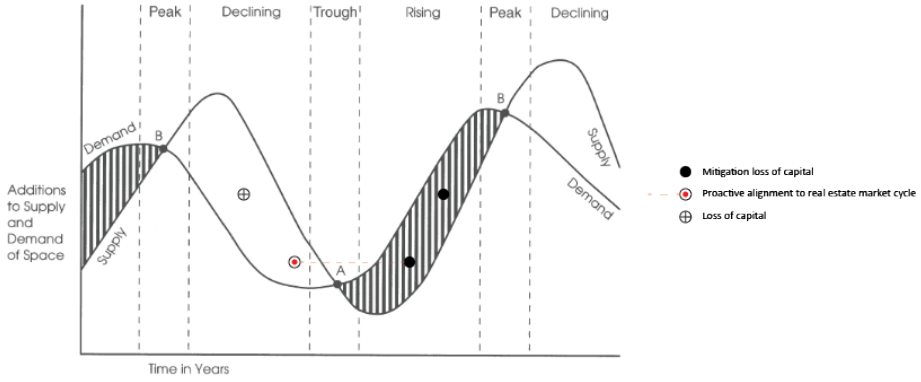

Figure D: Alignment to the real estate market cycle (adaptation to Phyrr et al., 2000)

The research showed that the organization that did align its property disposal strategies to the real estate market realized competitive advantage and mitigated the loss of capital through optimizing revenues from disposal. Financial benefits were achieved through optimally seizing the investment momentum by realigning the real estate portfolio against favourable conditions, preparing it for future space-use fluctuations in a downward market (**Figure D**). The opportunity to execute proactive corporate real estate disposal is strongly dependent on the organizational growth development and the real estate market cycle. If aligned, organizations can strategically mitigate loss of capital through optimizing revenues from sale. The presence of organizational real estate expertise is considered a bounding condition for the successful execution of active real estate management.

Insight C: Innovation as real estate disposal incubator

The implementation of innovation provided an important means across the Dutch banking institutions to remain in the maturity development stage of the organizational lifecycle (**Figure E**). The alignment with modern consumer-demand through digitalizing the contact-channels proved vital in securing the organizational relevance to consumers.

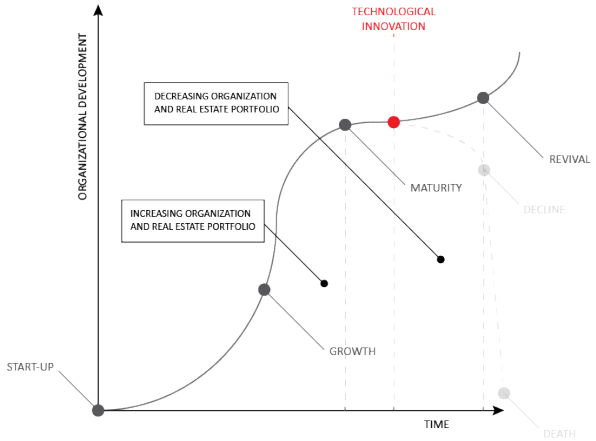

Figure E: Technological innovation as real estate disposal incubator (adaptation to Haire, 1959)

Concept 2: Peripheral model for the Dutch banking sector

The tailored peripheral model for the Dutch banking sector places long-term (10-15-year) lease commitments in the core supply, thereby establishing bond-like investment products that attract fixed income investors. The inclusion of active acquisition and selling activity enhances the profitability of this mechanism through widening the difference between the economic value and book value of properties.

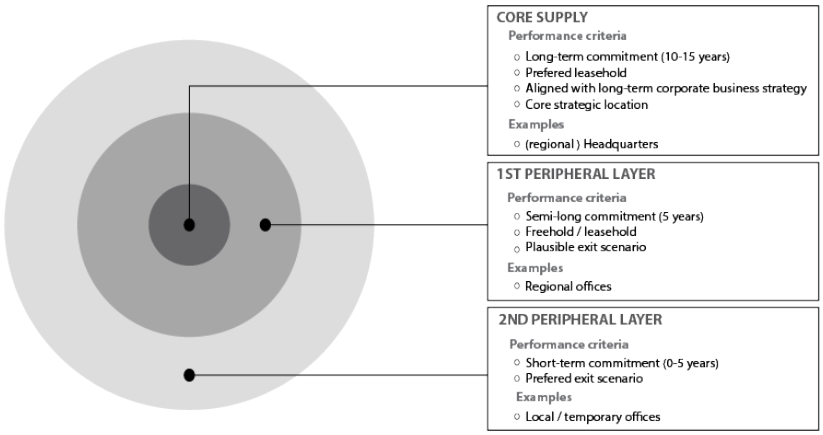

Figure F: Peripheral model for the Dutch banking sector (adaptation to Gibson, 2000; 2001)

The use of the peripheral model for the Dutch banking sector enhances the agility of organizations through their real estate by providing a financially efficient response to the growing deviation between the investor's longevity and occupier business outlook (Gibson, 2000: Gibson, 2001).

Optimally seizing the financial benefits of long-term commitments in the core-supply, together with active acquisition and selling activity, establishes premium financial releases that can be used to cover the financially unbeneficial use of peripheral layers (**Figure F**).

Concept 3: Types of real estate disposal processes

The selection of the most suitable corporate real estate disposal strategy is dependent on the complexity of the asset. Two types of disposal processes were identified throughout the case study research, namely that of small and generic assets, and large and remarkable assets. The small and generic assets (dominantly small retail-offices) in the real estate portfolio are disposed through two subsequent steps, determining its marketability (with possible explorative research on redevelopment value) and taking the asset to the market (**Figure G**).

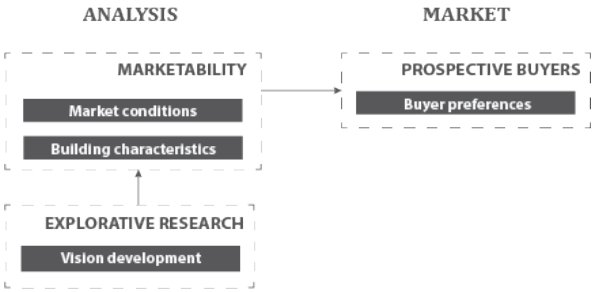

Figure G: Disposal process scheme - small and generic assets (adaptation to Van Dijk, 2007)

The disposal of the large and remarkable assets (large back-offices) in the real estate portfolio comprises three steps, namely analysis, strategy, and market (**Figure H**). The analysis phase maps the organizational demand based on business forecasts, and assesses the marketability and potential vision development of the asset based on its physical characteristics and (local) market conditions. In the strategy phase, the most suitable disposal strategy is selected based on a weighted consideration of four aspects into the optimal business for the exit strategy:

- Functional requirements;
- Physical constraints;
- Financial revenues;
- Control on future use after disposal.

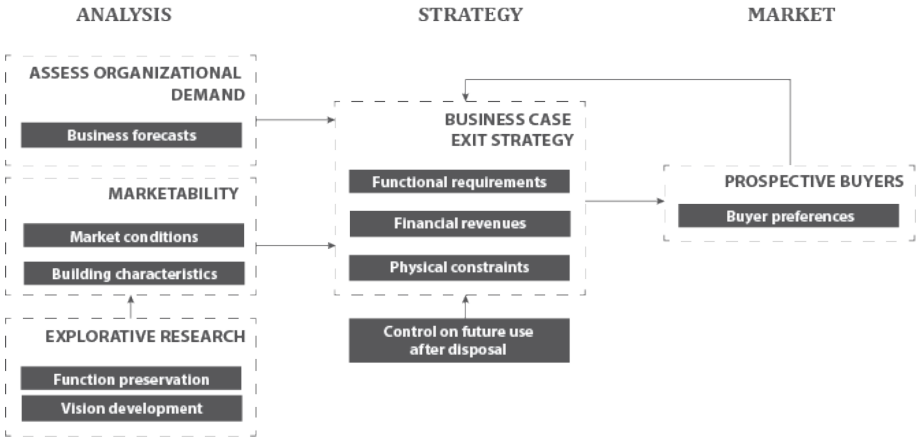

Figure H: Disposal process scheme - large and remarkable assets (own ill.)

7. CONCLUSIONS

Corporate real estate disposal drivers

The functional corporate real estate disposal drivers were identified as the most influential following their derivative relationship with the digitalization of the Dutch banking sector. The applicability of functional drivers showed primarily dependent of the organizational objectives in the corporate business strategy. The financial drivers had a weak influence following the marginal share (one to two per cent) of real estate on the total balance sheet, marginalized achievable book profits, the exclusive

focus on cores business activity, and the general lack of real estate expertise across Dutch banking institutions. The applicability of financial drivers proved strongly dependent of the organizational characteristics and the corporate business strategy. The applicability of physical corporate real estate disposal drivers showed primarily dependent of the real estate portfolio characteristics.

Innovation as disposal incubator

The implementation of technological innovation, through product (re)development and the implementation of new technology in the business and the consumer contact-channels, served as a means for banking organizations to secure their relevance for consumers. The implementation of innovation proved an incubator for corporate real estate disposal processes, thereby establishing competitive advantage through space-use efficiency in the shift from decline to organizational revival.

Organizational agility: multi-disciplinary transaction team

The research identified a strong relationship between the organizational decision-making structure and the efficiency of corporate real estate disposal decisions. The implementation of a multi-disciplinary transaction team (particularly) in times of expected real estate activity enhanced the organizational agility to space-use fluctuations and led to an early-on optimization of the real estate portfolio, significant financial revenues, and competitive advantage. The use of the multi-disciplinary transaction team aligned the interests and perspectives of the different organizational departments at the right moment and place in the organization. Trust and authority are deemed essential to establish the extended mandate required to successfully deploy this decision-making structure.

Alignment to the real estate market cycle: a position of strength

The corporate real estate disposal processes of Dutch banking organizations are predominantly reactive to the growth development of the business. The proactive alignment of property disposal to the real estate market cycle can enable the realignment of corporate real estate portfolios against favourable conditions, thereby preparing the portfolio for future space-use fluctuations and economic downturns. The alignment of property disposal to the real estate market cycle is only possible when the (local) business growth development is negative. The research showed that the non-alignment of property disposal to the real estate market cycle is financially inefficient. The general non-alignment of property disposal in Dutch banking institutions is motivated by the exclusive focus on core business activity, attaining a mitigated risk-profile, the lack of real estate expertise, and the marginalized perceived financial benefits. The presence of real estate expertise in the organization is deemed essential in the successful implementation of proactive real estate management.

Disposal selection variables

The applicability of strategic disposal selection variables proved dependent of the conception of flexibility in the real estate portfolio. The influence of the functional disposal selection variables is predominantly determined by the degree to which digitalization is incorporated in the business and the consumer contact channel. Following the saturation of the highly qualified IT employment market, the competition for talent is becoming increasingly important in corporate real estate disposal decisions. The financial disposal selection variables function as disposal disabler in case of a negative difference between market value and book value, or disposal enabler in case of enhanced cost efficiency. The physical disposal selection variables proved dependent of the real estate portfolio characteristics and corporate business strategy.

Exclusive core business activity

Dutch banking institutions solely dispose of their assets in their current state through direct sale or sale-leaseback transactions, following the exclusive focus on core business activity. The executive boards of the banks focus on establishing a well-performing and LEAN banking business with a mitigated risk-profile in order to be competitive with other banks on that field. Shifting attention to other business activity is misaligned with strategic objectives and can endanger business continuity.

Corporate image: control on future use after disposal

The influence of the corporate image in corporate real estate disposal strategies is predominantly oriented at exercising control on future use after disposal. Control on the future use of an asset after disposal was exercised across Dutch banking institutions for two reasons, namely the mitigation of

the risks for business disruption and potential reputational repercussions. Organizations are, however, selective in exercising this control on future use after disposal through the use of (perpetual) clauses as this negatively affects the terms of the disposal in terms of revenues from sale or number of buyers. The reputational sensitivity of object-specific characteristics can serve as a reason to prevail the mitigation of the risk of reputational damage over the mere financial interest.

Alignment to buyer preference

Dutch banking organizations strategically align the functional requirement in their core supply and disposal properties to buyer preferences in order to facilitate the disposal process or enhance financial revenues from disposal. The alignment of disposal properties to short-term buyer preferences can enable organizations to access an increased number of buyers, thereby enhancing the likelihood for disposal. Simultaneously, alignment to short-term buyer preferences can allow organizations to optimize revenues from disposal through accessing opportunistic buyers. The alignment to long-term buyer preferences was used to establish bond-like investment products that attract fixed-income investors with premium revenues, thereby optimizing revenues from disposal.

Peripheral model

The applicability of the peripheral model in the Dutch banking sector was dependent of the organizational characteristics and real estate portfolio characteristics. The peripheral model was exclusively used in real estate portfolios and office clusters of a considerable size and with a specified composition. The peripheral model was explicitly identified inapplicable for small organizations with relatively small and scattered portfolios composed of small assets. The duration of the commitment in the different layers of the peripheral model was dependent on strategic and financial organizational objectives and the conception on responding to uncertainty on future space-use requirements.

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4. Evaluation
5. Conclusions & recommendations

The first section introduces the background of the research by identifying the problem analysis, problem statement, the research question, relevance and the research methodology. The first part of this section addresses the research objectives and states why the study should be conducted. In the second part, an elucidation is provided on how the research goals will be achieved. The research design is identified together with the research methods that are used for data gathering and data analysis.

Section two explores the theoretical concepts underlying the topic of this thesis through an extensive and critical evaluation of the existing literature. The findings from the literature review form the theoretical premise of this work, which serves as input for the empirical research.

The third section conducts the data collection, which serves as the input for the evaluation of the research results in section four. The improvements that are derived from the empirical work are translated into an operational framework with corresponding concepts and insights.

The last section provides the conclusions by answering the research question from the first section. This section synthesizes the findings from the literature and empirical work, leading to a modification and expansion of the existing theory. The recommendations for further research can be found at the end of this section.

The appendix contains the anonymized summaries from the expert interviews and other data that is supportive to the research. For anonymization reasons, the full transcripts and recipients details are not attached to this work. When verification is required, it is possible to contact the researcher through the channels identified in this work.

TERMS AND DEFINITIONS

ABBREVIATIONS

CET-1 ratio	Tier-1 Common Capital ratio
CRE	Corporate Real Estate
CREM	Corporate Real Estate Management
DNB	De Nederlandsche Bank
EBM	Evidence-based Management
Fair value	Market value
FTE	Fulltime Equivalent (Full time job)
GDP	Gross Development Product
LTV	Loan-to-Value
OLC	Organizational Lifecycle
SLB	Sale-leaseback transaction
CSR	Corporate Social Responsibility

DEFINITIONS

Corporate real estate
Corporate real estate (CRE) is all real property held or used by an organization for its own operational purposes

Corporate real estate management
Corporate Real Estate Management (CREM) is the range of activities undertaken to optimally attune the institutions' accommodation to organisation performance

Disposal
The disposal or sale transactions in which seller and buyer meet and seller is released from legal liabilities on the object.

Financial flexibility
Financial flexibility is when an organization wants to be able to responds to future changing needs in space utilizations through the financial structure of the portfolio.

Strategic CSR
Strategic Corporate Social Responsibility is primarily driven by business profit and is oriented at generating positive publicity and goodwill in order to enhance the company image

Obsolescence
Obsolescence arises when buildings become inappropriate for its original purpose or redundant due to changes in the demand for their service.

Economic long-wave
The economic long-wave is the repeating pattern of a rising and falling economy, also known as the Kondratiev cycle.

Hog cycle
The hog cycle (or: real estate market cycle) is defined in terms of vacancy and rent level fluctuations around a long-term 'equilibrium' line' with forces causing new construction and absorption of space.

Cet-1 ratio
CET1, or Tier-1 capital, is a ratio that expresses the financial buffers that banks attain to absorb potential losses

RESEARCH BACKGROUND

source: www.pexel.com

1. RESEARCH BACKGROUND

This chapter outlines the problem analysis, the problem statement that is derived from the analysis, the main research objectives and research questions, and the chosen research methodology. Among these topics, this chapter elucidates the scientific and societal relevance of this research, as well as its utilisation potential. The problem analysis consists of two components, namely the inefficiency of corporate real estate disposal decisions, and the transition of the Dutch financial sector.

1.1 PROBLEM ANALYSIS: INEFFICIENT CORPORATE REAL ESTATE DISPOSAL DECISIONS

1.1.1 CORPORATE REAL ESTATE MANAGEMENT: LACK OF AGILTY

Owners and managers of CRE find themselves in a context that is much more dynamic and changeable than before. These accelerated changing circumstances pressure the decision-making process in order to reach the most efficient financial decisions (Remøy et al., 2016). This is caused by the fact that contextual changes influence the strategic objectives of organizations, leading to alterations in organizational space-use requirements (Nourse & Roulac, 1993). The challenge for corporate real estate managers is therefore to align something that is changeable and fluctuating with something that is inflexible in its essence (Gibson, 2001). This drives the growing demand for dynamics and organizational agility through the corporate real estate portfolio. Three types of flexibility in corporate real estate are identified, namely physical, functional and financial flexibility (Gibson, 2001). From the different types of flexibility, financial flexibility entails the organizational ability to adapt to future changing needs in space utilizations through the financial structure of the portfolio (Gibson & Louargand, 2002). In order to establish financial flexibility in corporate real estate portfolios, the peripheral model was developed (Gibson, 2000; 2001). This model categorizes real estate portfolios in three layers, allowing organizations to more flexibly anticipate on business operating cycles (Haynes & Nunnington, 2010). Properties are classified according to their probable alignment with core business activities (Woollam, 2004).

The increased business uncertainty has significantly shortened the planning horizon of office occupiers. Where five years is regularly a minimum lease term, this '*can be a lifetime in business planning*' (Woollam, 2004 p.75). The large deviation in investor's longevity and occupier business outlook impedes the use of the peripheral model, and the establishment of agility in corporate real estate in general (**Figure 1**). As the investment risk that is implicit to the use of shorter leases is generally reflected in the terms of the lease, this can be considered financially inefficient (Woollam, 2004). This creates the urgent need amongst owners and managers of corporate real estate in both public and private companies for frameworks and tools for evidence-based decision-making linking real estate decisions to corporate strategy (Jensen et al., 2013).

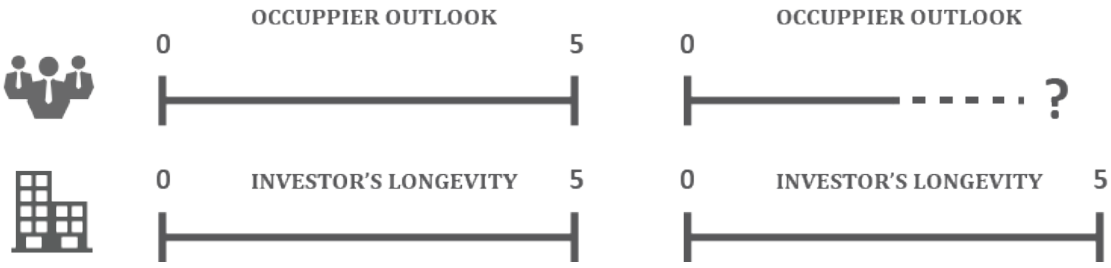

Figure 1: Friction between investor's longevity and occupier outlook (own ill.)

1.1.2 CORPORATE REAL ESTATE DISPOSAL: LACK OF PROACTIVE MANAGEMENT

Times of innovation, changing purchasing patterns, and lower economic growth are linked with the strategic realignment of the core business and are followed by the increased presence of disposal strategies (Ernst & Young, 2014). The disposal of corporate real estate is commonly executed within a retracting real estate market as downturns in occupier's markets that lead to business contraction often occur on a widespread basis (Gibson, 2002). Conducting disposal strategies from a position of

financial distress leads to bad deal terms and potential future problems (Louko, 2006). Deploying disposal strategies from a position of strength is thereby considered essential in the execution of successful disposal strategies (Morris, 2010). To determine the position of strength, one should understand the cyclical behaviour of economies, real estate markets, and organizational lifecycles.

The economic long-wave

Economies develop through long-term cyclical patterns. The repeating pattern of a rising and falling economy is known as the long-wave or Kondratiev cycle (Forrester, 1981). The long-wave concept revolves around the idea that in every cycle the point of economic saturation will be reached in which the attraction and investment of capital moves beyond what is needed. This fluctuating economic performance alters the climate for innovation, as it changes the nature of the innovation that is needed to fit the circumstances. In his work, Forrester (1981) identifies that as the economic long-wave determines the type of innovation that is needed; organizations should align the inclusion of innovation in their corporate business strategies to these macro-economic developments.

Real estate market cycle

There is a strong correlation between economic performance and real estate cycles (Vermaas, 2007). Real estate cycles are defined as fluctuations of vacancy and rent levels around a long-term equilibrium, in which cycles follow subsequent periods of 8 to 10 years. In each cycle, the phases recovery, expansion, oversupply, and recession are passed dependent of the economic performance (Korteweg, 2006; Geltner et al. 2001). The real estate market responds to economic conjunctural waves with a delay of 2-3 years, as the development of real estate is reactive to market developments (Phyrr,et al. 2000, Remøy, 2010).

Organizational lifecycle

The cyclical behaviour of organizations is known as their organizational lifecycles (OLC). The lifecycles of organizations show resemblance with the biological model, comprising five development stages: start-up, growth, maturity, decline, and death (Haire, 1959). Organizations move from one phase to another because the fit between the organization and its environment becomes so inadequate that the organizational survival becomes threatened. Through proactive strategic management, organizations can revert back to earlier stages or remain in a development stage for a long time (Lester et al, 2003). To establish this, innovation can be used to put organizations into new strategic domains or alter the way the organization accesses its consumers (Mone et al, 1998)

The position of strength that is deemed essential for the execution of successful and efficient corporate real estate disposal strategies is determined by the economic conditions and the organizational development stage. Corporations, however, have rarely been able to divest real estate at good times. The reason for this is that organizations commonly '*build and buy real estate when their business growth requires it, not when there is a good investment market*' (Louko, 2006). Simultaneously, it is clear that corporations commonly dispose of properties when they no longer have a business use for it. Transforming this reactive relation between real estate and the organizational demand towards a proactive relationship, through the alignment to the abovementioned cyclical developments, should increase the profitability (Louko, 2006).

1.1.3 DRIVERS FOR CORPORATE REAL ESTATE DISPOSAL: OBSOLESCENCE

The disposal of corporate real estate is commonly a result of policy alterations, making real estate disposals largely dependent on the organizational response to changes in its context (Van Dijk, 2007). Contextual changes, in this regard, are the predominant determinant of the strategic organizational objectives, as these determine the business direction and competitive position of organizations (Nourse & Roulac, 1993). The organizational context is composed of the organizational (internal) and macroeconomic (external) context (Pojasek, 2013). Changing business requirements can cause obsolescence in parts of the corporate real estate portfolio, as alterations in the nature of the usage can cause buildings can become inappropriate for their original purpose. There are six types of obsolescence (Langston et al., 2008) (**Table 1**), which can be sub-divided into the function, technical and financial category (Remøy, 2010).

Table 1. Types of obsolescence	
Physical obsolescence	Accelerated deterioration leading to reduced physical performance
Economic obsolescence	Best business case conform the business objective
Functional obsolescence	Non-alignment of the property with its use due to functional change
Technical obsolescence	Object is no longer technically superior to alternatives
Social obsolescence	Fashion or behavioural changes in society can drive for interventions
Legal obsolescence	Revised regulations may cause non-alignment

1.1.4 CORPORATE REAL ESTATE DISPOSAL STRATEGIES

When parts of the portfolio become obsolete, there is the necessity for interventions (Langston et al., 2008). There are four corporate real estate management interventions to act upon obsolescence, namely giving up ownership by sale of corporate real estate, renegotiate rental contracts before lease expiration, buy leased property, and improve corporate real estate ownership (Remøy et al, 2016). When decomposing these into corporate real estate disposal strategies, this provides the following four strategies with corresponding characteristics:

Direct sale

The most direct way to dispose of a real estate object is through direct sale, which makes it also the fastest way to generate equity. As the marketability of assets is determined through both external (market) as internal aspects (obsolescence), the suitability of a direct sale is largely dependent of specific building characteristics (Remøy et al, 2016) and market conditions in the form of a significant demand from institutional or private investors (Hordijk et al, 2008). As economic theory states that the market price always converges to a point where the forces of supply and demand meet, this contradicts the inapplicability of a selling opportunity (Investopedia, 2017). This research therefore specifies the suitability of sale as the opportunity for direct sale against favourable conditions.

Sale-leaseback transactions

In a sale-leaseback (SLB) transaction the building is sold to a third party and directly rented back in the form of a (mostly) long-term lease (Organek et al, 1968). SLB transactions are commonly perceived as a mere alternative financing methods to generate capital for core business investments (Buijsen, 2001). The motivation for a SLB transaction is establishing a more flexible portfolio, enhanced solvability, liquidity and profitability (Van Meerwijk, Scheffer & Arkesteijn, 2005). The secured funds in a sale-leaseback can equal the full value of a property, which is higher than can be established through debt financing. SLB transactions occur at financial premiums (Mansour & Scott, 2012) following the absence of vacancy periods, enhanced credit profiles, and tenant's history on that location (Sirmans & Slade, 2010). Long-term lease commitments offer bond-like investments, attracting fixed-income investors who value the quality of the cash flows over the property characteristics (Evans, 2013).

Demolishment and new construction

As there is little reason to believe that the market will take up obsolete buildings, these assets can be extracted from the market through demolition (Remøy, 2010). Assets may find themselves in a context that makes sale or transformation not a viable option. Demolishment and new construction creates the opportunity to develop a building that is fit for the use of occupier preferences (Remøy, 2010).

Transformation (adaptive reuse)

The responsible repositioning or retrofit of vacant real estate provides an opportunity in the way corporates dispose of parts of their portfolio (Mattson-Teig, 2012). Adaptive reuse can serve as a beneficial and durable use of the location and building. There are two requirements to conduct an adaptive reuse strategy, namely high demand for the new function, and the new use being the highest and best use of the property (Remøy et al., 2016).

1.2 PROBLEM ANALYSIS: THE TRANSITION OF THE FINANCIAL SECTOR

1.2.1 THE SHRINKING FINANCIAL SECTOR

The positive business sentiment in the current economy is encouraging expansion strategies. This has led to job creation and declining unemployment on a National scale (CBS, 2016; CBRE, 2017). The employment growth in the Netherlands is dominantly driven by office-related sectors. The office-based employment is forecasted to increase by 2 per cent throughout 2017 (CBRE, 2017). Up to 2020 the office-based employment is projected to annually grow with 1.5 per cent, amounting up to approximately 224,000 Dutch office jobs. The thriving employment market is a consequence of the well-performing Dutch economy and the recovering labour market after the large increase of the unemployment rate following the financial recession in 2008 (UWV, 2017).

The financial sector, traditionally one of the biggest Dutch employment generators, experiences a contrary development (**Figure 2**). The first five years after the recession showed the reduction of approximately 30.000 FTE's in the financial sector. The forecasts show another decrease of 30,000 jobs in the period 2013 to 2020 (Bökkering & Couwenbergh, 2015). The total number of FTE's in the financial sector decreased from 295,000 in 2007 to 246,000 in 2015 (-16.6%). This decrease largely originates from the large-scale reduction of the banking sector, as the three largest banks account for 39.5 per cent of this decrease through a reduction of 19,377 FTE's. In a response, Dutch banks have been disposing of a large share of their historically large ownership portfolios (Keuning & Bökkering, 2016).

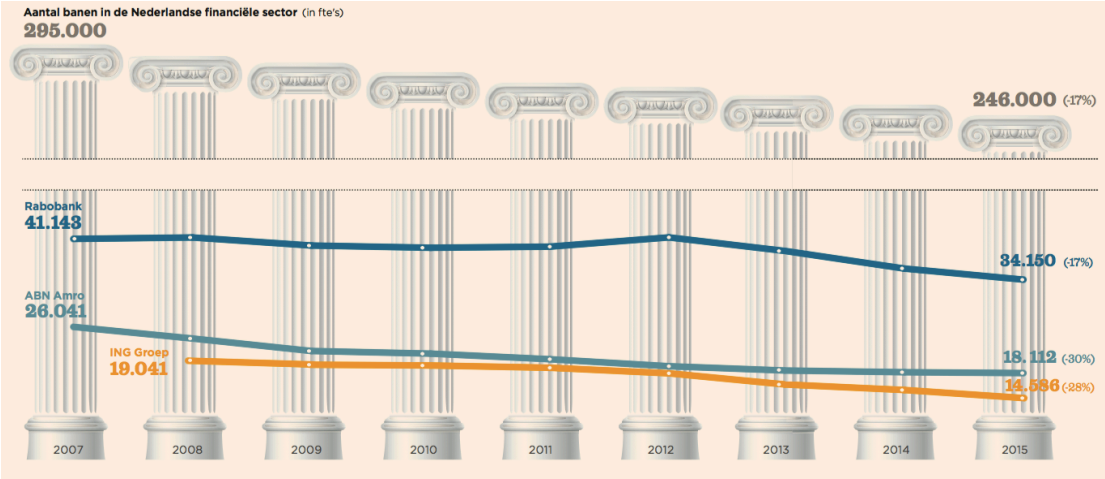

Figure 2: Development of employment in the Dutch financial sector 2007-2015 (Bökkering, 2016)

The large-scale reduction of the organizational capacity and real estate portfolios of Dutch banking institutions primarily originates from the digitalization of the sector. Following the favourable innovation climate, characterized by active technological innovation, changed user-demands, and the emergence of new competitive threats, Dutch banks are digitalizing their business and consumer-contact channels to retain their market share and consumer relevance (Van Est & Kool, 2015; Snyders, 2016; Groot, 2015). As this business digitalization is associated with enhanced space-use efficiency, this leads to the significant shrinkage of the historical demand for office space (Gibler & Black, 2002). This, in turn, creates surplus real estate, enhances the need for occupational efficiency, and drives the execution of real estate disposal transactions.

1.3 PROBLEM STATEMENT

Owners and managers of corporate real estate find themselves in a context that is much more dynamic and changeable than before. These accelerated changing circumstances pressure the decision-making process, leading to financially inefficient corporate real estate disposal decisions (Remøy et al., 2016). As it becomes increasingly difficult to align an illiquid good as real estate with the increasingly unpredictable space-use requirements, this drives the growing demand for dynamics

and organizational agility through the corporate real estate portfolio (Gibson, 2000; 2001). The increasing demand for organizational agility is reflected in the pressing need of owners and managers of corporate real estate for tools and frameworks to guide their CREM decision-making and ensure adding organizational value through their real estate (Jensen et al., 2013). The large-scale transition of the Dutch banking sector, accompanied by a strong real estate disposal trend, constitutes a good focus for this work.

The rapidly changing contextual circumstances that organizations find themselves in, pressures the decision-making of owners and managers of corporate real estate. The friction between the increasingly fluctuating organizational space-use requirements and illiquidity of real estate that this causes, leads to financially inefficient decisions in corporate real estate disposal processes.

1.4 RESEARCH QUESTIONS

1.4.1 RESEARCH OBJECTIVES

Throughout this research a thorough understanding is developed of the different decision-making steps in the initiation and execution of CRE disposal strategies. The main goal of this work is to create an operational framework with improvements to guide owners and managers of corporate real estate in their corporate real estate disposal decisions. The operational framework is not a blueprint step-by-step process tool, but a reflection of the insights as derived from the case study research.

The main objectives for this research area are;

- Extract improvements from the case studies in the empirical work;
- Translate the improvements to an operational framework that guides and improves the decision-making process.

1.4.2 RESEARCH QUESTIONS

The research questions as deducted from the problem analysis and research objectives are described in the following paragraphs.

Main research question

How can the decision-making in disposal strategies in corporate real estate (CRE) portfolios in the Dutch banking sector be improved?

Sub research questions

1) What are the theoretical concepts that have been established in CREM to respond to the accelerated changing organizational context?

2) What disposal criteria should owners of corporate real estate portfolios in the Dutch banking sector deploy to select individual portfolio components to dispose of?

3) Which disposal drivers have the greatest influence on the decision-making in the choice for disposal of institutions in the Dutch banking sector?

4) How can the decision-making on the selection of the most suitable disposal strategy be facilitated and financially improved?

5) To what extent is the decision-making framework, as derived from the banking sector, applicable in other sectors?

1.5 RELEVANCE

1.5.1 UTILISATION POTENTIAL

The pressured and financially inefficient decision-making processes of owners and managers of corporate real estate, following the increased friction between occupier and investor's longevity, served as the main reason to initiate this research. Literature shows that even though concepts are concepts have been developed to establish financial flexibility in real estate portfolio management (Gibson, 2000; Gibson, 2001), their applicability is limited due to increased fluctuations in organization space-use requirements following the accelerated pace of organizational change. These organizational fluctuations have widened the gap between occupier outlook and investor's longevity, thereby impeding the proper implementation of flexibility measures and the creation of an organization that can be agile through its real estate (Woollan, 2004). Following this, literature identified that the consequence of this friction is that owners and managers of corporate real estate in both public and private companies are in need for models and tools for evidence-based decision-making linking real estate decisions to corporate strategy (Jensen et al., 2013).

In order to answer the need from the practical field, this work establishes an operational framework with concepts and insights to guide and improve the decision-making of owners and managers of corporate real estate in the Dutch banking sector. The operational framework identifies interventions that Dutch banks have taken to establish more efficient corporate real estate disposal processes and cope with the growing discrepancy between their organizational planning horizon and the illiquid nature of real estate. Dutch banking institutions can use the operational framework to enhance the financial efficiency of the different decision-making steps of their corporate real estate disposal processes, thereby improving the organizational agility through its real estate.

1.5.2 SOCIETAL RELEVANCE

Hidden vacancy

The rapidly changing circumstances of the context pressures the ability of managers and owners of corporate real estate in making financially efficient decisions (Remøy et al., 2016). The inefficiency of these decisions, however, also affects the societal level with regard to disposal strategies. The misalignment between the illiquid nature of real estate and the changing business impedes institutions to respond to their organizational fluctuations through their real estate, leading to surplus real estate (Gibson, 2002). The difference between the office space occupancy and space demand of organizations at the prevailing market rent is the hidden (or: corporate) vacancy (Gunnelin et al., 2005). The difference between registered and unregistered vacancy creates a 'shadow space' that delays market tightening required to drive rent growth recovery (Lokhorst et al., 2013). The misrepresentation of vacancy levels disturbs normal market functioning, as it muddles the indicators that developers use for (speculative) office development following the hog-cycle mechanism of the real estate market (Breugelmans, 2010; Phyrr et al., 2000; Remøy, 2010). Following this mechanism, the difference in effective vacancy may lead to overproduction in a market that is characterized by long-term oversupply (Vastgoedmarkt, 2015). This may have drastic implications for the Dutch real estate market and the functioning of the Dutch economy as a whole.

Unemployment

As the digitalization of the Dutch banking sector shifts the inherent nature of a large number of jobs, the transition of the Dutch banking sector has exercised significant impact on the National employment market (Balkenende, 2016). Following the large-scale digitalization of administrative processes, a large part of the administrative back-office employees has become abundant. The Dutch Institute for Employee Insurance (UWV) has identified that these former administrative employees are difficult to reposition in the labour market. This leads to extended use of unemployment benefits and creates a societal burden (Keuning & Leupen, 2016). Following the general centralization development and retraction from small catchment areas, this may in particular damage local labour markets. Only by creating an understanding on how organizations aim for resilience through the implementation of technological innovation, ways can be developed to facilitate the soft side of these transitions and mitigate the damage to National and local employment markets and the lives of individuals.

1.5.3 SCIENTIFIC RELEVANCE

An extensive literature study revealed that there are studies done in:

- Decision-making in CREM;
- CREM concepts adapting to rapidly changing contextual circumstances;
- Drivers for real estate disposal;
- Real estate disposal processes;

However, the literature indicated that despite the development of CREM concepts enabling the implementation of financial flexibility in CRE portfolio (Gisbon, 2000; Gibson 2001), practice is still in urgent need for conceptual models and tools for evidence-based decision-making linking real estate to corporate strategy. The main motivation for this is that the rapidly changing contextual circumstances of organizations disable the applicability of conventional theoretical knowledge and concepts (Jensen et al., 2013). In order to answer the scientific need for decision-making models and tools, this research establishes an operational framework to guide and improve the decision-making of owners and managers of CRE.

1.6 RESEARCH METHODOLOGY

1.6.1 CONCEPTUAL MODEL

The conceptual model shows the relationship between the different research topics with each other. The main concepts of this research are:

- Corporate real estate disposal drivers;
- Disposal selection variables;
- Peripheral portfolio management model;
- The steps of the disposal strategy selection process.

The decision-making process is decomposed in three decision-making steps, namely the choice for disposal, asset type specification, and strategy adoption.

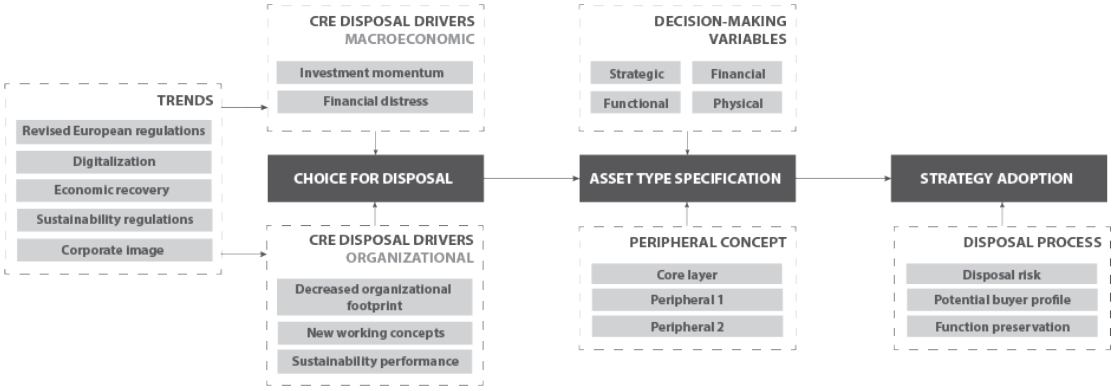

Figure 3: Conceptual model – relation between research topics (own ill.)

The conceptual model of **figure 3** serves as the theoretical premise of this research. Theoretical premise, in this regard, meaning the assumption that the theoretical evidence from the literature review is true. The influence of the different components is derived from the literature review. Throughout the empirical part of this research, the applicability of the theoretical premise is tested on the unique characteristics of the cases and their context.

1.6.2 RESEARCH DESIGN

This work takes an evidence-based research approach with a qualitative case study research method. Evidence-based research revolves around the systematic collection and analysis of the current available evidence from three sources, namely scientific, experiential, and contextual evidence (Spring, 2007; Pfeffer & Sutton, 2006). As the literature review revealed that the conventional scientific concepts and methods are not able to respond to the rapidly changing contextual

circumstances, this research gathers and analyses the available evidence from current practice to evaluate whether a fitting answer has been found in the practical field. The research design is visualized in **figure 4**.

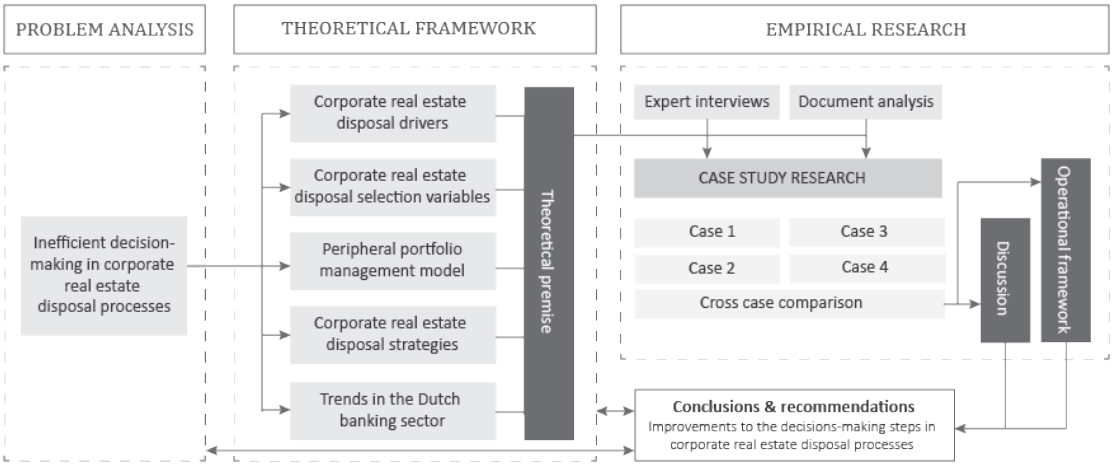

Figure 4: Research design (own ill.)

The reliability of the research is enhanced through both methodological- and data-triangulation. Methodological triangulation is executed by using different methods to collect evidence, being literature review, document analysis, and semi-structured interviews. Data-triangulation is used as different sources are incorporated to gather the available evidence. This is executed through three data sources, namely expert interviews, scientific literature, and documents. As evidence-based research systematically collects the best available and most recent evidence on a topic, it is in essence an adaptive research methodology. The two-sided triangulation of this evidence-based research is visualized in **figure 5**.

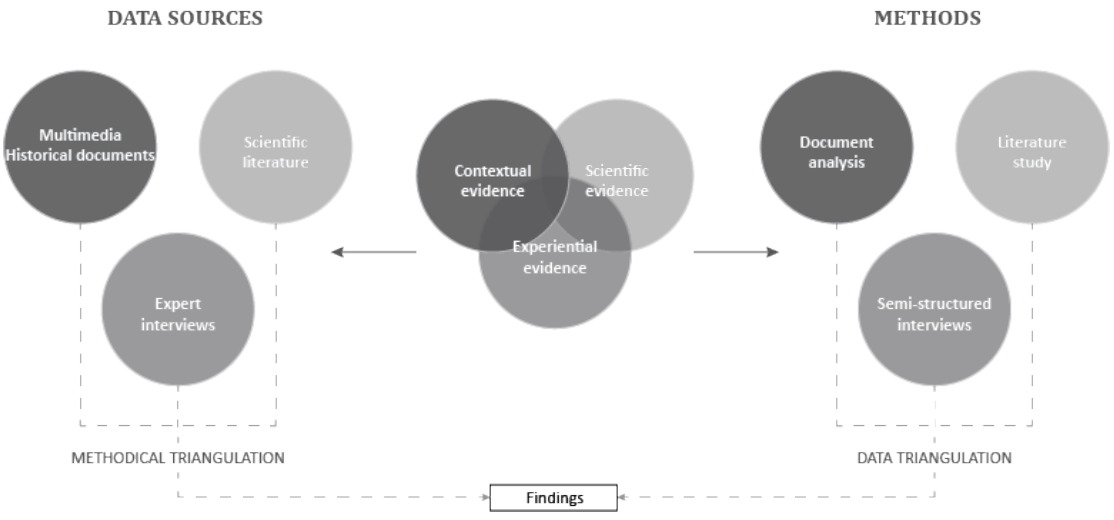

Figure 5: Triangulation in the research (own ill.)

1.6.3 CASE STUDY DESIGN

The evidence-based research design incorporates case study analysis methodology in order to extract improvements from the current best evidence in practice. Case study research creates the possibility to perform a detailed investigation of a phenomenon in its context (Cassel & Symon, 2004). Case study research proves suitable for this research as it enables the opportunity to establish a holistic understanding of the cases and their context, thereby mapping the unique characteristics (Kumar, 2011). The case study design of this research has a qualitative nature with a deductive orientation towards the relation between theory and research (Bryman, 2012). This means that a probable theoretical underlay of the topic is formed based on the current best available scientific evidence.

This presumed theoretical model (**Figure 3**) is tested on practical observations, which lead to outcomes (Bryman, 2012) (**Figure 6**).

The robustness of a study is enhanced through analysing additional cases, while evidence from multiple cases also makes case studies more convincing (Herriot & Firestond, 1983). This research analyses four case studies in order to enhance the reliability of the findings. The individual cases are compared to each other through a cross case comparison, enabling the evaluation of the theoretical premise for different contexts and environments. If implementations differ across the cases, the reasons and results are recorded. The opposite is also true, as similarities across cases increases confidence in the outcomes.

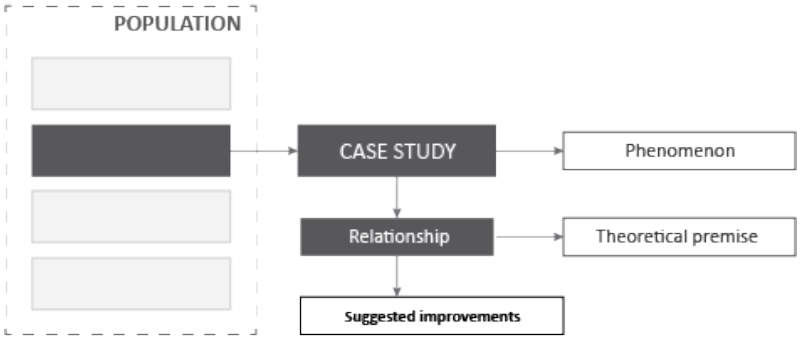

Figure 6: Case study analysis principle (own ill.)

1.6.4 CASE SELECTION

In order to define the cases included in the case study analysis, the population must be determined from which the cases can be selected. Following the centralized composition of the Dutch banking sector the number of cases with comparable characteristics in the population is limited. For this reason, all the available cases of the population were included in this research. Two types of cases are included in the case study research, namely three typical cases and one deviant case (**Figure 7**).

1.6.4.1 Typical cases

Three cases are used based on typical selection, meaning cases that are typical examples of some cross-case relationships. These are low-residual cases and therefore representative due to their specified relationship (Seawright & Gerring, 2008). The typical cases are used to confirm or disconfirm (parts of) the theoretical premise of this work. The specified relationships for the typical cases are:

- The case is a whole unit, meaning a Dutch banking organization;
- Its headquarters is based in the Netherlands;
- The case is a system bank, following the additional capital requirements (**section 2.4.2**);
- The case is comparable to the other typical cases in terms of size of the organization and corporate real estate portfolio.

1.6.4.2 Deviant case

One deviant case is selected. This case has characteristics that deviate from part of the cross-case relationships. This makes the case an outlier or high-residual case, making it usable to explore explanations for a phenomenon and disconfirm deterministic arguments. The selection of this case mostly benefits the cross case comparison. If the case proves to be an outlier in the comparison, it can be considered representative for the new relationship (Seawright & Gerring, 2008). The deviant characteristics of the case are:

- Organizational size;
- Banking strategy;
- Portfolio characteristics (size and composition).

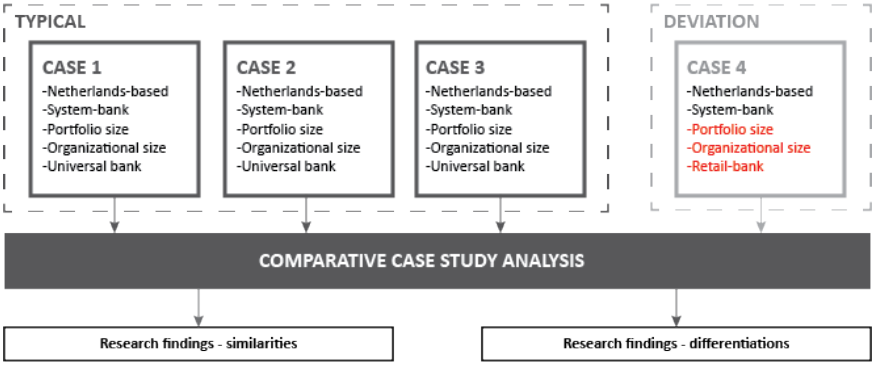

Figure 7: Selection of the case studies (own ill.)

1.6.4 DATA COLLECTION AND ANALYSIS

Template analysis is deployed to systematically gather and analyse the data. The analysis methodology refers to a group of techniques thematically organizing and analysing textual data. Template analysis is based around the idea that there are always multiple perspectives to a phenomenon, and is characterized as a more flexible technique with less strict prescriptions. This makes the technique suitable for comparing perspectives across stakeholders within a specific context, like is the case in this research. Template analysis includes the development of a template. The 'template' is a list of themes found in the literature study (Cassell & Symon, 2004). Initially, a template is constructed with the themes as identified in the theoretical premise. Research themes can be excluded or added to the template throughout the research, depending on their reoccurrence of absence. The template is depicted in **appendix B**. Data is collected through field research (semi-structured interviews) and desktop research (document analysis).

1.6.4.1 Desktop research: literature review

The literature review is an important component of this research as it is the predominant means to gather scientific evidence. The aim of the literature review is creating an understanding of the theoretical concepts underlying the research topics. It thereby maps what is already known about the topic, what concepts and theories have been applied to the topic, and what controversies there exist on the topic (Bryman, 2012). The study of literature thereby serves as the main input for the research questions underlying this work and the template for the case study analysis. The following topics were explored in the literature review:

- CRE, CREM and CREM decision-making;
- CREM concepts adapting to rapidly changing contextual circumstances;
- Drivers for real estate disposal;
- Corporate real estate disposal processes;
- Characteristics of the financial sector;
- Trends in the Dutch banking sector.

The themes and concepts that are identified in the literature review constitute the input for the template (**Appendix B**).

1.6.4.2 Field research: semi-structured interviewing

Semi-structured interviewing is used to gather data in the field research. Semi-structured interviewing is an interview style that is considered relatively flexible, as it sets out with a predefined questioning plan but allows a shift to a more conversational style throughout the interview (O'leary, 2004). This interview type is deployed in order to shape concepts and ideas through an individual's thoughts, feelings and behaviours. The general interview guide approach is used to execute these interviews. The general interview approach uses a guide that ensures that the same topics for every interview are covered. This method ensures that information is gathered on all research themes, while providing a degree of freedom and adaptability for the interviewer to get that information (Knight & Ruddock, 2008). The themes from the a priori template are used for the general interview guide.

The field research comprises seven semi-structured, formal interviews in a one-on-one setting with experts across the four cases (O'leary, 2004). Adding more cases to the research enhances the reliability of the research findings (**Section 1.6.3)**. The same mechanism is applicable for the inclusion of additional expert interviews per case. Two experts are interviewed per case to mitigate personal bias. This provides a more reliable understanding of the relationship between the theoretical premise and the case. Two types of stakeholders are incorporated in the semi-structured interviews, namely policy makers (strategic) and corporate real estate managers (financial) (**Section 2.1.4**). Incorporating the viewpoint of stakeholders at different organizational levels provides a holistic understanding of the decision-making in corporate real estate disposal. In order to mitigate differences in interpretation of the data that is gathered through the semi-structured interviews, the summarized transcripts of the interviews were presented for verification and accordance to the interviewees together with additional questions. The comments and additional answers were processed into the anonymized summaries, which can be found in the appendix of this thesis.

1.6.4.3 Desktop research: document analysis

Document analysis is the gathering and analysis of textual data as a data source. This work analysis newspaper and magazine articles (multimedia), annual statements (historical documents), and policy documents (historical documents) (O'leary, 2004).

1.6.5 CASE STUDY STRUCTURE

The gathered evidence from the literature review, semi-structured interviews, and document analysis is synthesized in the case study analysis. The case study analysis reflects the theoretical premise of this research on the practical evidence, thereby evaluating the practical applicability of the theoretical foundation. **Table 2** identifies the structure for the individual case studies.

Table 2. Structure of the case study analysis	
1. Organization	This section shapes an initial understanding of the structure, culture, and size of the organization.
2. Corporate business strategy	The main goals of the organization are identified in this section. The organizational objectives are used assess the degree to which the corporate real estate strategy is aligned to the overall business strategy.
3. Corporate real estate strategy	The corporate real estate strategy serves as the main driver for CREM interventions. It thereby constitutes an important part of explaining the decision-making.
4. Corporate real estate portfolio	The size and composition of the corporate real estate portfolio is evaluated. The strategic alignment of real estate and business strategy is assessed.
5. Choice for disposal	This section identifies the applicable corporate real estate disposal drivers.
6. Asset type specification	The variables that are used in the selection of disposal properties are identified in this section, categorized by the four stakeholder perspectives.
7. Strategy adoption	The variables that influence the selection of the suitable disposal strategy for an asset are evaluated. Reference transactions are used to clarify the findings.
8. Conclusions	The most important findings are presented and visualized in a concise way.

1.6.6 ANONYMOUS RESEARCH RESULTS

For confidentiality purposes the case study analysis is presented anonymously. This was done to respect the privacy of the experts and enable the publication of the research results. The anonymized summaries of the interviews are included in the appendix of this work.

THEORETICAL FRAMEWORK

source: www.pexel.com

2. THEORETICAL FRAMEWORK

2.1 CORPORATE REAL ESTATE MANAGEMENT

This section provides insights in the theoretical foundations underlying the concepts of CRE and CREM. This section therefore explores current literature and addresses the relevant and applicable concept for the premise for this research.

2.1.1 CORPORATE REAL ESTATE

Corporate real estate (CRE) is all real property held or used by an organization for its own operational purposes (Krumm, 2001). This basically entails all property, plant and equipment (PPE) in which a corporate has a freehold or leasehold interest. CRE is often reckoned as the fifth resource next to capital, human resources, information and technology (Joroff et al. 1993; De Jonge, 1994; Krumm, 1999). It thereby serves as one of the five resources to potentially add organizational value (Den Heijer, 2011). All decisions concerning CRE should be based on the business opportunity, not the real estate opportunity. This can be traced back to the idea that CRE should always be supportive to the core business of an organization (Van Hermon, 2005). Where pure-investors look at the opportunity cost of capital (OCC) from different alternatives, owners and managers of CRE base their decisions on the Adverse Opportunity of Capital. This means all investment decisions are reflected against investing in the core business of their organizations (Lasfer, 2007). Within the overall investment portfolio, corporate real estate is one of the parts that need to be managed to maximize stakeholder's wealth. Maximizing shareholder value is thereby the main goal of rational managers (Nappi-Choulet, 2009).

There are basically two options for CRE; it is either an asset (ownership) or a lease obligation (liability), reflected in respectively an owner-occupier (freehold interest) or user (leasehold interest) role. In case CRE is an asset, the company will have the same privileges as a pure investor (Brueggeman et al., 1991). The preferences on freehold or leasehold interest in a property largely revolve around the perception of flexibility. On the one hand, having capital tied up through ownership disables investment in the core business. However, a freehold interest enables the possibility to sell, adapt or expand one's property at all time (Buijssen, 2001). The desirability of 'at all time' can be questioned due to its dependency on market conditions and liquidity issues. The increased need for organizational flexibility creates a lease preference in order to decrease capital burdens and improve general flexibility (Brounen & Eichholtz, 2005).

The advantage of ownership is tax benefits and the benefits of portfolio property investment, meaning diversification and higher average returns (Lasfer, 2007). There are three drivers for ownership preference, namely cultural (desire of absolute control), financial (accumulate capital growth), and business (procurement specialist premises) Haynes, & Nunnington, 2010). Companies with an ownership preference are often mature companies with consolidative growth strategies. The advantages of leasing are reduced debt, liquidity conservation, avoidance of high initial investments, and improved financing terms (Lasfer, 2007). Leasing also improves the business efficiency and better management of operating cycles. Companies with a leasing preference are often high-growth companies, using their leasing to finance their growth. The different between rent and lease is the fixed component in leasing through which neither party can change the agreement without mutual written consent Shorter leases provide organizations with the possibility to answer to the increasing flexibility and volatility of the business environment (Haynes & Nunnington, 2010).

2.1.2 LINKING CORPORATE AND CORPORATE REAL ESTATE STRATEGY

Effective real estate decisions are linked to achieving organizational objectives. The precondition for formulating a corporate real estate strategy that is an embodiment of organizational objectives is the articulation of a corporate business strategy. The corporate business strategy is a document that is designed to support the mission, vision and values, and organizational objectives of an organization. There a numerous management models with a different perspective on corporate strategy.

Eventually, strategies must be '*translated to the specifics of the organization's scope of products and markets*' (Nourse & Roulac, 1993 p. 476). This is done best in the work of Tregoe and Zimmerman (1980), who identify the driving force of an organization as the primary determinant of its scope of market and products. Nine strategic driving forces are identified that guide operating decisions (**Table 3**). Multiple driving forces can be active at the same time, but only one is usually dominant.

Table 3. Organizational driving forces (Tregoe & Zimmerman, 1980)	
Products offered	a business that is focused on exploring new markets for its existing products and improving these products.
Market needs	a business that attempts to serve the particular needs of a specific market segment.
Technology	a business that attempts to provide products, services, and markets derived from its technological expertise.
Production capability	a business that is driven by providing products and services that can be produced using its production capabilities (scale, size)
Method of sale	a business that attempts to provide products and services based on the organization's sales techniques.
Method of distribution	a business that provides products and services based on its distribution system.
Natural resource	a business that attempts to provide products and services generated through its control over resources.
Size/growth	a business that attempts to provide products and services which align with new size or growth objectives.
Return/profit	a business that attempts to provide products and services that meet its return or profit targets.

The driving force of an organization may change due to alterations in environment, market, or other forces that influence business direction and competitive position. The future market and product scope of organizations defines its real estate needs. When identifying the driving force and its corresponding strategies, culture, and values, this provides the tools for selecting a suitable corporate real estate strategy. Nourse & Roulac (1993) identify eight real estate strategies (**Table 4**).

Table 4. Real estate strategies (Nourse & Roulac, 1993)	
Occupancy cost minimization	An emphatic search for the lowest cost decision.
Flexibility	Achieving cost reductions by aligning real estate to organizational or real estate lifecycles.
Promote Human Resources Objectives	Aligning real estate decisions to the retention of talent (location, working environment).
Promote marketing message	Advertise and attraction attention through the physical image of the facility.
Promote sales and selling process	Locate real estate in order to stimulate access and business turnover**.**
Facilitate and control production, operations, service delivery	Aligning real estate characteristics to achieve greater efficiency or control of operations in alignment with corporate strategy.
Facilitate managerial process and knowledge work	Guiding real estate operating decisions in a way that facilitates knowledge work**.**
Capture the real estate value creation of business	Align real estate strategy to value increase of business on local surroundings.

Corporate managers generally show lack of interest in the relation between their real estate and the corporate business strategy (Nourse & Roulac, 1993). The fact that CRE is commonly not reckoned for its importance is explained by the general perception of CRE at as a mere means of production (Remøy et al., 2016). Organizations naturally want to create positive added value through achieving organizational goals. De Vries (2007) identifies ten ways in which real estate can contribute to organizational goals, thereby adding organizational value:

- Increasing real estate value;
- Controlling risk;
- Decreasing costs;
- Increasing flexibility;
- Supporting user activities;
- Increasing (user) satisfaction;
- Supporting image;
- Supporting culture;
- Stimulating collaboration;
- Stimulating innovation.

2.1.3 CORPORATE REAL ESTATE MANAGEMENT

Naturally, the corporate real estate portfolios of organizations need management. The basis of real estate management is the presumed added value of real estate on performance, in the widest sense (Den Heijer, 2011). There are various specializations within the subject of real estate management. Portfolio management is the real estate management from an investor's perspective. This focuses primarily on financial goals. Corporate Real Estate Management (CREM) is real estate management by parties that are both owners and/or occupiers of their real estate. CREM focuses on the performance of the organisation (benefits) in relation to the resources that are spent on real estate (costs). The purpose of CREM should always be to align corporate accommodation to organizational performance in the best possible way (de Vries et al, 2008). Throughout literature, the definition of CREM has changed repeatedly (de Jonge, 2002; Krumm et al., 2000). The most recent definition, and thereby applicable for this work, is '*CREM is the range of activities undertaken to optimally attune the institutions' accommodation to organisation performance*' (De Jonge et al., 2007 p. 104). As CREM is not the core business of most organizations, many of them either have a separate department for this or outsource this task. The focus of CREM has gradually shifted from a pure monitoring role to adding value to institutional goals (Joroff et al. 1993; De Jonge, 1997; Krumm, 1999). This shift occurred through five evolutionary stages (**Table 5**).

Table 5. Evolutionary stages of CREM (Joroff et al. 1993)	
Stage 1: Taskmaster	Has a technical focus by supplying the corporation's need for physical space.
Stage 2: Controller	Opts for transparency and cost minimisation as primary goals and has an analytical orientation.
Stage 3: Dealmaker	Solves real estate problems in order to create financial value for business units. Focuses on standardization of building use to get flexible deals.
Stage 4: Entrepreneur	Proposes real estate alternatives to business units that match those of competitors. Aims for matching business plans with market options.
Stage 5: Business strategist	Responds to business trends and evaluates their impact. Focuses on the institutional mission and aims to add overall value.

2.1.4 PERSPECTIVES IN CREM

Different stakeholder perspectives are identified in CREM literature (De Jonge, 1997; Krumm, 1999). These perspectives are divided along two axes. The first axis makes a division between institution-level (demand) and property-level (supply). The other axis differentiates strategic and operational stakeholder perspectives. This axial division establishes four stakeholder perspectives, each with their own interests and value-drivers. These perspectives are: strategic, functional, financial and physical (**Figure 8**). The strategic perspective arises from the overlap between institutional and strategic interest. The strategic perspective is dominantly shaped by policy makers in executive positions and is aimed at adding value to organizational goals. The functional perspective is the combination of the institutional and operational viewpoint. Functional value-drivers are expressed by users (employees and visitors/consumers) and are primarily focused on assessing the quantitative and qualitative fitness for use of buildings through user demands and users satisfaction.

Figure 8: Stakeholder perspectives (based on Den Heijer, 2011)

The overlap between the property-level and strategic interest is the financial perspective. The financial value-drivers are formulated by CRE managers and are dominantly aimed at the value, (impact on) resources, (opportunity) costs (€) and replacement costs. The last perspective is the

physical one, formed through intertwining the property-level and operational interest. The physical perspective originates from technical managers (facility and project managers) and is aimed at the physical property, its technical conditions and legal requirements (Den Heijer, 2005; De Jonge et al., 2009). All four CREM stakeholders and their key performance indicators are relevant for each management task (Den Heijer, 2011). In CREM, the four perspectives are deployed to assess the degree to which an asset supports and is aligned with the core business activities of the organization.

2.1.5 FINANCIAL FLEXIBILITY

Corporate real estate managers are continuously faced with the challenge of aligning their CRE portfolios with changing organizational requirements. Difficult, in this regard, is deploying something that is, by nature, an inflexible resource in order to achieve flexibility. Flexibility is decomposed in two aspects. First, it can be categorized into physical, functional, and financial flexibility. Financial flexibility is when an organization wants to be able to responds to future changing needs in space utilizations through the financial structure of the portfolio (Van Hermon, 2005). Second, it can be divided into asset- and portfolio-level. One could aim at reconfiguring the physical flexibility of an asset, but when this is unnecessary from a portfolio-perspective this is a pure waste of money. Therefore, Gibson (2000; 2001) supplies a framework to assess the flexibility within the portfolio as a whole and to critically reflect which properties require flexibility. This peripheral portfolio management model is based on the basic principles of human resource management, delayering the organization in a core workforce supported by peripheral layers. Anchoring core functions and headquarters on strategic locations through long-term leasing or freehold interests and provide more flexibility around 'satellite' operations allows organizations to more flexibly anticipate on business operating cycles (Haynes & Nunnington, 2010).

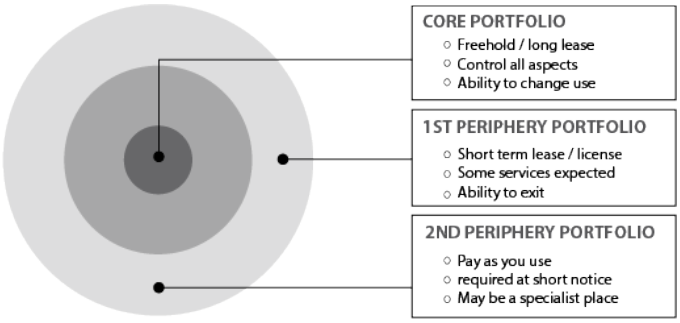

Figure 9: Peripheral concept for CRE portfolio flexibility (based on Gibson, 2001)

Reflecting this on corporate real estate frames a three-tier approach to examine corporate portfolios (**figure 9)**. Core assets are those that have long-term necessity (>10yr). The first level of periphery property is where numerical flexibility is required (5-10 yr). Numerical flexibility is needed when the demand for services fluctuates through the business cycle. This fluctuation is reflected on the organizational space-use requirements. The second level of peripheral portfolio is defined by very-short usage characteristics (<5 yr). Better forward planning and alignment of corporate business strategy and operational properties can create significant savings and enhance profitability. Operational properties should be classified according to their '*probable alignment with core business activities'* (Woollam, 2004 p.74). An asset then enables the creation of a strategy in which the operational property portfolio can be deployed as a strategic resource.

What makes the proper use of the peripheral model difficult is the mismatch between something that is illiquid in its essence (real estate) and something that is changeable and difficult to project (the business). This is also seen in the large deviation between investor's longevity and occupier's business outlook, which is depicted in **figure 10**. Where the minimally accepted duration of rental contracts by investors is 5 years, this is the furthest planning horizon that is used by occupiers.

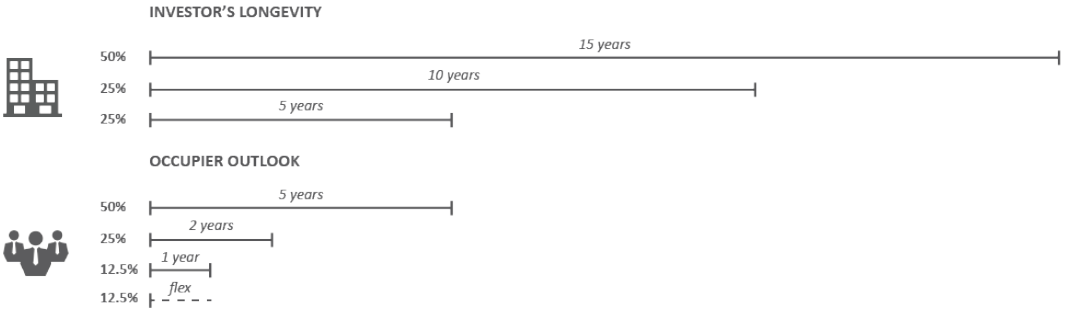

Figure 10: Non-alignment of property and business (based on Woollam, 2004)

2.1.6 CORPORATE REAL ESTATE: A MEANS OF COMMUNICATION

The accelerated pace of contextual change has caused a growing need for organizations to steer their reputation and image. Image, in this regard, is the first mental representation that comes up with the public when hearing the company name or seeing its logo. The difference between image and reputation is the duration to establish or alter one. Image can be altered through a well thought-out communication campaign, where reputation is based on the long-term consistent performance of an organization (Gray & Balmer, 1998). Real estate interventions have an influence on the image of an organization. The influence of real estate on corporate image is experienced on a micro, meso and macro level, and based on portfolio management, location strategy, building strategy, and workplace strategy (Mentink, 2014). Corporate real estate provides an organizational instrument to create an identity, making it a means for business communication (Mentink, 2014). Strong reputations provide competitive advantage by increasing turnover and profit (Balmer, 2009; Gray & Balmer, 1998).

Negative publicity is a major threat to the image of organizations (Dean, 2004). The influence of negative publicity in the service-sector is disproportionally high as services are difficult to assess objectively (Eisingerich et al., 2011). The unpredictability and lack of accountability in the current organizational context creates the necessity for organizations to make fundamental changes in the way they protect their brand. This fundamental difference takes form in Corporate Social Responsibility (CSR). CSR consists of three kinds, namely ethically, disinterested, and strategic. Strategic CSR is primarily driven by business profit and is thereby dominantly oriented at generating positive publicity and goodwill in order to enhance the company image (Vaaland et al., 2008). The CSR of banks dominantly focuses itself on the society (Thyssen, 2011).

2.1.7 EVIDENCE-BASED MANAGEMENT

A new way of thinking that has infiltrated management practice is evidence-based management (EBM). EBM basically entails that experts base their decisions on three types of evidence, namely scientific, experiential, and contextual (Spring, 2007; Pfeffer & Sutton, 2006). Subsequently, the evidence is corrected for its environmental and organizational context. EBM is in its essence an adaptive methodology as it constantly keeps searching for new evidence from all three sources. The medical field, in which EBM was founded, is comparable to managerial activity in the business sector in the sense that managers are also looking for cures for their organizational ills. However, business managers are more rigidly hanging on to known practice and are less eager to innovate. What makes it difficult is the fact that companies, when compared to human beings, wildly vary in size, form and age. This challenges the belief that a 'medicine' developed for one organization will be effective elsewhere. Another bottleneck is that experts tend to value and trust their own clinical experience above new evidence from research (Pfeffer & Sutton, 2006). EBM changes this selective weighting of evidence through deploying logic and facts instead of making decisions based on opinions. The idea that competitive advantage is reached when managerial decision-making acts upon better logic and evidence seems apparent (Pfeffer & Sutton, 2006).

2.2 DISPOSAL OF CORPORATE REAL ESTATE

The former section of this work provided insights in the theoretical foundations underlying the concepts of corporate real estate and CREM. This chapter builds on and continues through the exploration of literature concerning the initiation and execution of CRE disposal strategies and the decision-making process that these are subject to.

2.2.1 CRE DISPOSAL PATTERNS

Times of innovation, changing purchasing patterns, and lower economic growth are linked with the strategic realignment of the core business and followed by the increased presence of divesting and disposal strategies. Especially the presence of disruptive technological innovations leads to strategic alterations to changing circumstances (Ernst & Young, 2014). Where disposal strategies were historically used as short-term tools to raise capital or pay off debt, they are increasingly deployed as a means to establish long-term value. Research by Louko (2006) showed that the largest historical CRE disposal boom took place from 1998-2003 and was executed by IT-related companies that were in large debt. The disposal of corporate real estate is commonly executed within a retracting real estate market as '*occupiers are often in a situation where downturns in their own market lead to business contraction occur on a widespread basis. The result is that the disposal of surplus assets occurs in a falling real estate market leading to reduced value and the possibility of holding vacant surplus assets due to a moribund transactions market*' (Gibson & Louargand, 2002 p.9).

Executing these strategies from a position of financial distress leads to badly planned disposal movements focused on the short-term need for cash instead of long-term organizational value. The use of use of disposal strategies in financial distress leads to bad deal terms and potential future problems (Louko, 2006). This is aligned with the knowledge that corporations traditionally manage their real estate in a more reactive than proactive way. Organizations should therefore strongly focus on disposing of CRE in strong economic times, as the best disposal strategies are executed in economic 'boom' phases. A position of strength, together with strong economic times, is considered essential in the execution of successful disposal strategies (Morris, 2010). Managing CRE portfolios in a proactive way improves the profitability through establishing real estate related cost-reductions. In order to reorganize and dispose from a position of strength, organizations should understand the cyclical behaviour of real estate markets and organizational lifecycles.

2.2.2 ECONOMIC CYCLES: THE LONG-WAVE

Economical behaviour is subsequent to long-term patterns. The repeating pattern of a rising and falling economy is known as the economic long-wave or Kondratiev cycle (Forrester, 1981). The long-wave is commonly a 50-year period consisting of a decade of depression, thirty years of strong technical innovation and high capital investment, and 10 years of uncertainty as growth forces fade. This process revolves around '*the overbuilding of the capital sectors in which they grow beyond the capital output rate needed for long-term equilibrium'* (Forrester, 1981 p. 326). This basically means the attraction and investment of capital beyond the point of economic saturation. As the economic conditions change, so does the nature of the innovation in order to fit the circumstances. Fluctuating economic performance provides different times for different types of innovation. The long-wave thereby strongly affects the climate for innovation. The climate for innovation is most favourable in the period right after the depression, as the early stage of the expansion wave is most receptive to new technologies. The end of the capital investment wave and the shift to the recession phase generally preludes the termination of many organizations. Corporates generally take a defensive orientation towards innovation during this period, explained by the conception that the needs of society cannot be met by corporate innovation throughout a period of recession (Forrester, 1981). A different relation between innovation and corporate survival is identified in **section 2.2.4**.

2.2.3 REAL ESTATE MARKET: THE PORK CYCLE

The possibility for disposal through sale is highly dependent of market conditions in the form of a significant demand from institutional or private investors (Hordijk et al, 2008). As the investment momentum is difficult to predict, alignment of favourable market conditions with the right moment for sale from a business point of view will rather originate from luck than careful planning (Hordijk et

al., 2004). This is debatable, as real estate markets are cyclical markets that have a strong correlation with economic development (Vermaas, 2007). Real estate cycles are commonly defined in terms of '*vacancy and rent level fluctuations around a long-term 'equilibrium' line*' with forces causing new construction and absorption of space (Kaiser, 1997). The cycles follow in subsequent periods of eight to ten years and know four phases, namely recovery, expansion, oversupply, and recession (Geltner et al, 2001; Korteweg, 2006). In a period of economic recovery there is a high vacancy rate in the office market paired with low rents. As office space is easily accessible, companies will tend to strive for growth and organizational expansion. The second phase is a period of economic expansion, showing persistent high demand that leads to higher rental values and to developers responding with speculative office development. The expansion phase knows a pressured market as development processes take several years (Breugelmans, 2010). The presence of above-average price inflation is an important development in the economic expansion phase, leading to high rents. The response to the inflation peaks are improved net operating incomes and property value increases (Kaiser, 1997).

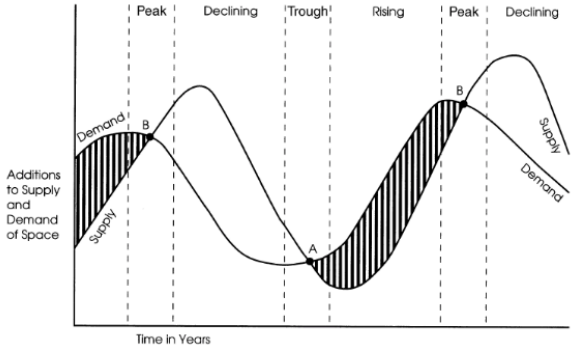

Figure 11: Real estate market cycle (Phyrr et al., 2000)

In the third phase, the economic growth has stagnated together with the demand for office space. Most of the developments initiated in phase 2 are delivered at this moment. The absence of potential tenants leads to vacancy in the fourth phase: economic recession. New offices enter the market, which increases the vacancy rate in the market. Low rents allow occupiers to relocate in newer office space, leading to structural vacancy in the old office stock. When the economy recovers, the real estate office cycle starts again in phase 1 (Hek et al., 2004). The four phases show the way in which the real estate market responds to economic conjunctural waves with a delay of 2-3 years (Phyrr et al, 2000; Remøy, 2010). This mechanism is also referred to as the hog cycle, derived from swine breeding. When swine breeders notice a rising market price for pigs, they start breeding more pigs. This new pork supply entsers the market approximately a year later, and will –with a set demand- significantly drop the price. Due to the thin margins at this price level, the breeders decide to reduce their breeding capacity. When the supply of hogs becomes to low, the price increases again and the cycle is repeated (Hendrikx, 2012) (**Figure 11**).

Highlight: Sale-leaseback program of Barclays bank (United Kingdom)

The best example of executing a corporate real estate disposal strategy from a position of strength is the sale-leaseback program of Barclays bank in 2006-2008. Following the organizational objective to enhance the profitability and competitive position of the bank, 900-1000 properties were disposed through sale-leaseback transactions. Sale revenues were established at cyclical highs (£1.2 billion), motivated by the execution of this stragy from a position of strength in strong economic times. The initial capital releases of the most valuable assets were used to reduce the risk of changeable market conditions through the rest of the strategy. Another bounding condition for the success was taking a cross-disciplinary approach to optimally align the expertise (finance and property skills) of different departments and executive approval, thereby maximizing capital releases and profitability. Stable occupational outlooks enabled rent reductions and minimalized exit-cost risk (Morris, 2010).

Lessons learned:

- Having a mixed-discipline team, particularly merging finance and property skills;
- Anticipating changeable market conditions;
- The position of strength enables well-thought disposal at favourable conditions.

2.2.4 ORGANIZATIONAL LIFECYCLES

Institutions are also subject to cyclical behaviour through their organizational lifecycles (OLC The biological model is often compared to the behaviour of organizations due to its resemblance with the lifecycle of living organisms. The premise of the OLC model is that the requirements, opportunities, and internal and external business threats will vary per development stage an organization is in. Organizational lifecycles consist of five development phases, namely start-up (birth), growth, maturity, decline and death or revival (Haire, 1959) (**Figure 12**). The start-up phase marks the beginning of organizational development. The core focus lies with viability. The growth stage is characterized by initial formalization of the structure and financial strengthening to retain competitiveness. In case of sufficient revenues and healthy management, organizations are able to continue to the third stage: maturity. Maturity is marked by strong formalization in the form of bureaucracy and hierarchy. When an organization is no longer capable of fostering innovation and creativity, it enters the decline stage. The decline stage is characterized by politics and power and a culture in which personal interests prevail over the organizational goals. If management is not able to steer the organization back on track, the organization may enter the death phase (Lester et al, 2003). Organizations move from one phase to another because the fit between the organization and its environment becomes so inadequate that the organizational survival becomes threatened. The predictability of organizations in the different phases remains hard due to its dependency on external and internal factors. Through proactive strategic management, organizations can revert back to earlier stages or remain in a development stage for a long time (Lester et al, 2003).

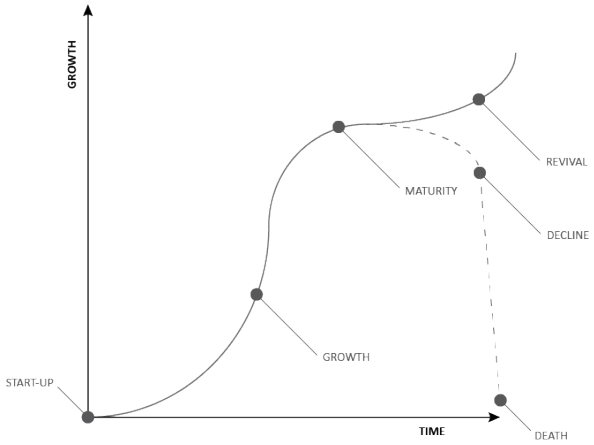

Figure 12: Organizational lifecycle (based on Haire, 1959)

The most dangerous phase-shift for organizational continuity and viability is the transition from maturity to decline. The implementation of innovation in this phase is considered an important tool to steer this transition. The decline-innovation relationship is subject to strong scientific differentiation. On the one hand, scientists believe that institutes adapt to organizational decline through organizational innovation. Innovation can be the development or adaptation of (new) products, introduction of new technology, alterations in the access to consumers, or a different strategic orientation (Cheng & Van de Ven, 1996; Mone et al, 1998). The other scientific belief is that organizational decline inhibits innovation, as resource conservation and process conservation lead to enhanced efficiency. Not allocating additional resources to interventions that have limited guarantees on effectiveness and ensured improvement forms the main argument debunk the relationship between innovation and organizational decline (Mone et al, 1998).

2.2.5 OBSOLESCENCE AND INTERVENTIONS

The previous section showed that organizations change throughout their lifecycle, inherently creating alterations in their business requirements. Eventually changed business requirements can cause obsolescence of (parts of) the CRE portfolio. Buildings can *'become inappropriate for their original purpose due to obsolescence, or can become redundant due to change in demand for their service'* (Langston et al., 2008 p. 1710). Assets become obsolete when they do not meet their highest and best use. Ten types of obsolescence are identified in literature: aesthetic, functional, legal, social, tenure, structural (physical), financial, environmental, locational, and site obsolescence (Nutt et al. 1976;

Salway 1987; Baum 1993; Blakstad 2001). Langston et al. (2008) deducted this to six types of obsolescence (**Table 6**).

Table 6. Types of Obsolescence (Langston et al, 2008)	
Physical obsolescence	Accelerated deterioration leading to reduced physical performance
Economic obsolescence	Best business case conform the business objective
Functional obsolescence	Non-alignment of the property with its use due to functional change
Technical obsolescence	In case object is no longer technically superior to alternatives
Social obsolescence	Fashion or behavioural changes in society can drive for interventions
Legal obsolescence	Revised regulations may cause non-alignment

The work of Remøy (2010) narrowed this down even further by merging the different types into three types of obsolescence, namely functional, technical, and financial obsolescence. Functional obsolescence covers aesthetic, legal and social aspects, following their relation to the functionality or user satisfaction of the building. Physical and technical obsolescence from Langston's division are thereby merged into technical obsolescence. Legal, social and functional are merged into functional obsolescence. Economic obsolescence is equalled to financial obsolescence. In case a property becomes obsolete, there is the necessity for an intervention (Langston et al., 2008). There are four CREM interventions to act upon property obsolescence, namely giving up ownership by sale of CRE, renegotiate rental contracts before lease expiration, buy leased property, and improve CRE ownership (Remøy et al., 2016). These interventions are divided into two categories, namely holding/acquiring strategies and disposal strategies. Four corporate real estate disposal strategies are identified, namely direct sale, sale-leaseback (SLB), demolish/new-built, and adaptive-reuse with conversion (transformation) (Remøy et al, 2016). Before elaborating on these strategies, an understanding is developed of the disposal process.

2.2.6 THE DISPOSAL PROCESS

Disposal in real estate is defined as '*a commonly used, not specified understanding through which the sale of a real estate object is meant or –dependent of the context- the sale transaction or sale procedure in whole'* in the Keeris real estate management Lexicon (Keeris, 2001). It is also known as disinvesting, disinvestment and sale. The working definition of real estate disposal for this work will be: the disposal or sale transactions in which seller and buyer meet and seller is released from legal liabilities on the object. The disposal of real estate is approached from three viewpoints, namely an owner, user, or owner-occupier perspective (van Dijk, 2007). Owners (investors) are commonly the only actors actively deploying acquisition- and disposition processes since it is their core-business. Owner-occupiers and users (corporates) generally dedicate as least energy and effort in these processes as it is not their main business activity. This research solely focuses on the corporate perspective. There are six phases in real estate disposal processes (van Dijk, 2007):

Phase 1: Determine analysis-method & Disposal selection of objects
Disposal of CRE is commonly a result of policy/strategy alterations. The motive for disposal thereby largely differs per organisation.

Phase 2: Determine valuation value
The valuation value provides the actual resale-value of the property and, together with the building characteristics, influences the disposal risk.

Phase 3: Determine disposal risk
The disposal risk of an object is determined by the risk of selling, meaning the marketability of the property. The lower the disposal risk, the shorter the holding period after placing the object in the market. Problems in the disposal process may arise when a property is aged or non-marketable.

Phase 4: Determine buyer-profile
There are five types of buyers in the real estate market, namely owner-occupiers, developers, investors, real

	estate traders, housing corporations. As each type has its own preferences, the best target group should be critically selected in this phase.
Phase 5: Determine sales method	There are two alternatives, the building maintains its current use or the building gets a new function. Both categories have specified intervention strategies.
Phase 6: Determine moment of sale & Negotiation strategy	There are three moments at which an object can be disposed of, namely based on initial valuation, sale through the development of a vision, and sale through a contracting process. Every subsequent step needs more effort, but can provide a higher value (Keulen, 2002).

Three decision-making moments are distilled from this overview. The *choice for disposal* originates from organizational or policy alterations on an organizational level (van Dijk, 2007). The *asset type specification* comprises the selection of assets to dispose of on a portfolio-level. The *strategy adoption* determines the way and moment through which a property is taken to the market. The following sections address the decision-making steps in subsequent order.

2.2.6.1 CHOICE FOR DISPOSAL

The choice for disposal is dominantly influenced by alterations in strategy and policy. It is thereby largely dependent on organizational response to changes in its context (Van Dijk, 2007). This was confirmed in **section 2.1.2**, which identified that the determination of the corporate business strategy is commonly based on changes in the context of organizations, as these determine the business direction and competitive position. The organizational context is composed of the organizational and macroeconomic context. The organizational context comprises its internal stakeholders, governance, culture, assets (e.g. property, equipment and technology), capabilities (e.g. capital, time, people), and decision-making processes. The external context of an organization consists of its outside stakeholders, operating environment and external factors influencing the selection of its objectives (Pojasek, 2013). In order to assess the choice for disposal, one should map the organizational and macroeconomic disposal drivers based on trends influencing the business context (see: **section 2.3.6**).

2.2.6.2 ASSET TYPE SPECIFICATION

The selection of disposal assets is based on the weighing of different variables through the four stakeholder perspectives from **section 2.1.4.** The following sections explore the theoretical concepts underlying each of the different perspectives (strategic, functional, financial and physical) in CREM decision-making. The decision-making variables identified in these sections are used as research themes for the case study from **chapter 3**.

Strategic: ownership versus lease

The strategic perspective is expressed by policy makers in executive positions and is aimed at establishing competitive advantage through meeting its organizational objective (Den Heijer, 2011). One of the ways to strategically add value to organizational objectives is through the ownership versus lease consideration (**section 2.1.1**). The literature is, however, divided on this topic. Having capital tied up through ownership disables investment in the core business. However, a freehold interest enables the possibility to sell, adapt or expand one's property at all time. The preference for ownership type thereby largely revolves around the perception of flexibility.

Variables: ownership versus lease

Functional: quantitative and qualitative fitness for use

The functional value drivers are expressed by user (employees and consumers) and are primarily focused on assessing the quantitative and qualitative fitness for use of buildings (Den Heijer, 2011). Changes in the objectives and needs of an organization lead to functional changes that differs from the use for which a building was once originated (Langston et al., 2008). As stated, this works on two levels. Decreased organizational demand leads to functional obsolescence based on a quantitative

mismatch between building and organization. Further, the implementation of different ways of working may create a qualitative mismatch between the organization and the use of its real estate.

Variables: decreased organizational demand, new working concepts

Financial: value and costs

The financial perspective is created by corporate real estate managers and aimed at value, resources and costs, and replacement costs (Den Heijer, 2011). The value and performance of assets is driven by the market developments and its regional and national economic situation (Gibson & Louargand, 2002; Bartelink, 2015). The value of a building can change throughout an ownership-period, showing at moment of disposal. The risk for owner-occupiers is that the resale (or market) value of an object lies below book value (van Dijk, 2007). Property value can also serve as a decision-making variable in the positive sense, as it can be used to generate equity. The most valuable assets are generally associated with high marketability, making them subject to low disposal risk (Morris, 2010).

Variables: market value, book value, marketability, and operating costs.

Physical: building characteristics

The physical perspective originates from technical managers and is aimed at the physical property, its technical conditions and legal requirements (Den Heijer, 2011). The marketability of a property is determined by its physical characteristics (Van Dijjk, 2007). Building characteristics are decomposed through three domains, namely market, location, and building. The REN norm (2003) has prescribed a set of those criteria, which are complemented by the work from other authors (Roberts et al., 2012; Geraedts & Van der Voordt, 2007; DTZ, 2012; Langston & Smith, 2011). The criteria from the different studies are visualized in **appendix A**. The most influential and reoccurring characteristics of **appendix A** are depicted in **table 7**.

Table 7. Building characteristics in CREM decision-making

Market	Location	Building
Location: city/business centre	Accessibility (private)	Technical state
Rent level	Parking possibilities	Flexibility
Demand	Image location	Identity / image building
	Liveable environment	Sustainability
	Accessibility (public)	

2.2.6.3 STRATEGY ADOPTION

After an asset is selected for disposal, the most suitable moment and strategy for disposal should be selected. The moment of sale is determined by assessing the potential benefits of making more initial effort. There are three moments on which an object can be disposed of, namely based on initial valuation, after vision development, and sale through a contracting process. Every subsequent option demands higher effort, but can provide a higher value (Keulen, 2002). The initial valuation serves as a base point for decisions regarding the moment of sale. Objects can be sold directly by taking the property to the open market or writing-out a tender if there is no disposal risk. If the initial valuation indicates depreciation on book value or the disposal risk is too high, a redevelopment vision can be established. This basically entails a document describing the (re)development potential based on an integration of real estate, policy, legislation and market characteristics. The reuse value is determined to provide potential buyers with clarity on the potential benefits. Entering a contracting process is a possible next step in the process. Sale through a contracting process entails signing agreements with involved parties to create certainty and value (van Dijk, 2007). The selection on the moment of sale largely influences the applicability of the following four disposal strategies.

Strategy 1: Direct sale

The most direct way to dispose of a real estate object is through direct sale. A sale is '*a transaction between two parties where the buyer receives goods (tangible or intangible), services and/or assets in exchange for money*' (Investopedia, 2016). The date of delivery is commonly also the date of payment, making it the fastest way to generate equity. The opportunity of direct sale is highly

dependent on the general real estate market conditions. This means that the decision to bring real estate to the market is highly correlated with the general market sentiment (Brounen & Copier, 2015). The market sentiment conditions are shaped through both the quantitative and qualitative demand from the market. As the marketability of assets is determined through both external (market) and internal aspects (obsolescence), the suitability of a direct sale is largely dependent of specific building characteristics (Remøy et al, 2016).

Strategy 2: Sale-leaseback (SLB)

In a sale-leaseback (SLB) transaction both the land and real estate of an organization are sold to a third party and directly rented back in the form of a (mostly) long-term lease (Organek et al, 1968). Sale-leasebacks are commonly perceived as merely an alternative financing method to generate capital for further investments with a higher return without losing organizational accommodation capacity (Buijsen, 2001; Van Hermon, 2005). The motivation for a SLB transaction is enhancing the flexibility of the portfolio to cope with an uncertain future (Van Meerwijk, Scheffer & Arkesteijn, 2005). The historical core drivers for SLB transactions were improving credit standing (tax avoidance), risk spread and finding new investment possibilities (Cary, 1948). Ideally, the off-the-balance characteristic clears the liability side of a long-term debt, while replacing fixed assets with current assets (Organek, 1968). The new accounting regulations oblige organizations to show all operational and financial leasing activity on the balance sheet, thereby eliminating this off-balance advantage (Schelle et al., 2014). Other benefits of sale-leasebacks are enhanced solvability, liquidity and profitability (Van Meerwijk, Scheffer & Arkesteijn, 2005). The secured funds in a sale-leaseback can equal the full value of a property, which is higher than is possible through debt financing.

The duration of the rental periods in SLB transactions has historically been 10 years, but has changed according to Remøy et al. (2016). The main benefit of long-term (10-15 year) lease commitments is the exponentially higher resale value. SLB transactions occur at a significant economical and statistical price premium (+13,7% approx.) to conventional transactions (Mansour & Scott, 2012). The price premium is explained through 3 points, namely a greater value of expected cash flows through the absence of a periodic vacancy period, an enhanced credit profile of the tenant, and the tenant's history on that location (Sirmans & Slade, 2010). Selling a long-term lease to an investor for a premium offers a bond-like investment for the investor. SLB transactions thereby attract fixed-income investors who value the quality of the cash flows over the property characteristics (Evans, 2013). Naturally, the solvability of the tenant plays a role since the risk-profile of the tenant has to be solid.

Strategy 3 Demolishment and new construction

As there is little reason to believe that the market will take-up obsolete buildings, one of the disposal strategies is withdrawing a non-marketable building from the market through demolition (Remøy, 2010). Assets may find themselves in a context that makes sale or transformation not a viable option. It can be the case that building characteristics do not align with the qualitative occupier-demand or that the local market conditions do not shape a feasible context for another usage type, thereby disabling transformation. Demolishment and new construction is an intervention that is particularly interesting in a declining market. The opportunity is created to develop a building that is fit for the use of future occupier preferences. What should be taken into account is that the redevelopment process takes time, disrupts market- and location development, and may be a waste of resources (Remøy, 2010). Demolishment and new construction can be deployed in a portfolio strategy to tailor the CRE portfolio to the quantitative and qualitative organizational demand. The strategy is best usable when the current use of a property is its highest and best use, but the physical characteristics of a property no longer align with qualitative user demands.

Strategy 4 Adaptive reuse (transformation)

The responsible repositioning or retrofit of vacant real estate provides an opportunity in the way corporates dispose of parts of their portfolio (Mattson-Teig, 2012). When being successful, adaptive reuse '*sustains a beneficial and durable use of the location and building, implies less income disruption than demolish and new build and has high social and financial benefits*' (Remøy et al., 2016 p. 8). There are two required conditions for transformation strategies, namely a high demand for the new function and the new use being the highest and best use for the property (Remøy et al, 2015). The highest and best use approach describes the competitive forces within the market to determine the

best use of a property as if vacant (Lusht, 2012). Opportunistic developers find an interest in these strategies as transformations still provide the margins associated with their development strategies (Mattson-Teig, 2012). The most important driver for corporates to deploy transformation strategies is the market-proof disposal of assets. Owner-occupiers are regularly not the ones financially profiting from the transformation process as the use of adaptive re-use for corporates basically always includes disposal of the building before the intervention. The Netherlands forms the perfect context for the execution of office transformation to residential use due its highly pressured local residential markets and long-term office vacancy (Vastgoedmarkt, 2015). The suitability for transformation needs to be assessed through building and/or location characteristics and local market conditions (Remøy et al., 2016). Together with economic recovery, the rich number of transformation projects is an important contributor to the decreasing vacancy rate in the Dutch office market.

2.3 THE FINANCIAL SECTOR

This section explores the unique characteristics of the Dutch financial sector and creates a deeper understanding of the Dutch banking sector. The main business trends influencing the decision-making of institutions in the Dutch banking sector are identified.

2.3.1 THE COMPOSITION OF THE FINANCIAL SECTOR

The financial sector consists of three groups: central banks, deposit money banks and other financial institutions (Beck et al. 1999). The first group consists of central banks and entities that fulfil the function of monetary authorities. The second group comprises all financial institutions with liabilities in the form of deposits. The last group contains institutions that serve as financial intermediaries without incurring liabilities. This group is divided in bank-like institutions and non-bank financial institutions (Beck et al., 1999). The Central Bureau of Statistics (CBS) also divides the financial sector in three categories, namely financial institutions (under which money-shaping institutions, banks, financial holdings, investment institutions), insurance companies and pension-funds, and other financial services (under which financial mediation, asset/property management) (CBS, 2013). The categorization of the Central Bureau of Statistics is visualized in **figure 13**.

Figure 13: Composition of the financial sector (own ill.)

2.3.2 THE DUTCH BANKING SECTOR

The total volume of the Dutch banking sector has significantly decreased since the start of the recession, but remains large from an historical and international perspective. The size of the Dutch banking sector is equal to approximately four times the size of the Dutch Gross Development Product (GDP), meaning the total value of goods and services produced in a Nation for a set period of time. The Dutch banking sector is, compared to its GDP, one of the largest banking sectors in the world (www.banken.nl). The sector is also known for its concentrated composition, as the four largest banks control over 80 per cent of the total market. The size of its largest bank (ING), with 1.5 times its GDP, is unique on a global scale. The Dutch banking sector is also characterized by its low competitive nature, which is primarily attributed to the fact that two of the four largest banks are subject to high government involvement. The Dutch banking system is composed of five system banks. System bank are banks that are marked by the central bank (DNB) for having a central position in the banking sector and the economic system as a whole. Dutch system banks have to comply with additional capital requirements as set by the European Banking Authority (EBA) (Eg, 2015).

The concentration of the Dutch banking sector is primarily explained by the large-scale merger-trend from the 80s and 90s. As the international banks (RBS, Deutsche Bank) are downsizing or retracting their business in the Netherlands, the main competition for the large system banks is coming from the insurance institutions, pension funds and (increasingly) FinTech start-ups and companies. The retraction of international banks is motivated by the aging Dutch population and solvency issues that pressure the credibility of the market. The banking sector has become increasingly homogenous during the period 1960 to 2010 (**figure 14**). Where the sector was composed of seven sub-types in 1960, this has decreased to merely two in 2010: Central Banks and Banks for governmental credit (DNB, 2014).

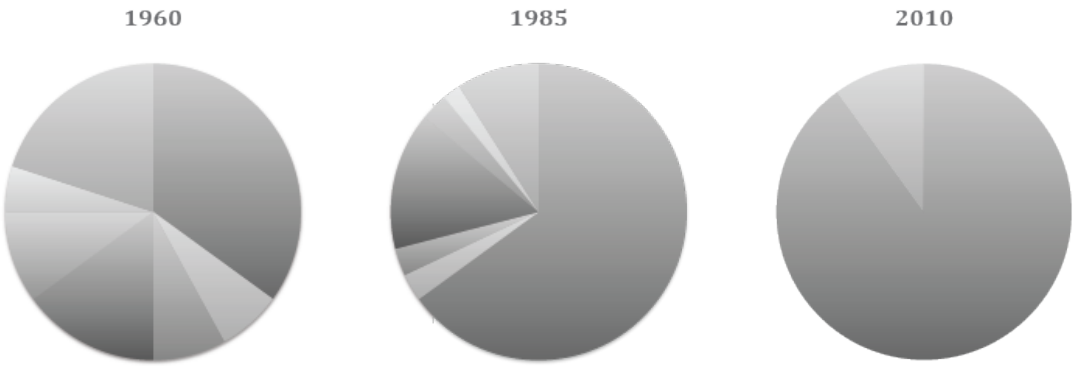

Figure 14: Composition of the Dutch banking sector 1960-2010 (based on DNB, 2014)

The Dutch banking sector sees the emergence of traditional and new disruptive competitive forces. The market share of insurance companies and pension funds has doubled since 2010 to 20 per cent (€35 billion to €73 billion), motivated by the low interest levels on capital markets (Betlem & Couwenbergh, 2016). Besides the traditionally competitive parties in the financial sector, the number of FinTech companies and start-ups taking up large shares of banking permits is rapidly increasing. However, despite the increased competition Dutch banks still control over 62 per cent of the Dutch mortgage market (Betlem & Couwenbergh, 2016). The transition into an IT-sector is acknowledged by De Nederlansche Bank (DNB), which identifies that this shift is also facilitated by the adapting capability of traditional financial institutions (DNB, 2014).

2.3.3 BANKING STRATEGY

The essential role of banks in National economies and societies is inevitable. The activities of banks comprise facilitating payment traffic, providing credits for organizations and individuals, managing financial transactions on the stock exchange, and issuing bonds and shares. The services that banks provide have diverted over the years to a broad range of products and services. Along two axes, five types of banking enterprises are identified. The first axis determines the services that are provided, either standardized or tailored. The second axis entails the client-segment the bank focuses on the consumer-segments that are served, varying between private or business consumers. The different type of enterprises are illustrated in **figure 15**, and elaborated on in **table 8**. The typology selection is an important part of the corporate business strategy, as it determines the general course and mission of a company (www.banken.nl).

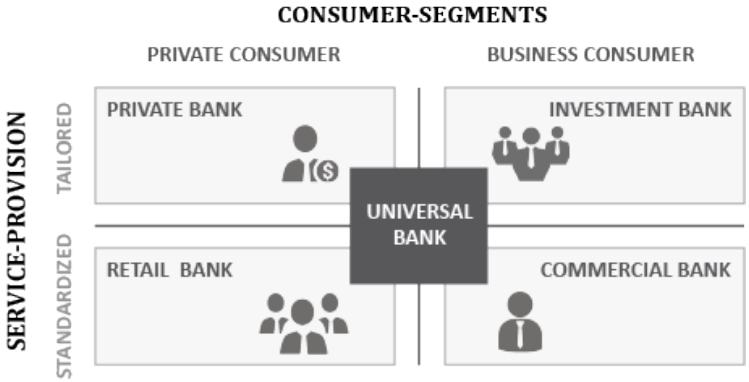

Figure 15: Banking segments (own ill.)

Table 8. Types of banking enterprises	
Retail bank	Retail banks are also known as utility or societal banks. They combine the private consumer-segment with standardized service-provision. Retail banks focus on basic services like payment trafficking, savings and credit-provision.
Private bank	Private banks are institutions that focus on wealthy individuals. They combine the private consumer-segment with tailored service-provision. The services in private banks include savings, investments, heritages and tax advice.
Commercial bank	Commercial banks are positioned on the overlap between the business consumer-segment and standardized service-provision. These are banks focused on enterprises through providing business loans and basic investment products.
Investment bank	Investment banks focuses on large enterprises or institutions by combining tailored service-provision for the business consumer-segment. Their activities comprise issuing bonds and shares, and guiding merger and acquisition (M&A) processes.
Universal bank	Universal (or wholesale) bank provide services for all banking segments.

2.3.5 INNOVATION MODEL

Technology is identified as the most important ingredient in economic growth as it historically accounts for more than 50 per cent of the long-term growth of the industrialized economy output (Tassey, 1995). Currently, a *phase shift* is noticed in the service sector. This phase shift is aligned with a dynamic model of innovation, meaning a shift from back-office IT implementation towards new product development and a strong product focus (NSIT, 1998). The changed point of consumption and the shift from market power towards the consumer primarily drive this shift (Barras, 1986). Despite the fact that the implementation of technology is not secluded for the service sector, other sectors tend to take a different approach. Supplier-dominated industries, like e.g. the manufacturing industry, take a more process-oriented approach (NSIT, 1998). As they do not apply the integral implementation of technology in their business development and new product development, these sectors are considered less comparable. The growing implementation of information technology, artificial intelligence and the presence of the robot society lead to the expectancy that by 2030 the banking sector will have been transformed to an IT-sector with a predominantly IT human capital stock (Hays, 2016).

2.3.6 TRENDS IN THE DUTCH BANKING SECTOR

Ever since the foundation of the first bank ever in 1472 (Banca Monte dei Paschi in Italy) the banking sector has gone through a large number of developments, mostly driven by market- and technological developments. The most important business trends and developments in the Dutch context are identified below (NVB, 2015). An overarching trend since the recession is the transition towards a more stable and risk-averse financial system. The exclusive orientation of banks on their core activity, attracting savings and the emission of this in the economy through loans, is leading in this shift (NVB, 2015). The large number of trends influencing the sector drives the rapidly changing circumstances of the banking sector. These trends are depicted in **table 9** (NVB, 2015). The five most influential trends are further explained (**figure 16**).

Table 9. Business trends in the Dutch banking sector	
Focus on core activities	Bank supervision on European level
Consolidation and shift to universal banks	The emergence of an European banking union
High employment shrinkage	Retraction of International banking institutions
Emergence of mobile banking and paying	Shorted balance sheets
Increased presence of non-banks	Strengthened capital reserves
More and stricter laws and regulations	Strong emphasis on risk-mitigations
Downgraded bonus policies of banks	

Trend 1: Revised European regulations

The financial crisis painfully showed that the capital requirements for banks, as stated in Basel II, did not suffice. For this reason, new risk-mitigation regulations came into place at the end of 2010 in the form of Basel III. Basel III obliges banking institutions to attain increased capital reservations to

compensate for potential losses. These capital reservations can include share capital and profit reserves for publicly listed companies, where this are profit reserves, member certificates and cooperative shares for cooperative enterprises. Basel III mitigates the leverage ratio of banks, which is the ratio of debt versus the own equity of a bank. Basel III also advocates for additional capital requirements for system-banks that are '*too big to fail*'. Too big to fail banks are banking institutions that are so large and interconnected that their failure would be disastrous to the greater economic system. The idea of Basel III is forcing institutions to build reserves in good economic times, so they can be claimed in case of economic decline (Basel Committee on Banking Supervision, 2010).

The European fundamental tenets from Basel III were legally anchored through the implementation of the adjusted Capital Requirements Directive (CRD IV) and Capital Requirements Regulation (CRR) in 2014, thereby making it European legislation and validating its applicability in the Dutch context. The implementation of Basel III has led to serious concerns amongst European banks, as this pressures the Leverage Ratio and Liquidity Coverage Ratio (LCR). The predominant risk assessment ratio that is used by European financial regulatory authorities is the standardized Capital Adequacy ratio, also known as the CET 1 ratio. (Capgemini Consulting, 2015). CET1, or Tier-1 capital, is a ratio that expresses the financial buffers that banks attain to absorb potential losses (DNB, 2014). The most recent development is the launch of European accounting regulation IFRS 9, obliging banks to establish buffers to healthy credits. This pressures the CET-1 ratios of European banks (de Horde, 2016).

Trend 2: Digitalization

The history of technology knows three industrial revolutions, namely the introduction of steam, electricity and Information Technology (IT). The first two belong to the first machinery era, which was aimed at the creation and implementation of machinery that adds muscle power (van Est & Kool, 2015). This period is also known for striving towards higher efficiency and automation. The third revolution preludes the second machinery era, where machines also deliver brainpower. The emergence of *The Internet of Things* comprises the development of artificial intelligence, sensor networks and data analytics (van Est & Kool, 2015). This robotic phase is oriented at the development of artificial intelligence and using technology in every-day use of services and products, thereby radically shifting the inherent nature of a lot of jobs (Balkenende, 2016).

The banking sector currently finds itself in this robotic phase, making it subject to a high degree of innovation and digitalization and sees the emergence of new competitive disruptive threats (ING, 2016). Technological innovation can be considered an essential intervention to secure market share, as the emergence of FinTech endangers the business models of the banking sector. FinTech (Financial Technology) start-ups and companies are gaining ground by providing innovative products and services aligned with speed, user comfort and efficiency: all of which align with modern-day user demands (Snyders, 2016). To retain their market share, banks are forced to go along with these developments (Groot, 2015). Next to being a threat, the implementation of technology also provides a means to establish competitive advantage through enhanced efficiency, as it enables organizations to realign their organizational capacity through new IT systems (Gibler & Black, 2002). Organizational efficiency is embodied through the cost/income ratio, which is the most used benchmark performance indicator by shareholders and higher management to measure the bank's performance. The ratio basically shows how much costs a bank makes to earn one euro, thereby showing both efficiency and (present-day) how digital a bank is (Bökkering, 2016).

Trend 3: Recovering economy and real estate market

After years of economic decline following the financial recession, the Dutch economy is steadily developing and building solid momentum. The Netherlands has outpaced the Eurozone average for the fourth year in a row, and has shown an annual average GDP growth rate of 1.6 per cent for the last decade (CBRE, 2017). CBS economic growth forecast are set at a positive 2.1 per cent for 2017. The strong economical performance is also reflected in the low unemployment rate (5.6%) and real estate investment markets (Savills, 2016). In 2016, record-high investment activity was registered amounting up to a total of approximately €13.5 billion (excluding loan sales). The forecasts for 2017 show continuation of strong investment activity (CBRE, 2017). The general economic performance leads to the recovery of the office occupier market through positive business sentiment (CBRE, 2017). After a peak in 2014, the vacancy level in the office market has dropped to approximately 14.1 per

cent in 2016. This means a supply of 7.65 million sqm within the 48.9 million sqm Dutch office stock (Cushman & Wakefield, 2017). Following the decreased employment rate, the competition for talent becomes an increasingly important variable in the retention and attraction of talent. This leads to an increased say of the HR department in organizations (Savills, 2016).

Trend 4: Sustainability performance

Sustainability in CREM was not until recently recognized as an integral part of almost every business (Masalskyte et al., 2014). Dyllick and Hockerst (2002) introduced corporate sustainability as an integrated concept merging economical, ecological and social aspects to meet the needs of internal and external stakeholders. This has gradually developed to the strong inclusion of sustainability in the corporate social responsibility policies of organizations. The '*construction and operation of buildings account for about 40 per cent of worldwide consumption of raw materials and energy*' (Eichholtz et al., 2010), reflecting the importance of corporate real estate in terms of sustainability. In the end of 2016, a governmental contribution was made to improve the energy efficiency of the Dutch office stock. In a public letter, minister Blok (Public Services and Housing) announced the obligation for owners of office buildings to have a minimal energy label C for their assets by 2023 (Blok, 2016). This may have large implication for the large and scattered real estate portfolios of Dutch banks.

Trend 5: Corporate image, trust and reputations

Managing reputation has increasingly becoming a goal amongst Dutch banks (CSFI, 2015). Some Dutch banks received governmental support after the financial recessions to assure their continuation. As this has negatively shaped public perception of the sector, Dutch banking institutions assign value to restoring their image and recovering societal trust. The Dutch banking sector still scored below National average on consumer trust in comparison to other service sectors in 2016 (van Poll, 2016). Trust and establishing a good relationship with consumers and society are important factors in constructing a strong and successful enterprise. This is certainly the case for banks and financials that manage the money of others (Marconi, 1997). Besides size, location, and professional personnel, the influence of trust and reputation are the most important variables for consumers to select a bank (Meidan et al, 1997; Harrison, 2003). After the crisis those two factors were largely damaged, explaining the focus on trust restoration and consumer-orientation (de Pauw, 2009).

Rijkman Groenink, former CEO ABN Amro Bank: '*The bank exists by grace of the trust of the customers, that may not be harmed'* (Smit, 2007 p. 180).

Figure 16: Business trends in the Dutch banking sector (own ill.)

2.4 CREM IN THE DUTCH BANKING SECTOR

The former sections explored the theoretical foundations of decision-making in corporate real estate disposal processes and elucidated the unique characteristics of the Dutch banking sector. This section combines these topics by elaborating on CREM and corporate real estate disposal drivers in the Dutch banking sector.

2.4.1 THE BANKING REAL ESTATE PORTFOLIO

The purpose of corporate real estate is always to facilitate core business activity (**Section 2.1.1)**. The real estate portfolios of organizations will thereby always obtain certain characteristics. As organizations in the financial service-sector have an information-based nature, their services are appropriate for the division into front- and back-office activity (Lovelock & Yip, 1996). The service process of front-office activity is associated with active contact, customization, decreased effectiveness, and reduced efficiency. These processes are commonly more labour and capital intensive, show lower utilization, and are aligned with more complex jobs than back-office activity (Hossein et al., 2003). Tailoring products and processes to customer needs in a flexible way (customization), is considered front-office work. Back-office service processes are expected to benefit from standardization, improved efficiency and effectiveness of operations. Service processes with front-office activities generally have more customer contact than back-office activity (Hossein et al., 2003). Traditionally, the objective of back-office activities is to facilitate front-office processes and enable front-office employees to execute services processes in an effective and efficient manner. The service-provision between front-office and back-office activity shows some overlap in the banking sector (Larsson and Bowen, 1989).

2.4.2 CRE DISPOSAL DRIVERS

The choice for disposal is dominantly influenced by policy alterations (**Section 2.2.6).** The organizational policy, embodied by its corporate business strategy, is determined by its organizational and macroeconomic context (**section 2.2.6.1**). The trends influencing the business are thereby dichotomously classified in macroeconomic and organizational disposal drivers. The following sections combine the literature study with the current trends in the banking sector and translate these to the potential drivers for disposal (**Figure 17**).

MACROECONOMIC DRIVERS

Investment momentum

The execution of disposal strategies from a position of strength, together with strong economic times, is considered essential in the execution of successful disposal strategies **(Section 2.2.1)**. The cyclical behaviour of real estate markets and economies was identified in **section 2.2.2-2.2.3**. The current recovery of the Dutch economy (**trend 3**) is aligned with high capital activity and general favourable economic performance. This is also reflected in the high investment appetite and positive business sentiment in the Dutch office market. When reflecting the abovementioned literature on the trends influencing the macroeconomic context, it is reasonable to identify the current *investment momentum* in the market as a potential disposal driver.

Financial distress

Disposal strategies were traditionally used as a short-term tool to raise capital or pay off debt following the position of financial distress the organization was in (**Section 2.2.1**). Simultaneously, the development of the banking sector throughout and after the financial recession has lead to the introduction of revised capital requirements following Basel III **(section 2.3.6)**. System banks, in this regard, are subject to even stricter capital regulations. As this pressures the balance sheet and capital position of banking institutions, these may enter a position of financial distress. For this reason, *financial distress* is included as a potential macroeconomic disposal driver for this research.

ORGANIZATIONAL DRIVERS

Decreased organizational footprint

Functional obsolescence is one of the three types of obsolescence that drive the need for real estate interventions (**Section 2.2.5)**. This is supported by the work of Louko (2005), who identifies space-use efficiency as one of the most important drivers for corporate real estate disposal. The digitalization of the Dutch banking sector has led to decreased client-activity in retail-offices and an enhanced need for occupational efficiency (**Section 2.3.6)**. These developments imply the presence of surplus office space in the corporate real estate portfolios of Dutch banking institutions, thereby validating its inclusion of *decreased organizational footprint* as a potential organizational disposal driver.

New working concepts

Buildings can become inappropriate for the original purpose following alterations in the nature of the usage (**Section 2.2.5**). The emergence of qualitative functional obsolescence arises through changes in their working concepts of organization. The digitalization of the business creates an increased presence of IT workforce in the human capital stock of organizations (**Section 2.3.6)**. The alteration in employee profile is reflected in changed working concepts. The emergence of new working concepts and the employment of a workforce with different users preferences may entail qualitative functional obsolescence, motivating the inclusion of *new working concepts* as a potential disposal driver.

Sustainability requirements

Technical obsolescence is another one of the three types of obsolescence and therefore also forms a driver for real estate interventions (**Section 2.2.5)**. Technical obsolescence may arise when deterioration leads to reduced physical performance or causes the object to no longer be technically superior to alternatives. The growing importance of sustainability in (corporate) real estate and the embodiment of this through the revised sustainability regulations were identified in **section 2.3.6**. The new regulations may entail misalignment of (parts of) the large office portfolios of Dutch banking institutions with legislation or new sustainability requirements, thereby validating the inclusion of *sustainability requirements* as an organizational requirement.

Figure 17: Corporate real estate disposal drivers (own ill.)

EMPIRICAL RESEARCH

source: www.pexel.com

3. CASE STUDY ANALYSIS

The literature study has provided a theoretical premise on the decision-making processes in CRE disposal strategies. To get a good and thorough understanding of these processes, the unique features and characteristics of the four selected cases are elucidated in this chapter. According to the theoretical premise of chapter 1, the cases are analysed in-depth based on document analysis and semi-structured interviews. The outcomes of the individual case studies will serve as input for the cross-case comparison.

3.1 ANALYSIS OF CASE 1

KEY FACTS

Foundation	1990-2000	**Headquarters**	Amsterdam
Employees (NL)	15,000 – 20,000	**Bank segment**	Universal
Office locations	250-300	**International**	Yes
Publicly listed	Yes (AEX)	**Market share**	15-20%

3.1.1 HISTORY

Case 1 is a Dutch bank that was founded in the 90's through a fusion/merger between two entities. After its foundation, the bank was subject to a strong international expansion strategy characterized by merger and acquisition (M&A) activity. After the bank had been taken over it came into problems following the economic recession. In 2008, the bank was nationalized. The bank focuses on Dutch retail and international private, merchant and corporate banking. Since 2015, the Dutch government is taking the bank back to the stock market in phases. The headquarters of the bank is located in Amsterdam. The organisation provides employment for 15,000-20,000 people in the Netherlands.

3.1.2 CORPORATE BUSINESS STRATEGY

The corporate business strategy of Case 1 is focused on digitalization and sustainability. Their ambition is to continue the digitalisation of their retail processes and customer experience and decrease the number of employees. The goal of the current retail digitalization is aimed at simplifying processes thereby enhancing agility and reducing costs. The organisation has a strong focus on sustainability and transparency, which is aimed at sustainable awareness in the organisation and issuing sustainable loans. From a financial perspective, there is a strong commitment towards retaining the moderate risk profile and aiming for improved profitability. The cost-income ratio target for 2017 is 56-60 per cent. As a large-scale service-provider, the bank has a reactive orientation towards the demand and development from the market.

The strategy of Case 1 is dominantly focused on consumer-experience to serve consumers and retain consumer relevance. The driving force of the organization is thereby *market needs* (**section 2.1.2**). The financial and technological organizational objectives also include the *products offered*, *technology,* and *return/profit* driving forces as subsidiary influences.

- **Case 1 has *market needs* as its primary organizational driving force, with *products offered*, *technology*, and *return/profit* as subsidiary driving forces.**

3.1.3 CORPORATE REAL ESTATE STRATEGY

The CRE strategy of the organization revolves around two main goals, namely facilitating business activity and reducing costs. Facilitating business activity means physically entering or retracting from markets in which the organization wants to locate or extract itself. Reducing costs entails improving the efficiency of the accommodation of the organization, measured by the ratio between FTE's and square metres, and the vacancy in the portfolio. The physical presence of the bank is primarily determined by the market, consumer behaviour and competition. The digitalization of the business and consumer-contact has lead to a significant overall reduction in the number of assets in the portfolio. The bank does not have a self-contained centralization ambition, but experiences a

centrifugal development around its Amsterdam (headquarters) and Amstelveen (datacentres) clusters. The bank aims to accommodate its administrative banking activity (back-office) as cost-efficient as possible to improve its efficiency and establish cost-reductions. The bank has a neutral orientation towards an ownership or leasing portfolio, as the size and average use terms of real estate marginalize the potential benefits. The new accounting regulations (IFRS 9) level the difference even further. The bank, however, always retains a share of ownership as it can be included as part of its capital requirements and because they retain the possibility for building adaptations. The share of CRE (approximately € 1 billion) is not normative in the capital reservation. The bank does not aim for accommodation in shiny and brand-new offices. Concerning sustainability, a minimum of BREEAM-A or higher is used for portfolio mutations. For the existing portfolio an energy label C is considered the minimum. Besides its technical sustainability performance, the bank also assigns value to decreasing its sustainability footprint.

Case 1 deploys a layered concept to categorize their portfolio, in which they identify a core layer (5-10 year commitment), a 1st peripheral layer (questionable assets <5 years), and a 2nd peripheral layer (short term, certain disposal). The commitment in the layers is always based on consumer-demand. The peripheral concept is only used for the big clusters, as the small solitary peripheral locations are subject to other methods. These are locations in which the bank does not desire to place a 5-year commitment. Therefore different mini business-cases are used for decision-making, often involving break-options. The core layer is reducing following the increased uncertainty on future space-use requirements. This provides them with enhanced agility. Security issues do not form an obstacle for establishing a flexible layer, as low security-sensitive business units are accommodated here.

As Case 1 primarily aligns its real estate to client-activity, they execute a *promote sales and selling process* real estate strategy with subordinate influences of a *flexibility* and *promote human resources objectives* strategy (**section 2.1.2).**

- **Case 1 has a primary *promote sales & selling process* real estate strategy with subsidiary *flexibility* and *promote human resources objectives* real estate strategies.**

3.1.4 PORTFOLIO COMPOSITION

Where the bank had over 1,000 in 1997, this number had decreased to around 300 at the start of 2015. The current portfolio amounts up to 200-300 offices (of which 215 retail-offices), represting approximately 600,000 sqm of office space. The expectancy is that approximately 75 office-locations will be closed down the coming years. The service-provision in the offices is changing. The 'shops' in the busy shopping streets revolve around a positive experience with the brand, whereas the retail-offices just outside city centres are focused at client contact and advisory services. This means a mixture of front- and mid-office activity. The reason for this is the unsuitability of fun shopping in the banking sector. Back-offices show an increasing presence of a healthy mix between back-, mid- and front-office service-provision. In these offices, a shift is noticed towards an innovation and product-based way of working supported by an increasing number of IT employees (product developers). This is aligned with a growing focus on Agile and SCRUM working methods, which have created stagnation in the shrinking organizational space usage. The expectancy is that these working methods will create an upward trend in the space usage per employee, thereby pressuring the corporate accommodation.

The overview of the development of Property and Equipment is depicted in **table 10**. The total Property and Equipment decreased from €1,426 million in 2013 to €1,412 million in 2014 and €1,366 million in 2016. This is a total decrease of 4.2 per cent over the course of 3 years. Property and Equipment is decomposed in three categories, namely land and buildings for own use, leasehold improvements, and equipment. The biggest contribution to the overall decrease originates from the land and buildings for own use. The development this section shows a decrease of €852 million in 2013 to €781 in 2015, which is a drop of 8.3 per cent. This decrease confirms the strong disposal movement of the bank the last years. The fair value, identical to the market value, of *land and buildings held for own use* was estimated at €694 million in 2015, where this was €691 million and €936 million for respectively 2014 and 2013. The fair value of a good, service or asset is a rational and unbiased estimate of the potential market value (Investopedia, 2016).

Table 10. Balance sheet development (2013-2015)			
(in € million)	**2015**	**2014**	**2013**
Land and buildings held for own use	781	820	852
Leasehold improvements	43	38	38
Equipment	539	522	505
Other	3	32	31
Total property and equipment	**1,366**	**1,412**	**1,426**

3.1.5 CHOICE FOR DISPOSAL

The first and most important disposal driver is the reducing number of physical consumers in the offices of Case 1 due to the shift to digital service-provision. As the CRE strategy of the bank largely revolves around consumer-activity, overlapping catchment areas constitute another important driver for disposal. This was most apparent after former merger & acquisition activity, after which approximately 150 offices were located directly next to each other. The most dominant disposal drivers are linked to the business (market, client-activity, competition) instead of real estate-related aspects. Where shortening the balance sheet (when possible) may serve as a reason for disposal, the generation of capital is not. The absence of generation of capital is motivated by the strong liquidity position of the bank and the marginalized book profits following the limited share of corporate real estate on the total balance sheet. Shifting to leasing does not shorten the balance sheet, as all lease obligations show on the balance sheet following the IFRS accounting regulations. The organizational aim for cost reduction is executed in the CRE policy. This means that high operating costs are a reason for disposal. Following the sustainability vision of the bank inadequate sustainability performance (<energy label C) constitutes a reason for disposal. The bank does not identify the revised sustainability regulations as problem as the smaller office buildings in the portfolio, which are commonly subject to bad energy labels, are mostly being disposed of.

- **Case 1 is dominantly subject to functional (quantitative) and physical obsolescence.**

3.1.6 ASSET TYPE SPECIFICATION

When selecting disposal assets, the bank primarily evaluates the client-activity in the catchment area and the extent to which the asset is aligned with the envisioned target group for that property. The next step is evaluating the financial perspective of the assets in the portfolio. The discrepancy between the market value and book value plays a role in the decision-making, as well as the maintenance condition. The market value of assets does not form an important characteristic for capital generation, as book profits have inferior importance. On the contrary, the operating cost of a property does provide an import selection criterion to achieve cost efficiency. The subsequent step is evaluating the sustainability of the property. If assets do not meet the required minimal of energy label C, this constitutes a reason to dispose of a property. The bank has higher ambitions (BREEAM-A) for larger offices. The sustainability footprint of buildings is also an important variable in the selection of disposal assets. The emergence of IT activity in the business has led to the entrance of new working methods like Agile and SCRUM. If a property is not able to facilitate these working methods, it is either disposed of or inhabited by different business units for which it still suffices. Building adaptations are possible in exceptional cases, but this is hardly exercised. The competition for highly qualified IT personnel has become an increasingly important variable in the decision-making, as IT personnel demands an attractive working environment on a vibrant location.

Overall, the organization assigns specific value to the following building characteristics in selecting a property for disposal: client activity, sustainability, operating costs, and employees.

- **Case 1 takes a predominant functional perspective in the prioritization of disposal selection variables.**

3.1.7 STRATEGY ADOPTION

Case 1 always disposes of their assets in their current state (as-is) through either direct sale or sale-leaseback, which is motivated by real estate activity not being the core business. The bank always uses two external valuations, advice from their agency broker, and their own perception in selecting

the strategy and moment of sale. If there is presumed redevelopment value, this is included in their valuations (explorative vision development). In some cases an asset is taken to the market with a vision/plan. The bank always assesses the optimal exit-scenario for the organization. The exit policy the bank deploys for disposal assets follows four steps:

1) Assessing the need for the property (consumer-perspective);
2) Assessing the need to shorten the balance sheet;
3) Assessing the need for cash/liquidity;
4) Selling through a leaseback to an investor in order to establish an investment vehicle.

Sale-leasebacks are only constructed when an asset is subject to an exit scenario in which there is an (temporary) organizational need. Selling a property with an attached lease creates additional cash flow that makes it more interesting for investors, thereby enhancing the potential revenues. In choosing the suitable disposal strategy, an assessment is made of the preferred condition of the property to the potential buyer. If the property is sold to a (re-)developer, it is commonly preferred empty. In case it is sold to an investor, it is preferred with a lease (cash flow). The buyer-preferences are taken into account, but the selection of the optimal exit strategy for the bank always prevails in selecting the disposal strategy. The bank evaluates the plans of potential buyers on feasibility, financial revenues, risk of reputational repercussions and nuisance (business disruption/municipality).

Control on the future use and redevelopment of the object is predominantly exercised if the bank (partly) stays accommodated after sale, as disposal may not cause business disruption. The bank is selective on the use of additional clauses, as this inherently affects the terms of the sale (less revenues or less buyers). The municipal viewpoint is always taken into account in these processes. The societal judgement becomes less troublesome, as people are getting used to the bank moving away. Physical constraints can have an influence on the available disposal strategies. The local demand for a function determines the selected strategy, as can be seen in **reference case 1.2.** Constructional attachment to other buildings can also limit strategy opportunities, as this may disable demolish/new-built (**reference case 1.1**). As assets are located further in the peripheral areas of the Netherlands, their disposal processes become tougher. Objects in long disposal processes are re-valued every year. Annual revaluating leads to gradual depreciation, decreasing the loss on book value at moment of sale.

3.1.8 REFERENCE TRANSACTIONS

Reference case 1.1: Utrecht | Sale-leaseback
In April 2016, the bank sold one of its office-buildings in Utrecht to an investor through a sale-leaseback transaction. The object (8,250 sqm. LFA) was subject to an exit strategy due to the increasing discrepancy between physical size and the organizational demand, together with the non-optimized use. Besides this functional obsolescence, the object needed an investment in the installation package that the bank did not want to make. Demolishment and new construction proved difficult due to attached offices. The asset was sold through a sale-leaseback with a 4-year lease, and a break-option in year three of the lease. The lease provided the investor with both cash flow and the time to establish a plan for the building. The duration of the lease (3/4 years) is not aligned with theory, which states a minimal lease of 10-15 years in sale-leaseback transactions. The receptiveness to a short-term lease can be attributed to the buyer-profile (opportunistic) and the favourable (local) market conditions. The short-term lease also formed a risk for the bank because it had to find replacing accommodation in the pressured occupier-market of Utrecht in the same period.

Reference case 1.2: Tilburg | Sale-leaseback
In August 2016, the bank sold one of its office-buildings in Tilburg to a developer through a sale-leaseback transaction. The buyer was a developer with a strong redevelopment orientation and rich track record in transformation projects to student housing. The bank stays (partially) accommodated in the object through a 3-year lease on a smaller part of the 7,000 square meters office space. The context of this asset showed a local demand for a mixture of functions. This is what made the developers plan with a mixture of office, a show-office and student housing a viable option. The

geographic positioning in the vicinity of the central railway station and outside residential areas eliminated the risk for potential nuisance.

3.1.9 CONCLUSIONS

The corporate real estate disposal of Case 1 is primarily driven by a decreased requirement of physical presence due to decreased client-activity. The most dominant disposal drivers are linked to the business (market, client-activity, competition) instead of real estate-related aspects. Case 1 does not align its corporate real estate disposals to the cyclical behaviour of real estate markets and economies. The bank aims for space-use efficiency and experiences a centralization trend of back-office activity around its headquarters. The bank has a neutral orientation towards its interest in its portfolio because of the marginal benefits following its portfolio size and average usage terms. The bank deploys a peripheral model for its large clusters, in which their commitment is based on consumer-activity. In the selection of disposal assets, the quantitative and qualitative user preferences form the starting point. After this, Case 2 aims to reduce book losses and exercises strict sustainability requirements in their disposal selection processes. The sustainability aim is concretely implemented through strict sustainability requirements. The strong embracement of technology in the organization leads to the applicability of new working concepts as a disposal selection variable. Properties are always disposed of in their current state through direct sale or sale-leaseback transactions following the exclusive focus on core business activity. The decision-making in the selection is executed in the following order: assessing the organizational demand for that location, evaluating the potential buyer preferences, and assess the quality of the buyer's plans. Exercising control is dominantly aimed at the prevention of business disruption instead of mitigating reputational repercussions.

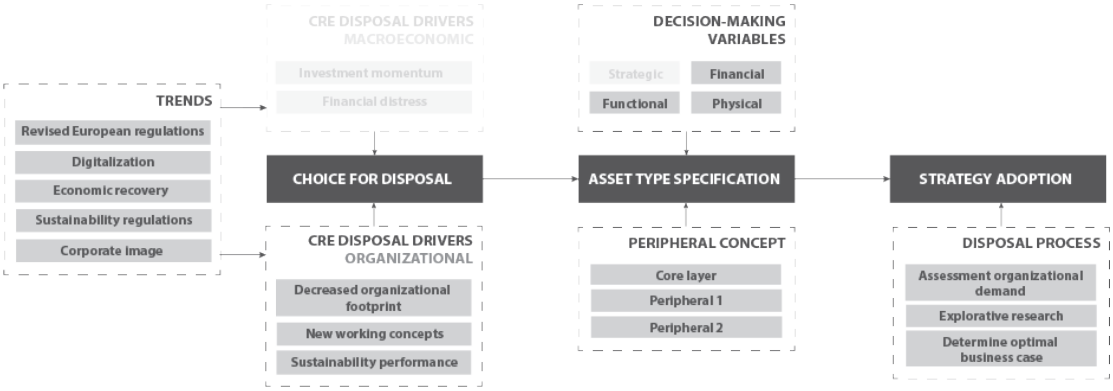

Figure 18: Summary Case 1 (own ill.)

The abovementioned figure identifies:

- The absence of macroeconomic disposal drivers following the limited influence of the real estate portfolio on the total balance sheet and access to cheap financing;
- The absence of strategic disposal selection variables following the neutral orientation towards an ownership or leasing preference;
- The applicability of the peripheral concept in the real estate portfolio of the bank;
- The strategy selection of large back-office assets based on a weighted consideration in the optimal business case for the organization.

3.2 ANALYSIS OF CASE 2

KEY FACTS			
Foundation	1950-2000	**Headquarters**	Utrecht
Employees	20,000 – 25,000	**Bank segment**	Universal bank
Office locations	500-550	**International**	Yes
Publicly listed	No	**Market share**	30-35%

3.2.1 HISTORY

Case 2 is a Dutch cooperative bank that was founded in the second half of the 20th century and has a strong focus on the food- and agriculture industry. The bank is an international financial service-provider on a cooperative basis, which means the bank does not have shareholder but members. The organization therefore does not have regular shareholder dividend, but cooperative dividend. This is emitted to the members of the bank and societal funds or projects. All local banks have a board and supervisory board. The organization has 500-550 Dutch office locations and employs 20,000-25,000 people (FTE). In 2016, all cooperative banks were merged into one legal entity, with one balance sheet and one banking licence. Deploying one central banking permit provides the group with enhanced control on local business activity

3.2.2 CORPORATE STRATEGY AND VISION

The corporate business strategy of the bank is to be consumer-oriented, which can be achieved through both physical presence and technological presence. The bank is realigning its organization through its normalization ambition, followed by healthier proportions and less FTE's. The cooperative mission of the bank until 2020 is to execute a targeted contribution to the welfare and wellbeing of the Netherlands. The first pillar for this is providing excellent customer services; thereby stay leading in the AgriFood sector. The second pillar is establishing a more flexible and stronger balance sheet. The bank aims to anticipate on the new capital requirements through a potential decreased balance sheet of €150 bn by 2020. The third pillar is reaching improved financial results. This is to be reached through cost reductions and turnover increase, leading to a targeted cost/income ratio of 50 per cent by 2020. One of the components to establish this is the reduction of its organizational capacity. The cooperative structure of the organization and the merger into one legal entity creates a large differentiation in both the office network as the management of these banks. All local banks are ought to be able to function solitarily. As long as local banks execute healthy management and business plans the group will not intervene. The transition towards an IT-based company that Case 2 is undergoing is primarily motivated by cost efficiency and improvement of the cost/income ratio.

The strategy of Case 2 is consumer-oriented in order to retain their relevance. The driving force of the organization is thereby *market needs*. The financial and shrinkage objectives also include the *products offered*, *technology, size/growth* and *return/profit* driving forces as subsidiary influences (**section 2.1.2**).

- **Case 2 has *market needs* as its primary organizational driving force, with *products offered*, *size/growth*, and *return/profit* as subsidiary organizational drivers.**

3.2.3 CORPORATE REAL ESTATE STRATEGY

Case 2 has a neutral orientation towards an ownership or rental portfolio. However, historically an ownership preference is seen in its core supply and a leasing preference in supportive assets. The leased buildings are commonly less in line with organizational objectives, in reduced technical state and more expensive. The structure of the office network is based on the client-activity of the catchment areas. These catchment areas are determined by dividing the Netherlands in geographic areas. Every catchment area has its own headquarters through the cooperative structure. Following its corporate business strategy, the bank geographically focuses on areas where it can access their Food & Agri clients. Through an assessment of the (temporary) client-activity in catchment areas, the physical and digital presence of a bank is determined. This is based on the volume of the client-

activity but also the qualitative consumer-preferences. The corporate aim to be consumer-oriented does thereby not necessarily have to be exercised through physical presence. As the roots of the bank are geographically scattered through the Netherlands it becomes more complex and expensive to comply with all capital and compliance regulations. When indicated by decreasing consumer-activity, the bank aims to merge or close down banks within a cluster. The organization acknowledges that forces can force an organization to take components of its balance sheet. When capital generation is desired through disposing of good-performing business parts of the organisation or taking real estate of the balance sheet, the bank always selects disposing real estate. Main motivation for this is that owning real estate is not the core business, where obtaining a healthy working portfolio with healthy management is.

As Case 2 primarily bases its real estate decisions on client-activity, they execute a *promote sales and selling process* real estate strategy with subordinate influences of a *promote human resources objectives* strategy (**section 2.1.2).**

- **Case 2 has a primary *promote sales & selling process* real estate strategy, with a subsidiary *promote human resources objectives* real estate strategy.**

3.2.4 PORTFOLIO COMPOSITION

The office portfolio of the organization consisted of 722 office-location in 2013, which had been reduced to 566 by the start of 2015. At that time, the CEO then announced their ambition to reduce their office network to 400 locations by the end of 2016. The portfolio currently amounts up to 500-550 assets. The dichotomous composition of the organization is also seen in the real estate portfolio. The back-office branch is an efficient back-office organisation oriented at client-interaction and comprises eight offices throughout the Netherlands. The local banks form an office network that consists of client-oriented offices focused on consumer-contact. Currently the portfolio comprises 105 local banks with a dispersed network of office locations. The service-provision in retail-offices shifts to advisory services and sales and experiences an increase in home visits. The locations in shopping streets are used for pop-up stores. The peripheral concept is used by Case 2 to categorize their portfolio through three layers, namely core/strategic (>2020), 1st peripheral/tactical (2020) and flexible (<2020). The core layer is dominated by long-term leasing commitments and ownership. The first peripheral layer comprises short-term leases (2/3 years). The flexible layer is rented per workplace. No security issues arise here as pure back-office activity is accommodated here. Indicators for the categorization of assets in these layers are: market potential, client accessibility, demographic developments, lease/ownership, size, and operating costs.

Table 11. Balance sheet development (2013-2015)

(in € million)	**2015**	**2014**	**2013**
Land and buildings	1,945	1,969	2,101
Assets/equipment	5,820	5,179	4,800
Total Property and Equipment	**7,765**	**7,148**	**6,901**

The total value of Property and equipment increased from €6,901 in 2013 to €7,148 million in 2014 (+3.6%), and to € 7,765 in 2015 (+8.6%). Property and Equipment is decomposed in two categories namely Land and Buildings, and Assets/Equipment (**Table 11**). The development of the value of the Land and Buildings shows a decrease from €2,101 million in 2013 to €1,969 million in 2014 (-6.3%) and to €1,945 million in 2015 (-1.2%). The increase in the total value of Property and Equipment dominantly originates from the increase in assets. This is explained through the high investments costs in equipment following the shift to business digitalization. The value of assets/equipment increased with respectively 7.9 per cent and +12.4 per cent in the same period. The increase in absolute numbers is thereby presumably caused by the implementation of new technology.

3.2.5 CHOICE FOR DISPOSAL

The main driver for real estate disposal of Case 2 is centralization and cost reduction, which is motivated by the new legal status, cost reduction ambition, automation and concentration developments. This is achieved through solving the large vacancy rate in the portfolio following

decreased client-activity and organizational capacity. Decreased client-activity is driven by the virtualization of the consumer contact, which has lead to a decreased necessity for physical presence. Another driver for this is the merger into one legal entity, which has centralized the back-office component from local banks. The enhanced efficiency causes the reduction of a significant amount of FTEs. Together with the digitalization of the consumer-contact this leads to the functional obsolescence of a large share of the organization's office network. The implementation of new working concepts (Agile/SCRUM) can be facilitated relatively easy in the existing portfolio, as the number of traditional offices is limited. The incorporation of new working concepts in local banks is limited due to scale-differences. The bank acknowledges the pressure on its balance sheet following the sharpened capital requirements following Basel and IFRS. Shortening the balance sheet is impeded because of new accounting regulations. The cooperative structure of the organization disables the bank of the emission of shares to generate capital. Case 2 does not actively align its corporate real estate to the cyclical behaviour of the real estate market cycle. Real estate is not deployed for capital generation, as sale transactions do provide limited book profits following residual property valuations and the book value system. Investing in properties throughout an ownership period enhances the book value to such an extent that depreciation at moment of sale is inevitable.

To establish the significant improvement of their cost-income ratio and financial performance, the bank also needs to create a considerable cost reduction. The enhanced compliance and risk-mitigation measures make it increasingly complex and expensive to comply with all these measures. Following the large and scattered composition of the real estate portfolio, the organization articulates a slight centralization ambition to dispose of smaller satellite offices in small catchment areas with low client-activity. Decentralization, in this regard, exponentially drives the operating costs. The cooperative structure impedes the bank of adapting quick to a changing context, as local boards have to be aligned with a group decision before it can be executed. The sustainability performance of the office-portfolio only forms a disposal driver for the back-office branch, which is required to obtain BREEAM certifications. Underperforming sustainability is not a disposal variable for the local banks.

- **Case 2 is dominantly subject to functional (quantitative) and financial obsolescence.**

3.2.6 ASSET TYPE SPECIFICATION

Case 2 takes a dominantly functional perspective in the selection of their disposal assets. The predominant disposal selection variable is therefore the (hidden) vacancy rate. The bank aims for non-traditional office assets with building characteristics that are aligned with their working concepts. If assets are unsuitable for facilitating these working concepts, this does not (yet) constitute a driver for disposal. The difference between the WOZ (Valuation of Property) and the economical (market) value is a disposal selection variable. When a property is subject to high exploitation costs, this prioritizes its selection for disposal. Other selection variables that the bank takes into account are size, interest in the property (ownership/lease), and operating costs. Representativeness of offices based on aesthetic building characteristics is of significant importance in all local banks, as every local bank is a headquarters on its own. The organization dominantly focuses on three building characteristics in their back-office CREM decisions, namely their sustainability requirements, public and private accessibility and the presence of a highly educated workforce. The catchment area of the workforce needs to be geographically distanced from other office locations. The sentiment of (local) society is taken into account in the disposal processes of Case 2. The influence of the public opinion has, however, decreased.

- **Case 2 takes a predominantly functional and financial perspective in the prioritization of their disposal selection variables.**

3.2.7 STRATEGY ADOPTION

Properties are always disposed of in their current state, as the bank does not execute real estate activity. Case 2, however, incidentally cooperatively develops a vision with developers. The current board determines the exclusive focus on core business activity. The primary goal is to make the banking business as good and LEAN as possible in order to be competitive with other banks on that field. Shifting attention to other and more risky business activity is not in line with the expertise of the bank and can endanger business continuity on the long run. In the selection of the most suitable

disposal strategy the bank takes a dominantly financial perspective. This is in line with its ambition to take assets of their balance sheet to improve their financial performance. When there is redevelopment potential (zoning plan, market), this is incorporated as vision development in the initial valuation. Internal brokers of the bank assess whether or not there is presumed redevelopment value. The redevelopment potential is determined by the local demand for functions. The selection of disposal strategies is thereby largely determined by the local context.

The bank selects the strategy with the best business case from an organizational perspective. When an asset suffices from both a strategic and quantitative functional perspective, the qualitative functional conformability is assessed based on its building characteristics. When these are misaligned and the projected renovation costs are too high, collaboration is sought with a project developer. An example of this can be seen in in **reference case 2.1**. The preferences of the developer are taken into account in the selection of the suitable disposal strategy. In the example the developer demanded ownership of the object to execute the desired phased demolish/new-built strategy. Therefore the bank was bound to select a long-term sale-leaseback transaction. These complicated processes only apply for the portfolio of centralized back-office organization. The assets in the local bank portfolio are limited in size and complexity of the service-provision. These are mostly disposed through direct sale. As the real estate portfolio of the bank dominantly consists of small offices in peripheral locations, these are the transactions that are richest in number. The local societal importance of local banks can disable disposal possibilities.

In their leasing contracts, partial breaks for separable units are used to establish flexibility opportunities. The business uncertainty creates the demand for flexibility, which led to the reduction of the mutual termination notice to six months. However, this provided problems for Case 2 as this gave property owners enhanced power to terminate leases on short-term notice. This was therefore reversed to the use of one-year termination notices.

3.2.8 RECENT DISPOSAL TRANSACTIONS

Reference case 2.1: Eindhoven | Demolishment and new construction + Sale-leaseback
One of the largest alterations in the back-office branch of the real estate portfolio is the sale-leaseback transaction followed by a phased demolishment and new construction of its Eindhoven office. The building is composed of two parts: high-rise (1972) and low-rise (1969). The high-rise part was a traditional office building, architecturally sufficient but in need of large technical investments (façade and glass replacement). As the property was at the end of its technical lifetime refurbishment proved infeasible. After construction, multiple client-service departments will be centralized in this modern and sustainable office building. The building is constructed in such a way that it allows multi-tenancy, as the bank assumes the full lease length will not be used.

The reason to stay located in Eindhoven was the emotional perspective of the municipality, motivating the long-term commitment of the bank. Other drivers in the strategy selection were the central geographic location, cost efficiency, prevention of vacancy, and sustainability ambitions of the organization. The Eindhoven area was also identified as a long-term catchment area following the presence of highly qualified workforce, the presence of a Tech-campus and the dynamic nature of the city in general. The position of the office building served as a suitable location due to its excellent public accessibility (central railway station), private accessibility (important motorway route) and the ownership interest the bank had in the property. The best-buy outcome of the business case was a sale-leaseback to the own investment vehicle of the bank. The developer, however, only wanted to execute the development when they could become owner. The long-term commitment of a strong tenant provided a bond-like investment product that enables the developer to attract investors. The asset was therefore sold to the developer through a sale-leaseback transaction. The creation of financial value for the bank is primarily inherited in the reduction of the rent level, instead of the generation of capital.

Reference case 2.2: Utrecht | Direct sale
The sale of a large office building in the central railway district of Utrecht constitutes a fine example of the prioritization of short-term financial goals and misalignment with the real estate market cycle.

In 2013, the 50,000 sqm asset was disposed through direct sale to a former Netherlands-based investment company. The reason for prioritized disposal was that the property was subject to high exploitation costs following the ground lease and extended service-costs following area security. The sale proved an unfortunate decision, as the potential future revenues of the building were much higher. A conscious decision was made on not aligning the disposal process to the real estate market following the exclusive focus on core business activity. This example illustrates the difference between short-term orientation (exploitation costs) and long-term value (revenues or value increase). The sale also proved even more unfortunate as after the buyer had merged with another investment company, the focus shifted towards retail investments. For this reason, the redevelopment plans have not been executed until now. This has created reputational repercussions as the large vacant asset has a negative influence on the shopping centre and residential units in the direct vicinity. As Case 2 did not exercise control on future use after disposal, the only possible intervention was removing brand characteristics.

3.2.9 CONCLUSIONS

The historical cooperative vision of bank has led to a large and geographically dispersed office network. The cooperative structure has impeded the bank of providing an agile response to the changing organizational requirements following its limited influence on local business management and the incapability to raise capital through the emission of shares. The most important real estate disposal driver is, however, the decreased organizational footprint following the digitalization of the consumer-contact. This is motivated by centralization and cost reduction as organizational objectives. Because of the vulnerable capital position of the bank, the macroeconomic drivers play an important role. The bank deploys a peripheral concept to categorize its portfolio based on the strategic value assets have for organization. This is not by definition aligned to the interest in the property, as the bank has a neutral orientation towards an ownership or rental portfolio. The bank places long-term (10-year) leasing commitment or ownership interest in their core supply. Case 2 takes a dominant functional perspective in the selection of disposal assets, following the prioritization of client-activity. The vacancy rate is thereby the main disposal selection variable. Properties are always sold through direct sale or sale-leaseback transactions following the exclusive focus on core business activity. The disposal strategy is selected based on the best business case from an organizational perspective, thereby weighting organizational requirements, physical constraints, and the buyer preferences. Case 2 aligns its organizational demand to buyer preference to enable the execution of disposal strategies.

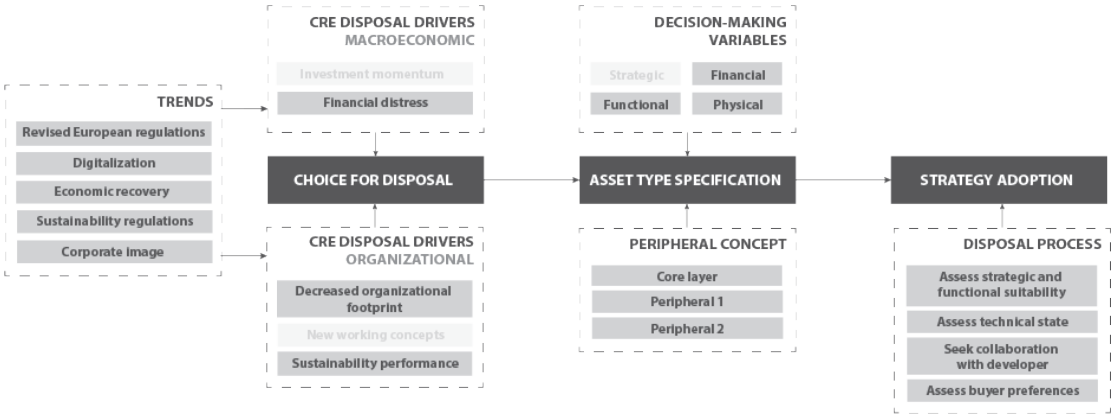

Figure 19: Summary Case 2 (own ill.)

The abovementioned figure identifies:

- Financial distress constitutes a disposal driver following the cooperative structure of Case 2;
- The absence of new working concepts as a disposal driver following the ability to facilitate this in the existing office stock to a large extent;
- The absence of strategic disposal selection variables following the neutral orientation towards an ownership or leasing preference;
- The applicability of the peripheral concept in the real estate portfolio of the bank;
- The strategy selection of large back-office assets based on a weighted consideration in the optimal business case for the organization.

3.3 ANALYSIS OF CASE 3

KEY FACTS			
Foundation	1990-2000	**Headquarters**	Amsterdam
Employees	10,000 – 15,000 (NL)	**Bank segment**	Universal bank
Office locations	200-250 (NL)	**International**	Yes
Publicly listed	Yes	**Market share**	40%

3.3.1 HISTORY

Case 3 is a Dutch bank that was founded in the 90's and has a strong international presence. Its headquarters is located in Amsterdam, from which it controls over 54,000 global employees. In the Netherlands, the organization has 10,000-15,000 FTE's and 200-250 office locations. The bank has a rich history in real estate development and investment, of which it has only recently (2011) parted. It is the only Dutch bank that is identified as a global system-bank.

3.3.2 CORPORATE STRATEGY AND VISION

The corporate business strategy of Case 3 is focused on digital consumer experience. This is supported by the executive fascination for modern technology and the adaptation to changing consumer-behaviour. Innovation is embraced as a means to stay relevant for its customer. Two corporate objectives underlying the business strategy are resuming dividend pqyout to shareholders (after governmental debt repayment) and improvement of the cost/income to 50-53 per cent by the end of 2017. A cost reduction of €900 million through the current reorganization of cutting 2,300 jobs in the Netherlands forms a large contribution to the improvement of the cost-efficiency. The renewed reorganization is primarily driven by cost reduction and establishing a central-governed organization with harmonized and centralized processes. Case 3 is in transition to a 'model bank', which means that processes are structured in the same way, and that service-provision is identical amongst all parts and locations of the organization. Executing the reorganization from a position of strength enables the bank to realign against favourable conditions. The organization has a strong expansion ambition in emerging markets. The Netherlands is considered a consolidation market. Despite their considerable labour force reduction, the CRE portfolio has stabilized for the coming years.

The strategy of Case 3 is dominantly focused on staying relevant for consumers through alignment to changing consumer-behaviour. The driving force of the organization is thereby *market needs*. The financial and technological organizational objectives also include the *products offered*, *return/profit* and *technology* driving forces as subordinate influences (**section 2.1.2**).

- **Case 3 has *market needs* as its primary organizational driving force, with *products offered*, *technology*, and *return/profit* as subsidiary organizational drivers.**

3.3.3 CORPORATE REAL ESTATE STRATEGY

The organization explicitly aims for a rental portfolio based on principle grounds and flexibility ambitions. As the bank initiated their global disposal movement early-on, their current CRE disposal ambitions are limited. The organization prefers single-tenancy in their offices due to security issues. This forms the main reason, together with increased expenses, why the organization does not use office operators for flexibility. The organization has a strategic centralization focus around its headquarters in Amsterdam, aligned with its normalization attitude of being a bank in the middle of the Dutch society. As the bank assigns high value to sustainability, an energy label A is the minimum for all real estate mutations (new lease / lease extensions). Case 3 deploys a peripheral model in which their core supply is determined by long-term lease commitments, geographically positioned around its headquarters, in the newest buildings, with the highest sustainability certifications, and best aligned with its desired working concepts. The commitment in these core assets lies with rental agreements between 10-15 years, following the demand of the investment market. The investment risks of shorter rental commitments is incorporated in the financial conditions to such an extent that

this does not provide favourable business cases for the bank. The organization produces 3-year forecasts on organizational space demand in collaboration with its business. The uncertainty on business development increases the conflict between the business outlook and the rigid real estate commitments, leading to the necessity to occasionally make financially inefficient decisions in order to facilitate fluctuations in the organizational demand.

The responsibilities of the CRE department are increasingly embedded in the governance of the organization. The large influence of the CRE portfolio on the balance sheet and its operating cost motivate the close management. This is embodied through the transaction team and steering committee that was established in 2013. This team was constructed with people from different departments of the organization, varying from the CRE department to the board. The goal of this entity was to align all components of the corporate organization to achieve faster decision-making.

The approach Case 3 is aligned with a *flexibility* real estate strategy with subordinate influences of a *promote human resources objectives* and *promote marketing message* strategy. This is linked to the financial orientation of the corporate business strategy (**section 2.1.2).**

- **Case 3 has a primary *flexibility* real estate strategy, with subsidiary *promote human resources objectives* and *promote marketing message* real estate strategies.**

3.3.4 PORTFOLIO COMPOSITION

Despite significant labour force reductions, the organization has retained a relatively stable CRE portfolio since 2014. The early-on disposal movement of the organization explains this consolidation. The current portfolio amounts up to 244 offices, consisting of the headquarters in Amsterdam, regional headquarters per service-area, and the retail-office network. The centralization ambition is increasingly shifting the back-office network towards an efficient administrative supportive backbone. Simultaneously, the retail-offices show the increased presence of advisory services. The bank ensures that the lease expiration dates in the portfolio are diversified.

Property and Equipment is decomposed in three categories, namely property in own use, equipment, and assets under operating lease. The development of these categories is visualized in **table 12.** The property in own use has decreased from €1,020 million in 2014 to €982 million in 2015 (-3.7%). Simultaneously, the assets under operating leases decreased from respectively €82 million to €74 million (-9.8%) throughout the same period. These numbers are in line with their reorganization, reduction and slight disposal orientation.

Table 12. Property and equipment

(in € million)	**2015**	**2014**
Property in own use	982	1,020
Equipment	971	998
Assets under operating lease	76	82
Total property and equipment	**2,027**	**2,100**

3.3.5 CHOICE FOR DISPOSAL

Case 3 is currently undergoing a large-scale reorganization, driven by the digitalization of the business. This reorganization has significantly reduced the capacity of the organization. The prime disposal driver for Case 3 thereby is the shrinking organizational footprint. As the investment momentum is currently there in the market, the bank thinks it is essential to dispose of assets now in order to be able to respond faster to organizational fluctuations in the future. In order to profit from this momentum, in the form of favourable conditions, the bank executes a fast disposal process. As Case 3 is undergoing this strong reorganization, their human capital is undergoing a big change as well. The increasing share of IT personnel demands and creates a different way of working, with an increased need for space where technology and money can meet (FinTech). This entails a major alteration in the composition of the portfolio. Offices that are no longer able to facilitate these new working concepts have priority for disposal. The strong centralization ambition of the organization in Amsterdam forms a disposal driver for peripheral assets.

- **Case 3 is dominantly subject to functional (quantitative and qualitative) and financial obsolescence.**

3.3.6 ASSET TYPE SPECIFICATION

The absence of organizational demand serves as the main reason to select a property for disposal. The first variable for the selection of disposal assets is evaluating the ownership/lease interest. In case of ownership, the marketability of assets needs to be determined. This is determined through the technical state and geographic location of the building. Non-marketability can be a reason for consolidation, as this negatively affects the projected revenues. The financial perspective serves as the most important variable in the disposal selection. Facilitating an optimal workplace for employees is always taken into account. If a property is not in line with the sustainability requirements, this constitutes a reason for relocation. The bank sometimes makes sustainability investments in its rental properties as well. If the implementation of working concepts like SCRUM and Agile is not physically possible in a building, this not constitutes a deal breaker for accommodation. The power position of IT personnel has increased in CREM decisions. Their sentiment plays a role in retaining assets to mitigate business disruption or providing certain working environments. To attract highly educated personnel and provide an attractive working environment, the bank takes factors into account like good metro accessibility and a dynamic environment.

- **The financial perspective is dominant in the weighting of disposal selection variables.**

3.3.7 STRATEGY ADOPTION

When Case 3 organizationally disposes an asset, it is always sold in its current state through direct sale or a sale-leaseback transaction. The main reason for this is that real estate development is not the core business. When selecting the best disposal strategy for an asset, initial explorative research is always executed by the organization through an independent advisor. This is mainly done to establish a stronger negotiation position and optimize revenues. The explorative research assesses the feasibility of retaining the current office function and establishes a potential (re)development vision for a property. The function preservation is based on the physical conformability of the object to the qualitative office demand. When the initial research shows the possible preservation of the office function and the office is disposed in its current state, the asset is taken to the market through an open process involving a broker. If there is the absence of functional requirement, this is done through direct sale. If there is a organizational demand, this is done through a sale-leaseback. The revenues in an SLB-transaction dominantly originate from the value of the bank as a tenant (value of future cash flows) instead of the building itself. The organization generally sells a 10-15 year lease along with disposal objects to optimize the financial revenues. Due to the exponentially higher financial revenues, the bank sells 10-year leases even if the forecasts show that they will only need the property for 7-8 years. The property is then vacated before lease termination and the remaining contract period is discounted; this still provides a favourable business case to shorter lease terms.

When the initial research shows the office function is not feasible, a developer is sought to collaborate with in translating the potential vision to a re-development plan for the property. The bank considers to whom they sell their buildings, in order to minimize the risk for negative reputation exposure in the future. On prestigious and recognisable locations, clear agreements are made with the buyer on the future destination of the property. Potential reputational repercussions may emerge due to public association with a property if it deteriorates long after the bank has left as a tenant. The bank thereby carries a responsibility on the future of their former locations. This is debatable from a business perspective, as one is basically a regular tenant.

The precarious reputation that the banking sector has obtained after the recession and governmental support has shaped a negative societal perspective. The municipality requires the organization to meet its CSR during negotiations. The mitigation of reputational risks can prevail over the mere financial revenues. This only applies for large assets that find themselves in a sensitive context. Less remarkable office buildings are regularly sold through direct sale in the current state. The local market conditions can play an important influence on the suitable strategies in the collaborations with developers. A qualitative demand that does not match the market supply can be a ground to

conduct a demolishment and new construction strategy (see: **reference case 3.1**). The pressing need for a function can serve as an enabler for a transformation strategy (see: **reference case 3.3**).

3.3.8 REFERENCE TRANSACTIONS

Reference case 3.1: Amsterdam | Transformation + Demolishment and new construction
Following the organizational decrease of Case 3, its headquarters (56,000 sqm) became too large for its organization. The societal perspective and municipal obligation to carry responsibility for the property's future use, disabled the organization of leaving the office like a normal tenant. The office was owned by a fund that was under water, which disabled the bank of exercising control over the building. The bank bought the asset in order to get control, and paid the net present value of its future cash flows as an additional incentive. Simultaneously with this process, the organization was looking for a new headquarters. As their qualitative demand did not match with any existing supply, the only possibility was new-built (26,000 sqm). This could only be realized by solving a problem first due to reputational sensitivity. A deteriorated office building was taken out of the market in order to enable the new development. The bank created a package deal with the attractive new development and less attractive redevelopment in order to ensure that the former headquarters was transformed. The bank financed the project itself and discounted the value of its future cash flows to provide an incentive and prevent liquidity issues for the developer.

Reference case 3.2: Amsterdam | Sale-leaseback
The bank bought a partially (50%) vacant office building in Amsterdam in 2014. The municipality of Amsterdam was satisfied with this decision, as this section of Amsterdam was largely deteriorating. The office building (46,000 sqm) was significantly renovated after which the organization took residence in the vacant part. The property was sold after a year together with a 10-year lease to an institutional investor. The additional value of the long-term (10-year) rental contracts accounted for a duplication of the initial investment. The organizational capacity was strategically used to increase the market value and align with institutional buyer preferences. The possibility of making a high initial capital reservation like this is motivated through the presence of the special transaction team within the bank. The trust derived from the (international) track record and the close relation with the board provided essential boundary for the required extended mandate.

Reference case 3.3: Amsterdam | Transformation-ex
The office building was subject to an exit scenario following organizational relocation plans. Initial research showed the property was unsuitable for further office use. After initial vision development, the bank started looking for the right developer. The explorative vision development provided the organization with an improved negotiation position. Potential reputational repercussions were taken into account in the selection of the buyer because of public association with buildings even after the tenants have long left. An agreement was reached between the bank, a developer and investor in 2015. The office buildings were transformed to a residential building. The bank executes a phased organizational withdrawal from this office location. With this transformation, approximately 60,000 sqm of office space is being converted to residential use. Aim of this project is to realize 900 dwellings, of which 450 in the private rental sector. The bank takes an active stance in the redevelopment process in order to prevent vacancy in their former office buildings. Due to societal association, the bank feels the responsibility to prevent a deteriorating office location. The pressing local demand for a residential enabled the transformation strategy.

3.3.9 CONCLUSIONS
Case 3 has a proactive orientation towards its CREM, following its (historical) real estate expertise and embedded governance structure through the multi-disciplinary transaction team. The trust and international track record of the CREM department provide a solid base for a more entrepreneurial approach. The main disposal driver for Case 3 is the significant reduction of its labour force following the digitalization of the business and consumer-contact. The strategic focus is the explanation for the strong incorporation of the financial perspective throughout the disposal process. The bank deploys a peripheral concept with a core layer and peripheral layers. Case 3 strategically deploys its core layer to achieve book profits. In the selection of disposal assets, the absence of organizational demand serves as the prime motive. Subsequently, the marketability of a property plays an important

following the prioritization of the financial perspective. As digitalization is exercised in every fibre of the organization, misalignment to desired working concepts forms a disposal driver as well. Properties are always disposed through direct sale or sale-leaseback transaction following the exclusive focus on core business activity. The selection of the suitable strategy is based on a weighted consideration of the organizational demand, assessing the marketability and ability to preserve the existing function, the financial revenues and the control on future use after sale. Collaborations with developer are entered in exceptional situations. The mitigation of the risk for reputational repercussions can prevail over the financial perspective with assets in a sensitive context.

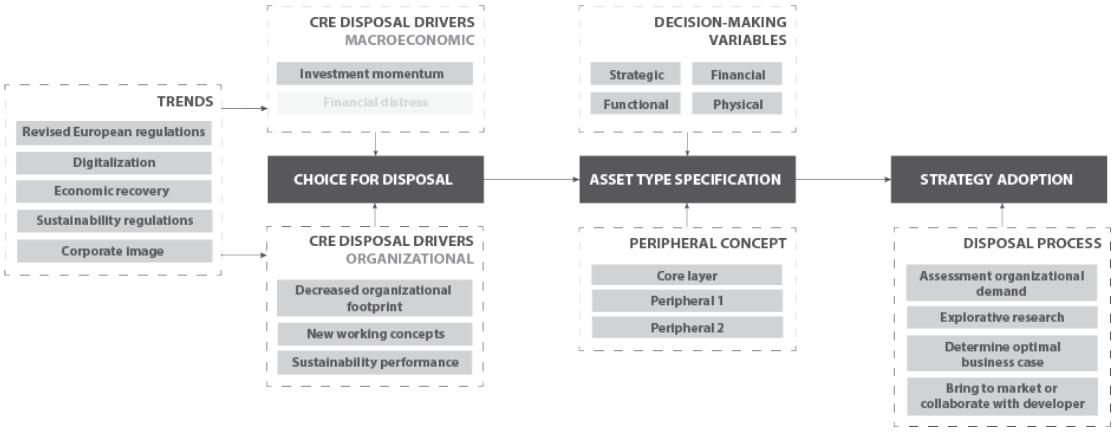

Figure 20: Summary Case 3 (own ill.)

The abovementioned figure identifies:

- The active use of the investment momentum as a driver for real estate disposal following the strong financial organizational objectives;
- The absence of financial distress as a disposal driver following to the access of the bank to cheap financing;
- The applicability of the peripheral concept in the real estate portfolio of the bank;
- The strategy selection of large back-office assets based on a weighted consideration in the optimal business case for the organization.

3.4 ANALYSIS OF CASE 4

KEY FACTS			
Foundation	1980-1990	**Headquarters**	Utrecht
Employees	4,000 FTE's	**Bank segment**	Retail segment
Office locations	200-210	**International**	No
Publicly listed	No	**Market share**	0-5%

3.4.1 HISTORY

Case 4 is a Dutch bank that was founded in 80's through a merger of two banking institutions. The headquarters is located in Utrecht, from which it controls 4,000 employees (FTE's) spread across their five subsidiary banking brands. In 2013, the bank was nationalized after sustained inadequacy of its capital position following the financial recession. The bank is still in governmental ownership. This is, however, not a permanent situation, as the agreements made with the European Commission (EC) oblige the bank to return in private ownership again.

3.4.2 CORPORATE STRATEGY AND VISION

The long-term vision of the organization revolves around banking with a human scale. An important goal of the bank is thereby improving its image. The bank places its focus in the Dutch retail segment, creating the focus on the provision of simple financial products for individuals, one-man firms and small business in the form of mortgages savings and payments. The institution deploys a multi-brand strategy to guarantee its close consumer-connection. There are three key ambitions overarching the holding, namely being a people oriented bank, being a societal bank, and being a sustainable bank. The bank has four strategic priorities. First, establishing an excellent customer-experience to rebuild the consumer trust through increased presence and bigger distribution power. Second, exercising excellent business management by achieving a market share of 5-8 per cent for mortgages and above 10 per cent for savings. Third, the bank is altering their course into one with a moderate risk-profile. The aim is to achieve a healthy balance sheet with solid capital ratios. Fourth, the bank aims to have a climate-neutral balance sheet in 2030. The mother company of the bank has expressed its ambition to cut 800 to 900 FTE's in order to establish a cost reduction of approximately €100 million.

The strategy of Case 4 is dominantly focused on accessing its consumers through physical presence. The driving force of the organization is thereby *market needs*. The distinctive focus on its method of consumer-access incorporates *products offered* and *return/profit* driving forces as subsidiary influences (**section 2.1.2**).

- **Case 4 has *market needs* as its primary organizational driving force, with *products offered*, and *method of sale* as subsidiary organizational drivers.**

3.4.3 CORPORATE REAL ESTATE STRATEGY

The CRE department is a separate facility business unit in the organization of the bank and is dominantly focused on facilitating the business demand, thereby more reactive than pro-active. The corporate business strategy of the bank focuses on the retail-banking segment, which is carried out in its CRE strategy. Contrary to the general development in the banking sector, the office network of Case 4 is expanding and scattering. The bank identifies physical presence as one of the key components from their vision, which is the embodiment of its corporate aim to establish consumer trust and the image of a societal bank. Trust restoration is dominantly executed through establishing more retail-office locations, as the consumer target group of the bank prefer personal contact. The strategy is part of a client-oriented realignment process of the portfolio, as the retail-offices are relocated on the places where the consumers are located. Because retail-offices have proved to be unsuitable for fun shopping, they are increasingly located in the vicinity of daily amenities. The division of the Netherlands into customer areas based on consumer-activity is the main principle to determine the physical presence of retail-offices. The CRE strategy of Case 4 is highly dependent on

the seated CEO. Where the former CEO had a strong centralization ambition, the current CEO has a dispersion orientation.

Case 4 aims for a rental-oriented CRE portfolio to establish a degree of flexibility. Its organization has changed its course radically and has reduced its organizational footprint for the last years. This realization of the changeable character of the business has lead to the adverse orientation towards ownership. All new assets entering the portfolio are rental-oriented and ownership interests in the existing stock are dismantled when possible. The implementation of the new way of working (HNW) since 2008 has been a central theme in the accommodation of the bank. The digitalization of the business is expected to cause another shrinkage of the human capital stock of around 1,000 FTE's by 2020 (dominantly administrative business units). The CRE department plans with the separate business units for 5 years in advance to forecast the future need for office space. As these projections have to be realigned with future developments, these plans are adjusted through time. The back-office branch of the bank needs to meet BREEAM 2 (good) or 3 (very good) star qualifications. The sustainability requirements are less strict for retail-offices, as these are generally older.

As Case 4 primarily uses its real estate to access their consumers target group, it executes a *promote sales and selling process* real estate strategy with subordinate influences of a *promote human resources objectives* strategy (**section 2.1.2).**

- **Case 4 has a primary *promote sales & selling process* real estate strategy, with a subsidiary *promote human resource objectives* real estate strategy.**

3.4.4 PORTFOLIO COMPOSITION

Through the implementation of the new way of working the bank was able to reduce its back-office branch from twenty two to five properties during a large-scale disposal movement in the period 2010-2012. The significant cost reduction that was established through this centralization enabled the accommodation of the bank in its current headquarters. The real estate portfolio of the bank is dichotomously divided in five back-office locations and approximately two hundred retail locations. Where the retail-offices are shifting towards increased implementation of advisory services (front- and mid-office), the back-offices are shifting back to pure back-office activity. The core supply consists of two properties. The headquarters (14,316 sqm.) in Utrecht is the main organizational asset; facilitating 3,500 FTE's and subject to a minority ownership interest of the bank. The property is subject to a 10-year lease commitment. The satellite property in Den Bosch (6,092 sqm.) is the secondary location, in which the bank has a full ownership interest. The 1st peripheral layer consists of retail-offices with a standardized 5-year lease interest (5-year extension possibility). The 2nd (flex) layer consists of 3-year contracts (2-year extension possibility) for call centres and short-term offices.

The retail-portfolio of the bank showed a yearly increase with a couple of dozens in 2014, 2015 and 2016. The retail-branch of the office network is composed of approximately two hundred assets, with the aim to add ten to twenty properties in 2017. The organization aims for a rental portfolio for both branches and has an active disposal stance on their ownership interest. The retail-branch consists of rental properties for approximately 97.5 per cent. Expansion properties are always rental to establish organizational flexibility for the bank and flexibility in the selection of assets for its franchisers. The retail-office branch consists of a widely geographically scattered network of retail-offices in bigger and smaller municipalities/villages. The retail-offices are generally increasing in size, following safety concerns of consumers and increased provision of advisory services. They are often located in the vicinity of daily amenities outside the city-centre. The bank aims for sustainability in retail-offices through circular installation packages instead of the actual buildings following their generally older technical lifetime.

The total amount of property and equipment reduced from €86 million in 2014 to €77 million in 2015 (-10.5%). This primarily originates from the significant reduction in assets/equipment (**Table 13**). This section has decreased from €47 million in 2015 to €14 million in 2014, meaning a decrease of 70.2 per cent. Simultaneously, the value of land and buildings in own use decreased from €23 million in 2014 to €16 million in 2015 (-30.4%). This is supported by the active disposal orientation of the organization towards ownership interest in the portfolio.

Table 13. Balance sheet development (2014-2015)		
(in million €)	2015	2014
Land and buildings in own use	16	23
Assets/equipment	14	47
Other	47	49
Total Property and Equipment	**77**	**86**

3.4.5 CHOICE FOR DISPOSAL

The bank does not have a strong disposal orientation, due to its expansion and decentralization ambition. The main driver for alterations in its accommodation is fluctuations in its human capital stock, primarily caused by the implementation of the new way of working in the past. Further decreases in organizational footprint are expected by the digitalization of the business, providing a driver for future disposal. Both the generation of capital and the new capital requirements do not constitute a driver for disposal due to the limited size of the assets in the portfolio. The reduction of cost does form an important driver. As improving the cost/income ratio is an organization goal, a decentralization orientation is expected after lease termination in its headquarters. This will be dominantly aimed at re-locating administrative business units on less expensive locations.

- **Case 4 is dominantly subject to functional obsolescence.**

3.4.6 ASSET TYPE SPECIFICATION

The bank does not deploy a peripheral concept for its portfolio, due to its limited size. The portfolio of the bank is dichotomously divided in an efficient back-office component and its scattered retail-network. The disposal selection of back-offices is dominantly based on the location of its workforce following a geographic map of Human Resources. The densest employment clusters from this map determine the accommodation. Building characteristics play a subordinate role in the disposal decision-making for the back-offices. The human capital serves as the first driver, then sustainability, accessibility, and railway station locations to stimulate the use of public transport. If the implementation of working concepts as SCRUM and Agile is not possible, the necessary interventions are taken to enable this. Unsuitability for implementation of working concepts is not a disposal driver. Non-compliance with the sustainability requirements does also not form a reason for disposal. However, as real estate activity is not the core business of the bank, assets that do not live up to the technical requirements have disposal prioritization. Case 4 often looks for ways to improve the sustainability of the usage instead of the building. The presence of highly educated (IT) personnel constitutes an important driver to retain satellite properties like Den Bosch in their portfolio due to its positioning near Eindhoven. Following the digitalization of the business, the presence of highly educated personnel forms an important variable in the accommodation decision. The retail-offices are assessed on suitability of the location, the building, the rental contract and the condition of the installation package. The generation of capital does not form a driver for disposal due to the limited size of assets in the portfolio; therefore the property value is of subordinate importance.

- **Case 4 takes a predominantly functional perspective in the prioritization of the disposal selection variables.**

3.4.7 STRATEGY ADOPTION

Case 4 always sells its assets in its current state through direct sale or sale-leaseback, as real estate activity is not part of the organizational core business. The bank does not critically reflect the future plans of the buyer due to the limited size of its assets and their geographic dispersion. Disposing properties that have high marketability creates a quick and uncomplicated selling process. The organization occasionally has an intermediary role in finding future tenants for their vacating properties. Misalignment between the market value and book value of a property can provide a negative business case, leading to the unsuitability of a disposal strategy despite possible functional requirement (**reference case 4.1**). The high investment costs that were needed to improve the marketability and enhance the projected revenue led to the inapplicability of the desired sale-leaseback scenario. The physical condition of the property limits the potential disposal strategies, as

this negatively drives the market value below the book value. The required depreciation provides an unfavourable business case.

3.4.8 REFERENCE TRANSACTIONS

Reference case 4.1: Den Bosch | Sale-leaseback

The technical state of a property can have significant influence on the suitability of disposal strategies. The bank has been looking for opportunities to construct a sale-leaseback transaction for its Den Bosch property due to sustained overcapacity. The building has been badly maintained due to planning uncertainty, which has decreased its marketability to such an extent that either major investments or depreciation is needed to establish a positive business case. The projected revenues from a sale influence the selection of a suitable strategy. The business case of the sale-leaseback scenario does currently not provide a favourable outcome, as the market value is not in line with the book value. This disables the execution of a sale-leaseback transaction, despite its requirement from a functional perspective. Currently, the possibilities are explored to upgrade the used space and market the vacant space of the building.

3.4.9 CONCLUSIONS

Case 4 focuses on expansion from its retail-office network, which is a consequence of its corporate business strategy for a consumer-oriented approach in physical form. The small size of the real estate portfolio leads to the inapplicability of portfolio management concepts and macroeconomic disposal drivers. In the past, the bank experienced a real estate disposal movement based on the reduction of its workforce and cost-efficiency. The decreased organisational demand and new working concepts thereby constitutes the main drivers for real estate disposal. The bank does not deploy a peripheral concept for its portfolio, due to its limited size. The real estate portfolio of the bank is dichotomously divided in a back-office and retail-office branch. The organization aims for a leasing portfolio to retain the flexibility to adapt to future fluctuations. The selection of disposal asset is predominantly executed based on HR objectives. Following the real estate portfolio characteristics, in terms of size and composition, the generation of capital does not constitute a driver. Properties are always sold through direct sale or sale-leaseback transactions following the exclusive focus on core business activity. The selection of the disposal strategy is based on the optimal business case for the disposal, determined by the marketability of the property.

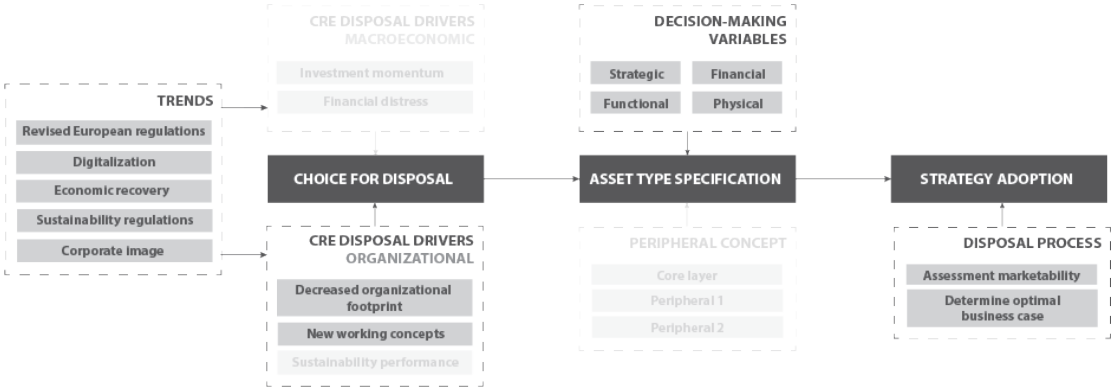

Figure 21: Summary Case 4 (own ill.)

The abovementioned figure identifies:

- The inapplicability of macroeconomic disposal drivers following the limited size of the organization, the real estate portfolio, and the influence of the real estate portfolio on the total balance sheet.
- The absence of sustainability performance as a disposal driver following the composition of the real estate portfolio of Case 4;
- The inapplicability of the peripheral concept in the real estate portfolio of the bank due to its limited size;
- The strategy selection for property disposal is limited to determining the optimal business case based on the property marketability.

4.5 SUMMARY

The findings from the four case studies are summarized in **table 14** and **figure 22.**

Table 14. Summary case study analysis

	Case 1	Case 2	Case 3	Case 4
History	Rich M&A history	Agriculture focus	Historic real estate expertise	Nationalized
Headquarters	Amsterdam	Utrecht	Amsterdam	Utrecht
Employees (FTE)	15,000 – 20,000	20,000 – 25,000	10,000 – 15,000	4,000
Publicly listed	Yes, AEX	No	Yes, AEX	No
Bank segment	Universal bank	Universal bank	Universal bank	Retail bank
Driving force – Primary	Market needs	Market needs	Market needs	Market needs
Driving force – Subsidiary	-Products offered -Technology -Return/profit	-Products offered -Size/growth -Return/profit -Technology	-Products offered -Technology -Return/profit	-Products offered -Method of sale
Corporate business stratey	-Digitalization -Sustainability -Improve profitability	-Consumer-oriented -Improve financial performance	-Digital consumer-experience -Improve profitability -Centralization	-Restore consumer trust -Increased physical presence -Sustainability
Real estate strategy – Primary	Promote sales & selling process	Promote sales & selling process	Flexibility	Promote sales and selling process
Real estate strategy – Subsidiary	-Flexibility -Promote HR objecives	Promote HR objectives	-Promote HR objectives -Promote marketing message	Promote HR objectives
CRE strategy	-Facilitate business activity -Cost reduction -Space-use efficiency	-Facilitate business activity -Centralization -Cost reduction	-Centralization -Cost-efficiency	Physical expansion (retail)
Corporate Real Estate Portfolio	250-300 office locations	500-550 office locations	200-250 office location	200-210 office locations
Trends	All identified trends	All identified trends	All identified trends	All identified trends
CRE disposal drivers	1) Decreased org. footprint 2) Sustainability performance 3) New working concepts	1) Decreased org. footprint 2) Financial distress 3) Sustainability performance	1) Decreased org. footprint 2) Investment momentum 3) Sustainability performance 4) New working concepts	1) Decreased org. footprint 2) New working concepts
Selection variables				
Strategic	Neutral to ownership	Neutral to ownership	Rental-oriented portfolio	Rental-oriented portfolio
Functional	-Client-activity -New working concepts -Competition for talent	-Client-activity -Competition for talent	-New working methods -Competition for talent -Security issues	Client-activity Highly qualified personnel Employee location
Financial	-Value -Operating costs -Cost efficiency -Rental contracts	Operating costs	-Value -Operating costs	Value
Physical	-Sustainability requirements -Sustainability footprint -Maintenance -Technical condition	-Sustainability requirements -Technical condition	-Sustainability requirements -Technical condition	Technical condition
Disposal strategies	-Direct sale -Sale-leaseback	-Direct sale -Sale-leaseback	-Direct sale -Sale-leaseback	-Direct sale -Sale-leaseback
Disposal process	1) Assess (temporary) organizational need 2) Assess optimal exit scenario 3) Assess buyer preferences	1) Assess strategic and functional suitability 2) Assess technical state 3) Collaboration developer 4) Assess buyer preference	1) Assess organizational need 2) Explorative research 3) Vision development 4) Function preservation 5) Collaboration developer	1) Assess marketability 2) Asses business case
Future use after disposal	-Business disruption -Municipal viewpoint	n.a.	-Reputational repercussions -Business disrupation -Municipal viewpoint	n.a.
Marketability	Yes	Yes	Yes	Yes

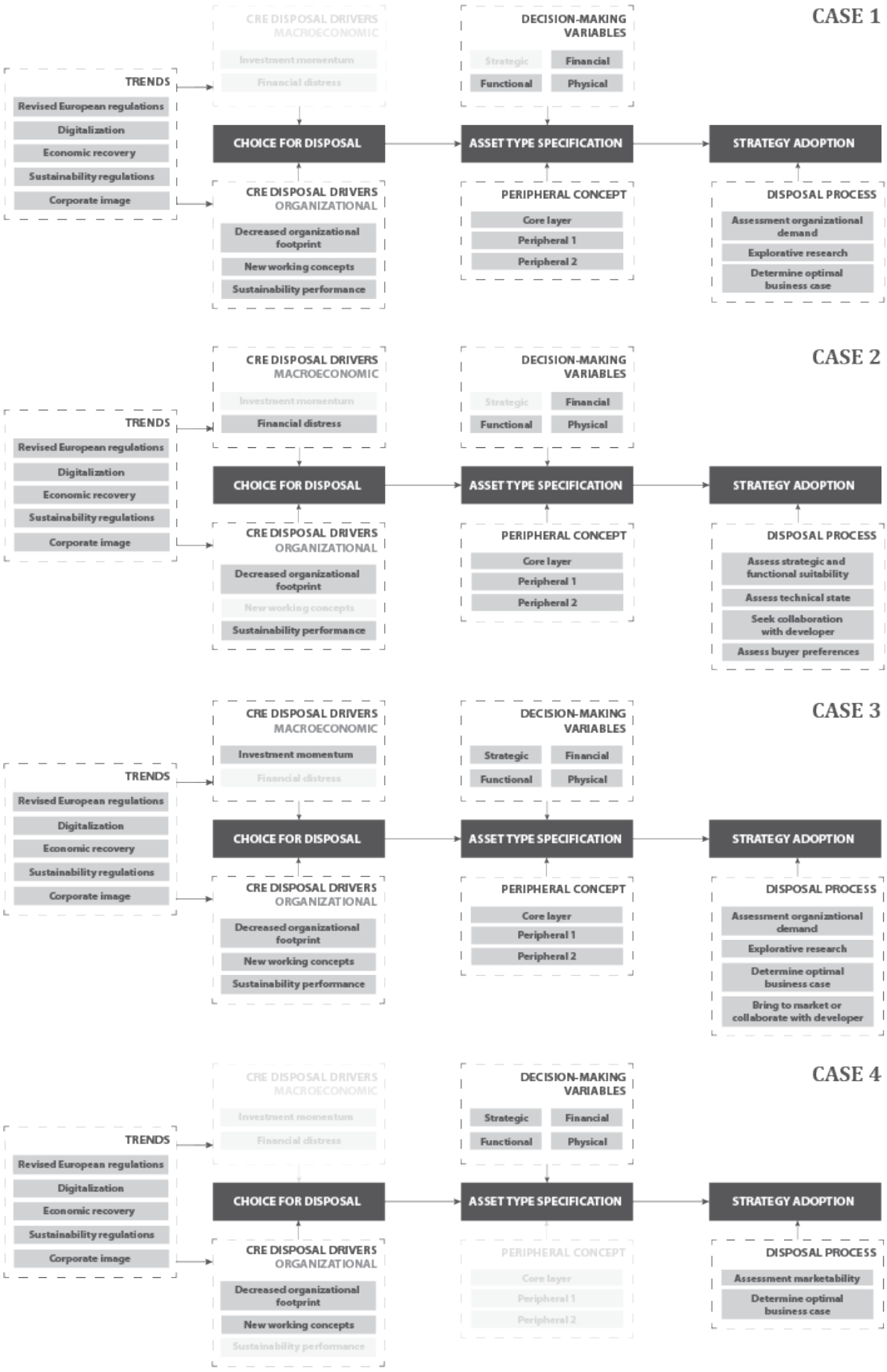

FIGURE 22: Case study summary (own ill.)

EVALUATION

source: www.pexel.com

4. CROSS CASE COMPARISON

The former chapter gathered the data into four case studies and provided an individual analysis of each of the four cases. This chapter compares the results on the different research themes and explains the differences and similarities across the cases. In the discussion section, the lessons learned from the different cases are adopted as improvements in the composition of the operational framework.

4.1 CROSS-CASE COMPARISON

The findings of the individual cases are placed in the comparison format of **table 15.**

TABLE 15. Summary Comparative Case Study Analysis

	CASE 1	CASE 2	CASE 3	CASE 4
TRENDS				
Revised European Capital Regulations	✔	✔	✔	✔
Business digitalization	✔	✔	✔	✔
Digitalization consumer-contact	✔	✔	✔	✖
Economic recovery	✔	✔	✔	✔
Sustainability regulations	✔	✔	✔	✔
Corporate image	✔	✔	✔	✔
CRE DISPOSAL DRIVERS				
Investment momentum	✖	✔	✔	✖
Financial distress	✖	✔	✖	✖
Decreased organizational footprint	✔	✔	✔	✔
Cost efficiency	✔	✔	✔	✔
Client-activity	✔	✔	✔	✔
Digitalization	✔	✔	✔	✔
New working concepts	✔	✖	✔	✖
Sustainability performance	✔	✔	✔	✖
ASSET TYPE SPECIFICATION				
Ownership versus leasing	✖	✖	✔	✔
Client-activity	✔	✔	✖	✔
Working concepts	✔	✖	✔	✖
Competition for talent	✔	✔	✔	✔
Value	✔	✔	✔	✔
Operating costs	✔	✔	✔	✖
Sustainability	✔	✖	✔	✖
STRATEGY ADOPTION				
Disposal strategy				
Direct sale	✔	✔	✔	✔
Sale-leaseback	✔	✔	✔	✔
Demolishment and new construction	✖	✖	✖	✖
Transformation (adaptive reuse)	✖	✖	✖	✖
Moment of sale				
After initial valuation	✔	✔	✔	✔
Explorative research	✔	✔	✔	✖
Vision development	✔	✔	✔	✖
Collaboration with developer	✔	✔	✔	✖
Control on future use after disposal	✔	✖	✔	✖
Marketability	✔	✔	✔	✔

The green checkmarks confirm the applicability or influence of a theme in the concerning case study. The red crosses reject the applicability of that theme in that case study. When either of the two symbols is marked orange, this indicates limited influence or the presence of a dissolving condition for its applicability. The building characteristics are included separately in **table 18** throughout this chapter. This section identifies and explains the similarities and deviations between the cases through grouping the themes conform the structure of the individual case studies, namely the corporate business strategy, the corporate real estate strategy, the real estate portfolio, the identified business trends, the choice for disposal, asset type specification, and strategy adoption.

4.1.1 CORPORATE BUSINESS STRATEGY

The corporate business strategy is a resultant of the context in which organizations find themselves and the organizational driving force that is selected to determine the business direction and competitive position of the organization (**Section 2.1.2**). While organizations can have multiple driving forces, only one is the primary. The primary and subsidiary strategic driving forces of the different cases are illustrated in **table 16.**

Table 16. Corporate busines strategies

	Case 1	Case 2	Case 3	Case 4
Driving force – Primary	Market needs	Market needs	Market needs	Market needs
Driving force – Subsidiary	-Products offered -Technology -Return/profit	-Products offered -Size/growth -Return/profit -Technology	-Products offered -Technology -Return/profit	-Products offered -Method of sale

The strong presence of a *market needs* as the primary driving force of Dutch banking organizations is notable. All cases execute a market needs strategy to reach their target group and provide products and services for their particular market segment. The pressing need to reach the consumer is a consequence of the emergence of competitive threats and the aim for reputation restoration following the financial recession (**section 2.3.6**). The banks have collectively started looking for ways to retain their societal relevance and necessity. In the subsidiary driving forces section, some noticeable findings are seen. The applicability of *products offered* as driving force is identified in all cases. This seems logical, as besides innovative products and services, banks will continue to provide and improve conventional services like savings accounts for consumers. The return/profit driving force is identified in all large banking institutions, where this is absent for the relatively small Case 4. The applicability of financial organizational objectives is explained through the presence of either shareholders (publicly listed) or members (cooperative structure), leading to the explicit need for returns. Technology is identified in Case 1, Case 2, and Case 3. Case 4 also digitalizes its business processes but, in line with its target group, does not identify this as an organizational driving force. The presence of a size/growth driving force in Case 2 is explained by the merger into one legal entity, enabling them to catch up with its competitors in terms of portfolio centralization.

4.1.2 CORPORATE REAL ESTATE STRATEGIES

The organizational real estate strategy is a resultant of the strategies, culture and values following the organizational driving force (**Section 2.1.2**). The corporate real estate strategy, in this regard, serves as the embodiment of the corporate business strategy towards its real estate. The primary and subsidiary real estate strategies from the different cases are illustrated in **table 17**.

Table 17. corporate real estate strategies

	Case 1	Case 2	Case 3	Case 4
Real estate strategy – Primary	Promote sales & selling process	Promote sales & selling process	Flexibility	Promote sales and selling process
Real estate strategy – Subsidiary	-Flexibility -Promote HR objecives	Promote HR objectives	-Promote HR objectives -Promote marketing message	Promote HR objectives

The case study research shows a strong presence of a *promote sales & selling process* strategy as the primary strategy in Case 1, Case 2 and Case 4, and the deviation from this of Case 3. This is explained by the different conception on accessing consumers. As Case 3 completely focuses on digitalization of the consumer-contract, their physical presence is not determined by the physical location of target groups. The primary objective of the real estate strategy of Case is proactively establishing a corporate real estate portfolio that is flexible and able to accommodate future organizational space-use fluctuations, leading to a primary *flexibility* strategy. The collective presence of a *promote HR objectives* strategy is explained through the way the real estate is deployed as a tool in the competition for talent. Organizations can only retain and attract highly qualified and talented personnel through providing attractive working environments on vibrant locations. Case 3 is the only organization that deploys its real estate as a means to showcase its marketing message. Contrary to the other cases, they aim for new and modern buildings in line with their innovative image.

4.1.3 CORPORATE REAL ESTATE PORTFOLIOS

As the essence of corporate real estate is supporting organizational core business activity, the real estate portfolio of organizations is inherently linked to the corporate business strategy (**Section 2.1.2)**. The empirical research proves generally supportive of this premise. The shared strategic values of Case 1 and Case 3 (**Section 3.1.2-3.2.2**) have led to a largely comparable real estate portfolio in terms of size and composition. The embracement of technology in their corporate business strategy has created an early-on and quick realignment of the corporate real estate portfolios to the altered organizational course. This has proven strongest in Case 3. The strong physical expansion ambition of Case 4 is exercised through its corporate real estate strategy. The real estate portfolio is thereby relatively small in terms of absolute size, but geographically scattered and rich in number of assets. The assets in this portfolio are predominantly retail-offices in small catchment areas. The real estate portfolio of Case 2 is relatively large when compared to its competitors. The presence of Case 2 in small catchment areas is in line with its target group and former cooperative organizational structure. The size of the portfolio, however, is not in line with the financial objectives. This misalignment is a result of its former cooperative structure, which has obstructed the organization in executing a strong and centralized business strategy. The recent merger into one legal entity has provided the bank with increased control over local business activity, leading to an expected large-scale realignment of the corporate real estate portfolio in terms of size.

4.1.4 TRENDS

The six most important trends currently influencing the decision-making in the Dutch banking sector were identified in **Section 2.3.6**. Through the cases studies, the influence of these trends on the decision-making process was confirmed or rejected. The empirical research showed a high degree of consistency across the four cases. Apart from the *digitalization of consumer-contact*, the trends influencing the business of Dutch banking institutions were identified in the case studies. The absence of the digitalization of consumer-contact on the business of Case 4 is explained through its organizational driving force. Case 4 focuses on serving the particular needs of a specific market segment through a *market needs* driving force. This implicates that their business model is aimed at a specific target group in the market that, in the situation of Case 4, assigns value to physical presence and face-to-face contact. Following this, the digitalization of consumer-contact has limited impact on the business model of Case 4. The corporate image of Dutch banks is strongly embodied in their annual statements. The empirical research showed that improving the corporate image is dominantly exercised through positive consumer-interaction and highlighting sustainability interventions.

4.1.5 CHOICE FOR DISPOSAL

The presumed corporate real estate disposal drivers for the Dutch banking sector, as a derivative of the trends from the previous section, were identified in **Section 2.4.2**. The following paragraphs confirm or reject the applicability of these drivers based on the analysis from the empirical research. Largely inconsistent results were found across the different organizations. The banks only unanimously confirm the *decreasing organizational footprint, cost-efficiency* and *digitalization* as corporate real estate disposal drivers. The inconsistent drivers are categorized along the three types of obsolescence as defined in **section 2.2.5**, namely financial, functional and technical obsolescence.

Financial disposal drivers

Investment momentum

The applicability of the financial drivers *investment momentum* and *financial distress* largely depends on two factors, namely the perception of the effect of corporate real estate on the balance sheet, and the organizational characteristics. The facilitating effect of the economic recovery on the execution of disposal strategies against favourable conditions is identified in all the four cases. The investment momentum that this causes is, however, only identified as a disposal driver in Case 3. The inapplicability of the investment momentum on the disposal decisions of Case 1, Case 2 and Case 4 was attributed to the limited share (one - two per cent) of corporate real estate on the total balance sheet. Simultaneously, these organizations identify that the book profits that can be derived from disposals are too marginal following the limited (or negative) differences between the economic value and the book value of assets. Case 3 is the only organization that explicitly identifies the investment momentum as a corporate real estate disposal driver for profit-generation and revenue-optimization through corporate real estate disposal. The financial orientation of Case 3 is in line with its strong financial objectives, real estate expertise, and the way the CRE department is embedded in the governance of the organization.

Financial distress

Despite the identification of *financial distress* as the most important driver for corporate real estate disposal (**section 2.2.1**), the empirical research showed a relative absence of this driver in the Dutch banking sector. *Financial distress* was only identified as a CRE disposal driver in Case 2. This is explained by the pressured balance sheet following the revised European capital requirements and the vulnerable capital position of the bank due to its former cooperative structure. The share of *land and buildings for own use* on the balance sheet of Case 2 was higher than the collective share of the three other cases, leading to significant pressure. The former cooperative organizational structure has limited the control on local businesses and has thereby impeded the bank of executing a strong and centralized strategy. The cooperative structure has also disabled the bank of emitting additional shares to generate equity. The organizational structure has thereby slowed down the speed at which the bank could respond, leading to the current large deviation in corporate real estate portfolio size.

Cost/income ratio

The collective focus of Dutch banks on the improvement of their cost/income ratios was identified in **section 2.3.6**. The reduction of operating costs was found as a goal in the corporate business strategies of all cases. The empirical research identifies cost-efficient accommodation as one of the main goals in all of the four case studies. Cases 2 and Case 3 have an active centralization policy for efficiency purposes. Case 1 does not execute an active centralization ambition but still notices a centrifugal development around their most important conglomerates. Cost reductions cannot solely be achieved through property disposal, as Case 3 and Case 4 realized a significant cost reduction while respectively consolidating and expanding their office networks. However, both organizations have conducted strong disposal movements in the past to achieve cost-reductions. The case study research therefore confirms cost-efficiency as a corporate real estate disposal driver.

Functional disposal drivers

Client-activity

The applicability of the functional disposal drivers *client-activity* and *new working concepts* showed a strong relation with the corporate business strategy of the cases. The decreasing number of physical consumers is identified as the most important disposal variable for Case 1, Case 2 and Case 3. Following the large-scale digitalization of the consumer contact, the required physical presence of these organizations has been shrinking and is projected to further decline. This is different for Case 4, as the corporate business strategy explicitly focuses on providing services for a specific target group that assigns value to physical presence and face-to-face contact. Client-activity is assessed through both the quantitative and qualitative consumer activity. This means not only the (projected) presence of target groups is taken into account, but also the preferred contact channels of these groups. Quantitative client-activity developments have a strong influence on the disposal decisions of Case 1, Case 2 and Case 4. The absence of the influence of this variable on Case 3 is explained by the

complete focus on digital consumer-contact and digital presence following its corporate business strategy.

New working concepts

The applicability of *new working concepts* as a disposal driver proved inconsistent across the cases. Despite the unanimous confirmation of the implementation of new working methodologies like SCRUM and Agile (**section 2.4.2)**, the inability to facilitate these working methods does only constitute a disposal driver for Case 1 and Case 3. Case 2 and Case 4 identify that the implementation of the new working concepts can be facilitated through minimal adaptations within the current office supply. The number of traditional offices, which are considered unsuitable for non-traditional working concepts, is negligible in these organizations. The applicability of new working concepts as a disposal driver in Case 1 and Case 3 is explained by their strong focus on technology, leading to the extended implementation of different working methods when compared to the other cases. Following the case study research, the influence of new working concepts on the choice for disposal is questionable.

Technical disposal drivers

The applicability of the technical disposal driver *sustainability performance* shows a strong correlation with the real estate portfolio characteristics. Despite the unanimous identification of sustainability as a corporate objective, the applicability as a disposal driver is largely dependent on the size and composition of the real estate portfolios. Case 1 and Case 3 have relatively small and efficient portfolios when compared to their market share (centralization), and their assets are generally larger. Case 2 and Case 4 have relatively dispersed portfolios dominated by small assets. This originates from their corporate business strategy and organizational structure. As smaller assets generally have a lower sustainability performance (**section 3.1.3**), this impedes Case 2 and Case 4 of executing a strict disposal sustainability policy for their complete portfolios. Case 2 therefore solely exercises strict sustainability requirements as a disposal driver for its back-office branch.

4.1.6 ASSET TYPE SPECIFICATION

The disposal selection variables categorized along the four stakeholder perspectives of **section 2.1.4** were identified in **section 2.2.6.2.** The empirical research shows relatively inconsistent findings across the different organizations. The banks unanimously confirm the *competition for talent* and *value.* Further, the deviant Case 4 proves to be deviant in both *operating costs* and *sustainability* in comparison to the three typical cases. The inconsistent disposal selection variables are categorized along the four stakeholder perspectives, namely strategic, functional, financial, and physical.

Strategic perspective

The literature review indicated a diverse orientation towards the preference for ownership or leasing, dependent on the perception of flexibility (**section 2.2.1**). The empirical research confirmed the diversified perception of flexibility across the cases. Case 3 and Case 4 strongly advocate for a leasing portfolio in order to establish flexibility in their portfolios, allowing them to respond to future organizational adaptations. Case 1 and Case 2 show a neutral stance on the preferred ownership interest in their portfolio. Case 1 identified that the calculations based on the historical use terms of its properties show marginal financial benefits for either of the two options. The new accounting regulations further level the differences. Case 1 does identify the benefit of freely executing building adaptations if needed. The portfolio of Case 1 always retains a share of ownership in the portfolio, as it is included in the organizational capital reservation. The course alterations that Case 4 has experienced throughout the last decade motivate the aversion to have capital tied up in real estate. Another important argument of Case 4 for leasing is providing flexibility to its franchisees.

Functional perspective

Client-activity

The applicability of the functional disposal selection variables *client-activity*, *working concepts,* and *competition for talent* shows a strong relation with the role of digitalization in the corporate business strategy. The functional variables are divided in quantitative and qualitative aspects. The implementation of digitalization in the consumer-contact and business leads to functional alterations.

Following the focus on digitalization of the consumer-contact of Case 3, the physical client-activity does not form a disposal selection variable. This is not the case for the other organizations, which dominantly base their physical presence on consumer activity.

New working concepts

The strong articulation of digitalization in the corporate business strategy is related to the applicability of new working concepts as a disposal selection variable. Case 1 and Case 3 address digitalization as an organizational objective and thereby also identify *new working concepts* as a disposal selection variable. In case the property is located on a good location, the CRE department of Case 1 initially tries to place a business unit in the building for which it is still suitable. Case 2 and Case 4 do not explicitly identify digitalization in their corporate business strategies, leading to absence of this variable in the disposal selection. Further, Case 2 explicitly identifies that the new working concepts are easily facilitated in the existing portfolio, as traditional offices are rarely seen in its office network. The new working concepts are less applicable to retail-offices due to scale-differences.

Competition for talent

The applicability of competition for talent was unanimously confirmed, but deployed differentially between the typical and deviant case. The large banking institutions all identify both the attraction and retention of talent as a factor of influence in their CREM decision-making. Case 4 only identifies talent retention, following its executive demand for HR tranquillity.

Financial perspective

The applicability of the financial disposal selection variable *operating costs* is dependent of the corporate business strategy, where *value* is a generally applicable disposal selection variable. The discrepancy between book value and market value (**section 2.6.2**) was identified as a selection variable in all cases. Case 3 and **reference case 4.1** identified that the non-marketability of assets can pressure the projected revenues to such an extent that an office building is not disposed of, despite its functional or technical obsolescence. Even though Case 1 does not aim for large book profits, the prevention of book losses through healthy business management remains a goal. The research findings show the presence of *operating cost* as a disposal selection variable in Case 1, Case 2 and Case 3. The absence of this variable in Case 4 originates from the physical expansion strategy with the organizational objective to establish cost reductions through its human capital stock instead of its real estate (**section 3.4.2-3.4.3**).

Physical perspective

The influence of the different building characteristics on the disposal process is depicted in **table 18**. The applicability of physical disposal selection variables is dependent on the portfolio characteristics and the corporate business strategy. The research results concerning the building characteristics show most interesting deviations on location: *city/business centre*, *image location* and *attractive environment,* and *identity/image of building.* The corporate real estate portfolio of Case 3 is used to express both their high-tech and modern image (new and sustainable buildings), and the image of being a bank in the middle of society. The representatives of local banks is important to Case 1, as these are local headquarters for local boards. The deviation between the large banking institutions and the deviant Case 4 on the *image location* and *attractive environment* originates from the different orientations towards talent attraction. The corporate objective for talent attraction drives the necessity to be located in attractive and vibrant locations with a positive image.

Sustainability performance

As seen in **section 3.4.2**, organizations with a scattered portfolio consisting of small assets are impeded of executing strong disposal sustainability policies. On the contrary, organizations with a relatively centralized portfolio consisting of large assets are favourable of executing a strong sustainability disposal policy. For this reason, Case 1 and Case 3 incorporate sustainability performance as a disposal variable where Case 2 and Case 4 do not.

Table 18. Presence of building characteristics as disposal selection variables				
Building characteristics	**CASE 1**	**CASE 2**	**CASE 3**	**CASE 4**
Market				
Location: city/business centre	✖	✖	✔	✖
Rent level	✔	✔	✔	✔
Demand (marketability)	✔	✔	✔	✔
Location				
Accessibility private	✔	✔	n.a.	✔
Parking	n.a.	n.a.	n.a.	n.a.
Image location	✔	✔	✔	✖
Attractive environment	✔	✔	✔	✖
Accessibility public	✔	✔	✔	✔
Building				
Technical state	✔	✔	✔	✔
Flexibility	n.a.	n.a.	n.a.	n.a.
Identity/image building	✖	✔	✔	✖
Sustainability	✔	✔	✔	✔
Other				
Highly qualified workforce	✔	✔	✔	✔

Peripheral concept

The challenge for CRE managers lies with aligning something that is changeable and fluctuating with something that is inflexible in its essence. CREM theory identifies the peripheral concept as a means to shape a degree of flexibility through strategically dividing the CRE portfolio in layers, based on the commitment the organization places in the properties in this layer (**section 2.1.5**). The case study research has shown that the applicability of this model in the banking sector is secluded to organizations with large real estate portfolios. The use of a peripheral concept was identified in Case 1, Case 2, and Case 3 and explicitly rejected in Case 4. Due to the limited size of the back-office portfolio, the portfolio of Case 4 is dichotomously divided in a back-office and retail-office branch. Case 1 identified that the use of the peripheral concept was only identified applicable to its larger office clusters, as different methods are used for small (often peripheral) office locations.

The longevity of the commitment that organizations place in the different layers of the peripheral model widely varies between banks and proved highly dependent of the corporate business and corporate real estate strategy. The long-term commitments of Case 3 in its core layer are explained through its profit-minded corporate business strategy and organizational culture. Case 3 pro-actively deploys long-term sale-leaseback transactions to establish bond-like investment products that attract fixed-income investors with corresponding premium revenues. As the **reference case 3.2** showed, the profits that can be established significantly add financial organizational value. This long-term commitment is also seen in **reference case 2.1**. On the contrary, Case 1 reduces the size and commitment in its core supply following the growing uncertainty on future space-use fluctuations, disabling the viability of a long-term planning horizon.

4.1.7 STRATEGY ADOPTION

The steps in the disposal process with corresponding selection of the possible corporate real estate disposal strategies were identified in **section 2.2.6**. The empirical work provides consistent findings on the selected disposal strategies and relatively diversified findings on the disposal processes across the different cases.

Disposal strategies

According to literature, four strategies can be deployed for corporate real estate disposal (**Section 2.2.6.3)**. Only two disposal strategies are used across Dutch banks, namely direct sale and sale-leaseback transactions. This is explained by the exclusive focus on core business activity. The organizations do not involve themselves in real estate business, which is explained by the acknowledgment of the lack of expertise in this field and attaining a mitigated risk-profile. Case 2 identified that the primary goal is to establish a well-performing and LEAN banking business in order

to be competitive with other banks on that field. Shifting attention to other and more risky business activity is not in line with the expertise of the bank and can endanger business continuity on the long run. Similar explanations are found across the other cases, all revolving around two pillars: risk-aversion and lack of expertise. The focus on a mitigated risk-profile is in line with the general risk-aversion development of the banking sector, as identified in **section 2.3.6**. Dutch banks rather focus on core business activity and establish a risk-averse competitive banking business, than to involve themselves in more risky real estate business for which they commonly lack the right expertise.

Organizational capacity

The complexity of the disposal process is significantly influenced by the size of the organization and its real estate portfolio. The most noticeable deviation in the empirical research is the difference between the disposal processes of the large banking institutions and the relatively small banking institution Case 4. Where the large organizations take various approaches with differentiated amounts of initial effort, Case 4 almost exclusively deploys the fastest disposal strategy; direct sale after initial valuation. The marketability is assessed through valuation and, if the discrepancy with the book value is negligible or absent, the property is sold through an open process. The same process is also executed for the small, peripheral offices of the large banking institutions. The absence of large, remarkable assets in the portfolio of Case 4 makes the use of more complicated disposal strategies unnecessary. The amount of effort that large banks place in the initiative phase of the disposal processes dependents on context-specific variables like presumed (re)development value and required control on future use after disposal. The presence of presumed (re)development value is determined by considering local (market) developments through internal brokers or external advisors (**Section 3.1.7** and **section 3.2.7**).

Exit scenario

The presumed theoretical layout of a corporate real estate disposal scheme was depicted in **section 2.2.6**. The empirical research largely confirmed the applicability of this disposal process for small and general assets, and rejected the applicability for more complex disposals of the large back-offices of the large banking institutions. In these three cases, the selection of the disposal strategy for an asset is determined according to the optimal business case of the exit scenario for the organization.

What constitutes as the optimal exit scenario differs across the cases. In **reference case 2.1** this is enabling the redevelopment process through executing a sale-leaseback transaction. In **reference case 3.2** the optimal business case is the profit-maximizing strategy, where this is the mitigation of reputational repercussions for **reference case 3.3**. The optimal business case is thereby highly contextual-dependent. The determination of the optimal exit scenario is based on a weighted consideration of:

- (temporary) Functional requirements;
- Financial revenues;
- Physical constraints;
- (potentially) Control on future use after disposal.

The case study research showed that, for the three large banks, the functional requirements in disposal processes are determined by business forecasts and buyer preferences. Business forecasts are articulated with separate business units, commonly most accurate with a maximized 3-year planning horizon. Case 2 and Case 3 take the buyer preferences into account by placing long-term (10-15 years) leasing commitments in their disposal assets to provide favourable bond-like conditions for investors (**reference case 2.1**; **reference case 3.2**). On the contrary, Case 1 determines its functional requirement in the business case through short-term alignment to buyer preferences. When the prospective buyer is a developer, the organization accommodates its workforce elsewhere and sells the building vacant. In case the projected buyer is an investor, Case 1 disposes of the property with a short-term lease agreement. The asset is taken to the market through the scenario that is most favourable to organizational objectives. Besides the organizational commitment, the financial revenues are also determined through the marketability of the property based on its current physical constraints or development value. All the cases show that the marketability of a property is determined through both (local) market conditions and specific building characteristics.

Control on future use after disposal

Reputational repercussions

The use of corporate real estate as a means for business communication to enhance the corporate image was identified in **section 2.1.6**. The empirical research identified the strategic use of the portfolio to highlight sustainability interventions to enhance the corporate image. The influence of image building through strategic CSR on the execution of disposal strategies, however, was only identified in **reference case 3.3**. The fear of reputational repercussions after disposal prevailed over the mere financial perspective in this case. The bank established agreements committing the buyers to the execution of their redevelopment plans. The use of these additional securities (perpetual clauses) negatively affected the terms of the sale, meaning higher costs and lower revenues. The unique context of this case showed sensitivity to reputational damage following the location of the property in the direct vicinity of a residential area and the municipal pressure to prevent office vacancy. The negative effects of reputational repercussion following the absence of control on future use after the sale were seen in **reference case 2.2**. After disposal, the buyer did not execute the planned redevelopment activities due to a shift in business focus after an organizational merger. As Case 2 did not exercise control on future use after disposal through clauses, the only measure to mitigate reputational damage was to remove all recognisable brand characteristics. This situation negatively influenced the reputation of the bank following societal association between the bank and its former office. The absence of fear for reputational repercussions in Case 1 and Case 4 was motivated by the general improved reputation and societal customization to reduced presence of banks in society.

Business disruption

The most influential driver for control on future use after disposal is the mitigation of risk on business disruption, which was identified in **reference case 1.1**. The organization solely exercises control over the future use of their disposal properties if full or partial occupancy is retained after sale. The reason for this is that the continuation of core business activity can be obstructed by the execution of (re)development works, accommodation of image- or nuisance-sensitive tenants, or excessive visitations from prospective buyers. The bank is, however, selective on the use of (perpetual) clauses as this inherently affects the terms of the sale (less revenues or less buyers).

Flexibility measures

Multiple measures to achieve the desired flexibility following the business uncertainty where identified in Case 2. Through the inclusion of fitness for multi-tenancy in the development of their office of **reference case 2.1** the bank enabled itself of future phased retraction through sub-leasing. Case 2 deploys partial breaks for separate units in more of their office locations. Another measure to enhance flexibility in the corporate real estate portfolio was the reduction of the termination notice of leases into a mutual termination period of 6 months. However, this provided problems for the bank as this gave property owners enhanced power to terminate leases on short-term notice. This was therefore reversed to the use of one-year termination notices. **Expert D** thereby identified the limited applicability of flexibility in real estate, as '*one can never make the same movements with real estate as is possible with the organization'*.

4.2 DISCUSSION OF THE RESEARCH RESULTS

The discussion of the results evaluates and addresses the findings from the empirical research through three components, namely the findings on the main research themes, the translation of findings into an operational framework, and finally the evaluation of the research technique. The operational framework is created by developing the improvements as derived from the case studies into a framework applicable to the Dutch banking sector. The evaluation of the research technique addresses the measures that were undertaken to enhance the reliability of the research.

4.2.1 DISCUSSION OF THE MAIN RESEARCH THEMES

Size of organizations and their portfolios

The specified relationships to which the deviant Case 4 varied from the typical Case 1, Case 2 and Case 3 showed a strong influence to the applicability of the research themes. Specifically, the variables organizational characteristics and real estate portfolio characteristics, in terms of size, led to diversified findings between the typical and deviant cases. From hereon the typical cases are therefore labelled 'large banking organizations' whereas the deviant case is identified as 'relatively small banking organization'.

Corporate real estate disposal drivers

The functional disposal drivers were most dominant in the research findings. The main driver for corporate real estate disposal was the *decreasing organizational footprint* following the *decreased client-activity* and *new working methods*. As both are direct consequences of digitalization, it is safe to say that technological innovation constitutes the largest factor of influence on banking business. A strong differentiation is made between quantitative and qualitative functional drivers for disposal. Van Dijk (2007) identified that the choice for disposal is generally a consequence of policy alterations. This is true for functional disposal drivers, of which the applicability is dependent of the organizational objectives in the corporate business strategy. Where *financial distress* was identified as the most important driver for corporate real estate disposal processes in literature, its influence was negligible as long as an organization was centrally governed. The other financial driver *investment momentum* also played a subordinate role following the marginal presumed profits that can be derived when compared to the overall organizational balance sheet. The financial disposal drivers are mostly influenced through organizational characteristics and corporate business strategy. The physical disposal driver *sustainability performance* was only identified if the real estate portfolio characteristics allowed its use. Organizations would not ambitiously bind themselves to infeasible targets. The revised regulations regarding this topic were not considered alarming as these pinch most in the parts of the portfolio that are identified for disposal. The physical disposal drivers were mostly influenced by the real estate portfolio characteristics.

Disposal selection variables

Gibson (2000, 2001) identified that the preferences on the *ownership versus lease* consideration are scientifically divided. The research confirmed this dichotomous division based on the perception of flexibility. Being able to execute building adaptations and exit through sale is considered an important benefit of ownership, while not having capital tied up in real estate is a sensible argument for leasing. The entrance of new accounting regulations further levels the differences. Dependent on the corporate business strategy, the quantitative and/or qualitative functional disposal selection variables *client-activity, new working concepts*, and *competition for talent* become apparent. The predominant determinant in the applicability is the degree to which digitalization is embraced in the business and the selected channel to access the specific consumer target group. As the employment market for highly qualified IT talent is becoming saturated, the influence of the *competition for talent* on CREM decision-making is becoming increasingly important across large banking competitors.

The influence of the financial disposal selection variable *value* was found greatest in the discrepancy between market value and book value of properties. In line with the work of Van Dijk (2007), the discrepancy between these values can serve as a disabler for disposal execution as the required depreciation may not provide a favourable business case. The applicability of *operating costs* as a

disposal selection variable evidently proved strongly associated with the aim for cost-efficiency. However, also the strategic ambition or natural development of organizational centralization served as an essential condition. The applicability of physical characteristics as disposal selection variables is largely determined by the real estate portfolio characteristics and corporate business strategy. Organizations assign realistic weights to the decision-making variables according to the size and composition of the real estate portfolio. The collective prioritization of large banking institutions towards the location dimension of the building characteristic is a consequence of the increasing *competition for talent* amongst these. The saturation of the IT employment market drives the need to provide an attractive working environment on multiple levels.

Disposal strategies

Four disposal strategies were identified based on the work of Remøy et al. (2016), namely direct sale, sale-leaseback, demolish and new construction, and transformation (adaptive reuse). In line with the *'we're not in real estate business!'* argument identified by Nourse & Roulac, only the strategies were applicable that implied disposal in the current state. The pure focus on core business activity leads to the exclusive applicability of *direct sale* and *sale-leaseback transactions* as disposal strategies. Collaborations with developers are entered in exceptional situations, but no real estate activity is carried out by the organizations themselves.

The work of Van Dijk (2007) decomposed the strategy selection decision into four steps, namely assessing the disposal risk (valuation and marketability), assessing the buyer profile, selecting the sales method (function preservation), and determining the moment of sale. The size and composition of the real estate portfolio has a large influence on the complexity of disposal processes and thereby the applicability of the process of Van Dijk. The complexity of the disposal process is divided dichotomously between *small and generic assets* and *large and remarkable assets*. The small and generic assets show most similarities with the process scheme of Van Dijk. As small and generic assets are generally exclusively sold through direct sale, the assessment of the preservation of the existing function and determination of the moment of sale are not applicable.

As real estate portfolios become larger in size and more complex, so do the disposal processes. In adaption to the model of Van Dijk, the *large and remarkable assets* model decomposes the process in the phases: analysis, strategy and market. This disposal process combines the influence of four key variables into a weighted business case for the optimal exit scenario, namely *functional requirements*, *financial revenues*, *physical constraints*, and *control over future use after disposal*. The input of these variables is determined through the assessing the marketability through valuation and (potentially) vision development, assessing the risk for business disruption and reputational repercussions, and determining the organization demand through business unit forecasts. The alignment of the functional requirements of the organization to user preferences can serve as a value incubator, positively influencing the business case.

4.2.2 DISCUSSION: CREATION OF THE OPERATIONAL FRAMEWORK

This research set out to establish an operational framework to guide and improve the corporate real estate disposal decisions of organizations in the Dutch banking sector. The framework identifies suggested improvements to the current corporate real estate disposal process steps as found through the literature review, it is thereby based on the conceptual model of this thesis. The operational framework (**Figure 23**) consists of concepts and insights, depending of the nature of the research findings. The following section comprises the three levels of the decision-making, namely organization (choice for disposal), portfolio (asset type specification), and object level (strategy selection). The use and applicability of the insights and concepts is further elaborated.

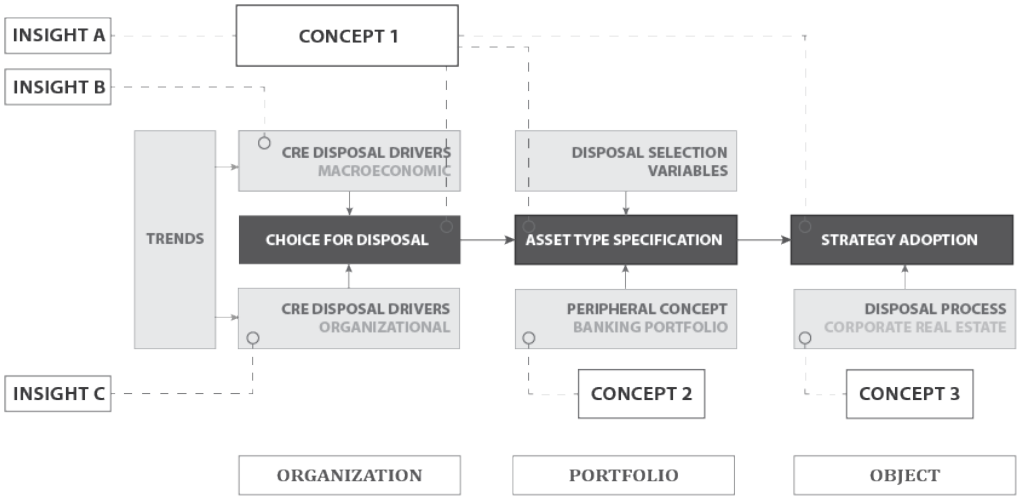

Figure 23: Operational framework for disposal decisions in the Dutch banking sector (own ill.)

Table 19. Legend operational framework	
Concept 1	**Linking corporate real estate disposal decisions to corporate business strategy** This concept guides the user in aligning corporate real restate disposal decisions to the corporate business strategy.
Insight A	**Multi-disciplinary transaction team** An understanding is shaped on the different decision-making structures and the benefits of establishing a multi-disciplinary transaction team.
Insight B	**Alignment to the real estate market cycle** This element provides insight in how organizations can achieve financial value through the alignment of corporate real estate disposals to the real estate market cycle.
Insight C	**Innovation as real estate disposal incubator** This component identifies the relationship between organizational lifecycles, the influence implementation of technological innovation, and its use for the initiation and execution of corporate real estate disposal strategies.
Concept 2	**Peripheral model for the banking portfolio** This concept provides a peripheral portfolio management model that is tailored to the unique characteristics of the Dutch banking sector,
Concept 3	**Types of disposal processes** Two concepts are provided for the strategy selection in corporate real estate disposal processes. A dichotomously division is made on two types of properties.

4.2.2.1 ORGANIZATIONAL LEVEL

Concept 1: Linking corporate real estate disposal decisions to corporate business strategy

The relation between the corporate business strategy and real estate operating decisions in organizations through the determination of the (corporate) real estate strategy was identified in **Section 2.1.2.** The corporate business strategy, in this regard, was identified as a resultant of the context in which institutes find themselves and the organizational driving force that was selected to determine the business direction and competitive position of the organization. The empirical research confirmed the relation between the corporate business strategy and real estate operating decisions.

This relationship, however, also showed conjunction with other variables. The cross-case comparison repeatedly identified the influence of organizational characteristics and real estate portfolio characteristics on the determination of the (corporate) real estate strategy and subsequently the operating decisions in the different steps of the disposal process. The organizational characteristics, in this regard, are determined by three components, namely the organizational structure, the culture and the (historical) expertise of an organization. The portfolio characteristics are determined by the size and composition of the real estate portfolios. The research findings imply an extension of the concept of Nourse and Roulac (1993), visualized in **figure 24**. The dark elements identify the original relationships, where the light elements are additions or alterations tailoring the process diagram to the corporate real estate disposal process.

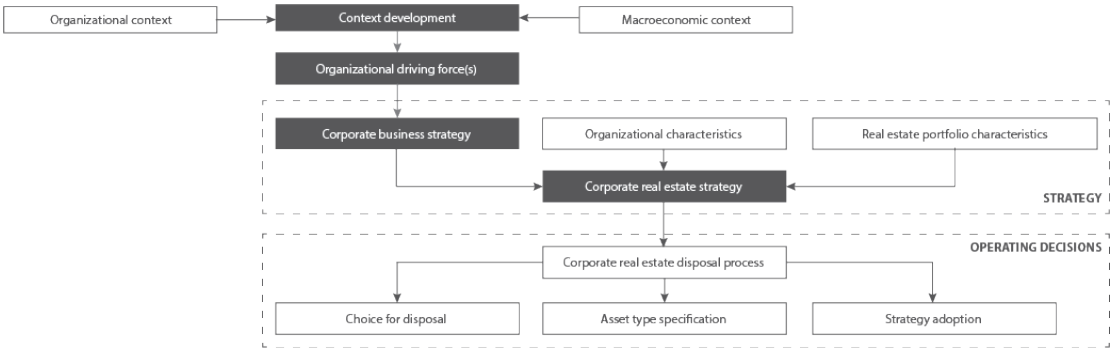

Figure 24: Alignment of disposal decision-making to the corporate business strategy (own ill.)

Insight A: Multi-disciplinary transaction team

Organizations can add organizational value through the alignment with the corporate business strategy (**Section 2.1.2**). Changes in the context lead to alterations in the organizational driving force, in turn altering the competitive position of the organization. The premise of this thesis identifies that real estate is not agile enough to keep up with organizational space use fluctuations, leading to inefficient decision-making. **Expert A** identified the pressured decisions-making as follows: ' *It is not the nature of the decision-making that has changed, but the speed at which these decisions have to be taken'*. The research showed a strong relationship between the organizational decision-making structure and the efficiency of corporate real estate disposal decisions. The decision-making of Case 2 was highly inefficient, following its decentralized and cooperative organizational structure.

On the contrary, the strong way the CRE department of Case 3 is embedded in the governance of the organization enabled the execution of a quick and effective decision-making process. The use of a multi-disciplinary transaction team enhanced the agility to organizational fluctuations and led to the early-on optimization of the portfolio, significant financial revenues, and competitive advantage. The two types of decision-making structures are shown in **figure 25**. The transaction team of Case 3 shows strong resemblance with the cross-disciplinary approach of Barclays (**Section 2.2.6**). In the disposal strategy of Barclays, the expertise of different departments (especially finance and property skills) and executive involvement/approval was also used to maximize capital releases and optimally enhance profitability of the strategy.

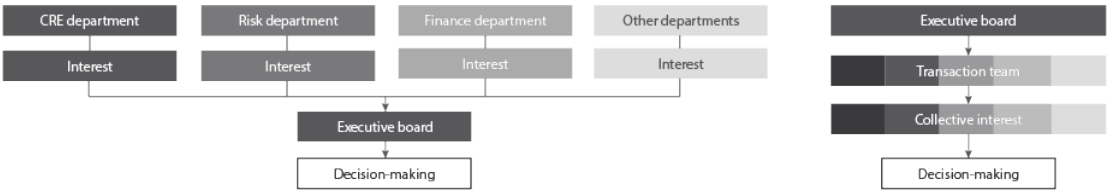

Figure 25: Decision-making structure (own ill.)

Trust and authority are identified as bounding conditions for the applicability of the decision-making structure of Case 3. Trust was derived from the (international) track record and close relation with the board, providing an extended mandate of the corporate real estate department when compared to

the other cases. The decision-making structure of the other cases impeded proactive decision-making and reduced the financial efficiency of their decisions. **Expert B** identified that '*in order to execute proactive corporate real estate management, the different departments (corporate real estate, finance, risk) have to align their interest at the right moment and place in the organization*'. Through establishing a multi-disciplinary transaction team (particularly) in times of expected real estate activity, organizations can facilitate this alignment of interests and enhance the organizational agility through its real estate. The focus should lie on combing property and finance skills.

Insight B: Alignment to the real estate market cycle

The relationship between the cyclical behaviour of economies, real estate markets, and disposal processes was elaborated in **section 2.2.1-2.2.3**. In these sections, the proactive alignment of corporate real estate disposal strategies to the real estate market cycle was identified as way to conduct real estate disposal from a position of strength, thereby increasing profitability. However, former research was sceptic on this concept as the real estate activity of organizations is generally reactive of the business growth instead of the investment market (Louko, 2006).

Lack of proactive real estate management

The case study research showed that Dutch banking organizations generally do not actively align their real estate disposal strategies to the real estate market cycle. **Expert B** stated that '*We are aware of the cyclical behaviour of markets, but we do not align our CREM to these cycles. (…) The predominant activities of our CRE department are reactive to the business development*'. The reactive orientation towards the CRE department was identified in Case 1, Case 2 and Case 4, and was primarily motivated by corporate real estate not being the organizational core business. The banking organizations identify the lack of real estate expertise and attaining a mitigated risk-profile as the motivation for this exclusive focus on core business activity. The marginal financial benefits that can be derived from the book profits of a sale form the other explanation that was found in the case study research. On the one hand, corporate real estate accounts for merely one to two per cent of the total balance sheet of the banking institutions. On the other, the potential book profits are minimal following the low or negative deviations between the market value and book value of properties. Both aspects make the potential added financial value negligible for Case 1, Case 2, and Case 4.

Mitigating loss of capital

If corporate real estate is an asset, the company will have the same privileges as a pure investor (**Section 2.1.1**). As the case study research has shown, the privileges for Dutch banks equate to mitigating loss of capital through optimizing revenues from sale. Property disposal in pressured real estate markets improves revenues, thereby mitigating the risk of loss of capital and required depreciation at moment of sale (see: **Figure 27**). The occurrence of the reference transactions of the different cases is visualized in **figure 26**. This figure shows a strong presence of corporate real estate disposal strategies in times of pressured real estate markets. As (most of the) Dutch banking institutions explicitly stated not to align their corporate real estate management to the real estate market cycle, this development is better explained by the reactive orientation of real estate towards the organizational growth in that period than the conscious response to the investment momentum. This is in line with the sceptic though that the property disposal movements of corporate organizations are always reactive to organizational growth developments (**section 1.1.2**) and the conception that alignment of favourable market conditions with the right moment for sale from a business point of view will rather originate from luck than careful planning (**section 2.2.3**).

Case 3 is the only organization that explicitly identified the execution of an extensive disposal movement in strong economic times (position of strength) to realign the real estate portfolio against favourable conditions. The disposal strategies of Case 3 were planned in weak economic times but execute in times of an upward economic and pressured real estate market. By doing this, the organization optimally seizes the unique momentum in which organizational negative growth is accompanied by an upward economy. This strategy shows strong resemblance with the sale-leaseback program of Barclays, in which the conscious anticipation on the position of strength and market conditions enabled capital releases at cyclical highs (**Section 2.2.6**). One of the transactions of Case 3 involved the cheap acquisition of a (partly) vacant office building at the beginning of market recovery (**reference case 3.1**), allowing them to achieve significant profits at moment of disposal. The

deviant perception of Case 3 to other banks is explained through its strong financial objectives and presence of real estate expertise in the organization.

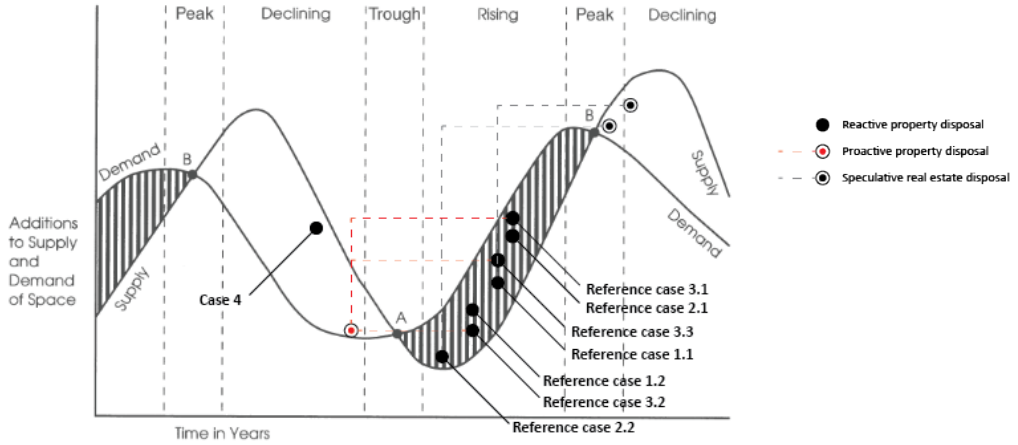

Figure 26: Dutch banking disposals in the real estate market cycle (adaptation to Phyrr et al. 2000)

The financially inefficient consequences of non-alignment of property disposal to the real estate market cycle are seen in **reference case 2.2**, **Case 4**, and **reference case 1.1**. **Case 4** and **reference case 2.2** executed their disposal strategies with the short-term financial objective to reduce the operating costs. The corporate real estate department of Case 2 explicitly identified that this was an unfortunate decision as the potential future value was exponentially higher following the upward movement of the local real estate market. The corporate real estate department of Case 1 decided to dispose of the building of **reference case 1.1** as attaining the building for speculative market development was not in line with the risk-averse orientation of the organization. Mitigating the risk of attaining properties after market saturation, thereby reducing potential revenues from disposal, was the main argument against speculative real estate disposal for Case 1 and Case 2 (**figure 26**). This adverse orientation, however, proved financially unbeneficial due to upward market developments.

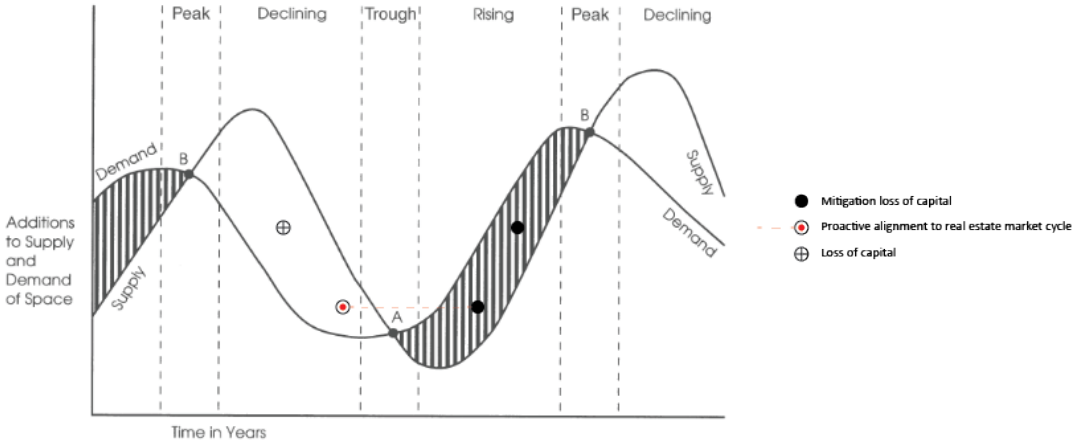

Figure 27: Proactive cyclical CREM (adaptation to Phyrr et al., 2000)

The proactive alignment of corporate real estate disposal processes to the real estate market cycle can provide organizations with competitive advantage and allow them to realign their real estate portfolios to changing organizational demands against favourable conditions. Knowing the potential (financial) organizational value that can be derived by doing this, the exclusion of active real estate management following exclusive core business focus seems inefficient. The case study research has shown that the opportunity to execute proactive corporate real estate disposal is strongly dependent on the organizational growth development and the real estate market cycle. If aligned, organizations can strategically mitigate loss of capital through optimizing revenues from disposal (**Figure 27**). The presence of organizational real estate expertise is considered a bounding condition for the successful execution of active real estate management.

Insight C: Innovation as real estate disposal incubator

The implementation of innovation can provide an important means to steer the transition from maturity to decline or revival in the organizational lifecycle (**Section 2.2.4)**. The scientific belief on this topic, however, proved twofold. The case study research strongly proved the implementation of technological innovation as a means to prevent organizational decline. The cases unanimously confirmed that the emergence of new competitive forces has endangered the historical business model of the banking sector, which has lead to an adaption in corporate business strategy.

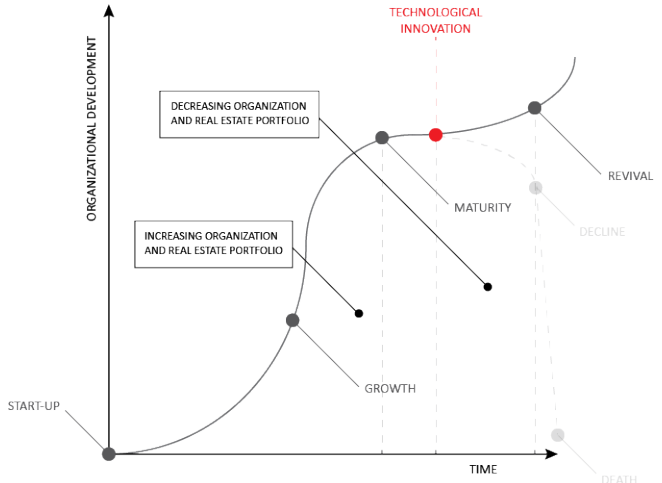

Figure 28: Technological innovation as CRE disposal incubator (based on Haire, 1959)

The technological innovation, in this regard, makes the fit between the organization and its environment so inadequate that the organizational survival becomes threatened. Through proactive strategic management, organizations can revert back to earlier stages or remain in a development stage for a long time (Lester et al., 2003). The case study research identified the use of innovation to remain in the maturity development stage of the organization, as the organizations realigned their business to modern consumer-behaviour by digitalizing their consumer-contact. Product (re)development and new technology were thereby vital in securing the organizational relevance for consumers. One of the drivers for the implementation of technological innovation is establishing competitive advantage through enhanced efficiency (Syders, 2016; Bökkering, 2016). The implementation of innovation served as an incubator for corporate real estate disposal processes, as it led to enhanced space-use efficiency. This was most apparent in Case 3, which combined the strong implementation of technological innovation in their business with the execution of a quick and early-on corporate real estate disposal process. Technological innovation can thereby serve as a means to establish competitive advantage through enhancing space-use efficiency in the transition from decline to organizational revival (**Figure 28**).

4.2.2.2 PORTFOLIO LEVEL

Peripheral model for the Dutch banking sector

The challenge for corporate real estate managers lies with aligning something that is changeable and fluctuating with something that is inflexible in its essence (**Section 2.1.4**). The peripheral model serves as a means to establish financial flexibility through categorizing real estate portfolios in layers (Gibson, 2000; Gibson, 2001), as it allows organizations to more flexibly anticipate on business operating cycles (Haynes & Nunnington, 2010). Properties should be classified according to their probable alignment with core business activities (Woollam, 2004). The empirical research proved that the applicability of the peripheral model in the Dutch banking sector is diversified and solely reserved for large organizations with significant corporate real estate portfolios.

Core supply

The case study research identified the use of long-term (10-15 years) lease commitment in the core supply of Case 2 and Case 3, thereby establishing investment products that enable them to access fixed-income investors with premium sale revenues (**section 2.2.6.3**). In the core supply of Case 3,

diversified expiration dates are attained to achieve a certain degree of agility in this layer. The inclusion of active acquisition and selling activity in the sale-leaseback transactions of Case 3 enhances the profitability of this mechanism through positively widening the difference between the economic value and book value. On the contrary, Case 1 reduces the size of its core layer and the duration (5-years) of the commitment in its core supply as a response to the uncertainty of future organizational fluctuations. When merging these conceptions in a tailored version of the peripheral model for the Dutch banking sector (**Figure 29**), the core supply of Dutch banking institutions should ideally comprise a small number of large back-offices subject to a long-term (10-15 years) lease commitment following sale-leaseback transactions. After expiration of core supply leases, organizations can purchase (partly) vacant assets and accommodate the organization in this property (acquisition and selling). Properties should be taken to the market through sale-leaseback transaction with long-term lease commitments, thereby attracting fixed-income investors. The financial releases from these premium transactions can be used to cover the increased rent premiums for the expansion of the peripheral layers.

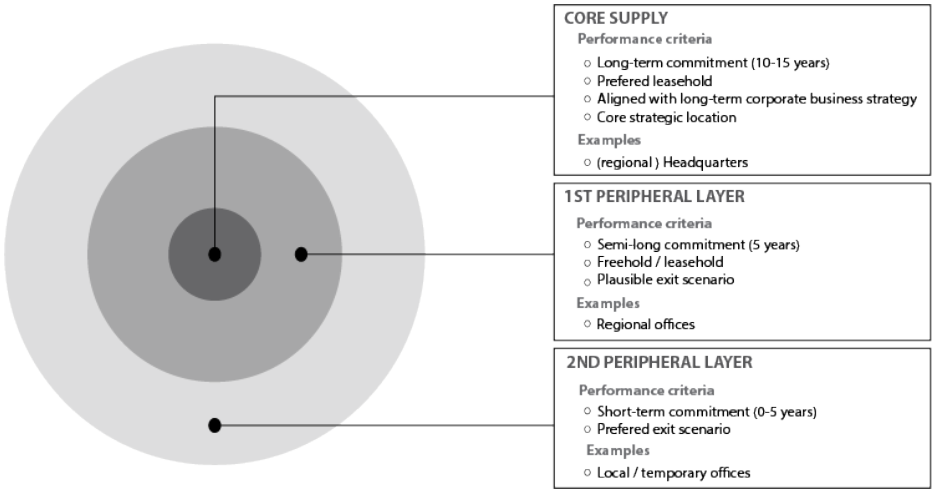

Figure 29: Peripheral model for the Dutch banking sector (adaptation to Gibson, 2000; 2001)

Peripheral layers

Following the increased uncertainty on organizational space-use fluctuations, the first peripheral layer consists of properties in which the organization desires to retain the ability to exit within a reasonable time. This layer thereby comprises a network of regional offices that are subject to 5-year leases with diversified expiration dates or properties in which the organization has a freehold interest. The second peripheral layer consists of presumed disposal offices or properties of which the organization has a temporary need. These properties should be disposed through short-term sale-leaseback transactions as soon as possible to optimize the revenues from sale.

Organizational agility: compensating investment risk

The use of the peripheral model for the Dutch banking sector enhances the agility of organizations through their real estate by providing a financially efficient response to the growing deviation between the investor's longevity and occupier business outlook (Gibson, 2000: Gibson, 2001). The use of peripheral layers is financially unfavourable as the investment risk inherited in short-term leases is reflected in the conditions of the agreement (**Section 2.1.5**). This was strongly confirmed in the case study research, as he uncertainty on organizational space-use has reduced the occupier outlook of banking institutions to 3-year forecasts. Opportunistic parties in the market prove to be receptive to short-term leases, but the additional risk is reflected in the conditions of the agreements. Facilitating organizational space-use fluctuations has thereby led to financially inefficient decisions. Optimally seizing the financial benefits of long-term commitments in the core-supply, together with active acquisition and selling activity, establishes premium financial releases that can be used to cover the financially unbeneficial use of peripheral layers. This strategy shows resemblance with the disposal approach of Barclays, in which the initial premium capital releases from the most valuable assets were used to reduce the financial risk throughout the rest of the strategy (**Section 2.2.6**).

The use of the tailored peripheral model requires a change of mind for some banking institutions, as it is not in line with the current transition towards the exclusive execution of core business activity (**Section 2.3.6**). The initial investment included in acquisition and selling activity will not form a bottleneck for banks, following their easy access to cheap financing. What should be taken into account is that the opportunity cost of capital of active real estate management should be higher than the execution of core business activity (**Section 2.1.1**), which was the case for Case 3. Bounding conditions for the successful implementation of **concept 2** are an extended mandate of the corporate real estate department and the presence of real estate expertise. Real estate expertise should be in-housed or out-sourced if not present in the organization.

4.2.2.3 ASSET LEVEL

Types of disposal processes

The disposal process for Dutch banking institutions was explored in the literature review analysed in **section 2.2.6** of this work (Van Dijk, 2007). Following this process, the disposal strategy selection for a property comprises four steps (**Figure 30**):

- Assess the disposal risk through valuation and marketability evaluation;
- Assess the buyer profile with corresponding preferences;
- Select the method of sale by evaluating the preservation of the existing function;
- Determine the moment of sale.

The empirical research verified the applicability of this process for a certain group of assets, but also identified a more complex disposal structure for others. This is explained by the portfolio characteristics of the portfolio in the work of Van Dijk, comprising small and generic retail-office assets in a geographically scattered office network. The research identified that the disposal process is divided in two process schemes, namely *small and generic assets*, and *large and remarkable assets*.

Figure 30: Disposal process (based on Van Dijk, 2007)

Small and generic assets

The process scheme as derived from literature shows highest comparability with the corporate real estate disposal process of *small and generic assets* found in the empirical research. Small and generic offices are small retail-offices in small catchment areas positioned in more peripheral locations. The case study research identified that small and generic assets are generally sold through direct sale, involving the assessment of the disposal risk and marketing the property (**Figure 31**). The disposal risk of a property is determined by initially assessing the marketability of the property through the valuation of an external advisor. When (re)development value is presumed, explorative vision development is included in the valuation to improve the negotiation position and increase potential revenues. The presence of (re)development value is determined by external advisors or internal brokers with knowledge on local (market) developments (**section 3.1.7**; **section 3.2.7**). After determining the buyer profile and corresponding preferences, the asset is taken to the market in its current state, with or without a redevelopment vision, through an open or closed process.

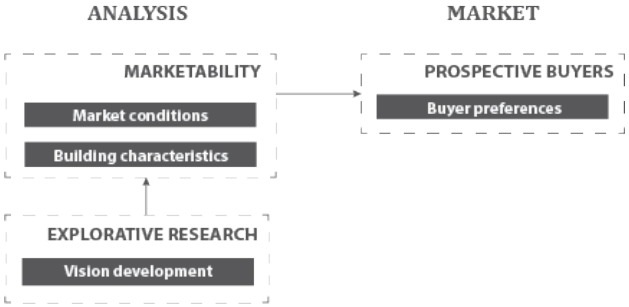

Figure 31: Disposal process of small and generic assets (adaptation to Van Dijk, 2007)

Large and remarkable assets

The applicability of the theoretical premise for the disposal of large back-office assets was rejected through the case study research. The process scheme of this asset group revolves around three steps, namely analysis, strategy, and market. In the analysis phase, the organizational demand is assessed and explorative research is executed on the (local) market conditions and the building characteristics (physical constraints) of the asset. The assessment of organizational demand is based on business forecasts derived from business unit projections. The information on market and building aspects is mostly delivered through one or more external advisors. The outcomes of these analyses serve as the input for the strategy step.

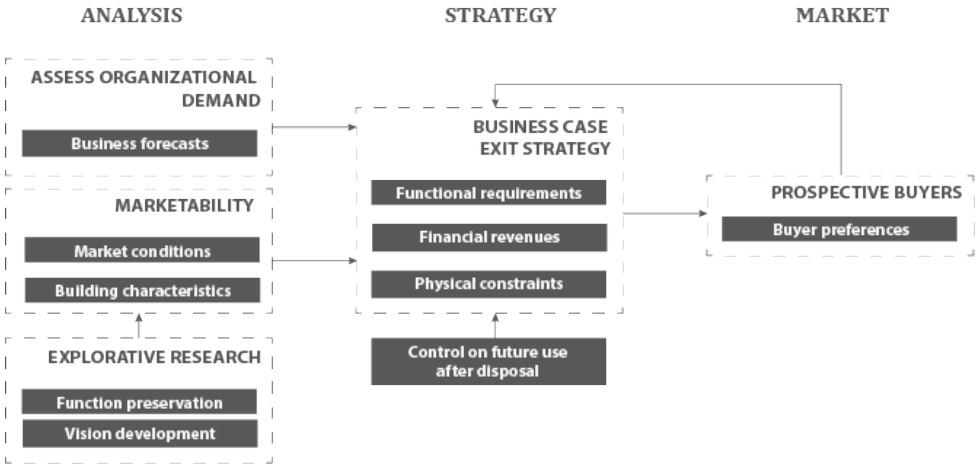

Figure 32: Disposal process of large and remarkable assets (own ill.)

The selection of the disposal strategy for large and remarkable assets is based on the optimal business case for the exit strategy (**Figure 32**). The optimal business case for an exit strategy is determined through weighting the following aspects:

- Functional requirements;
- Physical constraints;
- Financial revenues;
- Control on future use after disposal;

Control over future use is focused on the prevention of business disruption in case the organization remains (partly) located in the office after disposal. Control on future use might be executed for the mitigation of reputation repercussions in exceptional situations (**section 4.1.7**). The alignment to buyer preferences can influence the determination of the functional requirements in the business case in two ways (**section 4.1.6).** Long-term rent/lease agreements provide exponentially larger revenues, which may form a driver to strategically deploy the organizational demand in the business case. Organizations can also adapt their organizational demand to buyer preferences with a short-term orientation. This entails selling the office building vacant to a developer or with a short-term lease agreement to an investor.

The outcome of the business case is the determinant in the selection of the most suitable disposal strategy. The disposal process thereby enters the last step (market) and is taken to the market as such. This is always done through direct sale or sale-leaseback, following the exclusive focus on core business activity of Dutch banking institutions. The organizations enter into collaborations with developer in exceptional situations. The banking institutions, however, never execute real estate activity themselves.

4.2.3 DISCUSSION OF THE RESEARCH TECHNIQUE

Discussion of the case study technique

The research deployed an evidence-based approach, thereby carefully combining various methods. The use of both methodological- and data-triangulation significantly adds to the reliability of the research findings. The results of the research are thereby not exclusively based on semi-structured interviews, but also an extensive document analysis per case. To enhance the robustness and reliability of the research, multiple case studies are executed and also compared to each other.

The centralized composition of the Dutch banking sector narrowed the number of possible cases, motivating the inclusion of all cases in the population. Three typical cases and one deviant case were incorporated in the study. The dominant use of typical cases provided a representative basis for research outcomes, while the use of the deviant case enabled the exploration for phenomena and disconfirmation of deterministic arguments. The deviant case was best usable in the cross-case comparison, allowing the identification or rejection of relationship between research themes. The four case studies together comprise over 80 per cent of the Dutch banking sector, thereby significantly adding to the reliability of the findings.

Two semi-structured interviews were conducted per case study with experts from the particular organization. These were all experts within one of the three real estate levels of the organization, as was defined in the scope of this research. The use of the viewpoints from different perspectives provided a holistic understanding of the different steps and stakeholders in the process. Multiple experts were used for every case study to reduce potential personal bias in the research results. To prevent misinterpretation of conceptions and insights, summarized transcripts were presented to the experts for accordance and, if needed, alterations or additions.

Footnotes to the research methodology

- In some of the cases the experience and insights from two experts within the same organizational level were gathered through the semi-structured interviews. This may form a bias, as this does not provide a holistic understanding of all perspectives in the different decision-making steps in the organization.
- The research themes were only evaluated through semi-structured interviewing and document analysis. These are both methods that are sensitive to interpretation differences. In order to cope with this the interview summaries were presented to the experts for accordance and where needed adapted. However, the findings were not verified through a quantitative method, which does not scientifically relieve them from the risk of differences in interpretation.
- The analysis of internal documents proved unable following the sensitivity to confidentiality issues. Banking institutions have strict security and compliance procedures, which disabled receiving disclosed information. This was a limitation in the document analysis.

CONCLUSIONS

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5. CONCLUSIONS & RECOMMENDATIONS

5.1 CONCLUSIONS

The decision-making in the corporate real estate disposal processes of Dutch banking institutions proved dominated by experiential knowledge and gut feeling. The prioritization of experience over new scientific evidence is caused by the accelerated speed at which decisions have to be taken, making the conduction of a proper analysis impossible in turn leading to inefficient decision-making.

The organizational disposal drivers have the greatest and most widely proven influence on the decision-making in the choice for real estate disposal across Dutch banks, whereas the influence of macroeconomic disposal drivers is weak. The functional corporate real estate disposal drivers strongly affected the choice for disposal. The decreased organizational footprint, following the digitalization of the sector, was unanimously identified as the main reason for property disposal. The applicability of functional drivers is most dependent on the corporate business strategy. The research showed that the applicability of financial corporate real estate disposal drivers is weak following the marginal presumed influence of real estate in comparison to the overall organizational balance sheet and the accessibility of Dutch banks to cheap financing. The influence of financial disposal drivers is dependent on organizational characteristics and the corporate business strategy. The applicability of physical property disposal drivers proved sensitive to the real estate portfolio characteristics.

The corporate real estate disposal processes of Dutch banking organizations are predominantly reactive to the growth development of the business. The current disposal trend across Dutch banking institutions in an upward real estate market is explained by the coincidental alignment of negative business growth development and the current favourable investment market, rather than a conscious alignment of the corporate real estate disposal to the real estate market cycle. The proactive alignment of property disposal to the real estate market cycle can enable the realignment of corporate real estate portfolios against favourable conditions, thereby preparing the portfolio for future space-use fluctuations and economic downturns. Simultaneously, aligning property disposal to the real estate market mitigates the loss of capital by optimizing revenues from disposal. The research identified that the alignment to the real estate market cycle is only possible when the (local) business growth development is negative.

The general non-alignment of corporate real estate disposal across Dutch banking institutions is motivated by the exclusive focus on core business activity, attaining a mitigated risk-profile, the general lack of real estate expertise, and the marginalized perceived financial benefits. The research, however, showed that the non-alignment of property disposal to the real estate market cycle is financially inefficient, as choosing the financial short-term orientation in disposal processes (reduction of exploitation costs) can provide loss of capital in comparison to establishing long-term value (increased future revenues from sale) by aligning property disposal to the real estate market cycle. The presence of real estate expertise in the organization is considered an essential resource in the successful implementation of proactive real estate management. In the absence of real estate expertise, banks should consider out-sourcing or in-housing real estate experts.

The implementation of technological innovation as a means to prevent organizational decline was widely seen across Dutch banks. Through product (re)development and the implementation of new technology in the business and the consumer contact-channels, the organizations secured their relevance for consumers. Implementing innovation proved an incubator for corporate real estate disposal processes, thereby serving as a means to establish competitive advantage through space-use efficiency in the transition from (narrowing) organizational decline to organizational revival.

The research showed that the applicability of variables in the selection of disposal assets in the disposal processes of Dutch banks was dependent of three components, namely the corporate business strategy, real estate portfolio characteristics, and organizational characteristics. The application of strategic variables revolved around the perception of flexibility. The preference for

leasing was motivated by retaining flexibility to respond to organizational course alterations, space-use fluctuations, and facilitating franchisees. The neutral orientation towards the ownership interest in assets was motivated by marginalized benefits following the portfolio size, historic use terms, and new accounting regulations. The inclusion of functional disposal selection variables depended on the degree to which digitalization is incorporated in the business and the consumer contact channel. The competition for talent is increasingly important in property disposal decisions following the saturation of the employment market for highly qualified IT talent. The financial disposal selection variables showed strong influence on the selection of disposal assets through the requirement for a positive difference between market value and book value and the pressing demand for cost-efficiency. Finally, the growing importance of competition for talent across the large banking institutions has led to the prioritization of providing an attractive working environment as a physical disposal selection variable.

The applicability of the peripheral model in the Dutch banking sector was dependent of the organizational characteristics and real estate portfolio characteristics. The peripheral model was exclusively used in real estate portfolios and office clusters of a considerable size and with a specified composition. The peripheral model was explicitly identified inapplicable for small organizations with relatively small and scattered portfolios consisting of small assets. The duration of the commitment in the different layers of the peripheral model across banking institutions was dependent on the strategic and financial organizational objectives and the response to uncertainty on future space-use.

Dutch banking institutions solely dispose of their assets in their current state through direct sale or sale-leaseback transactions. Collaborations are entered with developers in exceptional situations, but banks do not execute real estate activity. The adverse orientation to real estate activity is motivated by the exclusive focus on core business activity. The executive boards of the banks solely focus on establishing a well-performing and LEAN banking business with a mitigated risk-profile in order to be competitive with other banks on that field. Shifting attention to other business activity is not in line with the strategic focus and expertise of banks and can endanger business continuity on the long run.

The most suitable corporate real estate disposal strategy and moment of sale are selected through determining the optimal business case for the exit strategy of that property. The strategy for small and generic office assets is selected based on an assessment of the marketability and (potential) vision development. Marketability is determined by (local) market conditions and building characteristics. In case of presumed (re)development value, a redevelopment vision is included in the initial valuation to strengthen the negotiation position and optimizes revenues from the sale. The presence of (re)development value is determined by an assessment of local real estate (market) developments by either external advisors or internal brokers. The most suitable disposal strategy for large and remarkable back-office assets is selected based on the optimal business case for the exit scenario, determined by a weighted consideration of the following variables:

- Functional requirements;
- Financial revenues;
- Physical constraints;
- Control over future use after disposal.

Dutch banking organizations strategically align the functional requirement in their core supply and disposal properties to buyer preferences in order to facilitate the disposal process or enhance financial revenues from disposal. The alignment of disposal properties to short-term buyer preferences can enable organizations to access an increased number of buyers, thereby enhancing the likelihood for disposal. Simultaneously, alignment to short-term buyer preferences can allow organizations to optimize revenues from disposal through accessing opportunistic buyers. The alignment to long-term buyer preferences was used to establish blond-like investment products that attract fixed-income investors with premium revenues, thereby optimizing revenues from disposal.

The research identified a strong relationship between the organizational decision-making structure and the efficiency of corporate real estate disposal decisions. The use of a multi-disciplinary transaction team aligned the interests of different organizational departments at the right moment and place in the organization. The implementation of the multi-disciplinary transaction team (particularly) in times of expected real estate activity enhanced the organizational agility to space-use

fluctuations and led to an early-on optimization of the real estate portfolio, significant financial revenues, and competitive advantage. Trust and authority are bounding conditions to establish the extended mandate required to successfully deploy the cross-disciplinary decision-making structure.

The corporate image of Dutch banking institutions was dominantly enhanced through sustainability measures in their real estate portfolios. The influence of the corporate image in corporate real estate disposal strategies was predominantly oriented at exercising control on future use after disposal. Control on future use after disposal was used to mitigate business disruption and potential reputational repercussions. Control on future use after disposal was selectively exercised as the use of (perpetual) clauses is negatively reflected in the conditions of the disposal. Dependent on object-specific characteristics, exercising control on future use can prevail over the mere financial interest.

The cross-sectorial applicability of the research findings is dependent of three aspects. First, the applicability of the research findings is presumed highest in other service-based sectors following the shared innovation model and sensitivity to IT-driven innovation. Second, the applicability of the research findings outside the Dutch banking sector is secluded to organizations that are comparable to the organizational characteristics and real estate portfolio characteristics of Dutch banking organizations, empathically in terms of size. Third, the business of Dutch banking institutions proved very liquid following the large balance sheets and access to cheap financing from National and European central banks. As corporate organizations in other sectors do not have these financial privileges, the financial perspective in their corporate real estate disposal processes is presumed to be more dominant.

Following the abovementioned conclusions, this research suggests the following nine improvements to the corporate real estate disposal process of Dutch banking institutions:

- Weighting and selection of variables in the disposal process through the evaluation of three components, namely the corporate business strategy, real estate portfolio characteristics, and organizational characteristics;
- Forming a multi-disciplinary transaction team in times of expected real estate activity;
- Organizations should, when business growth development and economic conditions align, proactively align their corporate real estate disposal process to the real estate market cycle;
- Using technological innovation to respond to changes in the organizational context, enable corporate real estate disposal processes, and achieve competitive advantage;
- Using the peripheral model tailored to the characteristics of the banking sector to achieve organizational agility in a financially efficient way;
- Strategic alignment of the organizational commitment in core and disposal properties to buyer preferences in order to facilitate the disposal process or enhance financial revenues.
- Selection of disposal strategies based on the optimal business case of the exit scenario;
- Incorporation of vision development in the initiation valuation of external advisors in case of presumed redevelopment value;
- Exercise selective control on future use after disposal in case of potential business disruption or risk of reputational repercussions.

The use of proactive corporate real estate management established competitive advantage and financial organizational value in corporate real estate disposal decisions, whereas the reactive management of corporate real estate caused inefficient decision-making. The number of organizations in the Dutch banking landscape that proactively seek for alternative ways to cope with the friction between the illiquidity of real estate and the increasing space-use fluctuations is limited.

The reactive orientation of real estate towards the business development of the organization has an inhibitory effect on achieving organizational agility through the corporate real estate portfolio. The main solution to solve the current lack of agility in the real estate portfolios is shifting the mind-set of owners and managers of corporate real estate towards the execution of corporate real estate activity. The operational framework therefore provides concepts and insights that guide the user towards a proactive and agile accommodation of the Dutch banking organization through combing financial optimization with enhanced flexibility.

5.2 Recommendations for further research

International applicability of the results

This research provided an in-depth analysis of four case studies that together comprise 80 per cent of the Dutch banking sector. The research results are thereby highly applicable and reliable for Dutch banking organizations. However, following the unique and centralized composition of the Dutch banking sector, it is interesting to investigate the applicability of the findings in banking sectors outside the Netherlands. As banking sectors in for examples the United Kingdom and the United States deviate in terms of size, composition, and competiveness, this could affect the research results.

The impact of business liquidity

The business of institutions in the Dutch banking sector proved very liquid following the access to cheap financing and the significant balance sheets. The research showed that this led to an alteration in the prioritization the financial perspective in corporate real estate disposal processes. Further research should be executed on the applicability of the research findings in sectors that lack the favourable access to financing. Specific research themes that should be taken into account are the influence on the extended mandate, presence of financial distress, and a different perception on achievable book profits.

Corporate real estate disposal drivers

The research showed that the functional drivers for corporate real estate disposal are most influential across Dutch banking institutions. The prioritization of functional drivers proved a derivative of the large-scale digitalization of the sector, leading to enhanced occupational efficiency and major alterations in the used working methods. An interesting topic for further research would be deeply investigating the relationship between space-use efficiency and the implementation of technological innovation. Assessing the influence of this relationship on the property disposals of corporate organizations should be the main research focus.

Economic momentum

This research provided a thorough analysis of four cases with eight corresponding reference transactions, divided across the organizations. Following the availability of the evidence, the reference transactions that were analysed predominantly occurred within period of four years before research execution. Executing an identical case study analysis by using reference cases that occurred in a period around the transition from an economic peak to economic decline would be an interesting topic for further research. This would allow the researcher to create a deeper understanding of the relationship between economic cycles and corporate real estate disposal

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APPENDIX A: LITERATURE STUDY BUILDING CHARACTERISTICS

Overview literature study building characteristics			
	Market	**Location**	**Building**
(REM, 2003)	Surroundings;	Visual;	Flexibility;
	Market accessibility	Accessibility	Main entrance
	Facilities	Parking	Logistics
	Public safety	Extensibility / landscaping	Communication
	Potential new personnel	Safety	Technical state
	Housing new personnel	Obstructions	Energy use
		Soil pollution	Security
		Laws and regulations	Free height of floors
		Prices	Privacy of workplace
			Interior climate
			Sanitary
(Roberts, et al., 2012)	Potential total return	Location	-
	Quality tenant	Physical environment	
		Quality of external environment	
(Geraedts & Van der Voordt, 2007)	Land-use plan of the municipality	Parking	Quality and identity building
	Rent level	Geographical location	Technical quality of the building
		Concentration structural vacancy	Functional quality
		Concentration obsolete office in the surrounding	Age of the installations
		Spatial and visual quality	
		Accessibility by car and public transport	
		Distance to facilities	
		Public safety	
(DTZ, 2012)	Location; city centre	Caring public space	Multi-purpose
	Urban area	Attractiveness access route	Identity of the building
	Historically developed towns and cities	Amount of vacancy in the surrounding area	Energy label
	University city	Accessibility by public transport	Price/quality ratio
	Labour force for office jobs	Distance to facilities	Number of square meters
	Increase in labour force	Image of the surroundings	Flexibility
		Eye-catching neighbours	Finishing
			Parking ratio
			Attractiveness entrance
			Options for expanding or downsizing
			Air-conditioning
(Langston & Smith, 2011)	Demand	Environmental values	Design ‘standard’
	Fit for purpose		Maintained service level
	Current user satisfaction		Regulatory compliance
	Economic performance		
	Culture and heritage (social values)		
	Term of perspective		

APPENDIX B: TEMPLATE

Organizational structure

Corporate business strategy

Organizational driving force

Corporate real estate strategy

Real estate strategy

Choice for disposal

Investment momentum
-Real estate market cycle, economic recovery, profit generation
Financial distress
-Basel III, CRD IV, IFRS 9, Capital requirements, capital generation, balance sheet
Decreased organization footprint
-Space-use efficiency, digitalization, FinTech
New working concepts
-Digitalization, SCRUM/Agile
Sustainability performance
-Revised regulations, sustainability policy

Asset type specification

Peripheral concept
-Core, 1st peripheral layer, 2nd peripheral layer
-Investor's longevity versus occupier outlook
Strategic selection variables
-Ownership versus leasing
Functional selection variables
-Client-activity, working methods, competition for talent
Financial selection variables
-Market value, book value, marketability, rent levels, operating costs
Physical selection variables
-Sustainability requirements, technical state, building characteristics

Strategy selection

Corporate real estate disposal strategies
-Direct sale, sale-leaseback, demolishment and new construction, transformation
Moment of sale
-After initial valuation, vision development, contracting process
Future use after sale
-Reputational repercussions, image building, business disruption, CSR
Buyer profile
-Buyer preferences
Marketability
-Disposal risk, (local) market conditions, building characteristics

APPENDIX C: INTERVIEW SUMMARY

Expert A
Case 1
Function Corporate real estate manager

The CRE department of Case 1 is positioned in the Facility Management section, and is divided in real estate (portfolio) and facility activities. The real estate strategy of the bank is divided in two pillars, namely facilitating the need of the business, and managing/reducing operating costs. The first of which is facilitating the business decision to locate or extract the organization from a certain market. The organization determines the region/country, where the CRE department determines the best place and building. The prime accommodation drivers are the location of clients and their preferred contact medium, and the location of employees (always subordinate). The second pillar (cost reduction) is to find cheaper locations, enhance efficiency, and prevent vacancy.

The main drivers for disposal have been the decrease of physical visitors together with the scattered nature of the office portfolio. Case 1 bases its physical presence on consumer activity, and the preferred way of contact of those costumers (digital). Another important driver was a former merger, which caused 150 locations to be positioned directly next to each other.

Case 1 is ambivalent against either a rental or ownership portfolio. The flexibility of either an ownership or rental portfolio can be questioned. For a portfolio the size of Case 1 (200-300 assets) the type of interest is irrelevant concerning disposal. An advantage of ownership is the freedom to execute building adaptations.

Another advantage of ownership is that it is included in the capital reservations. The share of real estate as part of the capital reservation is not limitless, as there must be a healthy balance between liquid and illiquid means. Real estate serves as approximately a billion on a large balance sheet. The generation of capital does not constitute a reason for disposal. Shortening the balance sheet is a possible driver, but the relative size of real estate (approx. 1 bn) on the whole balance sheet is not normative. Attaining a leasehold interest in a property is not a way to shorten the balance due to IFRS regulations in 2018/2019.

The sentiment of the Dutch society becomes mostly an issue in the case of closing down offices in small offices. Most of the times a banking machine is left behind, as removing those is subject to high political sensitivity.

The compliance regulations affect the administrative activities, which take place in back-office organizations. Compliance measures make the activity more expensive; it does not necessarily make having a scattered office network more expensive. The back-office activities are centralized to enhance the efficiency of the production environment.

As Retail banking is generally not associated with fun shopping, the concept is shifting back to sales-provision for targeted clients. The offices in shopping streets are aimed at a positive brand-experience, and less on product sales. This is mostly business sales-provision on appointment. The service in the shops is reduced through digitalization, sales is enhanced through physical consumers.

The average employee-profile is increasingly shifting towards IT product developers. Employees are expected to go along with changes and make a contribution to the improvement of processes and innovations. The implementation of new working concepts like Agile and SCRUM underwrite this shift, and influence the nature of the use of the portfolio. If a building is not able to facilitate these new working concepts it is disposed of or other business units are located there for which it still fits. If the location is excellent, building adaptations can be considered. However, most of the time this leads to clustering and relocation. The accommodation in shiny new offices is not the prime goal of Case 1. The introduction of the project-based way of working will increase the organizational occupancy and stagnate the decreasing use per employee. The flexibility reduces and the pressure on the accommodation increases.

Through their sustainability ambition, Case 1 provides an example to its clients. New buildings to the portfolio have to have a minimum of BRREAM-A (NL), or LEED-gold (international). The whole portfolio is realigned with this sustainable ambition; this is financially not attractive but necessary to activate customers. In their existing stock the bank requires a minimum C-label. If the owner of the property is unwilling to improve the sustainability to these standards, this constitutes a reason for relocation.

The banking portfolio is divided in three layers, namely keepers (5-10 yr), doubters (5 yr), and disposal properties (<5 yr). The commitment that is placed in properties is primarily determined from a client perspective. Overlapping catchment areas of offices can be a reason for disposal, as well as the absence of an organizational demand. The business is the customers, and the core reason of CRE is to facilitate the business.

The number of assets is reducing on portfolio level, but Amsterdam shows an increase in assets and employees. The service-provision is divided in front-office (client-interaction), mid-office (front-office supporting activities), and back-office (administrative functions).

The exit policy of Case 1 consists of 4 steps:

1) Assessing the organizational need for the asset
2) Assessing the desire to shorten the balance sheet (IFRS)
3) Assessing the need for capital generation (currently not the case)
4) Explore the opportunities for sale-leaseback constructions

Case 1 assigns dominant value to four building characteristics, namely client-preferences, sustainability, operating costs, and employees (in that order). An asset needs to fit the customer groups that are to be served there (private banking versus investment banking).

Case 1 always disposes of their assets as-is, as their core business is not that of a real estate developer/investor. A sale-leaseback is only constructed when an asset is subject to an exit scenario. This enhances the revenues from a transaction. The preference of the buyer is taken into account in this decision: empty for a developer and with a rental agreement for an investor. Case 1 assesses the nature of the plans of potential buyers. The viewpoint of both the municipality and the public perception are taken into account in selecting a suitable plan and buyer. The bank selects the most feasible plan, with the highest revenue, that has least probability for reputational repercussions. The societal judgement is becomes less troublesome, as people are getting used to the bank moving away.

Reference case: Utrecht

The property was subject to an exit strategy as the building was not used conform the way it was once designed. Demolition proved difficult due to the attachment to adjacent buildings. The asset was sold with a 3-year lease to grand the investor rental income and time to establish a new plan.

Reference case: Tilburg

The context of this asset showed a local demand for a mixture of functions. This is what made the developer's plan possible with a mixture of office, a show-office and student housing.

The pace of change has increased, but the reason of change is still the same, as well as the decision-making. The responsiveness has to be higher throughout the whole organisation, and there are less 'keepers' in the CRE portfolio. The well-performing market in 2017 makes disposal an easier process.

Following the digitalization trend, the organisation is not going to preserve extinct labour at cost of the shareholders. On the other side, the entrance of new competitive forces has forced the bank to innovate within itself. One of the initiatives is MoneyU (online savings bank) that forms a competitor to the trusted banking model. Eventually, the bank needs to align itself with the demand from the market. The customer/society sets the standard.

APPENDIX D: INTERVIEW SUMMARY

Expert B
Case 1
Function Corporate real estate manager

Organization and strategy
The CRE branch (approx. 30 employees) is part of the Facility Management (300 employees) section in the bank, and is divided in Portfolio Management, Project management, and Maintenance (operational). The corporate strategy focuses on the Netherlands (approx. 600,000 sqm) with international (current 100,000 sqm) expansion ambitions. The bank has a moderate-risk profile and is focused on retail banking. It also has a strong private banking branch.

CRE disposal drivers
The bank has an ambivalent orientation to an ownership/lease interest in its properties. This primarily originates from the average terms of usage and considerations on risk and flexibility. The new accounting regulations (IFRS 9) even further level the difference between the two. Strategically targeted mutations in its ownership thereby do not constitute a disposal driver. The main driver for disposal is the shrinking organizational footprint following the shrinking corporate organisation and decreasing physical consumers. This follows the digitalization of consumer-contact and the shift to visiting particular consumer target-groups. This pressures the main KPI for the CRE department: the ratio between FTE's and square meters, which therefore has to become more efficient. Where the CRE department has no influence on the development on business components, it has influence on the speed and way it responds and anticipates on these. One of the indicators of efficiency is the vacancy level of the portfolio.

The CRE disposal drivers are commonly not real estate related, e.g. the market, client-activity and competition. CRE provides information on rental contracts, market and book value, and maintenance. These aspects are taken into account in the decision-making, but not dominant. The investment appetite in the market is not a solitary driver for disposal. Case 1 does not respond to the cyclical behaviour of economy and the real estate market through its CRE. Book profits or losses form a relative less important driver when compared to client-activity and competition. The CRE department does not have a regular P&L statement. It does, however, contribute to the improvement of the cost/income ratio through enhancing its efficiency and lowering its cost budget. As a workplace averagely costs between €8,000-€12,000 per year, serious improvements can be made through the reduction of sqm. This is a dominantly financial motivation. The sustainability footprint of the organization also plays an important role as each workplace is related to a certain level of emission. This can form a driver for CRE disposal. The accommodation is generally subordinate to the decision-making on the strategy of the business. The CRE department, in this sense, is predominantly reactive. It can, however, be quick and/or flexibly reactive. The bank does not have a self-contained centralization ambition. Due to scale centrifugation the practice shows a natural centralization in Amsterdam (headquarters) and Amstelveen (datacentres). The revised capital requirements do not form a driver due to the limited share of real estate on the total balance sheet of the bank. Achieving book profits on CRE thereby does not form a disposal driver. As the bank is predominantly P&L driven, it does not perform active balance regulation.

Portfolio management
The bank has the ambition to handle their lease terms in a more flexible fashion. However, solely signing leases of 1-2 years is also not desired as the investment risk is passed on in the rent levels. The CRE department does not perform financial engineering. A peripheral concept is used but only in the large conglomerates. In these clusters the bank has a core supply with more layers around it with differentiating lease termination dates. In the more peripheral locations the bank does not have the desire to commit themselves for lease terms of 5 years. As physical banking is non-predictable for a period of 5 years (2/3 years reasonable), the demand for flexibility arises. The CRE department therefore explores break-options in their lease contracts. In order to achieve the desired flexibility each object is subject to making a number of mini-business cases. Flexibility comes at a cost, which shows in the rent levels. The difficulty in planning makes it difficult to makes investments in CRE

portfolio, as technical investments are only feasible in case of 5-10 year usage. The expert estimated the development of the portfolio to reduce to approximately 120 office locations by 2020. The current portfolio amounts up to approximately 215 retail-office locations. The 120 offices are still subject to technical investments, where the others are merely updated. For peripheral locations the accommodation consideration is mutating to future-proof locations in terms of size and positioning.

Decision-making variables

Variables that the CRE department maps for the organization are the book value and market value of properties, the maintenance condition, development of the area, and sustainability performance of assets. The sustainability minimum is LEED-A and BREEAM-Very Good for acquisitions and upgrades in the portfolio. The bank aims higher for larger offices. The new sustainability regulations do not trouble the organization as the small offices (with generally low energy labels) are commonly being disposed of. As the organization does not have the financial means to suddenly make the whole portfolio more sustainable, each year a number of initiatives/highlights is chosen to boost the sustainability image. The digitalization of the business has lead to an increasing competition for IT talent. The IT-workforce has different preferences compared to traditional bankers. This group wants to be located in an attractive working environment, located on a hip location, and experience a fun workplace. These user preferences stretch all the way to vitality, movement and food preferences. The influence of this target group is increasing within the accommodation decision-making as it becomes increasingly difficult to attract highly qualified IT personnel. Due to the favourable economic momentum the financial means are available to facilitate this. Initiatives in Eindhoven, Amsterdam and Twente are executed to facilitate FinTech start-ups in vacant office space. This is both positive from a societal perspective, it also connects the business with FinTech. The image of the bank does not form a dominant decision-making variable, as the actions on this are limited in number and very targeted. Security issues do not form an obstacle for creating a flexible layer (e.g. Regus), as business units are housed there with lower security-sensitivity.

Strategy selection

Assets are almost exclusively sold in their current state through direct sale of sale-leaseback transactions. The reason for this is that real estate practice is not the core business. This is not legislatively anchored in the Statutory Statements of the bank, just common practice. If an object has probable development value or transformation potential this is taken into account at initial valuation. This explorative research is aimed at establishing added financial value through vision development. In some cases a concrete redevelopment plan for a property is taken to the market. A direct sale strategy can be initiated through an open or closed tender procedure. An asking price and offer price (internal) is set and through 2 external valuations, the advice from the selling broker, and the bank's own perception the price and method of sale is determined. The selling method (open/closed) can be altered throughout the process. In case an asset is subject to an exit strategy, the optimum for the bank is initially determined. This may entail selling with a short-term lease contract on either the whole or a part. This is done on financial and organizational grounds. After this the asset is marketed in that way. The organization aims for market-conform process in a sale-leaseback transaction, as achieving a higher short-term book profit with a higher long-term operational burden (rent level above market-rent) is illogical. As assets are located further in the peripheral areas of the Netherlands, their disposal processes become tougher. Objects in long disposal processes are re-valued every year, which leads to gradual depreciation. This decreases the book value loss at time of sale. The selection of timing for disposal keeps speculative, following the nature of real estate markets. The decision revolves around weighing risk with certainty.

Reputational repercussions predominantly play a role when the organization retains a part of the object after sale. Control is exercised on the future use and redevelopment of the object, as it may never lead to business disruption. Mitigating clauses can therefore be included in disposal processes. However, the demand for more clauses inherently affects the terms of the sale (less revenues or less buyers). Associative image does not form a variable for the bank when they fully vacate a location.

Reference case: Utrecht

The increasing discrepancy between physical size and the organizational demand formed the main reason for executing an exit strategy for the office building. Simultaneously, it needed technical

investments in its installation package on which the bank was not keen on executing these. Therefore they chose to vacate the property on the short-term. A 3-year lease (with a slight plus) was signed, which also formed a risk for the bank due to the limited time to find new accommodation in a city like Utrecht. The investor, on the other hand, had 3 years to establish new plans for the building.

Accelerated change

The accelerated changeability of the context makes it more difficult to make funded decisions. The decision-making is thereby increasingly based on intuition, as the environment is more difficult to predict. The CRE department tries to mitigate this by making the relation with the provider (owner, office-operator) more flexible. It thereby aims to prevent the squeeze between changeability on the one hand and immobility on the other. The institutional decision-making can happen fast when the proper analysis is executed. This becomes more difficult following the non-predictability. It is becoming more important to align the interest of all different departments in the decision-making. These interests have to meet on the right moment and at the right place in the bank, this is complicated by changeability.

The bank in 2030

The experts forecasted that the bank in 2030 will consist of 60-70 office locations, as the physical presence will continue to decline following the business digitalization. The expertise of business units will be increasingly clustered, and the now divers office network will be rationalized. While the consumer is becoming better informed, the physical presence will stay necessary for consumer-contact (certain segments).

APPENDIX E: INTERVIEW SUMMARY

Expert C
Case 2
Function Policy maker

Case 2 differentiates themselves from other banks through their cooperative structure. As of 2016, their 105 local banks have merged into 1 legal entity. This leads to a larger degree of differentiation in their office network and business management and, in lower degree, processes. Compared to other banks Case 2 does not have shareholders and shareholder dividend but has cooperative dividend. This is dividend that is emitted to members and society.

The bank has the opportunity to improve the situation that has been created since the recession. The bank does so through stop particularizing their business and opening their books. The banks aims to reduce the viscosity of their business processes,. This requires a new way of directing through showing transparency as a board member.

The structure of the office network revolves around determining where the customer and client-action is, and will be. Due to virtualization the usage and contact with the customer is changing, leading to a decreased necessity for physical presence. Every district has its own headquarters through the cooperative structure. The merger leads to decreased back-office activities for local banks, the focus in these offices lies with customer-contact.

The synergy advantages between (headquarters of local) banks can only be achieved if the local supervisory and directory board are aligned. Conform their legislative acts, the group will not respond or intervene as long as a local bank can function solitarily and executes a healthy business management, If problems emerge, the group tries to help and guide the local bank.

As physical boundaries are fading and banking services are increasingly take place through virtual means it becomes increasingly difficult to allocate services to a district. When the necessity for local presence fades, that local bank merges with another independent bank, if all boards are accord.

The geographical spread of the office network of Case 2 is based on their target group strategy. Where other bank focuses on pilots or multinationals, Case 2 emphatically directs the Agrifood sector. This distribution occurs organically.

The banking sector is becoming less lucrative through European legislation (Basel), which increases the capital requirements for banks. The further the office network of banks is scattered through the Netherlands, the more complex it is to comply with all risk-mitigation measures. This largely increases the costs. This is the reason why banks are all of the sudden collectively reorganizing. This embodied through the cost-income ratio. As traditional business management is becoming too expensive, the total consumer demand and virtualization effects should be taken into account.

Historically, the banks have made themselves very important. The current trend is normalizing. The role of the bank is to lend money from others. In the past they have showed exponential growth, which is not aligned with their contribution to society. Currently they are re-aligning their contribution and size and role in society, which goes hand in hand with healthier portions and less FTE's.

Building characteristic (aesthetic) play a subordinate importance in the bank's accommodation strategy. They dominantly make decisions with a functional perspective, while assigning high value to sustainability. For local banks their office is their headquarters, therefore aesthetics are important as a headquarters should be representative.

A number of the assets in the real estate portfolio in Case 2 are not aligned with their working concept. A traditional building does not suit for SCRUM/LEAN working methods. This is not (yet) a

reason to relocate, but is taken into account in relocation processes. Tools are used to assess the ideal layout for the working concept per local bank.

For their headquarters they initiated a program with the main goal to transform the traditional working environment to the modern working concept. Natural elements are used to crate a natural and clear flow within the building. This means an organic concept based on psychological knowledge.

Case 2 is a twofold company. The local banks are client-oriented offices based on consumer-contact. The group branch is an efficient back-office organization supporting consumer-interaction. The peripheral concept is adapted in multiple layers; within a floor, within a building, and within the portfolio. Currently the portfolio is being realigned as a consequence of the merger. The portfolio is categorized into strategic, tactical and flexible. This is not necessarily an ownership/rental-based decision.

Layer 1	>2020
Layer 2	2020
Layer 3	<2020

Indicators for this realignment are:
-Development of an area (market potential), accessibility, growth nuclease, aging, population.
-Expectancy of the real estate (ownership/lease), size, operating costs
Notion: even though an office is on the verge of collation, if the local board states they want to stay in this nucleus (employment/catchment area), the best-buy is assessed within that catchment area.

Reference case: Eindhoven

Eindhoven is a catchment area for the long-term due to the availability of qualified workforce, presence of high-tech campus, and a dynamic city. The proposition of Case 2 at this location constitutes as a favourable location due to good public accessibility (central railway station), private accessibility (important motorway route), and the ownership interest of the bank.

The building is composed of two parts: high-rise (1972) and low-rise (1969). The high-rise part was a traditional office building, architecturally sufficient but technically large investments wee needed (façade and glass replacement). The best-buy outcome of the business case was a sale-leaseback to the investment vehicle of the bank. The developer only wanted to execute the development when they could become owner, and the board of the bank did not on principal grounds demanded an ownership interest.

Looking at a business case of 20 years, it can be questioned whether a sale-leaseback is the best option. In case of a need for liquidity there are two options: sell a good-performing part of the organization to improve the balance sheet, or take real estate of the balance sheet. As owning real estate is not the core business and obtaining a healthy working portfolio with healthy management is, the second option is always chosen by the bank. Case 2 is not averse to ownership of real estate, but there are forces that force organisations to take it of the balance sheet. As for the reference case, this was a business decision.

Case 2 takes the sentiment of (local) society in consideration with their real estate decisions. However, they have a stronger story than before to make big decisions.

APPENDIX G: INTERVIEW SUMMARY

Expert D
Case 2
Function Corporate real estate manager

Strategy
The historically large ownership and leasing portfolio of the back-office branch of Case 2 has been reducing from 700,000 sqm to 200,000 sqm. This is motivated by the new legal status, cost reduction, automation and concentration developments. The cooperative structure was removed, as this was too expensive. The local banks are disposed in packages of unmarketable assets. The bank historically has an ownership preference in their core assets and leasing preference in their supportive assets. The leased buildings are commonly less in line with organizational objectives, in reduced technical state and more expensive.

Choice for disposal
The main reason for disposal is centralization and the reduction of costs. This can mainly be accomplished through solving the large vacancy rate in the portfolio following decreased client-activity and organizational capacity. New working concepts (Agile) can be facilitated relatively easy in the current office portfolio, as the number of traditional offices is limited. The incorporation of Agile working methods in local banks is limited due to scale-differences. The service-provision is shifting towards employees visiting people at home instead of the banking office.

The merger into 1 legal entity provides the bank with enhanced power on local management and enables the execution of a central real estate strategy. Case 2 does not proactively align its corporate real estate to the cyclical behaviour of the economy and the real estate market cycle. Shortening the balance sheet is impeded because of new accounting regulations. Real estate is not deployed for capital generation, as sale does not provide significant revenues following the residual property valuation. The book value system also impedes achieving book profits. Investing in properties enhances the book value to such an extent that depreciation at moment of sale is inevitable.

The transition towards an IT-based company is primarily motivated by cost efficiency and improvement of the cost/income ratio. The bank does not execute any real estate activity itself. However, they cooperatively develop a vision together with the developer.

The properties in the back-office portfolio Case 2 have a BREEAM certification. When the owner does not meet the requirements, the building is left. Underperforming sustainability is not a disposal variable for the local banking portfolio.

Asset type specification
Case 2 deploys a peripheral portfolio concept with a core layer (Utrecht, Eindhoven) with long-term leasing commitments or an ownership interest. The first peripheral layer comprises short-term leasing agreements (2/3 years, former 5 years). The flexible layer is used per workplace (Regus-like). No safety issues arise here as this accommodates back-office activities. The service-provision in retail-offices shifts to advisory services and sales. The locations in shopping streets are used for pop-up stores. Back-office locations are dominantly used as an efficient supportive branch.

The bank establishes groups of unmarketable assets and sells these as such. The vacancy rate is the primary indicator for disposal. Building characteristics are of a subordinate importance. The difference between the WOZ (Valuation of Property) and the economical value is a disposal selection variable. High exploitation costs influence the decision to retain the disposal or vacancy of a property. Potential reputational repercussions do not affect the disposal decision.

Strategy selection
The selection of the most suitable disposal strategy is primarily determined by the local context. The redevelopment towards new functions is determined by the local demand. The strategy is selected

base don the optimal business case. The local societal importance of a banking office can be a reason to withhold disposal.

Properties are always disposed of in their current state. The bank does no longer execute real estate activity. When there is redevelopment potential (zoning plan, market) this is incorporated in the initial valuation. Internal brokers of the bank assess whether or not there is presumed redevelopment value.

Reference case – Eindhoven

The property needed to be demolished as it was at the end of its technical life. It was built in the 70's. The reason to stay located in Eindhoven was the emotional perspective of the municipality. The bank therefore chose a long-term commitment. The building, however, was constructed in such a way that it allows multi-tenancy as the bank does not think they will use the full length of their lease. Without the long-term commitment, the developer would not have entered the collaboration. The long-term commitment of a strong tenant provided a bond-like investment product that enables the developer to attract investors.

The creation of financial value is dominantly perceived through the reduction of the rent level, instead of capital generation. The presence of highly educated personnel has a subordinate importance, as this location will centralize the accommodation of back-office employees of the Southern region. Partial breaks for separable units are implemented to establish flexibility opportunities. The business uncertainty has led to a demand for flexibility. This has led to the reduction of the termination notice to 6 months (mutual). However, this has provided property owners with power that has caused problems in the past. This was, therefore, altered back to 1 year.

Reference case - Utrecht

The Utrecht property was disposed following its high exploitation costs through the ground lease and service-costs (area security). The property was bought by an investor in 2013. This was an unfortunate decision, as the future potential revenues of the building were much higher. There is a difference between short-term orientation (exploitation costs) and long-term value (revenues or value increase). Aligning the disposal decision to the real estate market cycle can be a smart decision. However, this is not the core business of the bank. The current board largely determines this.

The main goal is to exclusively focus on banking activity and make this as good and LEAN as possible in order to be competitive to other banks on that field. Shifting attention to other business activity (which is more risky) is not in line with the expertise of the bank and can endanger business continuity on the long run.

The bank was in the expectation that the buyer would have executed the redevelopment earlier. This has not happened until now. The only thing the bank could do to protect their brand is removing the recognisable characteristics. The company that initially bought the property was acquired by a company that does not focus on offices. The property is subject to an owners association with residential owners, this further complicates the situation.

Pressured decision-making

The decision-making is too diverse and too political. The culture of Case 2 is always responsive to developments of other banks. There are to many steps need in the decision-making, this negatively influence the competitive position compared to other banks.

APPENDIX G: INTERVIEW SUMMARY

Expert E
Case 3
Function Corporate real estate manager

Case 3 believes in a rent-portfolio with a varying duration commitments and a mixture of expiration dates on the rental agreements. The current market conditions shape the perfect context to facilitate the shift to a rent-oriented portfolio. As an organization, Case 3 needs to dispose now in order to be able to adapt faster to organizational fluctuations in the future. Besides this shift to a rent-oriented portfolio, the nature of their portfolio needs to change. The way the bank works is shifting, thereby leading to a different space demand e.g. large floor plans (2000-3000 sqm.) and crunch rooms.

The ideal CRE portfolio of Case 3 consist of a core supply with long-term commitments in newer buildings that align with their way of working. A first and second peripheral layer follow, based on the lease commitment on these locations and the degree to which the buildings align with the working concept of the bank. Concerning their geographic position, they have a strong centralization focus around their headquarters in Amsterdam South-East. The back-office portfolio of Case 3 is dominated by long-term (10-15 year) leases. The reason for this is that the investment market generally asks a minimum of 10 years. Due to the current crazy market conditions, sometimes investors accept lease terms around 5 years. The development of a new bubble is experienced in the market, but as the bank is profiting from this is not a problem on their agenda.

Another trend that is seen is the emergence of FinTech, which is the synergy between technology and money. Banks are changing within themselves. The role of banks is not changing, but the profile of the average employee of the is. A growing number of ICT-employees is being experienced. This is an essential development for the right of existence of banks, as they have to go along with technological innovations in order to stay relevant and secure their market share.

The high investment appetite in the market only exists when leasing back the property. When Case 3 is planning on leaving in 7/8 years they timely start searching for a buyer. Due to the exponential higher selling price that is obtained, they basically sell a 10 year lease and discount the last 2/3 years of cash flow in year 7/8.

Reference case: Amsterdam: In re-developments of properties they sell, Case 3 takes a pro-active stance in future vision/plan development for properties. The bank carries a responsibility for the buyer, as for the future destination of the object as people keep associating the building with the bank after their departure. Reputation and public perception has become an important criterion for Case 3.

Reference case: Amsterdam: Three years ago the CRE team of Case 3 formulated a vision where they wanted to be in 10 years. Their vision was that in order to be able to respond fast, all components within the corporate organization should be aligned. Therefore a transaction team and steering committee were constructed with people from different layers of the organization. Trust together with an international track record made a capital reservation like this reference case possible.

Reference case: Amsterdam: A new-built headquarters is the only way to facilitate the desired office use of Case 3. Due to the bad reputation of the bank (governmental support) and banks in general the only way to accomplish this was through solving another problem. Case 3 needed to become owner of the problem in order to constructively work on a solution for it. Securing a minimization of reputational damage was first priority in this.

APPENDIX H: INTERVIEW SUMMARY

Expert E
Case 3
Function Corporate real estate manager

CRE strategy

The growth perspectives of the organization constitute the main motivation for (re-)location. As real estate is an illiquid means and the business is liquid, there is an apparent mismatch. The responsibilities of the CREM organisation is increasingly embedded in the governance of the Case 3. The large influence of the CRE portfolio on the balance sheet and its operating cost drive the close management. The organization produces projections of 3 years (availability performance), where this is (at least) 5 years for real estate rental contracts. Real estate is not arranged for organizational shocks. Case 3 does not use office operators due to the increased expenses, excessive desired time of usage, and security issues. Case 3 prefers single-tenancy over multi-tenancy due to these sensitivity issues.

The decision-making process starts with an evaluation of the demand (m2), projection on envisioned growth, and assessment of the necessity of a flexible-use in another building. As the existence of the bank is more uncertain than in the future, 10-year rental contracts are not advisable. This has its influence on the proposition in terms of increased rent. For new and larger buildings the bank does include 10-year leases. For smaller assets 5 years is the target. Case 3 aims for a rental portfolio because it does not think that banks should own real estate, it does so on principle grounds and flexibility ambitions. The (un-)availability of rental assets can play a role in this decision. The Netherlands and Belgium are portfolios that need realignment through disposal. The primary driver for disposal is the shrinking organizational footprint.

The power position of IT personnel has increased in CREM decisions. Their sentiment plays a role in retaining a location due to business disruption or certain demands on working environment (metro accessibility, dynamic environment). .

CREM decision-making variables

The first decision-making variable for disposal is evaluating the ownership/lease interest. In case of ownership, the marketability of assets needs to be determined. This is determined through the technical state and geographic location of the building. Un-marketability of an owned building can be a reason for consolidation. The needed organizational capacity also forms a variable. Eventually, the financial perspective is the most important variable in the disposal decision. Facilitating an optimal workplace for employees should always be taken into account. Case 3 is labelled the most sustainable bank of the world. Energy label A is the minimum for new properties. If the owner of a property refuses to improve the sustainability (if needed) this constitutes a reason for relocation. The bank sometimes evaluates makes sustainability investments in rental properties as well.

Disposal strategies

When Case 3 organizationally re-locates from a location, the property is mostly sold through direct sale. The main reason for this is that real estate development is not the core business. On important locations, clear agreements are made with the buyer on the future destination of the property. For less significant locations this is less the case. Initial explorative research is always executed by the bank on potential vision development for a property. This is mainly done to establish a stronger negotiation position and optimize revenues. Sometimes financially less efficient decisions have to be made in order to facilitate fluctuations in the organizational demand.

General

Real estate policy cannot be more adaptive because it is completely dependent of rental contracts, which are very rigid. There is a mismatch between tenant and owner perspectives. Owners pass on uncertainty and risks in the form of increased rent levels. The traditional 5+5-year contracts are not suitable in modern times. .

APPENDIX I: INTERVIEW SUMMARY

Expert F
Case 4
Function Corporate real estate manager

Corporate and Corporate Real Estate (CRE) strategy
The CRE portfolio of Case 4 knows a strong deviation between the back-offices and the retail-offices of the largest sub-brand of the bank. Both employees from banking organization and franchisees operate the retail-branch from Case 3. The bank aims for a rental portfolio in order to establish flexibility. The corporate strategy of the bank has altered drastically since 2008. Due to the unpredictability of the future the bank does not want its capital tied up in real estate. Providing flexibility to its franchisees through leasing is also a driver.

The physical presence of Case 4 predominantly happens through the division of the Netherlands into consumer-areas. Physical presence is required in every catchment area. The CRE portfolio currently comprises approximately 200 retail-offices of the bank, with the ambition to add 30 locations in 2017. The organization has an ownership interest in merely 4-5 of these locations. Client-activity is the main pillar in the CRE strategy of Case 4. Physical presence is marked as essential for its target group, as this enhances consumer-trust. The bank is convinced that consumers still require a face when doing banking business. Case 4 provides financial services both at the homes of its consumers and at their offices, dependent of the wish of the consumers.

Retail-offices versus back-offices
Case 4 still sees the additional need for physical presence besides Internet presence and service at a distance. The bank aims to offer the possibility for the consumers to combine visiting their bank with their daily shopping. The back-office service-provision is centralized in order to establish flexibility and cost reductions. The retail-offices are primary aimed at consumer-activity and –contact. The retail-offices are increasingly located in the vicinity of daily amenities outside the city-centre. As the type of properties in the retail-office network differs from the back-offices, the bank deploys different sustainability requirements. The bank also searches for ways to make the usage more sustainable through e.g. their circular installation package. The main selection variables in (re-)location decisions are the suitability of the retail-formula, suitability of the location, openness of the façade, and wheelchair-friendly accessibility.

Corporate Real Estate Management
In case the desired working concept is misaligned with the physical constraints of an office building, and optimization through physical intervention is not possible, the building is disposed of from the portfolio. Decision-making variables in this decision are the location, the physical suitability of the building, the duration of the rental contact, and the condition of the installation package. The general leasing terms are 5 years with an extension option for another 5 years. Exceptions (longer/shorter) are made for projected revenues or organizational demand.

The large-scale implementation of the new way of working for the back offices some years ago provided the bank with the opportunity to dispose of a large share of its portfolio. The entrance of an IT workforce is only seen in certain business units of the organization. The revised European capital regulations do not play a role as these dominantly influence the business, and not the corporate real estate management. The bank has a proactive sustainability policy and assigns value to corporate social responsibility. The corporate aim is to become CO2-neutral. Establishing circular products and service-provision sometimes includes additional costs.

CRE disposal strategies
The organization is not subject to a large disposal trend. The transactions that do occur are dominantly small retail-offices. The movement in the back-office branch is limited due to its limited size. The back-office branch consists of the headquarters in Utrecht satellite location in Den Bosch, a datacentre in Groningen, and 2 offices in Geleen and The Hague.

An object is always sold in its current state through direct sale or (in an exceptional situation) a sale-leaseback transaction. The main reason for disposal is the narrowing termination of a lease agreement. When objects in the portfolio exceed their organizational demand the organization explores opportunities for sub-leasing or partial disposal. The ownership that is left in the portfolio is proactively disposed of. Low projected revenues or functional necessity can impede the execution of a disposal strategy. Revitalization (redevelopment activity) is not the core business. The financial revenues of a sale play a subordinate role in the retail-locations due to their limited size. Retail-offices are always a means to be in the direct vicinity of consumers.

The decision-making in the institutional organization is generally a slow process. It is further impeded by the increasing (compliance) regulations.

APPENDIX J: INTERVIEW SUMMARY

Expert G
Case 4
Function Corporate real estate manager

The portfolio
The back-office branch of Case 4 consists of 5 locations: the headquarters in Utrecht (3,500 FTE's, leasing with a minority ownership), satellite office location in Den Bosch (IT-based, 900 FTE's, ownership asset), a call centre in Groningen (250 FTE's), Geleen (250 FTE's), The Hague. The implementation of the new way of working (HNW) caused a space-use efficiency that decreased the organizational to such an extent, that the back-office portfolio was reduced from 22 to 9 offices. Following the divestment of organizational components, this has been reduced to 5 back-offices. The CRE portfolio is a mixture of ownership and rental, but the organization aims for a rental-portfolio. New locations are thereby always rental-based. The ownership in Den Bosch originates from historical activity. The headquarters is subject to a 10-year lease with a 5-year extension option. For smaller asset a lease term of 3 years with an extension possibility for 2 years is desired.

Den Bosch is subject to an exit strategy from an organizational perspective, as half of the building is currently vacant. Despite the fact that this could be centralized in Utrecht, the Human Resources department disables this. The fear of losing highly qualified workforce is a dominant risk. A sale-leaseback transaction was not able due to the discrepancy between book value and market value. Following the past uncertainty on potential sale of the property, the building has insufficiently been maintained. This has affected the marketability to such an extent that large investments would be needed to dispose of the asset against favourable terms (healthy business case). Currently, initiatives are initiates to upgrade the used space and market the vacant space.

Corporate Real Estate strategy
The quality of the workforce and retaining highly qualified personnel forms an important organizational objective. This originates from the large-scale reorganizations from the past, which drives the executive demand for HR tranquillity. The CRE policy is highly dependent on the seated CEO. The former CEO had a strong centralization ambition. The current CEO has a more dispersed orientation due to Utrecht being an expensive office location. Centralization is, in this case, not considered cost-efficient as administrative activities are executed on prime-office locations. The implementation of HNW provided a cost reduction (cost/income ratio) that enabled the location in the headquarters in Utrecht. The facility department currently orients itself on achieving flexibility through exploring the possibility to house certain business units elsewhere. Certain business units are even internationally outsourced.

Sustainability
The headquarters has a BREEAM qualification (2* usage, 3* management). The minimum for back-offices is BREEAM-3*. Setting higher ambitions is generally impossible due to the age of the buildings. Not meeting the sustainability requirements is not yet a reason for disposal or relocation. The organization prefers to seek alternative improvement in usage, installation package or circular furniture.

Corporate Real Estate Management
The expectancy is that business digitalization will create an additional organization shrinkage of 800-900 workplaces in both back-offices and retail-office locations by 2020. This movement is not expected in the IT-related sectors. The facility department forecasts 5-year business projections with the business units to establish its accommodation strategy. These projections rarely come through but it provides a guideline. The implementation of new working concepts like SCRUM/Agile is experienced, but this can be facilitated within the current headquarters. This is unable in traditional office assets like Den Bosch, which are currently being renovated for this reason. The introduction of HNW has increased the use (sqm) per workplace, but lowered the use (sqm) per FTE. The organization thinks that if adequate digital means are provided, employees will prefer virtual meetings.

The new regulations dominantly affect the finance and risk departments of the organization. The only effect this has on the facility department is the increase of outsourced legislative consultants. The generation of financial profits (capital) through sale does not constitute a driver for disposal for Case 4 due to the limited size of the real estate portfolio. No peripheral concept is used in the portfolio of Case 4, as this impedes the desired working concept. The whole back-office branch thereby forms the core supply. The organization is too small to deploy certain principles. There is a strong dichotomy in the service-provision in the banking portfolio. The retail-office branch is aimed at consumer-contact, shops and advisory services (front- and mid-office activity). The back-offices are aimed at consumer-contact and product development (back- and mid-office activity). The back-offices are normalized, as the focus strongly lies on the retail-portfolio.

Corporate real estate disposal

The last years have showed a portfolio decrease from 22 to 5 back-office locations, starting in 2010 as the rental contract of the headquarters terminated. The disposal (through sale or lease termination) of these 17 offices was done through mapping the location of all employees (HR). The largest clusters were the locations that were retained, where the rest was disposed of. The HR perspective is dominant in the decision-making of the facility department. The building characteristics play a subordinate role in this. The ownership status also plays a role. The most important variables that are currently taken into account are sustainability, accessibility (public and private), and the vicinity of railway stations. The business case that arises when the projected investment costs are computed serves as the second important underlay for decision. The organization always sells assets in their current state. As their objects generally show favourable marketability the disposal processes have been smooth. The bank does not critically reflect the plans of the potential buyer. The mismatch between the CRE department and the business is moderated by quarterly meeting the different business units, thereby forecasting developments and expectations. The 4-5-year accommodation plans that are shaped here provide guidelines but are rarely executed that way.

Reference case: Den Bosch

The organizational capacity has shrunk to such an extent, following the re-location of business units to the headquarters, that the building is half vacant. Regular leasing is not considered as an option. Sub-leasing to FinTech start-ups is considered a viable option. The execution of a sale-leaseback transaction is disabled due to the unfavourable business case. There is a discrepancy between the market value and book value of the assets. The asset needs significant investments to make it marketable again.

General

When the bank comes in private hands this will not be a reason for course alterations. It is in the DNA of the organization to be a societal bank. The bank will remain an essential component of society, but the digitalization will increasingly transform it into an IT-company. The entrance of FinTechs and other competitive forces has not decreased the market share, as Case 4 is able to quickly adapt due to its limited size and IT platform. The bank is normalization throughout all its layers. The restoration of consumer and public trust therefore is important. This is in line with their corporate objective to be a societal bank. People desire a face with their service-provision. This is not only the case for elderly people. The need for physical presence and human contact will remain.