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## Corporate Real Estate Strategy for Food Processing Industry

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**Abstract:** This paper describes the corporate real estate strategy (CRES) of an existing food processing unit which is planning to expand their manufacturing operations. The options identified for expansion were either to buy out a new land parcel in the industrial zone or to use the existing land parcel already with them. The challenge with choosing the land parcel is shortage of space for expansion. CRES was devised to optimize the space of the land parcel for setting up the new unit and the feasibility of the expansion strategy was analyzed. In this paper CRES emphasizes on vertical construction of the manufacturing unit instead of building horizontal units. This would save cost of buying a new land parcel and the modern construction techniques would ensure cost optimization for the construction of manufacturing unit. The final strategy of renting out the existing building was proposed to capitalize on the benefits of the LRD scheme which would help in repayment of the E.M.I on debt financing. Implementation of these corporate real estate strategies were observed as favorable in reducing cost and increasing operational efficiency of the food processing unit.

**Index Terms - Corporate Real Estate Strategy, Food Processing, Land Parcel, Industrial Zone, LRD Scheme, Feasibility**

### 1. INTRODUCTION

While all companies lease and own real estate, few use a strategic approach for acquiring, managing and disposing of real estate to support their core activities. Many corporate real estate agents and others in the corporation, without a roadmap on how the real estate owner will add to the company's profitability and competitive, take daily decision regarding the location, construction, space management, design and leasing obligations. In organizations to be most successful, a corporate real estate approach should align with the general strategy of the corporation and should be integrated with other fields.

The purpose of this study is to analysis corporate real estate strategy for food processing unit by doing the financial feasibility, space management and design of building which will optimize the cost spent on developing the industrial building and buying a new land.

The purpose of this research is also to determine whether the role of real estate in corporate strategic planning is changing and whether real estate managers are adjusting to changes in the business environment.

This study also includes the financing option for the food processing unit by releasing their nontangible assets.

### 2. LITERATURE AND REVIEW

This chapter presents a review of relevant research in Corporate Real Estate Strategy. The main objective of the literature review is to explore studies related to corporate real estate strategy for the manufacturing sector. Most of literature has been referred from the books, seminars, thesis conference proceeding, journals handbooks on corporate real estate strategy.

#### 2.1. Reviews

**Ting Kien Hwa<sup>1</sup> (2003):** "Corporate real estate constitutes a large percentage of fixed assets of a firm Changing economic, regulatory, competition and financing situations cause firms to undertake corporate reorganization and restructuring With the accompanying financial and operational restructuring, corporate real estate in a firm is very often involved Various techniques of corporate reorganization and restructuring are available for decision makers to change the composition of corporate real estate to be realigned to the new business objectives of the firm Among the techniques of corporate real estate reorganization and restructuring are divestiture, acquisition, spin-off,

joint venture and going private etc. This article focuses on divestitures and acquisitions in releasing hidden corporate real estate values. This article further concludes that operational properties owned by large companies and public corporations in Malaysia are underused and undermanaged, the current change in the view from “we are not in the real estate business” to an approach that convert CRE into cash through strategies such as sale and leaseback, spin-off, disposal and acquisition is a big step forward in realizing the hidden and neglected CRE values. With greater realization on the potential of CRE in company balance sheets, it is expected that more corporate reorganization and restructuring involving corporate real estate will be carried out (Hwa, 2003)”.

**KFC Holdings (M) Bhd.<sup>2</sup> (2003):** “In a move to streamline operations, KFCH proposed to sell all its non-core and non-related assets. Among its corporate real estate to be disposed are the 22-storey Wisma KFC along Jalan Sultan Ismail, a chilli plantation and a soya bean factory. Reflecting the change in the perception of the management towards corporate real estate, this is the comments offered: “We do not need a huge building. We just need a few floors for a corporate office which we could rent, so we will sell Wisma KFC,” said Johari Abdul Ghani, the managing director. The reorganization and asset disposal of KFCH will place KFCH in a better position to move ahead in terms of profits and business in the future (Hwa, 2003)”.

**Malaysian Airline System (MAS)<sup>3</sup> (2002):** “MAS has been in the red since the 1997 financial crisis. To reduce its short-term borrowings, MAS has undertaken sale and leaseback of its properties and aircrafts. MAS will sell four buildings including its corporate headquarter in Kuala Lumpur for RM2.2 billion. Six Boeing 747-400 and two new Boeing 777-200ER will also undergo sale and leaseback transaction for RM3.9 billion. The sale and leaseback will raise cash amounting to RM6.1 billion. The cash will be used to reduce its short-term loans by RM1.3 billion and repay its yen-dominated loans of RM1.58 billion. The money would also be used for the purchase of five new aircrafts totaling RM2.4 billion. The balance of RM820 million would be used as working capital. To facilitate the sale and leaseback transactions, two special purpose vehicles will be set-up. The objective of the sale and leaseback exercise is aimed at freeing up capital tied up in its non-core activities and corporate real estate assets. The four properties have a total book value of RM1.8 billion. With the disposal, MAS will make a capital gain of RM400 million from the property disposal and RM450 million from the aircraft disposals (Hwa, 2003)”.

**Abdul Jalil Omar<sup>4</sup> (2014):** “This paper aims to explore how branding theory can be used to understand corporate real estate management’s (CREM’s) relationships with its customers. Specifically, the perspectives of CREM executives and customers are used to develop a statement of a CREM brand. A multiple case study approach from four industry sections that consist of telecommunications, logistic, retail, and education from an emerging real estate market (Malaysia) and a mature real estate market (Australia). CREM executives and CREM customers from each case were interviewed to obtain information on CREM within organizations. The findings indicate that CREM supports the business by managing organizations’ strategic real estate resources as its brand. CREM executives focus more on the technicality of real estate functions, while CREM customers expect corporate real estate (CRE) to support their business functions. A CREM brand is important to CREM relationship building with the targeted customers. Successful brand development can increase CREM visibility to customers and at the same time gain appreciation of its contributions to the organizations (Omar, 2012)”.

**Sofia Elofsson<sup>5</sup> (2012):** “The aim of this study is to investigate companies’ CREM with a focus on strategies for CRE decisions, to own or lease real estate. Investigated companies will be categorized in order to find patterns within and between industries. To achieve the aim, the following objectives have been identified: To verify whether companies realize the potential value CREM can add and if they do, discover how it shows in the organizations. To recognize what strategies and rationales companies use for CRE decisions such as owning or leasing. To understand how CREM has developed over time and what external factors it is affected by (Elofsson, 2012)”.

## 2.2 Concluding Remark:

From the above literature review it’s found that:

- [1] The current change in the view from “we are not in the real estate business” to an approach that convert CRE into cash through strategies such as sale and leaseback, spin-off, disposal and acquisition is a big step forward in realizing the hidden and neglected CRE values.
- [2] CREM was used to streamline the operation of organization by using the space management techniques, selling and leasing out the property.
- [3] Sale and leaseback were used to reduce the short-term borrowings and same money was used to purchase the aircrafts which has increase their business.
- [4] As a strategic real estate resource, CREM supports organizational core businesses as an input of production for the organizations. CREM contributions move beyond physical contributions into intangible roles, including human resources and financial contributions.
- [5] External factors like competitive situation and globalization do affect a business all the way from corporate strategy to functional strategies. Therefore, it is important for companies to choose a suitable CRE strategy that is aligned with the business strategy already today. CRE strategies should consequently be company specific rather than industry specific. However, companies within the same industry with similar businesses are likely to be able to use the same strategy.

## 2.3 Scope of the present work

From above literature and review properties as a capital asset that can be managed and optimized to grow adding a significant financial contribution to the overall organization. CRM strategy revolves around either maximizing the value of current property portfolio, selecting desirable locations or even redeveloping obsolete property. Corporate real estate can add value by selecting locations for recruitment and business activities that attract customers, staff, investors and other stakeholders. In addition, the design of a building can support the branding and business values of the company. The most common Corporate Immobilize strategy is probably the reduction of costs. Cost reduction in any field naturally has the most immediate and direct impact on any organization's financial performance. In this respect, the most popular decisions concerning the operation of real estate relate to returns from outsourcing immovable services. Other methods companies might consider co-location of business units, occupation of green buildings and choice of location based on government incentives. Costs can be always reduced through negotiation of lower rates of real estate services or services, or by the quality and timing

of maintenance services in order to avoid expensive repairs and expenditure of capital. While all the above strategies can add value to a company, it is important that the decisions taken in corporate property management are directly associated with the business ' strategic goals at all levels. At the lowest possible level, the company real estate staff need to be familiar with the core business and to be able to understand how best to communicate their contribution to the organization.

### 3. METHODOLOGY

Food processing unit is looking for the expansion of their business for that they are looking for the land in respected micro market. But they are finding that buying a land in existing micro market is not feasible for them.

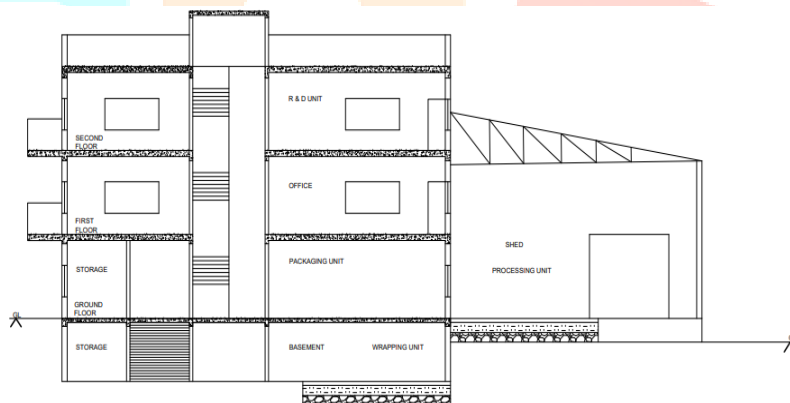
Therefore, we agreed to implement the corporate real estate asset management approach. The first approach we have here is to figure out all the hidden non-tangible properties that the organization owes. We note that there are several parcels of land with them, and one parcel of land is in front of the existing building. So, the next tactic utilized by us was to use the parcel of land in front of the existing building.

The next challenge was the development of a manufacturing unit in 24756.99 Sq. Ft of land space. The total land size needed for the building of a food processing plant was 42441 sq. ft. So, we had to suit all the machines, the R&D lab and the office in 24756 sq. ft.

We used the strategy to go vertical instead of going horizontal. For this all approvals were approved from the MIDC as the land belongs to MIDC Maharashtra Industrial Development Corporation). The plan was made by keeping in front all rules and regulation of MIDC.

The key tactic utilized by us in the proposal was to create a basement for a vertical building so that it could be used for storage purposes and for rapping machines. The design was designed in such a manner that the whole truck will go into the basement to load and unload the material. Hydraulic lift was built to carry the raw material to the basement. Above the basement there is packaging unit where the lightweight packaging machine will be installed. Side to the ground floor shed is constructed to install the heavy machines. Same shed will be constructed back side of the building where heavy machines will be installed and the height of this shed will be 24 ft. first floor and second floor will have office and R&D lab. Below image shows the section plan of food processing unit.

This was a unique idea given by us to a food processing unit. Further we explain how this strategy is feasible for the Food processing unit. For that the financial feasibility was done for the both horizontal and vertical method. The table 1 and table 2 show you the comparative analysis of both methods.



Estimated Cost for Horizontal Unit

Sr. No.	Item	Area (Sq. Ft)	Cost (Per Sq. Ft)	Estimated Cost/ New Land Parcel (Rs.)
1	Land Price	42441.96	231.48	9824464.901
2	Construction Cost	21220.98	905.87	19223449.15
3	Electrical Installation	-	-	2379128
4	Compound Wall & Site Development	-	-	1500000
	<b>Total</b>	-	-	<b>32927042.05</b>

Table 1 Estimated Cost of Horizontal Industrial Unit

Estimated Cost for Vertical Industrial Unit				
Sr. No.	Item	Area (Sq. Ft)	Cost (Per Sq. ft)	Estimated Value/ On old land (Rs.)
1	Land Price	24756.99	46.29	1146001.067
2	Basement Floor	4336.02	1099.6	4767887.592
3	Ground Floor Shed	8640.3	905.87	7826988.561
4	Ground Floor (Shed + Store)	1893.37	1099.6	2081949.652
5	First Floor (Office)	1893.37	1099.6	2081949.652
6	Second Floor (Lab)	1893.37	1099.6	2081949.652
7	Compound Wall & Site Development	-	-	1500000
8	Existing Structure	2564.55	499.99	1282249.355
9	Electrical Installation			2379128
	<b>Total</b>			<b>25148103.53</b>

Table 2 Estimated Cost of Vertical Industrial Unit

Table 1 and 2 clearly indicates that using CREM strategy company is saving Rs. 77,78,939/- by going vertical.

Also going further in this project, we also find the 2 more hidden assets by which the food processing unit can move further to take loan from the bank by keeping the two assets as mortgage or by doing LRD. We also find out the subsidy for the food processing unit which is given by the Government of India. To take the advantage of the subsidy 20% minimum loan should be taken from the banks then the food processing company will be eligible to take 35% loan amount as a subsidy.

The valuation of both assets where more than 5 Cr so bank was ready to give the loan of 4 Cr to the company to expand their business.

We also created project report for the bank. The table 3 shows you the detail project report.

Project Report for Bank		
Sr. No.	Items of Fixed Assets	Value (In Rs.)
1	Land Needed for Industrial Unit	Existing
2	Development of Land	-
3	Building Needed for Industrial Unit Under Construction	
	a) Amount Paid to the building material	17362653
	b) Amount Paid for wages and salaries etc. for building construction	4728072
	c) Architect's Fees	50000
4	Electrical Installation	
	a) Value paid for items at site	199761
	b) Advance and deposit paid	379367
5	Plant and Machinery	
	a) Value paid for items at site	35908455
	c) Loading, unloading, transportation, octroi duties, erection expenses	353278
	<b>Total Loan Required</b>	<b>58981586</b>
6	Share Capital	
	a) Promoters	13148561
	b) Public	-
7	Term Loan	
	a) SICOM Ltd.	-

	b) MSFC	-
	c)Bank	40200000
	d) Other	-
8	Central Government Subsidy (35% Loan amount. Creation / Expansion of Food Processing & Preservation Capacities (CEFPPC) Scheme)	14070000
9	Sale Tax Refund Loan	-
10	Unsecured loan/Deposit	8237230
11	Other Source	-
12	Creditors for supplier	-
	<b>Total</b>	<b>61585791</b>

*Table 3 Project Report*

#### 4.1 Conclusion

The paper outlines and concludes on the key points that, CREAM strategies can be incorporated in diverse sectors which are not a part of Real estate operations and the above factors plays a crucial role in the expansion and financing of Business operations (Kumbhar, 2020).

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