Using Reputation to Grow Corporate Value

Simon Cole, Brian Sturgess and Michael Brown

Key points

- Investors in UK Real Estate Investment Trusts (REITs) appear to be losing faith in traditional asset valuations as doubts about their accuracy and relevance have grown.
- Increasingly greater store as to investment potential is being placed in companies' corporate reputations defined as the combined thoughts, feelings and impressions of the business as an operating entity.
- Corporate reputations have driven the share price recovery of UK REITs to the point where they are currently accounting for 29% of the combined market capitalization; £7.3bn of shareholder value across the eight largest at the start of 2013.
- This paper demonstrates how reputation value analysis is providing practical help to communications managers looking to secure and grow the shareholder value of the assets in their charge.

The rise of the property company reputation asset

At the end of 2012,[1] the combined market capitalisation of seven of the largest FTSE 100 and 250 listed property companies classified as Real Estate Investment Trusts (REITs) amounted to £19.2 billion. This

[1] This represents the average period market capitalisation based on the share price of each company at its year-end reference date.

Simon Cole is the Founding Partner of Reputation Dividend (www.reputationdividend.com).

Brian Sturgess is the Managing Editor of *World Economics*.

Michael Brown is Professor of Corporate Reputation and Strategy at Birmingham City Business School.

represented a discount of around 18% to the combined net asset value of these companies based on the most recent reported results.

In the absence of transaction data, the property assets of these companies are regularly valued by professional surveyors, but doubts about the accuracy and relevance of the methods used have grown, especially in the fall-out from the global financial crisis. Appraisal valuations of commercial property assets are increasingly failing to provide the substance investors are looking for and, it is argued in this paper, the slack is being taken up by corporate reputations. In short, the collective impressions, thoughts and feelings of 'expert' observers that go to make up a company's corporate reputation are increasingly becoming a more reliable indicator of its ability to generate economic returns and thus the investment potential.

Appraisal valuations of commercial real estate fail to provide the substance investors want.

The analysis described below uses the techniques employed in calculating the economic impact of corporate reputation explained in Cole (2012) to demonstrate the extent to which that is happening. Furthermore, it shows how, based on such an understanding, companies can deploy reputation management more effectively in the drive for value generation.

The UK commercial property market

The commercial real estate sector comprises land and buildings where investment by companies and individuals is driven primarily by the lure of profits from income and capital gains. It is a differentiated asset class quite distinct from residential and agricultural property with several market segments[2] and a combined UK value estimated at £717 billion in 2011[3] (compared to, for example, the UK's residential sector housing stock valued at £4.3 trillion[4]). Many investment and property management companies operate in the real estate sector, but this study concentrates on the main investible category, the publicly quoted Real Estate Investment Trusts, or REITs.

[2] The main market segments are Office, Retail and Industrial, with some smaller markets such as leisure, hotels, student accommodation, storage, etc.
[3] Source: Property Industry Alliance Data Report July/August 2012.
[4] See Savills: http://www.savills.co.uk/_news/newsitem.aspx?intSitePageId=72418&intNewsSitePageId=118287-0&intNewsMonth=02&intNewsYear=2012.

REITs were originally created in the United States after 1960 to give investors the opportunity to invest in liquid, large-scale, diversified portfolios of income-producing real estate.[5] More than 20 countries around the world have now followed the US model, with the United Kingdom passing enabling legislation in 2006. In January 2007, nine property companies converted to REIT status, five of which were already constituents of the FTSE 100.[6] Since then a number of other companies have either converted to REIT status or listed as REITs and there are currently 27 in the UK[7] of various sizes, providing investors access to a normally illiquid, but potentially high-yielding, asset class. In addition to the benefits to shareholders the US experience shows that conversion to REIT status tends to enhance market value. In recent years not only have REIT stocks outperformed the market, but the shares of companies converting have outperformed up to and after the conversion process.[8]

Three criteria were used for including companies in this study of the UK market. First, that they were designated as REITs; second, that they were mainly focused on the commercial property sector; third, that they had net asset values in excess of £1 billion in 2011. Eight companies met these conditions, but one of them, Intu Properties,[9] was excluded because of its relatively short history as an independent entity.

Table 1 shows the appraised balance sheet market values of the UK real estate portfolios held by the seven REITs in 2011.[10]

The portfolios of the companies studied in this report are focused primarily on the UK commercial property market.[11] Only two, Hammerson and SEGRO, have diversified internationally to any material degree. Table 1 lists only the assessed market values of the British commercial assets of these two companies taken directly, or estimated, from their annual reports, and thus differs from the value of their total property portfolio. For example, 24.1% of Hammerson's property assets by value at the

[5] A REIT is a close-ended investment trust investing in property that, in return for tax advantages, must distribute 90% of taxable income to investors.

[6] British Land, Land Securities, Hammerson, Liberty International and Slough Estates.

[7] Information about the size of the REIT sector as at 3 July 2013 is provided by REITA, an initiative run by the British Property Federation. See http://www.bpf.org.uk/en/reita/reits/about_reits.php.

[8] See Changing Stripes, Barrons, 19 May 2012. Available online at: http://online.barrons.com/article/SB50001424053111904571704577406161684395748.html.

[9] Intu Properties, formerly known as Capital Shopping Centres, was part of a larger listed REIT Liberty International until it was demerged in 2010.

[10] The valuation data are taken from annual report and accounts, corresponding as closely as possible to the 2011 calendar year, with the total figure including property values generated by any joint ventures.

[11] British Land has made investments in Dublin.

Table 1: Seven largest UK REITs, 2011

REIT	Year end	UK commercial property value (£ million)	UK commercial property market (%)
Land Securities	31/03/2012	10,331	1.4
British Land	31/03/2012	10,065	1.4
Hammerson	31/12/2011	4,158	0.6
SEGRO	31/12/2011	3,519	0.5
Derwent London	31/12/2011	2,600	0.4
Great Portland Estates	31/03/2012	2,008	0.3
Shaftesbury	30/09/2011	1,679	0.2
Total	N/A	34,360	4.8

end of 2011 were located in France; and the industrial property group, SEGRO, owns assets in France, Poland, Germany and the Benelux countries, which, together, represent 31% of its portfolio. The value of investment properties listed in Table 1 excludes all of these non-UK commercial assets from the balance sheet totals.

In 2011, the seven REITs listed in Table 1 managed assets with a combined gross investment value of £34.4 billion, equivalent to 4.8% of the aggregate value of the UK commercial property market in that year. This aggregate figure underestimates the potential market impact of the larger REITs and their main rivals[12] since a high degree of geographical and market segmentation exists in commercial real estate.

Specialisation and differences in investment returns, together with the opportunities and risks across markets, has led the leading REITs to focus their investment strategies on particular sectors and geographical locations. For example, Derwent London, Great Portland Estates and Shaftesbury have invested only in London.

Market growth, value and cyclicality

From the perspective of equity investors in property, an important measure of company worth is net asset value (NAV) or shareholders' funds. This is the balance sheet estimate of the residual available to investors

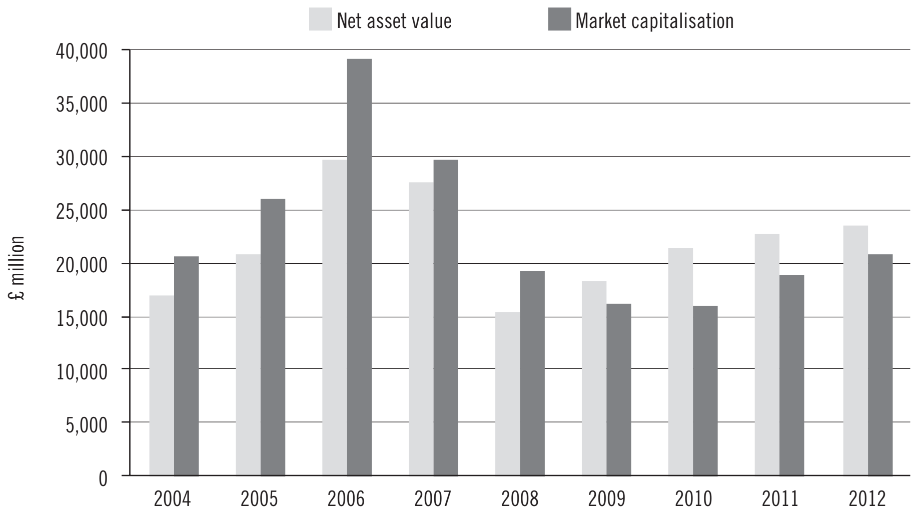
[12] In 2011, three non-REIT commercial rivals satisfied the condition of having over £1 billion in commercial property assets in the UK market. These were the Crown Estate, Cadogan and the Grosvenor Estate, with total assets valued at £11.2 billion invested in UK commercial real estate.

calculated after the claims of the providers of loan capital and other creditors have been deducted.

Notwithstanding the global financial crisis, the UK commercial property sector made progress over the last ten years. This is demonstrated in the movement in the value of the assets controlled by the seven REITs listed in Table 1. The group had a combined NAV of £23.4 billion in 2012 – 21% lower than the figure reached in the commercial market's peak in 2006 and before the global financial crisis impacted company balance sheets, but 39% greater than the total of £16.9 billion in 2004.

The cyclical pattern of the commercial property market is evident in Figure 1, which graphs the most recent combined NAV at the annual or interim stage of the group of companies against their average combined market capitalisation over the period.[13] The chart shows that whereas the REITs traded at an increasing premium to combined NAV up to the start of the financial crisis, from 2009 sentiment changed. Following the demise of Lehman Brothers at arguably the height of the crisis, the combined market value of the companies in this study traded at a discount despite

Figure 1: UK REITs combined value development 2004–12



[13] Market capitalisation data is an average based on the share price at the most recent balance sheet dates annual or interim ranging from 30 September 2012 to 31 March 2013.

a recovery in net asset values in the following years.[14] This recovery in shareholders' funds occurred as most of the REITs took action to repair their balance sheets through a combination of property sales, equity issues and debt repayment.

Setting aside the impact of leverage on NAVs the decade has seen a rapid rise in the certified value of the property portfolios of the REITs, a catastrophic fall in these values and a less dramatic, but still strong, rise in the context of the deep pessimism and pandemonium of four years ago. For example, the gross balance sheet asset value of the seven companies surveyed rose by 51% from 2004 to 2006, but fell by 40% over the next three years, before rising again steadily until 2012. For some companies, however, the scale of the adjustment was very large. Land Securities reported a revaluation deficit on its combined investment portfolio of £4.7 billion in the year ended 31 March 2009 after a deficit of £1.3 billion in 2008 in contrast to recording a revaluation surplus of £1.4 billion in 2007. The impact of these changes in valuation contributed significantly to Land Securities recording a loss before tax of £4.8 billion in 2009.

Part of the explanation for this see-saw pattern in asset values and the impact on earnings and cash flow lies in the imperfections in the valuation process itself and the asymmetric impact this has on the information used by investors. Property valuation is an evolving discipline and not an exact science, and the valuation of commercial assets is hampered by the absence of a large number of comparative transactions as in the residential market. Portfolio valuations are carried out by professional firms of chartered surveyors, and not only are revaluations, positive or negative, taken to the income statement, but they are used to calculate the property company's capital return, a performance indicator communicated to investors usually in comparison with the return on a benchmark portfolio such as those supplied by the Investment Property Databank's (IPD) database.[15] For example, in the year ended 31 March 2012, US-based property investment firm and surveyors CBRE[16] estimated that Great Portland Estates' portfolio including share of joint ventures was worth an additional £143.3 million on the year before producing an unrealised capital return of 9.2%.

[14] The London-focused REITs traded at a premium to net asset value.
[15] In 2012 the IPD database monitored 254 property funds with 11,276 properties and an assessed value of £134 billion. See http://www1.ipd.com/Pages/default.aspx.
[16] See http://www.cbre.co.uk/uk_en/about_cbre.

Like shareholder valuations of equities, property valuation techniques are forward looking and are based on an amalgam of historic data and projections where models are only as good as the often unreliable assumptions that underpin them. But, unlike equities and bonds, there is much less transaction data available and, since valuations have been used as estimates of real estate company performance since the 1960s, property valuations have become the core income stream of the estate surveying and valuation profession. Doubts about the underlying accuracy of professional property valuations were triggered by Hager and Lord (1985), who questioned the use of the IPD database as a performance measure of investment properties in the UK. Since then studies in the UK have tended to show contradictory results, with Matysiak and Wang (1995) and Hutchinson *et al.* (1995) finding that professional valuations were inaccurate and inconsistent, while Brown (1985), IPD/DJ (2004) and Mokrane (2002) suggest the opposite. An inspection of this literature reveals that much depends on the statistical methodology employed, but from the perspective of this study, the whiplash valuation changes of the last decade suggest that investors should place only limited trust in asset valuations carried out by professional advisers to the real estate companies. Instead, this analysis finds that an increasingly viable alternative for assessing performance in the commercial property sector can be found in the innovative techniques developed to assess the economic impact of a company's reputation – a too long neglected asset.

The economic impact of reputation is a viable alternative for assessing performance in the commercial property sector.

Shareholder value and the rise of the intangibles

The notion of intangible assets and their contribution to corporate value is nothing new; indeed, it has been debated for some time (Perrier 1991). Although it created controversy in certain quarters when it was first introduced, the discussion has moved on and the principles are now accepted widely by professionals including accounting authorities, financial analysts and even courts of law.

Initial thinking, as developed by the likes of brand consultants Interbrand in the 1990s, concentrated on what they argued was the economic consequence of the brand's impact on the customer decision to purchase. It was groundbreaking work that led to a step-change in the efficacy of brand management and helped to confirm the strategic role of the hitherto amorphous and indeed sometimes questionable property that is a 'brand'.

This newfound means to measure the financial value of brands soon caught on, but at the same time it exposed some serious shortcomings. The approach to analysing how brands create value provided important insight for managers of 'traditional' brands, i.e. where customers purchased goods or services, but it offered little help elsewhere. Specifically, it could not be applied to pure-play corporate brands or, indeed, investment vehicle brands such as REITs.

A new paradigm

The economic impact of the 'corporate brand', or more accurately the company reputation it frames, has been recognised for some time (Black & Carnes 2000). How it does so and measurements of the scale have become available only recently however. Unlike product or service brands, which create value through their ability to secure *customer* decisions (to purchase), corporate brands, i.e. the collected thoughts, feelings and impressions of the company as an operating business, create value by enhancing *investor* confidence.

This is particularly relevant to companies like REITs, where private individuals and professional institutions buy, sell or hold a stock on the basis of the economic returns they expect to generate from capital growth or from future dividends. Information, intelligence and insight is filtered through the stock of extant impressions that comprise the company's reputation to add to or detract from investors' confidence in the likelihood that the company will deliver. As a result the share price and associated market capitalisation is higher (or lower) than it would otherwise be by an amount that is in effect the value of the company's reputation.

The foundations of reputation measurement

One of the keys to understanding the role of corporate reputation and its growing influence on investor behaviour was the provision of an objective measure of the 'company brand'. This was found in the annual *Britain's Most Admired Companies* study (Brown & Turner 2008) and *Management Today* (December edition, 2004–2012). Unlike other studies, this work focuses on the corporate entity as an operating business, and polls the views of an 'expert' stakeholder audience in the shape of people who are likely to be cognisant of the underlying business rather than just consumers of its products or services. C-suite executives, i.e. board- or senior-level individuals, or 'chiefs' as in operating officer, financial officer, marketing officer, etc., are asked to rate their closest peers and competitors against a variety of reputational factors on a scale of 0–10 (where 0 = 'poor' and 10 = 'excellent'). Journalists and analysts are also asked to rate companies in relevant sectors. The views of this 'professional' audience are, as a whole, recognised to offer a good proxy for informed investor opinion.

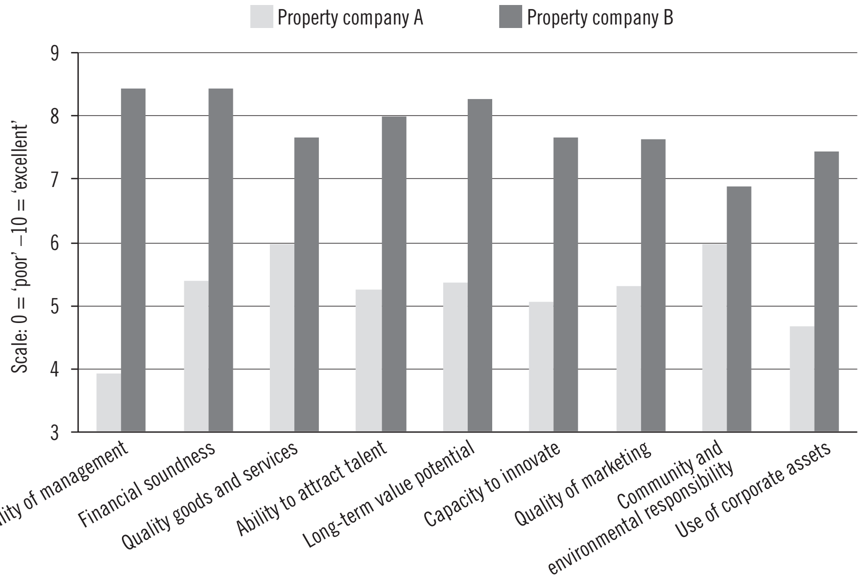
The Most Admired study offers an annual assessment of the standing and status of the corporate reputations of close to 240 of the UK's largest companies across a broad spread of business sectors. It commands a good degree of robustness and, because it has been operating for more than 20 years, a high degree of credibility within the business community. It measures perceptions of the companies on nine reputational factors once a year; three 'financial' characteristics and six 'softer' ones relating to aspects of the companies' management and operation.[17]

Crucially, and for the purpose of understanding the impact of reputation, the Most Admired study is highly discriminating between companies and over time, as the following examples show.

- *Discriminating between companies:* the property company with the weakest corporate reputation in 2012 registered a strength of 5.2 (out of the maximum of 10), some 33% lower than the company with the strongest reputation, which achieved a rating of 7.8. Within that, as illustrated by Figure 2, the 'weaker' company (property company A) was recognised as standing out for *product quality* and its *community and environmental responsibility* credentials. By contrast, the 'stronger' company (property company B), stood out for its *leadership qualities*, its *financial soundness*, *long term value potential* and *ability to attract talent*.

[17] These are Quality of management, Quality of goods and services, Capacity to innovate, Quality of marketing, Ability to attract, develop and retain talent, Community and environmental responsibility, Financial soundness, Use of corporate assets, and Value as a long-term investment.

Figure 2: Property company reputation ratings compared*

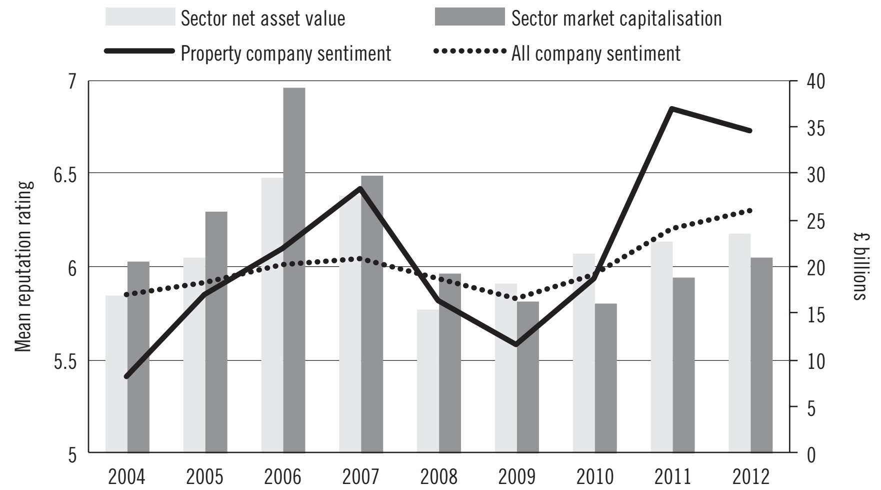


* Anonymised for sake of confidentiality

- *Discriminating over time:* consolidating the findings for the REITs comprising the commercial property sector each year since 2004 and comparing them to a similar 'leading company group' (*c*.240 companies) revealed how perceptions evolved through the last decade and, helpfully, the global financial crisis. As Figure 3 shows, the property sector peaks were higher and the troughs deeper. This demonstrates that property company reputations are amongst the more volatile, suggesting either less capacity to manage the assets or a greater predisposition to external influences.

Most revealingly, perhaps, the trend in property company sentiment since 2004 pointed to the breakdown in the hitherto close relationship between NAV and share price. In the run-up to the start of the downturn in the second half of 2007, rising NAVs appeared to be playing a significant part in driving the market's judgement of value across the sector. Sentiment, however, was lagging the rise in market value and it wasn't until well into 2008 that the exuberance for NAV began to dissipate. In 2008 NAVs

Figure 3: Reputation and value development



plunged, primarily as a result of sharp downgrades in the assessed value of property portfolios, while absolute debt levels remained high. After that, NAVs began to increase (albeit off what many might argue was a more realistic base) but share prices were not so quick to follow. It seemed as though the markets had become inured to the substance net asset valuations 'promised' and so less responsive to what were to some extent 'self-certified' estimates of underlying value.

It was clear from the analysis that it wasn't until impressions of companies' inherent strengths increased markedly in 2011 that share prices across the sector made any significant gains. This suggested that, following the turmoil of the crash and the subsequent downturn, investors started to look harder at the wider drivers of value and respond increasingly to the softer factors that add up to the individual companies corporate reputations.

Reputation value analysis

Econometric analysis of the financial performance of many of the largest companies in the UK and US since 2006 quantified the direct contribution of reputation to shareholder value, and showed how it changed from year to year in response to evolving investor interests. This was described in Cole (2012). The analysis revealed the consequence of the strengths and weaknesses of individual company reputations, and provided through that a means to more effective reputation management.

The analysis modelled investor behaviour with the aim of explaining the observed differences between companies' market capitalisations in terms of a number of different factors. It 'tested' a wide variety of financial and reputational variables that may or may not have influenced the investment community in order to, first, isolate the ones that mattered and, second, calculate the extent of their influence. The financial metrics included a combination of reported and consensus forecasts for income, balance sheet data and financial ratios, such as EBITDA, dividend yields, betas, etc. The reputational data were drawn from the *Britain's Most Admired* study described above. All the data were quantitative and empirically sourced and so well suited to statistically based analysis.

The model was recalibrated annually using contemporary data sets. Each round of analysis started with the wide set of variables in order to accommodate any changes in investor interest, and was whittled down to a resultant set of explanatories. Each iteration of the model identified the same core set of explanatory variables both in the UK and in the parallel analysis of US companies. The main differences between the models were in the individual components of reputation found to be exerting influence at the time. These changed in both presence and impact as investor interest evolved through the economic cycle, and investor interests moved from growth to defensive to recovery characteristics.

The output was a statistically robust set of metrics for each company that included:

- *Reputation Contribution*: the proportion of the company's market value attributable to its reputation.
- *Reputation Risk Profile*: an explanation of how reputation value is distributed; the amount of reputation value residing in each component part of the company's reputation.
- *Reputation Leverage*: the extent of the return that can be expected from an increase in reputation strength; overall and for each component of reputation.
- *Reputation Growth Priorities*: the relative potential of individual messages that corporate communications and investor relations executives could pursue to grow shareholder value.

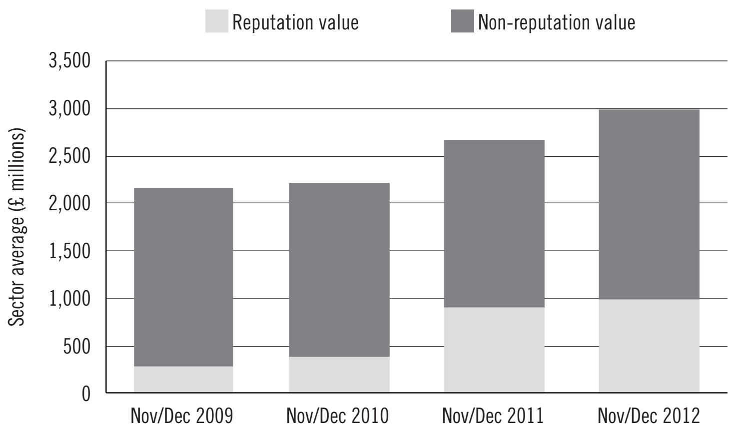
Reputation as a driver of company value

Analysis of stock market performance of the commercial REITs in the four years following the demise of Lehman Brothers in September 2008 confirmed the growing role of corporate reputation in underpinning shareholder value. Figure 4 shows that although the average Reputation Contribution in the seven companies analysed were little changed in 2009 and 2010, it went up in a marked and apparently sustainable manner in 2011. Indeed, from a position where it was well below the average in the FTSE100 (and only just above that of the FTSE250) it grew to the point where by 2011 it compared much more favourably. Overall, the growth in Reputation Contribution corresponded with the increases in market capitalisation since 2009 and only began to slow in 2012 as the effect of more robust financial performances began to show through.

The performance of real estate trusts since September 2008 confirms the role of corporate reputation in shareholder value.

The uplift in Reputation Contribution in 2011 coincided with a consolidation of the earnings recovery that started a year earlier and did not appear to be affected by the fall in dividend yields. All the signs were that stronger, better-structured reputations were instilling confidence in

Figure 4: Value development in the UK property sector



the REITs. Although some of the momentum in earnings growth was lost in 2012, a combination of improved dividend yields and rises in shareholder equity (albeit with the growth in liabilities marginally out-pacing assets) delivered a second year of value increases. The data are shown in Table 2.

The results provided strong evidence as to the growing role of corporate reputation since 2009. Although NAVs and Reputation Contributions both increased in 2010, market capitalisations remained broadly flat. The higher NAVs did not translate into share price rises, but improvements in the wider measure of reputation indicated that they were accounting for significantly larger proportions of shareholder value.

The investor confidence that the reputations were underpinning was starting to produce increases in share price. NAVs were broadly unchanged in the following year, while reputations improved for the second year running and the average market capitalisation across the sector increased by 21%. Overall, the rises in company value since 2009 were more closely related to the changing circumstances of corporate reputations than the

Table 2: Key property sector metrics post-Lehmans

Property company sector* average	2012				2011			2010		2009
	At Nov	Change vs 2011	Change vs 2010	Change vs 2009	At Nov	Change vs 2010	Change vs 2009	At Nov	Change vs 2009	At Nov
Market capitalisation (£m)	2,983	12%	35%	38%	2,671	21%	23%	2,215	2.2%	2,167
Net Asset Value	23.4	3%	9%	28%	22.7	6%	24%	21.5	17.5%	18.3
EBITDA (£m)	222	–6%	5%	155%	236	12%	12%	211	143%	87
EBITDA FY1 forecast (£m)	221	–7%	–3%	50%	237	4%	4%	227	53.7%	148
Dividend yield	6.2%	78%	64%	2%	3.5%	–8%	–8%	3.8%	–37.8%	6.1%
Shareholder's equity (£m)	3,228	5%	27%	57%	3,076	21%	21%	2,535	23.7%	2,050
Mean reputation strength	7.00	–1%	16%	21%	7.09	18%	18%	6.03	4.0%	5.79
Reputation contribution (%)	33%				34%			17%		13%

* British Land, Derwent London, Great Portland Estates, Hammerson, Land Securities, Segro, Shaftesbury

seemingly less creditable property asset valuations, and appear to be emerging as a more effective driver of value growth.

The force

Analysis of the dynamics behind the trends indicated that the growing impact of corporate reputation in the property sector wasn't simply a function of increases in reputation strength. Results from the wider 'all company' tracking demonstrated that investors became steadily more sensitive to reputation as a whole in the aftermath of the wider market crash in 2008. For example, in 2009 a reputation strength of 6 (out of a maximum of 10) would have delivered an economic impact, i.e. Reputation Contribution, of 18% on average, but by 2012 it had increased to 22%. Similarly, the average Reputation Contribution delivered by a reputation strength of 7 increased from 32% to 38% over the period. The driving force behind the growing impact of reputation was the combination of the 'pull' of rising investor sensitivity and the 'push' of more effective reputation management. Investors became more interested in the softer qualities of corporate reputation, and companies succeeded in building stronger assets.

The dark side

Individual companies may well take some encouragement from recent trends, but they also need to guard against complacency. The small decline in property company Reputation Contributions in 2012 may have been a correction following the strong performance in 2011, but it was out of sync with the market as a whole and it limited property company value growth. Indeed, had changes in their Reputation Contributions matched the trend across the FTSE350 as a whole and risen by a similar 4% points, the sector would have started 2013 with a combined market capitalisation that was some 6% higher.

Corporate reputations can be a major source of shareholder value; however, they can also be a drain to the extent that they can destroy value. As with any investment, the value can rise or fall, but unlike many, the direction is perhaps more squarely in the hands of the individual reputation owners.

Active reputation management

One of the most important consequences of the growing impact of corporate reputation has been confirmation of the need to ensure that it is suitably managed. Corporate reputations are not 'fixed', and will atrophy or become dangerously misaligned if they're not supported. As such, they represent both value at risk (VAR) and potential with everything that implies for directing communications to secure and grow the assets based on the specific circumstances of the reputation in question.

Step 1: Securing value

The first task for companies with any material reputation value is to ensure that it is secured. Reputation value isn't delivered uniformly but, rather, according to a combination of the strength of perceptions of individual reputational characteristics and the nature of the 'interest' in the investment community. This defines priorities for messaging and the framework for the communications needed to deliver them.

Reputation Contributions for the seven REITs in this analysis ranged from as high as 41% to as low as 5% at the beginning of 2013. Across the sector, that equated to an average of 33% or £1.024 million of shareholder value that can be traced back to the individual components of each company's reputation. As Figure 5 shows, impressions of companies' *capacity to innovate* were creating investor confidence to the extent that they were contributing *c.*8% of the reputation value on average. By comparison, perceptions of companies' *ability to attract talent* were contributing twice that at nearly 16%. The remaining headline components of reputation each contributed somewhere in between.

As a group, UK property companies exhibited a markedly different value profile to those companies commanding the most valuable reputations in the FTSE100. They have a greater proportion of their value tied to perceptions of their *ability to attract talent* and their *community and environmental* credentials, and significantly less in perceptions of their *capacity to innovate* and the *quality of their management*. This suggests that UK property companies are succeeding in observing their *community and environmental* obligations, and are attracting new recruits but leaving 'concerns' surrounding perceptions of their *leadership* and *ability to innovate*. While some of the differences may be sector issues beyond

Figure 5: Sector reputation value distribution

individual company control, others are arguably addressable and open to remedial action.

In order to take full advantage of the differences, communications managers need to adapt messaging to their particular reputational circumstances. For example, perceptions of a company's *value as a long-term investment* are currently contributing the second largest proportion of reputation value across the sector. However, as Figure 6 shows, the degree to which it is producing reputation value for individual companies varies from as little as 7% in the case of Segro to as much as 16% for Shaftesbury.

Collectively, the individual contributions constitute the Reputation Risk Profile of each company and provide the first important clues as to where the individual messages of each company's communications need to be directed.

Step 2: Realising the value growth potential

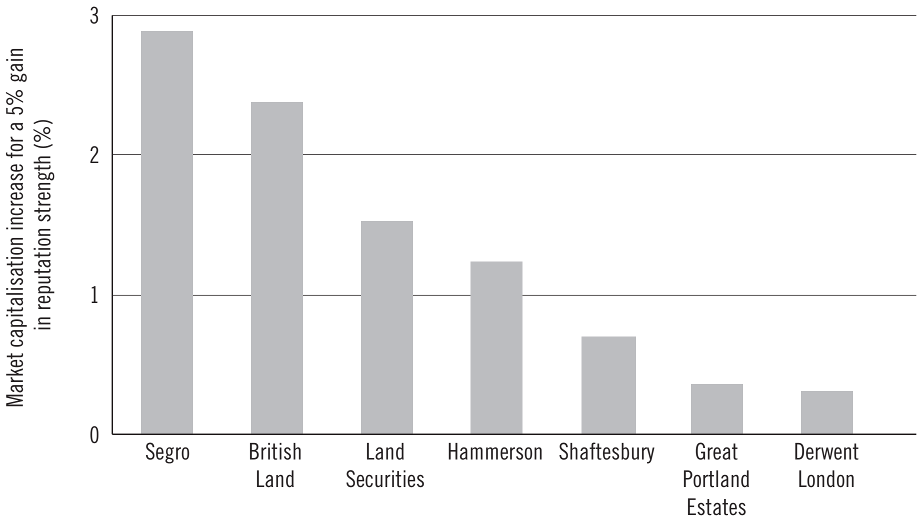
Having ensured that communications are delivering the messages required to secure value extant, reputation managers can turn their attention to leveraging their assets for value growth. As with value created, the potential for return on investment varies from company to company depending on the status and standing of the reputation at the time. The uplift for a 5%

Figure 6: Individual company value contributions from perceptions of 'long-term investment potential'

increase in the reputation strength of the REITs in the study ranged from 0.5% to their market capitalization to nearly 3% in 2013.

Figure 7 shows that Segro had the greatest potential to grow shareholder value, where such a 5% gain in reputation strength would be likely to produce an increase in their market capitalisation of close to £50 million

Figure 7: Reputation leverage

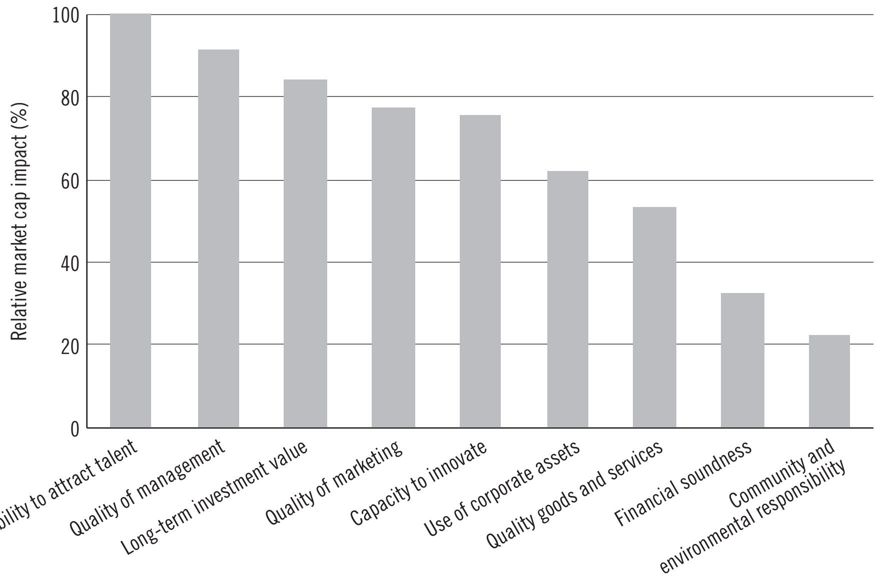


(as at January 2013). By contrast a similar increase in the strength of Derwent's reputation would have delivered a market capitalisation uplift of some £6 million – considerably less though arguably still a good return on reputation investment.

Understanding the uplift in company value likely for any given improvement in reputation strength is, however, only part of the story. In order that reputation managers can deploy their communications efficiently they need to know the likely returns from strengthening different components of reputation. Investor interest at the start of 2013 was such that improvements to perceptions of a company's *ability to attract talent* would, across the sector as a whole, produce proportionately greater returns in market capitalisation growth than any other factor (see Figure 8). Indeed, a comparable increase in the strength of perceptions of the company's *quality of management* would produce 9% less uplift and 16% less for a similar increase in perceptions of the company's *long-term investment value*. The least productive reputation factor was *community and environmental responsibility* where a comparable improvement would generate 78% less uplift.

Again, as with the Reputation Risk Profile, the leverage opportunity can vary considerably from one company to another depending on the

Figure 8: Reputation growth potential



structure of its reputation asset, and individual messaging strategies need to be constructed accordingly.

Implementing a value-based communications strategy

In light of the growing importance of corporate reputation and the apparent failure of metrics such as surveyor-assessed valuations, the need for effective reputation management is greater than ever before. The days when reputation managers could rely on gut feel and instinct have gone, and their charges are quite rightly being recognised as the strategic assets they are. Reputation value analysis provides an objective basis to balance the need to support value extant with leverage opportunities as a means to optimise shareholder value potential in a profitable and enduring way.

Figure 9, based on one of the REITs in the study (anonymised for the sake of confidentiality), demonstrates how a thorough understanding of the location and drivers of reputation value generation provide practical support in directing messaging requirements. In this example the individual messaging priorities – highlighted in grey – can be summed up as follows.

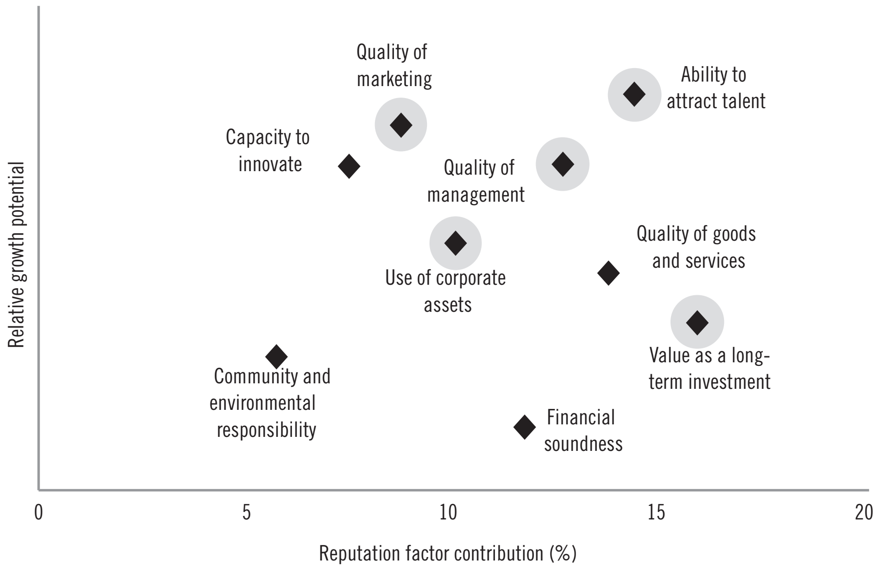
- *Value as a long-term investment*: perceptions of this are already working well for this company and are therefore in need of being underpinned to secure the value delivered; this, however, is likely to come from a combination of direct claim and inference following improved perceptions on other value drivers which, as such, should be higher priorities for communications.

- *Ability to attract talent*: already delivering well for the company but also a major source of value growth.

- *Quality of management*: the company's leadership already enjoys a good degree of visibility, however the investment community would respond favourably to that being developed further.

- *Quality of marketing* and *use of corporate assets:* these are emerging as important growth characteristics. Investors were showing signs of some increased optimism at the start of 2013 and as a result 'rewarding'

Figure 9: Messaging opportunity map



companies they see as better prepared for the upturn; this includes companies that are investing in the likes of their marketing as well as working their assets to drive margins while revenue growth remains hard.

Conclusions

Corporate reputations are playing an ever greater role in the value of UK REITs. They underpinned the share price recovery following the collapse of Lehman Brothers in 2008 and are increasingly influencing investor sentiment as traditional metrics such a surveyors' asset valuations are found wanting. This has significant implications for how REITs should be managing their reputations. Shareholder value will dissipate without carefully directed support through corporate communications and investor relations. Value potential will not be fulfilled without targeting the critical value-driving dimensions of the reputation. Reputation Value Analysis offers a practical means for reputation owners to ensure that the messaging they're delivering is optimal in both securing and growing the economic value of their reputation assets.

References

Black, E.L. & Carnes T.A. (2000) The market value of corporate reputation. *Corporate Reputation Review*, **3**, 1, pp. 31–42.

Brown, G. (1985) Property investment and performance measurement: a reply. *Journal of Valuation*, **4**, pp. 33–44.

Brown, M. & Turner, P. (2008) *The Admirable Company*. London: Profile Books.

Cole, S. (2012) The impact of reputation on market value. *World Economics*, **13**, 3, pp. 47–68.

Hager, D. & Lord, D. (1985) *The Property Market, Property Valuations and Property Performance Measurement*. London: Institute of Actuaries.

Hutchison, N., Macgregor, B. & Nanthakumaran, N. (1995) Variations in the capital valuations of UK commercial property: do valuers get it right? *Proceedings of the RICS 1995 Cutting Edge Conference*, Aberdeen, September.

IPD/DJ (2004) *The Variance in Valuations 2004 Update*. London: Drivers Jonas.

Matysiak, G. & Wang, P. (1995) Commercial property market prices and valuations: analysing the correspondence. *Journal of Property Research*, **12**, 3, pp. 181–202.

Mokrane, M. (2002) Valuations: standards, accuracy and consistency. *Proceedings of the IPD European Property Strategies Conference*, 20.

Perrier, R. (ed.) (1991) *Brand Valuation* (3rd edn). London: Premier Books.