

**External uncertainty as a
driver of structural change
in real estate decision
factors**

**P5 presentation by Sybren Geldof
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What happened during the last 10 years?

2007

GLOBAL
CREDIT
CRUNCH

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EUROPEAN
DEBT CRISIS

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2012

ARABIC
SPRING

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UNCERTAINTY

“Echo of the 30’s”

- Prins Charles (2016)

“Disastrous 2017”

- De Volkskrant (2016)

What is happening now?

“Businesses must be ready to deal with future eurozone shocks”

- PwC (2016)

What is happening now?





CONTINUING UNCERTAINTY



LOOKING BACK

1.

*“The real properties of business – the places and spaces in which a business operates – are derivative of old organization thinking, which is **increasingly challenged by the new economy**”*

(Roulac, 2001)

2.

*“Earlier economic problems caused [...] **corporate real estate management to change**”*

(Krumm, Dewulf and De Jonge, 1999)

3.

*“There is a significant undercurrent of caution across Europe as a result of **geopolitical issues, political uncertainty and economic decline** elsewhere, all of which could escalate and impact on **real estate**”*

(PwC, 2016)



HYPOTHESIS

Expectations:

- (Macro-)economic environment was and is very uncertain
- Political environment was and is very uncertain
- Both forms of uncertainty create a very uncertain external climate for companies
- Companies respond to both forms of uncertainty
- Companies changed their accommodation decision-making, due to uncertainty

Real estate accommodation decision-making has changed due to external uncertainty, caused by (macro-)economic and political volatility, during the last decade



RESEARCH QUESTION

To what extent does external uncertainty change the decision factors for accommodation of multinational corporations?

- What criteria are leading in accommodation decision-making?
- Have accommodation criteria changed between 2007 and 2017?
- Can this change be regarded as structural?
- What is the role of uncertainty in this structural change?



CONTENT

1. Methodology
2. Theoretical framework
3. Data collection and interpretation
4. Discussion and conclusions
5. Recommendations



METHODOLOGY

Research method

- Empirical, focus on understanding
- Testing hypothesis
- Evaluating hypothesis
- New knowledge

Interviews

- 5 multinational companies

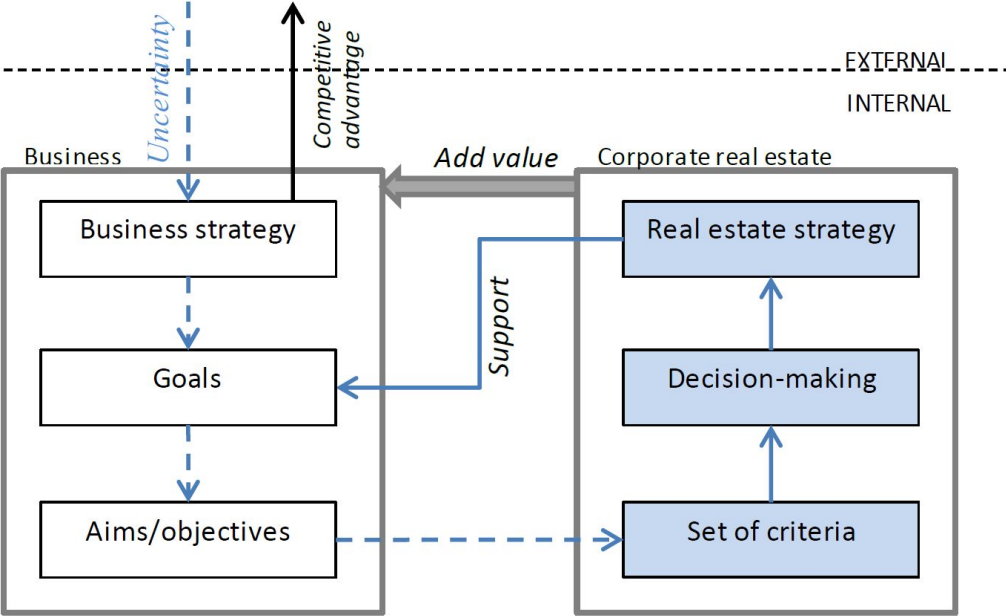
Time frame

- 2007-2017 → comparison



METHODOLOGY

Research scope



METHODOLOGY

Interviews

- 5 semi-structured interviews
- 5 (multi)national corporations
- Same interview protocol

Question topics

- Alternatives to choose from in accommodation project
- Used criteria in accommodation decision-making
- Weighing of criteria
- Relative rating of criteria on each alternative
- All for 2007 and 2017



METHODOLOGY

Verification of data

- Insert data in Tetra
- Reconstruct decision-making process
- Check if stated outcome = modelled outcome
- If true, the stated decision-making process is a reflection of reality and therefore relevant



THEORETICAL FRAMEWORK

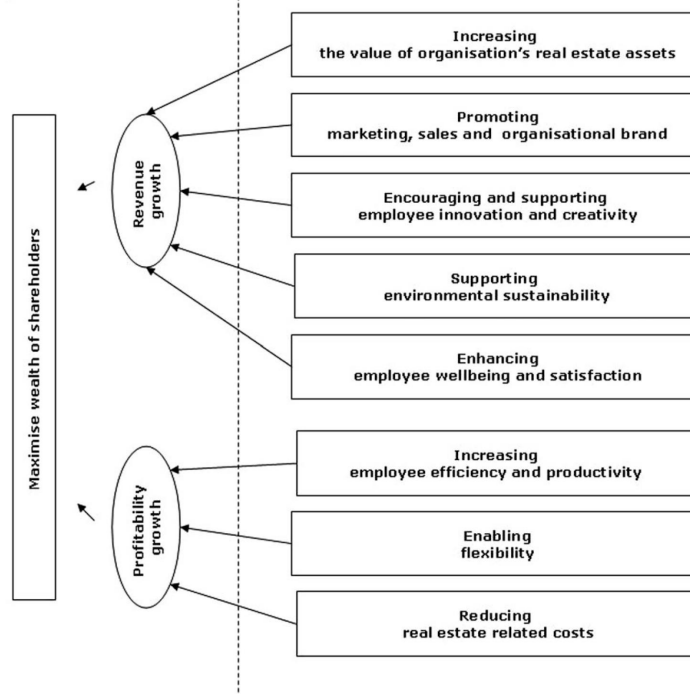
- Corporate Real Estate Management
- Criteria in CREM
- Decision-making
- Uncertainty
- Reponse to uncertainty



THEORETICAL FRAMEWORK

Corporate Real Estate Management (CREM)

- Eight pillars of CREM
- Used for organising criteria
- Gibler & Lindholm (2012)



THEORETICAL FRAMEWORK

Criteria from literature

- Literature research
- 275 different criteria found
- Organised among 8 pillars of Gibler & Lindholm (2012)

Most remarkable (preliminary) changes from literature

1. A big emphasis can be seen on the wellbeing and satisfaction of employees in both time periods.
After 2007, however, the share of employee satisfaction became even bigger
2. Reducing real estate costs shows a big emphasis as well, although in decreased after 2007



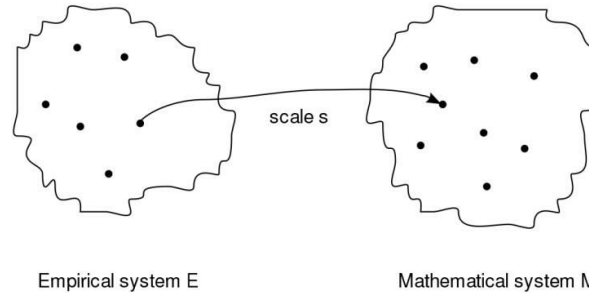
THEORETICAL FRAMEWORK

Decision-making

- Need to reconstruct decision-making process
- Use existing alternatives to check validity of data

Preference measurement

- *"We choose objects that are preferred"*
- Model *preference* in a mathematical system
 - Use proper scale
- Multi Criteria Decision-making Approaches (MCDA)
 - Preference Function Modelling (PFM) checks existing alternatives
 - Uses proper scales



THEORETICAL FRAMEWORK

Uncertainty

- The lack of information
- The incompleteness of information
- A process with unknown result
- Resulting space in a constrained field
- The difference between expectation and reality

Categories of uncertainty (trends and events)

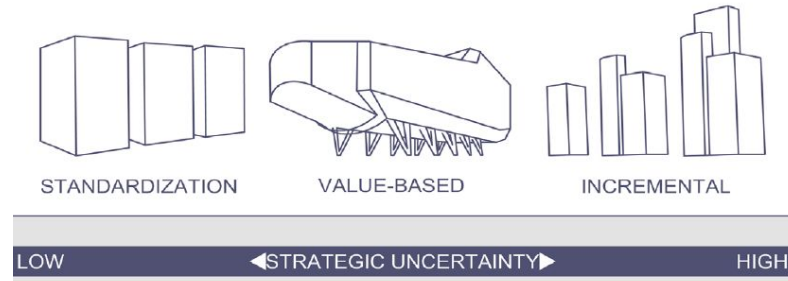
- (Macro-)economic uncertainty
- Political uncertainty
- Demographic uncertainty
- Technological uncertainty
- Environmental uncertainty



THEORETICAL FRAMEWORK

Response to uncertainty

- Strategies in strategic uncertain environment
 - Expected: Incremental strategy
1. Space is acquired in bits and pieces over time
 2. Delay major commitments until either better information or a clearer vision is available
 3. The primary concern of the company is to meet the physical requirements of the work to be done
 4. Rarely put much emphasis on employee amenities or visual aesthetics"
- Singer (2005); based on O'Mara (1999)



DATA COLLECTION AND INTERPRETATION

Interviews

- 5 companies
- Multinationals
- CRE manager, employed in both time periods
- Same interview protocol
- Set-up of tables 2007 & 2017
 - Alternative accommodation options
 - Used criteria
 - Weighing of criteria
 - Rating of criteria on alternatives



DATA COLLECTION AND INTERPRETATION

Interviews

- Reconstruction and verification in Tetra
- Example company 2:

	2006	Weighing	Building 1	Building 2	Building 3	Building 4	Stay (0-option)
Costs		20%	20	20	40	100	0
Distance personel		15%	0	20	10	100	0
Distance business partners		40%	70	100	70	0	70
Distance tenants		5%	0	30	10	100	0
Representation (w/o sustainability)		10%	50	100	10	0	50
Flexibility in space		10%	30	60	60	100	0
Score			39	68	45	50	30



DATA COLLECTION AND INTERPRETATION

Combining data

Topics	% counted around 2007	% counted around 2017
Reducing real estate related costs	35%	17%
Increasing employee/organisation's efficiency and productivity	35%	21%
Promoting market, sales and organisational brand	19%	24%
Enabling flexibility	8%	7%
Increasing value of organisation's real estate assets	4%	2%
Enhancing employee wellbeing and satisfaction	0%	21%
Encouraging and support employee innovation and creativity	0%	0%
Supporting environmental sustainability	0%	7%

Topics	% of weighing in 2007	% of weighing in 2017
Promoting market, sales and organisational brand	11%	14%
Increasing employee/organisation's efficiency and productivity	40%	36%
Reducing real estate related costs	38%	20%
Enabling flexibility	6%	3%
Increasing value of organisation's real estate assets	5%	4%
Enhancing employee wellbeing and satisfaction	0%	18%
Supporting environmental sustainability	0%	5%
Encouraging and support employee innovation and creativity	0%	0%



DATA COLLECTION AND INTERPRETATION

Identifying changes

1. The variety of accommodation criteria became bigger
2. Cost-criteria showed a drop after 2007
3. Employee satisfaction is suddenly mentioned after 2007
4. Branding shows an increase in count
5. Variety of weighing division became bigger
6. Practical criteria show drop in weighing
7. Employee satisfaction suddenly increases in weighing after 2007
8. Branding shows an increase in importance



DISCUSSION AND CONCLUSIONS

Covered by majority of companies?

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DISCUSSION AND CONCLUSIONS

Covered by majority of companies?

1. The variety of accommodation criteria became bigger ✓
2. Cost-criteria showed a drop after 2007 X
3. Employee satisfaction is suddenly mentioned after 2007 ✓
4. Branding shows an increase in count ✓
5. Variety of weighing division became bigger ✓
6. Practical criteria show drop in weighing ✓
7. Employee satisfaction suddenly increases in weighing after 2007 ✓
8. Branding shows an increase in importance ✓



DISCUSSION AND CONCLUSIONS

Changes summarized over time

- Greater criteria *variety*
- Big emphasis on *employee wellbeing*
- Big emphasis on *image and branding*
- Less emphasis on *practical criteria* (costs, efficiency)



DISCUSSION AND CONCLUSIONS

Relation to external uncertainty

- (Macro-)economic uncertainty
 - Financial crisis
 - Flexible leases
 - Landlord compliance check
 - Image and branding → competitive advantage
- Political uncertainty
 - ?
 - → Location choice
- Demographic uncertainty
- Technological uncertainty
- Environmental uncertainty



DISCUSSION AND CONCLUSIONS

Relation to external uncertainty

- Expectation:  +  = 
- Testing:  +  = 
- Evaluation:  = 

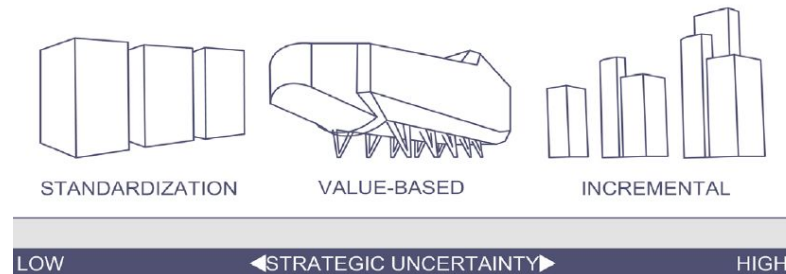


DISCUSSION AND CONCLUSIONS

External climate: revised

- Financial crisis was mostly mentioned
- Ended in 2014
- Upcoming economy
- Direction and ending point still uncertain, but less than expected

- External climate: not *severe uncertainty* but *moderate uncertainty*
- → No incremental strategy, but *value-based*



DISCUSSION AND CONCLUSIONS

Value-based strategy

- “Is proactive about using the inherent power of the **physical setting to symbolize values** and influence behaviour
- Embraces and utilizes the setting’s **communicative powers** to the organization’s advantage
- Considers the company’s **relationship with its customers, employees and the community**”
- (Singer, 2005)

→ Aligns with the focus on *employee wellbeing* and the focus on *image and branding*



DISCUSSION AND CONCLUSIONS

Employee wellbeing and satisfaction

- Focus on amenities, user input, pleasant workspaces
- Why?
- Not directly related to external environment

Origin

- Societal change → not bound to one company for 25 years
- Companies have to follow → competitive environment
- Upcoming economy → *claim* position



DISCUSSION AND CONCLUSIONS

Hypothesis

Real estate accommodation decision-making has changed due to external uncertainty, caused by (macro-)economic and political volatility, during the last decade.

- Economic, not political
 - More cautious, lessons learned, seek flexibility
 - Claim position and staff in economic upturn
 - CREM improved
- But also societal change
 - Needs to be followed to stay competitive advantageous in economic upturn



RECOMMENDATIONS

1. More companies in future: chance of generalisation
2. Investigate again with another sample that is currently not included: check for same outcomes
3. Single sector investigation: more specific conclusions, but needs to be seen separate from this
4. Only financial crisis: investigate time period 2011, exclude other influences
5. After generalisation, a model can guide companies based on the general lessons learned
6. Location choice should be investigated to find the actual political influences
7. If distortion of data is expected, focus on double checks, transparency, documentation etc. in future
8. If strength of correlation is needed, focus on the transfer into numbers to investigate statistically
9. Learn about economic upturn as a source of uncertainty: new starting point of research





QUESTIONS