An investigation of the operation of corporate real estate decision-making

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An Investigation of the Operation of Corporate Real Estate Decision-Making

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Introduction

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Example of a MR

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Introduction

Research into CRE decision-making is limited. What there is looks at:

- Acquisition process (Haynes & Nunnington, 2011)
- Property acquisition (Greenhalgh, 2008)
- Location choice (Rothe et al, 2015)
- Lease versus Own (Barkham & Park, 2011)
- Alignment (Gibler & Lindholm, 2012)
- Link between change in the business environment & the CRE portfolio (Cooke et al, 2019)

However, the overall CRE decision-making process has not been examined.

This research aims to examine the ‘black box’ of CRE decision-making.
Methodology

- Decisions require an evaluation process
- Previous experience provide choice preferences
- Individuals construct a mental map, a Mental Representation (MR)
- Causal Network Elicitation Technique (CNET) uses semi-structured interviews to determine preferences using Decision Networks, an extension of Bayesian Belief Network methodology.
- Scenario set for the Corporate Real Estate Managers is on the realignment of a portfolio:

The business environment in which your company operates has changed leading to the adoption of a new business strategy. Along with the longer-term trend to use space more efficiently there is a need to significantly reduce the CRE commitment, both square metres and annual cost, in the short term. Consequently, the leased CRE portfolio needs to be realigned to meet these new requirements.
Methodology
Mental Representation: Components of a Decision Problem

(Arentze et al. 2008, Fig. 1, p. 848)

Cooke et al. 2019: Corporate Real Estate Decision Making
Classification of Decision Problem Variables and Directions of Causal Relationships

Figure 3 Adapted from Arentze et al 2008 (p852)
Methodology

Terminology

• Decision variables – The options chosen (e.g. surrender a lease)
• Situational variable – External factors outside the control of the decision-maker (e.g. the property market)
• Attribute variable – An observable impact of the decision made (e.g. reduced rent commitment)
• Benefit variable – For each attribute there is a benefit, an ‘end value’ (e.g. improved profitability of the company)
• Utility Weights – assesses the importance of the individual benefits

Current Position

• 9 interviews held and transcribed
• Decision Networks being created for each
• Utility weights to be obtained
• Composite Decision Network to be created
Interviewee 1

- Lease Break
- Lease Early
- Disposal Seller
- Disposal Assign
- Surrender
- Sign New

- Expense
- Risk Analysis
- Capital Suite
- Business Results
- P&L
- Additional Cost
- Contingent Liability
- Disposal Risk
- Legal Liability
- Tax Impact
- Operating Liability
- Business Accounting
- Contractors
- Lease Accounting Impact

- Business Efficiency
- Systems
- Property
- Stakeholders
- Shareholders of Company
- Operational Benefits
- Work/Life Balance
- Staff Wellbeing
- Better Working Environment
- Better Operating Position
- More Efficient Management

- Equity
- Utility
- Utility
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Cooke et al 2019: Corporate Real Estate Decision Making
Early Conclusions

- Consistency of responses across property sectors
- CRE strategy flows from business strategy, not vice versa:
  
  "Corporate real estate teams and people who operate in that space, they are not decision makers they are enablers. They are an enabling function that is all they ever are and ever will be."

- CRE impact seen through tactical approach to strategy implementation
- Key considerations identified for CRE strategy
  - Risk, in particular risk mitigation
  - Accounting regulations, impact of change yet to be fully seen
  - Consequences of any action for P&L and Balance Sheet
  - The factors that operate on a CREM’s decision-making process are a lot more complicated than simply an increase in Shareholder Value.
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