NOW HIRING

WANTED: USER OF TOMORROW FOR SPACE OF THE FUTURE

A management decision support system for the value-add and core-plus office investor to determine the future use of vacant offices

Jeanne Borst, Hilde Remøy & Philip Koppels ERES 2014
PROBLEM AREA

REAL ESTATE STOCK

PORTFOLIO INVESTOR

OWNER: Investor 1
- Indirect / Direct Return on investment
- Risk
- Non-financial objectives

USER: Company
- Value in use
- Perceived Fitness For Use

Acquisition

Disposal

(partly) vacant offices

WITHIN USE ADAPTATION (TEMPORAL) CONVERSION

(NEW) DEVELOPMENT: External initiator
Based on category: review of the portfolio and object, and defining forecast and strategy

Categorization promising, mediocre and deprived

Fitness For Use

Disposal

Consolidation

Within Use Adaptation

Conversion

Based on score of ‘Within Use Adaptation’ and ‘Conversion’: Selection of best alternative object strategy

FUTURE USE OF (PARTLY) VACANT BUILDING

DELPHI STUDY 1
Criteria determining ‘FFU’

DELPHI STUDY 2 & 3
Criteria determining ‘WUA’ & ‘Conv.’
REAL ESTATE MARKET

- Depreciation of office buildings
- Structural change in real estate market
- Strong negotiating power of tenant
- Change of strategy of investors
COSTS OF VACANCY

- Vacancy costs consist of constant and variable costs
- Turning point from negative to a positive direct return is an occupancy rate of ca. 30%

### Case study: Vareseweg 105 - 109

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<th>VACANCY COSTS</th>
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DELPHI STUDY

- Three partial Delphi studies:
  - Fitness For Use
  - Within Use Adaptation
  - Conversion

- Determining criteria based on:
  - Literature study
  - Consultation with experts
  - Consultation NSI

- Weighting of selected criteria:
  - Market level
  - Location & Building level

- Two rounds

**DELPHI PANEL 1 Fitness For Use**

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<thead>
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**DELPHI PANEL 2 Within Use Adaptation**

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**DELPHI PANEL 3 Conversion**

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Panelstudie 1: Fitness for use

FACTOREN LOCATIE & GEBOUW

1. Geografische ligging: 6%
2. Bereikbaarheid openbaar vervoer: 24%
3. Bereikbaarheid met de auto: 8%
4. Concentratie structurele leegstand in de omgeving: 15%
5. Parkeergelegenheid: 6%
6. Voorzieningen in directe omgeving: 17%

Ruimtelijke en functionele kwaliteit van de omgeving: 0%
Bezettingsgraad-ontwikkeling: 1%
Identiteit en uitrusting van het gebouw: 0%
Functionele kwaliteit / flexibiliteit: 14%
Energie prestatie van het gebouw: 0%
Technische kwaliteit van het gebouw: 9%

Totaal

Pas wanneer u alle 100% heeft verdeeld en alle factoren zijn voorzien van een weging, kunt u rechts onderaan uw weging bevestigen.
DELPHI STUDY RESULTS

FITNESS FOR USE

Market level

Location and Building level

Geographical location
Functional quality / flexibility
Identity and image of the building
Accessibility by public transport
Facilities in direct surrounding
Spatial and visual quality of the site
Parking facilities
Accessibility by car
Technical quality of the building
Occupancy development
Concentration structural vacancy in the surrounding
Energy performance of the building

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DELPHI STUDY RESULTS

FITNESS FOR USE

Market level

Location and Building level

Lettability and competitive power
Office market dynamics
Possibilities of the land-use plan

Geographical location
Functional quality / flexibility
Identity and image of the building
Accessibility by public transport
Facilities in direct surrounding
Spatial and visual quality of the site
Parking facilities
Accessibility by car
Technical quality of the building
Occupancy development
Concentration structural vacancy in the surrounding
Energy performance of the building

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DELPHI STUDY RESULTS

WITHIN USE ADAPTATION

Market level

Location and Building level

Changing demand from target group
Lettability and competitive power
Financial possibilities
Occupancy development

Flexibility of the lay-out
Geographical location
Identity and image of the building
Technical quality of the building
Accessibility by car
Accessibility by public transport
Technical adaptability building elements
Parking facilities
Energy performance of the building
Concentration structural vacancy in the surrounding
Facilities in direct surrounding

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DELPHI STUDY RESULTS

WITHIN USE ADAPTATION

Market level

Location and Building level
DELPHI STUDY RESULTS

CONVERSION

Market level

Location and Building level

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DELPHI STUDY RESULTS

CONVERSION

Market level

Location and Building level

Geographical location
Flexibility of the lay-out
Accessibility by public transport
Spatial and visual quality of the site
Facilities in direct surrounding
Identity and image of the building
Accessibility by car
Parking facilities
Adaptability of the façade
Concentration structural vacancy in the surrounding
Technical quality of the building
Energy performance of the building

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# DELPHI STUDY RESULTS

## TOP 3

Location and Building level

<table>
<thead>
<tr>
<th>FITNESS FOR USE</th>
<th>WITHIN USE ADAPTATION</th>
<th>CONVERSION</th>
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<td>Geographical location</td>
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<td>Functional quality / flexibility</td>
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<td>Identity and image of the building</td>
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PREFERENCE MEASUREMENT

Scale score

0

S_i

100

A_{min}

A_i

A_{max}

Preference measurement alternative A - A..

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Preference Rating

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Selecting the best alternative

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MANAGEMENT DECISION SUPPORT SYSTEM (MDSS)

Fitness For Use

- Higher than score Within Use Adaptation
  - Consolidation
    - Check office market
    - Market demand

- Lower than score Within Use Adaptation
  - Within Use Adaptation
    - Check office market
    - Market demand
CONCLUSION

>> Indication of the decision-making criteria and their relative importance of the office investor

>> Vacancy management enables insight in the qualitative and quantitative (mis-)match on portfolio level

>> The characteristics of the office building influence the decision-making for future use and financial performance

>> Based on the Delphi studies, buildings are compared and rated to describe the possibilities for different types of future use

>> A Management Decision Support System adds value to the current decision-making of the value-add and core-plus office investor by presenting different possible alternatives
RECOMMENDATION

>> Supporting:
  - detailed considerations on portfolio level for future use of offices;
  - hold/sell analysis;
  - investment decision-making;
  - forecasting.

>> Using the MDSS model in **daily practice**:
  - reflecting on the performance of the office portfolio by the whole team;
  - supporting discussion and strategy-making.

>> Making **implicit** decision-making criteria **explicit**
CONTACT

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E-mail: sjanne.borst@nsi.nl
Fitness For Use

Average Portfolio

Direct Return on investment (DROI)

A₁, OR: .. %  
WUA:...  
CONV:...

Average Portfolio
## Fitness for Use

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| Weighing in %                  | 15.2  | 9.6  | 7.1  | 4.9  | 8.1  | 8.5  | 8.5  | 5.3  | 9.9  | 12.1   | 4.7    | 6.1    |

| **SCORE**                      | 12    | 78   | 96   | 100  | 99   | 55   | 60   | 57   | 65   | 100    | 100    | 80     |

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