

Scenario Planning to Define a Public Real Estate Strategy

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***Abstract.** Today, real estate managers have to deal with many uncertainties. The context in which they operate is highly dynamic. This article discusses how managers can cope with these uncertainties by using scenario planning in the decision-making process. However, there is a lot of misconception about scenario planning. Scenario planning is not a tool to predict the future, rather a method to deal with uncertainty. The paper describes how scenario planning has been used in a research project that was aimed at defining a public real estate strategy in four different countries. Besides a description of the method the authors discuss its usefulness in the policy-making process.*

***Keywords.** Public real estate, scenario planning, corporate real estate*

1 Defining a public real estate strategy in the midst of uncertainties

Today, governments are confronted with many uncertainties. They have to deal with uncertainties in economic growth, political and social developments within and outside their country. Besides, the role and position of western governments are changing. To implement their political strategy governments are depending on local governments, private companies, and other interest groups. In the sixties, many politicians and civil servants were convinced that society was predictable. Today, they see themselves more as the plaything of developments that are beyond their power and control.

Nevertheless, decisions of governments have a strong impact on society. Private parties and the public opinion are demanding a carefully considered public strategy. If a strategic decision does not prove to be successful, interest groups and the public in general will blame the government.

One way to cope with uncertainties is scenario planning. Scenario planning creates a better understanding of the present situation. It could reveal possible solutions for the future. Scenario planning may be used to analyse the implications of certain events, as thinking about possible events and public and political reactions makes the government agent aware of the consequences of

policy decisions as well as possible implementation problems of his decisions. Furthermore, scenario planning is an important learning tool for an organisation. Most managers are used to think in a linear Cartesian way. They are used to extrapolate historical trends into the future because they presume that 'what worked in the past will continue to work in the future. Planning by scenarios therefore requires a drastic change in the mental models of most organisations (Dewulf and van der Schaaf 1998).

Scenario planning has demonstrated its value in strategic decision-making. Already since the 1960s Shell uses scenarios to provide leadership to the organisation (van der Heijden 1996). Scenario planning may also be useful in public decision-making. We used scenario planning for defining a public real estate strategy. In the Western World governments are questioning the role and position of a public real estate organisation. Two main questions are asked:

1. Should the management of public real estate be considered a task for government or should it be privatised?
2. Should the management of public real estate be centralised or decentralised?

Public real estate is organised differently in various countries. For instance, In Australia public real estate management is privatised, in the US and the Netherlands a central government unit is managing the national public real estate portfolio, while in the UK the management is decentralised. Besides, in most countries, there is an on-going discussion about the way public real estate should be organised. The choice between public versus private and central versus decentral is often based on a normative discussion rather than on proper insight in the impacts of these decisions. A strategy that is not based on an understanding of the future is doomed to fail. In a study of van der Schaaf (2002) the impacts of these strategic choices were analysed. In this project scenario studies were undertaken for the Public Buildings Service of the US, Public Works & Government Services Canada and the Dutch Government Buildings Agency. The method used as well as its usefulness in the policy-making process is described in this article.

2 What is Scenario planning?

Most people have difficulties in thinking for the long run. In workshops and debates top managers and politicians often refer to past experiences and best practices. Most people do have little reference material. They are working for years in a same environment and are confronted with little change. More importantly they often resist changing because a change of strategy may undermine their position. It proves to be hard to unfreeze from the present, which is an essential condition for change. Introducing scenario planning into policy-making requires that policy-makers are receptive to discussion even if the results of the scenario study undermine the current strategy. Discussions may lead to postponing decisions, and it even might undermine the position of the policy-maker. Another obstacle

to scenario planning is overconfidence and intellectual arrogance of the decision-maker (Clemons, 1995). Scenario planning offers opportunities for making informed strategic decisions (Courtney *et al.* 1997).

One way to cope with uncertainties and to force managers or politicians to think of the future is to engage in scenario planning. There is a lot of misconception about scenario planning. Scenario planning is not a way to predict the future, rather an instrument to cope with the future. It is about what might happen, rather than what will happen. By discussing various plausible futures and their impact on today's decisions decision-makers can define a clear strategy. The strength of Scenario planning is that several variables can be changed at a time (Schoemaker 1995).

In general, we can depict two different purposes of scenario planning:

1. To generate new concepts about the future. In urban planning scenarios about a region or urban area may be developed to generate ideas about how the area can be developed. Finally decision-makers, with or without the participation of interest groups and the public in general, will choose one of these scenarios and develop a strategic process to get there. These scenarios are defined as prospective scenarios.
2. In most cases, however, our future is defined by the decisions of others and influenced by economic growth and social developments. Policy-makers often have little influence on the future. The impact of policies is mostly influenced by other developments. Therefore, it is better to define plausible futures (based on core developments) and to define a strategy on how to cope within these futures. We call these scenarios 'context scenarios'.

The impact of public real estate choices depends strongly on economic developments and political decisions. Public real estate managers have to deal with many uncertainties that are beyond their range of influence. In this study we used therefore 'context scenarios'.

There is also not one best method to develop scenarios. The method depends on the goal of the scenario planning, and the characteristics of the client group or management team. Van der Heijden (1996) distinguishes three approaches:

- Inductive: the scenarios are then built up on plausible events, and these events are put in a time order towards a future scenario(s).
- Deductive: Rather than letting the scenarios emerge from events the deductive method is aimed at discovering a structure in the data and use this as a framework to formulate end-states.
- Incremental: this method starts from the official strategy and step-by-step confronts the management with alternative strategies.

The choice of the method will depend on, for instance, the degree of tolerance for new ideas in the management team, the power structure, the diversity of ideas in the team, and so on.

3 Scenario planning in public real estate management

To explain how scenario planning could be used to develop a clear public strategy we describe our approach that is used in a scenario study for the public real estate organisations of the US, Canada, and the Netherlands. This study is aimed at generating insight in the impact of various public real estate strategies on various performance criteria. In most countries we see similar developments. Ideas of 'New Public Management', that is introducing business-like management, competition and customer orientation (Kickert 1999), is present in the strategies of most Western governments. But the strategic choices differ strongly, as for instance the choice between centralisation versus decentralisation or a cost-driven versus quality-driven approach. The public real estate strategy depends on the overall political strategy and its context.

The framework that is used for scenario analyses in this project is visualised in Figure 1: three strategies are crossed with three rather extreme but plausible scenarios to determine the long-term political, functional and financial consequences.

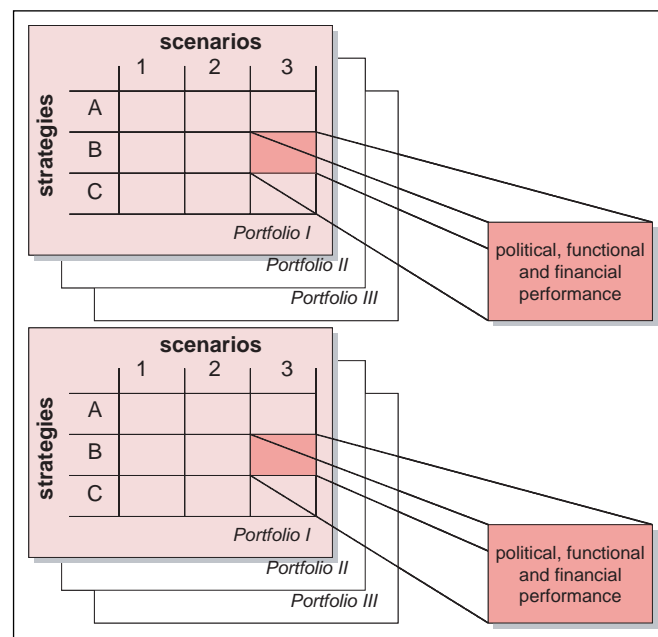


Figure 1. Portfolio Strategies versus scenarios

The strategies used in this study are described in Table 1. The strategies differ regarding the degree of centralisation, the degree of privatisation and the main focus of the public real estate organisation. These strategies are implemented in three different governments (the USA, Canada and the Netherlands). The consequences of these strategies are determined from discussions with portfolio managers in the various countries.

When strategies are defined, a first step in a scenario analysis is a basic analysis to explore the driving forces that would shape the future context. A historical analysis of trends and an extrapolation exercise of these trends could help to determine which forces will have a strong impact on the real estate portfolio and portfolio management. To determine which driving forces should be used in our study, we organised workshops in co-operation with the management of the organisation concerned. This was necessary because it was impossible for us to determine the driving forces in all the countries that were included in this study. The result of this step is a trend or reference scenario. In Table 2 the trend scenario, which is developed for the Canadian case, is visualised.

Table 1. Key elements of different strategies

Government Strategy:	Serving the politicians	The user decides	Acting like an investor
Based on:	Netherlands, late 1980s and early 1990s.	United Kingdom	Sweden, Norway
Key elements:	The management of public real estate is completely centralised and the public real estate organisation focuses primarily on the socio-economic goals of government. The primary goal is to add value to government's overall (social) goals considering economic, urban, social and environmental developments.	The management of both special-purpose and general-purpose properties is decentralised to the various customers. They decide on the quality, quantity and location of real estate. Their wishes and interests are upper most.	The public real estate organisation is not privatised, but, nevertheless, starts to operate as a private-sector organisation. The performance of the organisation is benchmarked against private-sector companies. Use of the PRE-organisation is not mandatory. Real estate decisions are made on the basis of 'return on investment' and 'risks of potential real estate projects'.
Priority criteria when making real estate decisions:	This will result in a fluctuation of programme objectives. (Depends on which socio-economic issues are important in a given context).	<ul style="list-style-type: none"> • Customer satisfaction • Rent / m² • Cost / quality ratio of the buildings 	<ul style="list-style-type: none"> • Return on investment • Operating cost / m² • Market value / m²

Table 2. Example of two scenarios

	Trend scenario	Scenario A
Demand: <i>Employment</i>	Over the last ten years, government employment (in full-time equivalents) has decreased at a rate of 0.4 percent annually (<i>Source</i> : Statistics Canada). The creation of special operating agencies has run its course. In this scenario, employment will <i>stabilise</i> at the current level. Technology will have no influence.	Because of new ways of delivering services to clients (virtual) employment will be clustered in various centres in the country (a/o National Capital Area). There will also be an increase in the government's social programmes. This will result in an <i>increase</i> in government employment in the National Capital Area of <i>1.0 percent per annum for the first 5 years and 0.5 percent per annum for the last 10 years</i> .
<i>Use of space (in m²)</i>	The use of space in square metres per employee will <i>stabilise at 23 m²</i> (usable) per employee. Although there has been an increase during recent years, some contradicting developments suggest that it will stabilise in the future. This means a shift in the utilisation of space, rather than a reduction.	Because of an increase in the average functional level and the use of accommodation to recruit / retain new employees, the use of space per square metre per employee will <i>increase by up to 24 m²</i> (usable) per employee.
<i>Location</i>	Government will be located at the <i>same locations</i> . Only some departments will co-locate with each other or with other levels of government	The introduction of one Mega City will influence the sprawl of office locations in the National Capital Area. Departments will be located at <i>many office locations</i> throughout the National Capital Area (de-concentration).
Real estate market:	<p>The average <i>economic growth</i> per annum for Canada will stabilise at 3 percent (<i>Source</i>: Statistics Canada)</p> <p>The overall <i>vacancy rate</i> for the Ottawa–Hull office market will stabilise at 4 percent, with most of the vacancies occurring in Class C buildings.</p> <p>There will continue to be few new constructing initiatives.</p> <p>Rents will increase slightly.</p>	<p>The average <i>economic growth</i> per annum will increase to 4 percent.</p> <p>The overall <i>vacancy rate</i> for the Ottawa–Hull office market will stabilise at 4 percent; the main vacancies will be in Class C buildings.</p> <p>Absorption of office space will increase, as will new constructing initiatives.</p> <p>Rents will increase slightly.</p>

Policies:	<p>Current government (TB) policies will remain important.</p> <p>National Capital Commission: The long-term revitalisation of the Core Area, including the North Shore of the Ottawa River in Hull, LeBreton flats and the Parliamentary Precinct.</p>	<p>New government policies will be introduced in the areas of heritage, energy management and sustainability. Government organisations will need to give a good example.</p> <p>National Capital Commission has developed a new plan. This plan including the realisation of a 'champs elysées' through the central downtown area will be carried out.</p>
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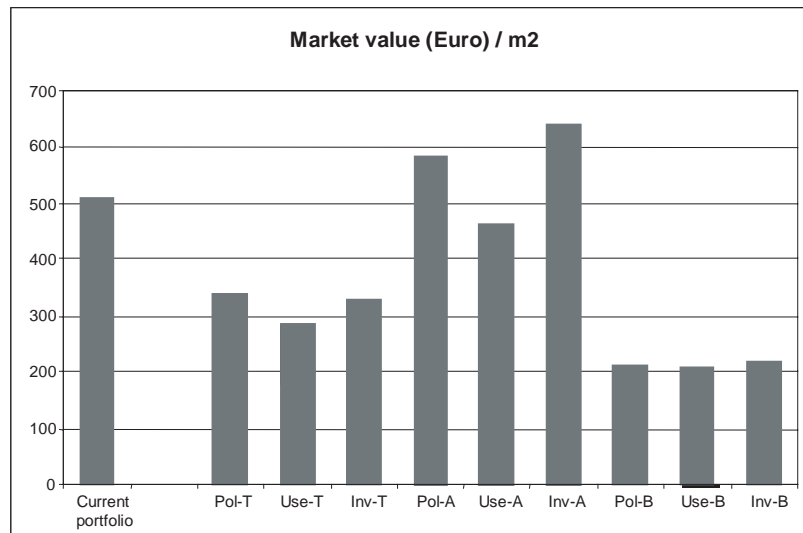
The next step in a scenario analysis is to determine the critical uncertainties. The driving forces explored in step one could be divided in predictable or so-called predetermined forces and critical uncertainties: the uncertain but highly influential developments. Predetermined forces are highly predictable developments. Hence, these predictable forces could develop in the same direction in all scenarios. The critical uncertainties on the other hand are varied in the scenarios, since these are developments that are highly uncertain and the ones that will have a big impact. For example, changes in demand for office space are hard to predict due to the uncertain effects of innovative office strategies and the difficulty in predicting future numbers of government's employees. One way to deal with this uncertainty is to design two scenarios, one in which demand increases and the other one in which it decreases. This, however, is a simplified example. The strength of scenarios lies in the fact that several variables can be changed at a time, but, for this, it is important that the scenarios are internally consistent, in the sense that the developments that outline a scenario should not contradict each other. If, for example, the economic situation worsens, it would not be logical to instigate a drive for new office development.

Two other factors are important when designing scenarios. First, in order to retain a good overview, it is important to restrict the number of scenarios to three or four at the most. Secondly, to create a good basis for scenario studies, it is important that they are defined in conjunction with the organisation(s) involved. The scenarios used in this study are designed in close co-operation with the management of the organisation(s) involved. This is done by means of workshops, during which the uncertainties to be featured in the scenarios were explored. The scenarios designed differ in every country, because the contextual developments are different in every country.

When both the strategies and scenarios are defined the political, functional and financial consequences of the portfolio have to be determined. This means that performance criteria are defined in order to measure the changes in political, functional and financial performance of the future portfolio in every scenario /

strategy - combination. For example, one of the performance measures that are used in our study to measure the financial performance, is the average market value of the portfolio. Figure 2 shows the results regarding this performance measure in the Canadian case.

When comparing strategies, it is important to be very careful about what results are compared. Since external factors, such as economic growth, differ in every scenario, the outcome of, for example, the financial measures will differ as well. It would be irrational, for example, to compare the results of the 'users decide'-strategy in scenario A with those of the 'acting like an investor'-strategy in scenario B, as the former represents a flourishing economy whilst the latter represents an economy that has collapsed. However, in the Canadian case it could be concluded that in general the 'users decide'-strategy results in a lower average market value than the other two strategies.



Legend: Pol: 'Serving politicians' strategy; Inv: 'Acting as an investor' strategy; Use : 'Users decide' strategy. T: Trend scenario (3 % economic growth and no change in policies); A: Scenario A (a/o. 4% economic growth and increasing demand for space); B: Scenario B (a/o. 1 % economic growth and decreasing demand)

Figure 2. Market value of real estate portfolios

Second the consequences of all scenario analyses (the USA, Canada and the Netherlands) are compared. This is visualised in the table below. In Table 3 the small meter gauges visualise the change in average market value of the future portfolio compared to the current portfolio in a certain combination of a certain

case. Since comparisons on exact values are impossible we use these gauges that are comparable to those found on car dashboards. The average market value/m² shows how much capital is invested in real estate and reflects capital stock. Since strategies can only be compared within the same scenario, the gauges in Table 3 can be compared per row (horizontal). The last column gives the conclusion of this comparison. Scenario A characterised by a booming real estate market and increasing rents gives better results than scenario B that is characterised by economic recession.

	Serving politicians	Users decide	Acting like an investor	Best strategy (highest market value)
Canada				
•Trend scenario				Serving politicians
•Scenario A				Acting like an investor
•Scenario B				Acting like an investor
Netherlands				
•Trend scenario				Serving politicians
•Scenario A				Serving politicians / Acting like an investor
•Scenario B				Serving politicians
USA				
•Trend scenario				Acting like an investor
•Scenario A				Acting like an investor
•Scenario B				Users decide

Table 3. Strategies per country

Table 3 shows that the 'users decide'-strategy produces the worst results in that the average market value/m² only increases when the scenario is fairly positive. Much of the increase in scenario A is due to the improving market situation, because, in the 'users decide'-strategy, it is the leased portfolio that increases in most cases. Buildings owned will be replaced by new leases, and new leased buildings will be added to the portfolio. This means that a large part of the accommodation budget will be passed through to the private sector, and less will be invested in buildings that might generate revenues when they are disposed of. On the other hand, money that is not invested in real estate can be invested in other government programmes where it might generate higher (socio-) economic returns.

For each individual stakeholder the impact of different portfolio decisions could be estimated. Decisions a public real estate manager takes have to support the needs of stakeholders within the company. By using a scenario a carefully considered portfolio decision can be made.

4 The sense and nonsense of scenario planning

Scenario planning generates new insights about the consequences of various strategies. Within the three countries the discussion about public versus private and central versus decentral is stimulated. Results of the study describe the uncertainties surrounding the organisation and their impact on the public real estate choices. Policy makers are confronted with clear long-term impacts of their decisions. By using scenario planning the discussion is changing from a pure normative discussion into a well-considered and grounded debate. Moreover, the scenario study gives public real estate managers insight in the risks involved with certain decisions.

Despite the fact that the term scenario planning has become a buzz word in today's management jargon few real estate managers are using scenarios when making important portfolio decisions. The study described reveals the usefulness of scenario planning in public (and corporate) real estate management.

Scenario planning is not about predicting the future; rather it is a tool to deal with uncertainties. In this study a 3-stage approach is used:

1. Formulating potential real estate strategies
2. Formulating possible futures by using different scenarios
3. Determining the consequences of the strategies on the financial and political performance as well as on the value for the user.

There is no one best method for scenario planning. Scenarios can be developed by using an inductive or deductive method. In both cases, however, scenario planning is a tool to launch discussions about strategies. Scenarios are not aims in themselves. In many studies scenarios are presented as blue-prints rather than plausible futures.

The added value of the scenario planning for policy-makers is more than just the results of the study. More than once, several people within the same organisation are found to have a completely different perception of their current strategy. By organising workshops on strategic choices and uncertainties with politicians and management, these differences come to the fore (van der Schaaf, 2002). By identifying driving forces, more specifically critical uncertainties, public real estate managers obtain an important learning tool for their organisation.

Scenario planning urges managers to think about the future so they would be better prepared for possible changes in the future (Evers *et al.* 2002). By discussing strategic options and future possibilities management develops support of many layers within the organisation. A scenario process is therefore a helpful tool in creating a common consciousness about the mission and future of the organisation.

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