

# Strategic Decision Models: Multiple Perceptions, Unifying Structure<sup>†</sup>

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*Abstract.* Real estate involvements include citizenship responsibility, personal and business space use, investment, and for those whose work involvement is directly or indirectly dependent upon real estate markets, employment. Real estate strategies guide participants' decisionmaking in their multiple roles, and both highlight the issues and concerns common to these multiple roles as well as isolate those unique to particular roles. Although certain aspects of the decision processes for different participants in their multiple roles reflect the actions, circumstances and objectives unique to that participant, a meaningful part of everyone's real estate decisionmaking process is subject to common market forces. Strategic decision models provide a means to connect the micro-level tasks of property operations, the negotiation process of real estate transactions, and the larger forces that define space use and place decisions.

Each real estate participant employs distinctive strategies, sometimes explicitly articulated but most often implicitly understood, for the multiple roles embracing real estate involvements. These involvements include citizenship responsibility, personal and business space use, investment, and for those whose work involvement is directly or indirectly dependent upon real estate markets, employment.

This paper builds upon previous research by Roulac (1993, 1994) concerning the strategic paradigm for the real estate discipline and strategic models for linking critical elements of real estate transactions to participants' overall strategies. The resulting real estate strategies guide participants' decisionmaking in their multiple roles, and both highlight the issues and concerns common to these multiple roles as well as isolate those unique to particular roles. Strategic decision models provide a means to connect the micro-level tasks of property operations, the negotiation process of real estate transactions, and the larger forces that define space use and place decisions.

## Roulac Real Estate Body of Knowledge Framework

The general approach embedded in the Roulac Estate Body of Knowledge Framework extends the prior paradigms of perspective for considering the real estate discipline, including

- traditional legal/descriptive,
- economics,
- finance,
- geography,
- engineering,

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<sup>†</sup>American Real Estate Society Foundation 1995 manuscript prize winner for Best Research Paper presented by a Practicing Real Estate Professional at the American Real Estate Society annual meeting.

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- highest and best use,
- corporate decisions,
- the consumer transaction, and
- a multidisciplinary approach.

These prior models tended to emphasize one discipline, thereby often

- not sufficiently providing a fully integrated perspective;
- insufficiently addressing the interdependency of capital flows and property markets;
- lacking a decision focus;
- failing to consider how advances in information, communications and transportation technology define property markets and the substitutability of other property locations;
- disregarding how the influence of global economic forces and issues of international comparative advantage influence the supply of and demand for space and real estate services; and
- failing to integrate explicit consideration of a broad array of relevant contemporary and timeless concerns, especially including the growing role of ethics in professional disciplines and the escalating importance of environmental concerns and eco-spirituality in society.

Central to an effective strategic framework for the real estate discipline is recognition that the decisionmaker's inherent strategy defines and determines his/her real estate strategy; which real estate strategy in turn provides specificity for the decision criteria for the specific real estate operating decisions.

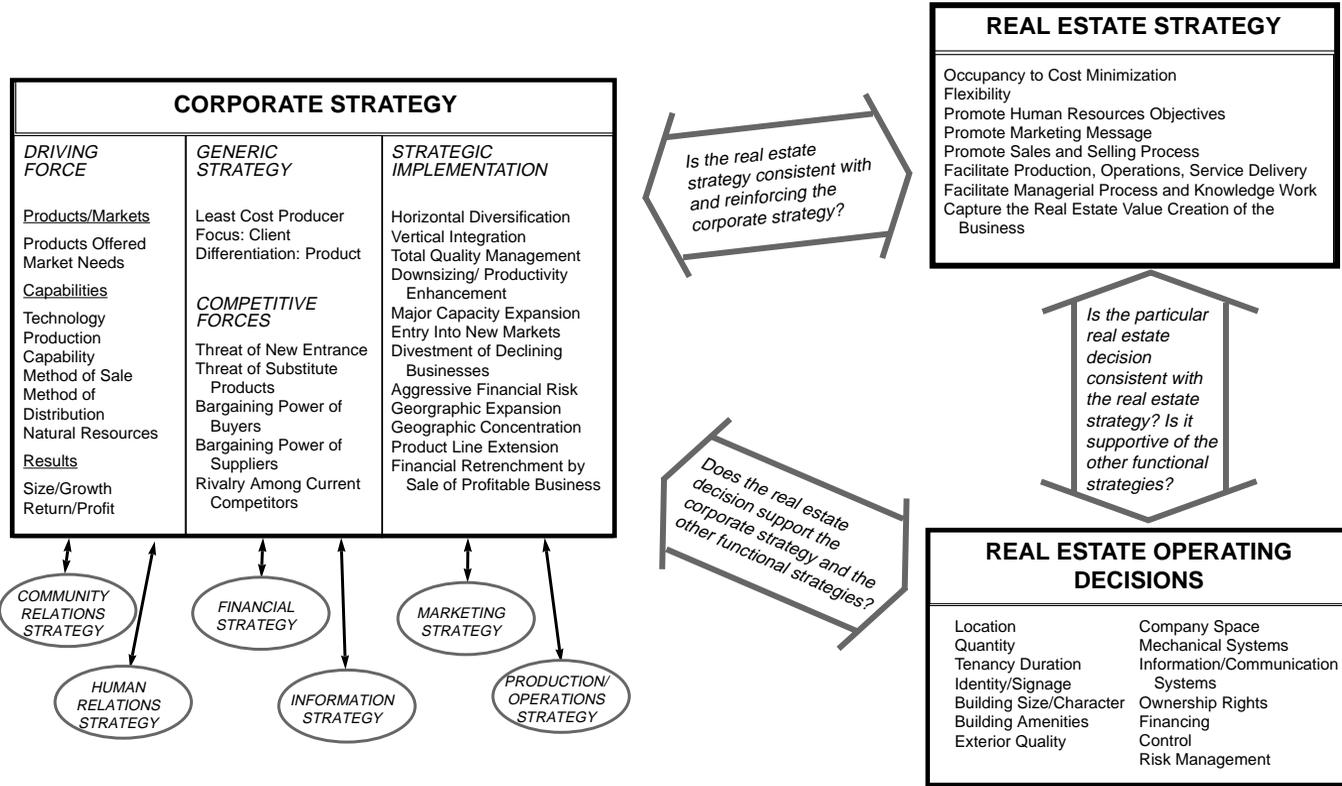
A particular perspective for business real estate decisions in a strategic management context is graphically presented in Exhibit 1 and more thoroughly described in Nourse and Roulac (1993). Similar decision models apply to each of the primary real estate market participants. Although the perceptions of these market participants may vary considerably, there is an inherent unifying structure of how these market participants approach critical decisions that in turn influences the quality of the outcomes they achieve from their real estate involvements.

The initial paper concerning the Roulac Real Estate Body of Knowledge framework (Roulac, 1993) involved a strategic framework for real estate analysis, decisions and management consisting of an expanding focus, from:

- the property; to
- interests in property; to
- markets: space, capital, services; to
- decisions; to
- stakeholders; to
- decisionmakers; to
- theory, concepts, tools, techniques and decision guidelines; and finally to
- environment and institutional context (Roulac, 1993).

That work was extended through presentation of the Roulac Real Estate Body of Knowledge framework (Roulac and Muldavin, 1994), which is depicted in a text-based model to facilitate data organization and access, plus two graphic presentations showing

### Exhibit 1 Business Real Estate Decisions in a Strategic Management Context



the critical interdependencies. One linear model, appearing as Exhibit 2, incorporates the following elements:

- the property—defining point of real estate;
- the space user—value as a function of space user decisions;
- finance and regulatory compliance—confirmation of the requirements to be involved;
- property markets, capital markets, services markets—interaction between key markets defines the real estate discipline;
- environmental analysis—comprehending the context is a precondition to effective real estate involvements;
- strategic frameworks and decision tools—realization of objectives follows from effective strategies and rational decisions.

A concentric graph presentation of the elements of The Roulac Real Estate Body of Knowledge framework appears as Exhibit 3.

Extending this framework to make it more operational for the specific decisions of the particular participants in the real estate markets, it is helpful to address both the specific participants and their concerns as well as certain critical considerations that define the decisions these market participants confront. The participants in the real estate markets (Roulac, 1981) include:

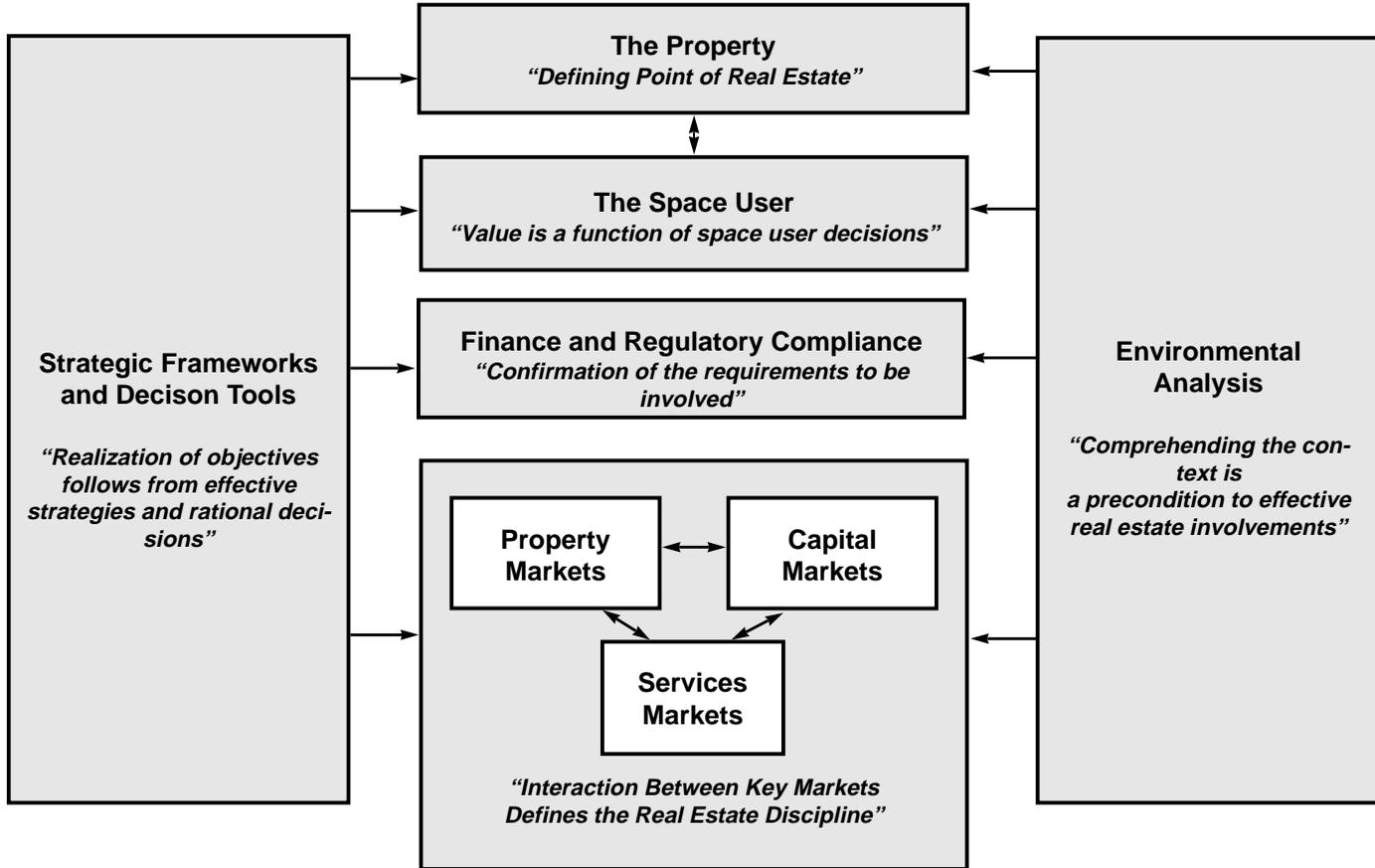
- space users—occupy space for personal and business purposes;
- investors—commit capital to a multiplicity of real estate interests and financial positions;
- development team—involved in creating new properties;
- services—provide professional advice and services to other participants;
- public interest—include government agencies, other nonprofit organizations, and high level concerns not necessarily represented by formal organizations.

A pair of unifying concepts to reconcile the multiple perceptions of the diverse participants in the real estate markets are reflected in (1) the relative emphasis on the property *or* the economic activity creating need for space-using activity and (2) the relative primacy of a strategic management approach to the real estate discipline as contrasted to the do-a-deal bias that dominates most real estate market participants' practices.

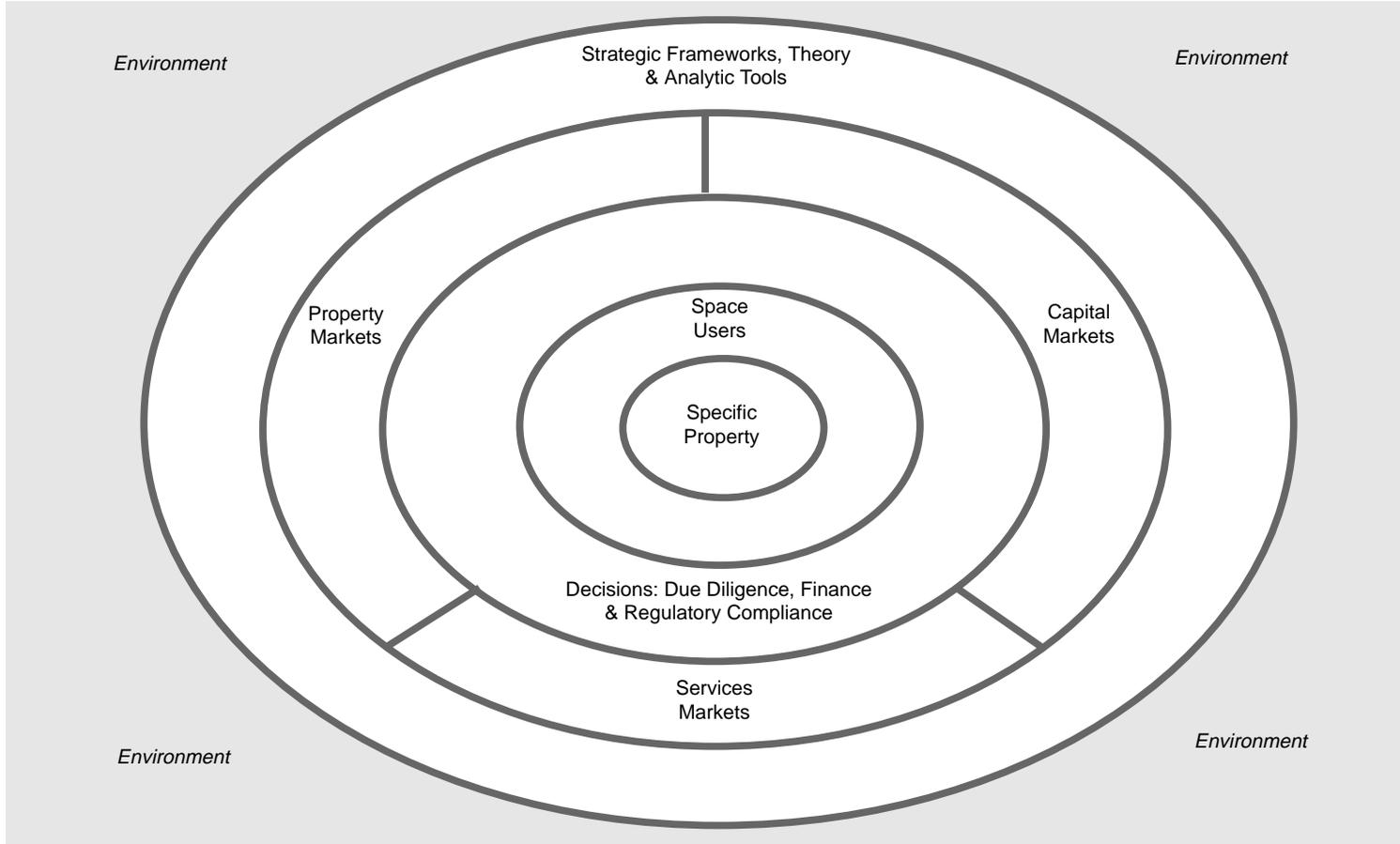
Fundamental to crafting effective strategies for participating in the dynamic, daunting twenty-first century real estate markets are appreciation of the interface of property and capital markets, as illustrated in Exhibit 4. Specifically, decisions by capital suppliers exert significant influence on the pricing of property and therefore rental expectations as well as the supply of property and therefore occupancy rates and ultimately rent levels. Further, the entrepreneurial initiatives of service providers influence transactions incidence and the creation of additional space through new development projects.

Economic activity that occurs if not in *virtual space* at least largely independent of site-specific spaces represents major divergence from past patterns of property-specific concerns (Dasso, 1995). The emerging dominance of economic activity disconnected from specific properties has profound implications. Consequently, rather than the thrust of the real estate discipline originating with the property and the question of what is the

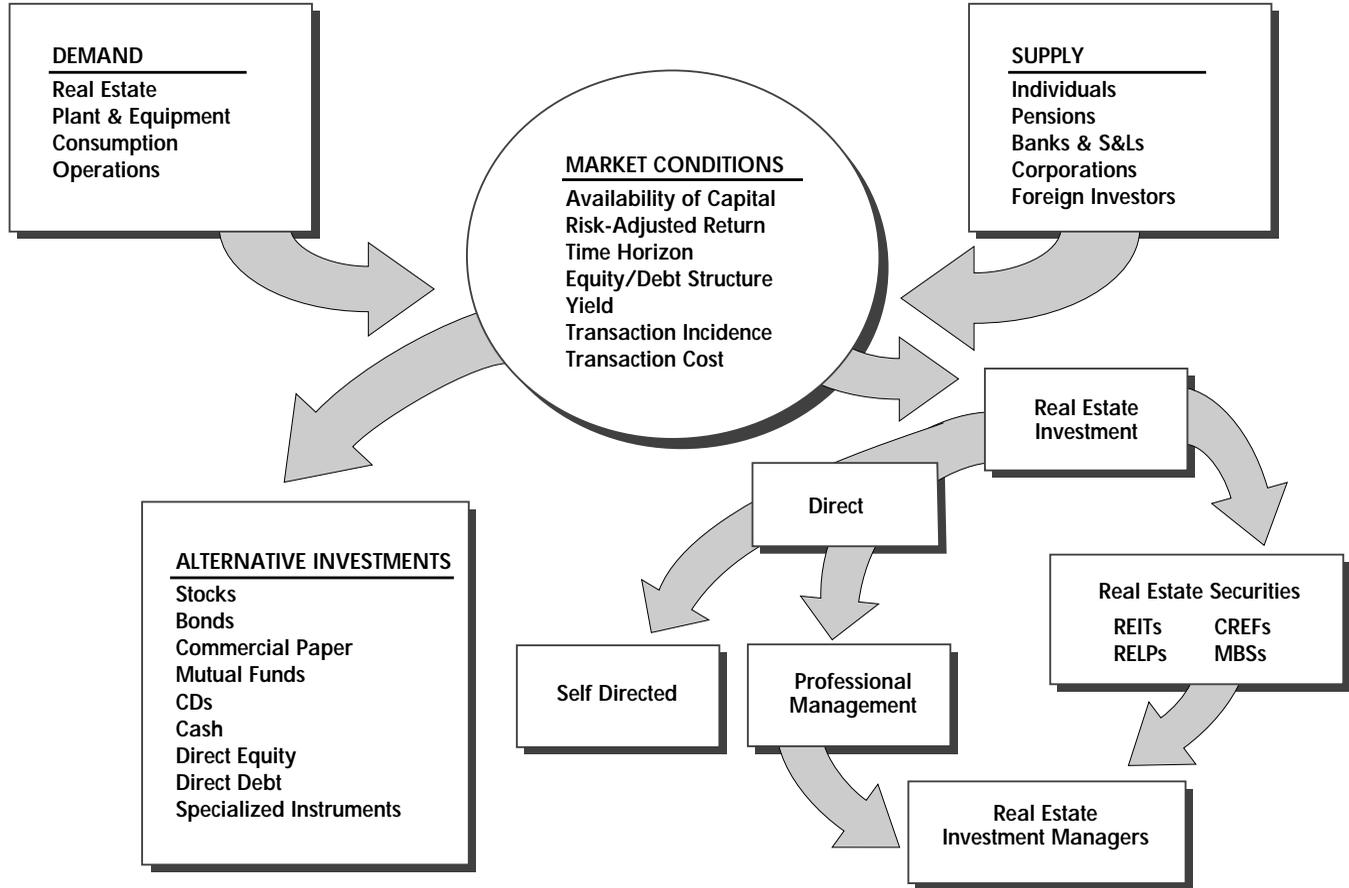
**Exhibit 2**  
**Roulac Real Estate Body of Knowledge Framework**



### Exhibit 3 Roulac Real Estate Body of Knowledge Framework



**Exhibit 4**  
**Real Estate Capital and Service Market Interdependencies**



appropriate use for that property, now the new twenty-first century orientation is consideration of:

*Does economic activity need space, and if so, which of the broad panoply of space options might serve that particular space need?*

The implications of this different approach are far-reaching and embrace the apparent dichotomy of the concurrent globalization of economic activity, with production occurring in those places offering the most advantageous mix of competitive labor costs, time responsiveness to facilitate personal interactions, and transportation economics, set against enhanced concern for localized personal place and space, essentially the *cocooning* phenomenon as chronicled by Faith Popcorn (1991).

### **Geographic Scope of Concern**

Whereas a household's experience of a particular place for much of history was largely determined by forces within the immediate geographic proximity of that place, the contemporary global economy may amount to a figurative and literal global village. The global village has moved from rhetorical metaphor to present reality as the consequence of:

- information and communications technology advances;
- the transportability of production activity to the lowest cost labor market with a compatible culture and time-responsiveness, cost-effective transport;
- and global branding of consumer products.

A model for the Geographic Scope of Concern appearing as Exhibit 5 illustrates the *funnel effect* of global considerations through national then regional concerns and ultimately to the metropolitan area and then on the submarket, local neighborhood, the competitive cohort of those properties that are most associated with or competitive to the property, and finally to the subject property itself.

One approach to considering the Geographic Scope of Concern is to ask:

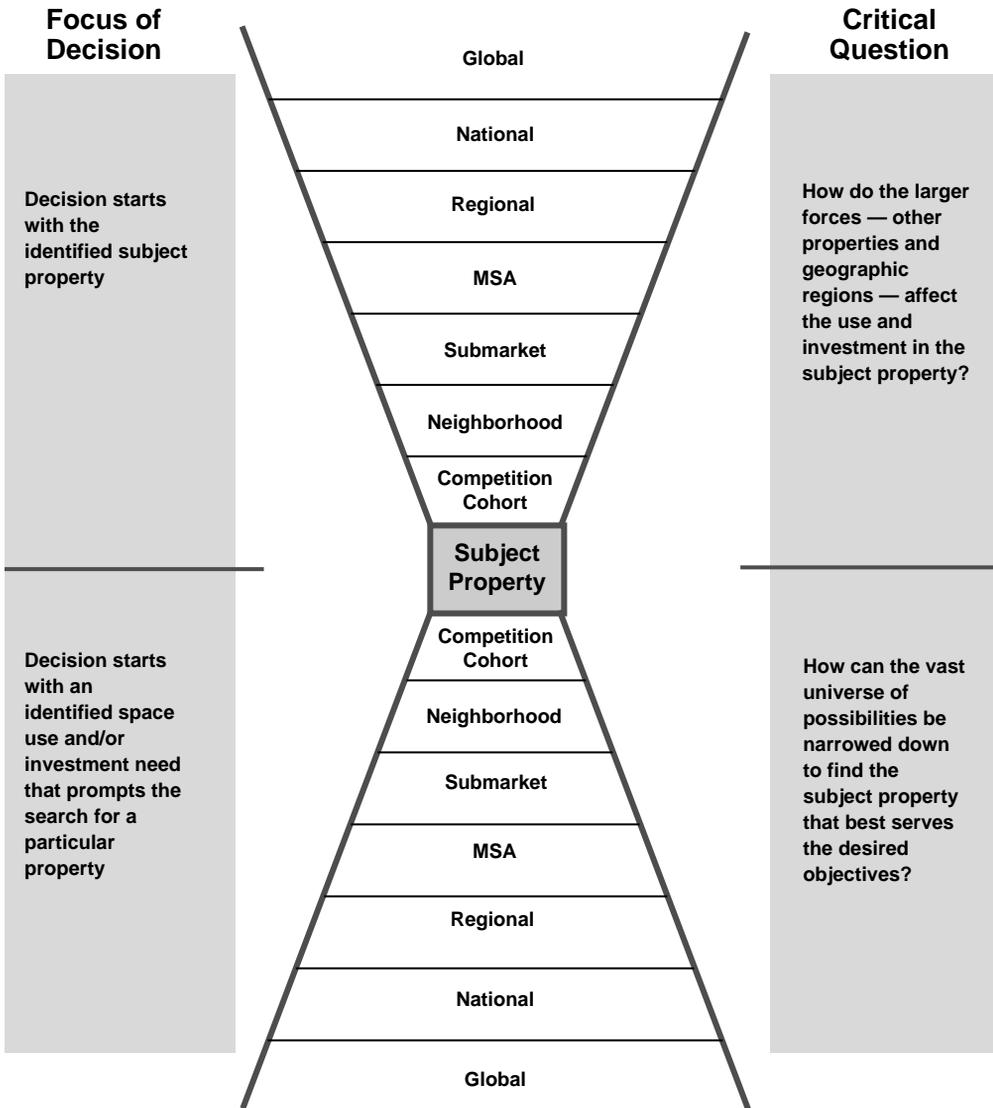
*How is the subject property influenced by larger forces?*

This inquiry moves from the subject property upwards to consider larger scale concerns. An alternative approach is to ask:

*Where within the world might I identify a particular property that best serves my space-using or investing interests?*

This inquiry involves sifting through the universe of possibilities to locate the particular property that meets the identified criteria. The former approach represents a bottom-up perspective, moving from the micro to the macro level, while the latter is a top-down approach, starting from the macro level and proceeding to the micro. The strategic focus of concern dealing with the different geographic perspectives is illustrated in Exhibit 6. In one approach the focus of concern moves from issues having to do with a particular site up through the larger forces on a global scale that influence the decisions around that

**Exhibit 5  
Geographic Scope of Concern**



specific site. Approaching the real estate decision from the opposite perspective—addressing the need for a property to serve particular space users or a particular investment opportunity—the strategic focus of concern moves from the global view down all the way to a particular site.

Interestingly, although the vantage point of starting with a particular site and looking out to the world differs markedly from taking the overview of the world to sift through to find a particular site, there are striking commonalities in the issues that are pertinent to both perspectives.

## Exhibit 6 Strategic Focus of Enquiry at Different Geographic Scales: How Perspective Influences Emphasis

Perspective of starting with end criteria and searching for the specific site that meets these criteria: from macro to micro

<b>FOCUS OF ENQUIRY</b>		
<b>FROM SITE-SPECIFIC TO GLOBAL</b>	<b>FROM GLOBAL TO SITE-SPECIFIC</b>	
	<b>Investors</b>	<b>Space Users</b>
<b>Geographic Scale: G L O B A L</b>		
<ul style="list-style-type: none"> <li>Political structure and stability</li> <li>Currency/inflation levels and volatility</li> <li>Balance of trade</li> <li>Environmental responsibility</li> </ul>	<ul style="list-style-type: none"> <li>Which regions best serve particular user/needs?</li> <li>Proximity to markets, employment, social interaction</li> <li>Compatible cultural values</li> <li>Comfortable climate</li> <li>Access and transportation economics</li> <li>Is the political system compatible to desired business/lifestyle?</li> </ul>	<ul style="list-style-type: none"> <li>What is the role of property in a global multi-asset diversified portfolio?</li> <li>How do broad environmental forces affect the prospects of real estate investing?</li> </ul>
<b>Geographic Scale: N A T I O N A L</b>		
<ul style="list-style-type: none"> <li>Economic activity</li> <li>Political system and leadership</li> <li>Fiscal/monetary policy</li> <li>Job creation</li> <li>Regulatory incentives re capital formation and tax policy</li> <li>Property rights</li> </ul>	<ul style="list-style-type: none"> <li>Does this country provide a basis to pursue desired business/employment?</li> <li>Are rules concerning property rights, business practices, employment accommodating?</li> </ul>	<ul style="list-style-type: none"> <li>What is this country's political position in the overall world market?</li> <li>Is the country's leadership committed to stability and growth?</li> <li>What are current levels of economic activity and future growth prospects?•</li> </ul>
<b>Geographic Scale: R E G I O N A L</b>		
<ul style="list-style-type: none"> <li>Regional competitive position</li> <li>Cost of living</li> </ul>	<ul style="list-style-type: none"> <li>Is region appealing in terms of market? Climate? Economic opportunity?</li> <li>Is region sufficiently desired by others to create strong future demand to support business opportunities and property values?</li> </ul>	<ul style="list-style-type: none"> <li>How appealing is this particular region?</li> <li>What is the general trend and direction of overall economic activity?</li> </ul>

Geographic Scale: M E T R O P O L I T A N		
	<ul style="list-style-type: none"> <li>• Is this an appealing place in which to live and locate a business?</li> <li>• Is the local political agenda complementary to business priorities?</li> <li>• Do the infrastructure and transit system promote an appealing lifestyle and business base?</li> </ul>	<ul style="list-style-type: none"> <li>• What is the competitive position of this region?</li> <li>• What are the prospects for future growth and new job creation?</li> <li>• What is the political condition/outlook?</li> </ul>
Geographic Scale: S U B M A R K E T		
<ul style="list-style-type: none"> <li>• Relative appeal</li> <li>• Supply-demand balance</li> <li>• Building incentives/ restrictions</li> <li>• Infrastructure and social services</li> </ul>	<ul style="list-style-type: none"> <li>• Is there an appropriate balance of meaningful choices yet strong demand?</li> <li>• Is this an appealing place in which to live and locate a business?</li> </ul>	<ul style="list-style-type: none"> <li>• What is the relative appeal of this submarket?</li> <li>• What is the general economic vitality of this area?</li> <li>• What is the balance of demand for property relative to supply?</li> </ul>
Geographic Scale: N E I G H B O R H O O D		
<ul style="list-style-type: none"> <li>• Ambiance</li> <li>• Recreation: public/private facility</li> <li>• Shopping/services</li> <li>• Schools</li> <li>• Convenience/privacy</li> </ul>	<ul style="list-style-type: none"> <li>• Is this a pleasant place in which to live? Base a business?</li> <li>• Is access to property easy for user and business patrons?</li> <li>• Are local services and conveniences complementary?</li> </ul>	<ul style="list-style-type: none"> <li>• What is the relative appeal of this neighborhood?</li> <li>• Is this a place where people would want to be, which creates demand for space and properties in this neighborhood?</li> <li>• Does the local shopping, services, recreation, schools and overall ambiance provide inherent appeal?</li> </ul>
Geographic Scale: C O M P E T I T I V E C O H O R T		
<ul style="list-style-type: none"> <li>• Pricing/value</li> <li>• Enjoyment of space</li> </ul>	<ul style="list-style-type: none"> <li>• Does this group of properties possess the desired user attributes?</li> </ul>	<ul style="list-style-type: none"> <li>• How appealing is this collection of properties?</li> </ul>
Geographic Scale: S U B J E C T P R O P E R T Y		
<ul style="list-style-type: none"> <li>• Access and site-specific issues</li> <li>• Quality/condition of improvements</li> <li>• Design appeal and functionality</li> </ul>	<ul style="list-style-type: none"> <li>• How well does this property meet specific user needs?</li> <li>• How reasonably is this property priced?</li> <li>• How appealing are the physical attributes of this property?</li> </ul>	<ul style="list-style-type: none"> <li>• What is the property's expected financial performance?</li> <li>• What is the property's risk and downside exposure?</li> <li>• What is the property's upside potential?</li> </ul>

Perspective of starting with a particular site and exploring how it is influenced by larger considerations: from micro to macro

Shading shows degree of emphasis at differing geographic scales

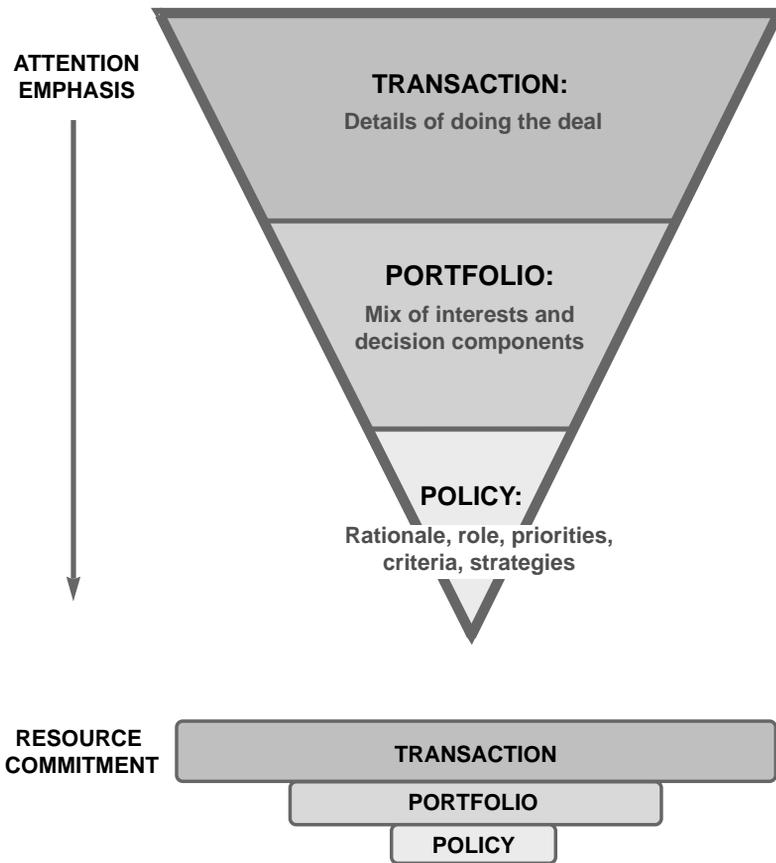
### Making Strategy, Doing Deals

The traditional real estate decision orientation reflects a bias to doing the deal. Traditionally, the predominant emphasis of attention and resources are devoted to the specific transaction with a lesser orientation to the mix of interests and decision components, what might be considered as a collection of portfolio issues. Only after the fact, are policy issues of rationale, role, priorities, criteria and strategies addressed. This do-a-deal bias is depicted in Exhibit 7, which graphically presents the disproportionate emphasis of resources on the transaction details at the expense of the policy considerations, reflecting flimsy structures, problematic outcomes.

A strategic management orientation, by contrast to the do-a-deal bias, builds off a strong commitment of resources to policy decisions, as depicted in Exhibit 8. Careful

**Exhibit 7**  
**Real Estate Decisions: Flimsy Structures, Problematic Outcomes**

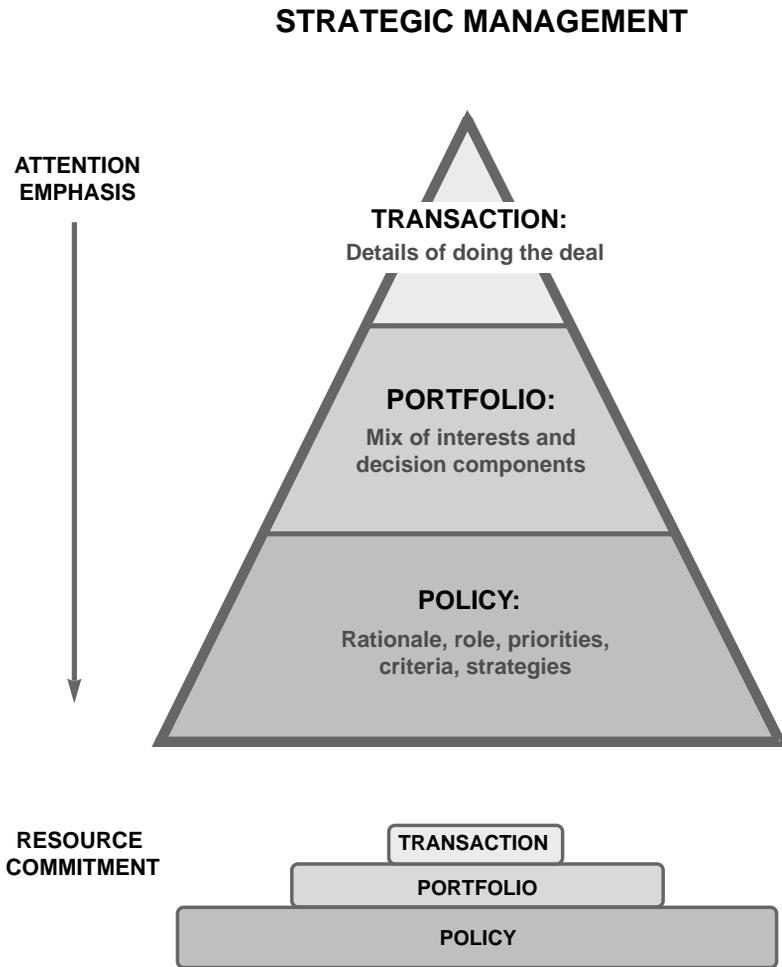
#### DO-A-DEAL BIAS



consideration of such policy issues as rationale, role, priorities, criteria and strategies provide a solid foundation to address the portfolio-level issues of the mix of interests and decision components. Then, the specific details of the transaction follow smoothly, building on the solid foundation to achieve a superior outcome.

The emphasis on policy inherent in the strategic management orientation offers a high payoff (Roulac, 1985). Indeed, the real estate sector’s deal bias relative to policy consideration mirrors the traditional orientation of stock investors, who primarily concentrated on evaluation of a specific stock rather than considering the role that that stock might have in the investor’s overall portfolio as well as the larger policy concerns governing the basic approach to the investing process (Lorie, Dodd and Kimpton, 1985). Today, corporate securities investing strongly emphasizes policy and strategic asset allocation, rather than stock picking per se.

**Exhibit 8  
Real Estate Decisions: Solid Foundation, Superior Outcomes**



## Conclusion

Although certain aspects of the decision processes for different participants in their multiple roles reflect the actions, circumstances and objectives unique to that participant, a meaningful part of everyone's real estate decisionmaking process is subject to common market forces. Each participant, moreover, perceives and interacts with these market forces in ways unique to his/her resources, situation and priorities, while also sharing certain commonalities. Strategic decision models provide a mechanism and platform to combine the uncommon and common to enhance the quality of real estate decision-making.

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