

# Selecting Administrative Office Space

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**Abstract.** This paper is a cross-case analysis of thirteen corporations to see how administrative office space is searched and selected. Although previous studies have found that the influence of real estate expertise on these decisions is restricted to site evaluation, the condition of the site and structures, the ability to option sites for a designated period, at a particular cost, this study found that such expertise is also important in molding size and design decisions. The real estate manager is a negotiator conducting linked bargains within and outside the company to create transactions that enhance company strategy.

## Introduction

For many businesses, searching for and selecting additional or new administrative office space is an infrequent decision problem. Even for those corporations in which such a search and decision is common, it may be an unfamiliar decision problem at the business unit level at which searches are initiated. This paper is a cross-case analysis of thirteen corporations to see how such searches and decisions are conducted. As such, it is a study in operations management with implications for the importance of real estate knowledge in the decision process.

## Previous Studies

The only previous research on this problem is by Schmenner [1]. His work, however, concentrated on manufacturing firms' procedures in making plant acquisition, construction, or renovation decisions. Schmenner's study, conducted between 1970 and 1979, was a merger of three separate studies, one dealing with Cincinnati, one with New England, and the third focusing on sixty *Fortune* 500 companies. Each included an interview on the decision process, a plant census, and a plant survey. Our focus is on Schmenner's interviews on the decision process, which were conducted with officials from eighteen firms in Cincinnati, seven firms in New England, and sixty *Fortune* 500 firms. The study reported on here is a case experiment to test whether the Schmenner findings remain true when the type of decision is changed from industrial plants to administrative office space and when the type of firm is changed from industrial to service and retail firms.

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### Exhibit 1 Companies Interviewed

Company	Product	Employees	Office Space
The Home Depot	Retail, building materials	21,500	300,000
Sears	Retail, general merchandise	315,400	20,000,000
AT&T	Telecommunications	270,000	97,500,000
Contel	Telecommunications	22,000	7,000,000
Travelers	Financial Services	35,000	10,000,000
American Express Travel Related Serv	Financial Services	50,000	10,000,000
Equifax	Diversified Financial	12,000	2,500,000
Georgia Pacific	Building Products	66,000	1,175,000
Coca-Cola	Consumer Products	25,000	5,000,000
Colgate-Palmolive	Consumer Brand Products	25,000	300,000
Bidermann Industries, Inc.	Apparel	7,000	500,000
NCNB*	Banking	30,000	7,000,000
C&S Sovereign*	Banking	30,000	5,000,000

\*As of 1992 NCNB and C&S merged into NationsBank.

## Research Method

In case study research, there must be an interview protocol, in order to make information from all interviewees consistent and rigorously focused on the study problem (Yin [2]). The interview protocol for this study is shown in the appendix. (See, also, Schmenner ([1], p. 244).) It is designed very carefully according to the protocol used by Schmenner in his interview studies; thus, the protocol has been extensively pretested.

In 1990 and 1991, real estate executives in thirteen companies were interviewed (Exhibit 1).

## Findings

We can describe the decision process for offices in the same steps used for industrial plants:

1. Initiation of decision to expand or relocate facilities.
2. Determination of size and design of facility.
3. Determination of geographic area to target for search.
4. Search for sites in target area.
5. Evaluation of alternative sites.
6. Negotiation for option to obtain preferred site.
7. Submission of capital acquisition request (CAR) for corporate approval.

Nonetheless, for administrative office decisions the procedures *within* these steps appear different. For typical industrial plant searches, a team is assembled to undertake the process. For administrative office searches, however, a looser organization is more typical with responsibility for each step shifting to different executives.

**Exhibit 2**  
**Responsibility for Phases of Office Decision**

Phases of Office Decision	Business Unit	Bus Unit w/RE	Real Estate w/Bus Unit	Real Estate	Team
Initiates Decision	12	1			
Size and Design*	1	3	2	3	3
Targets Location	5	3	1	2	2
Searches for Sites**			1	9	1
Evaluates Alternatives		1	2	9	1
Negotiates			1	12	
Submits CAR	2	1	2	8	

\*In one company facility planning staff separate from real estate was responsible for design and size.

\*\*One company automatically used outside brokers; in one company the logistics staff searched for sites.

The results of the interviews are summarized in Exhibit 2. In the first column, the steps of the office decision parallel the steps in Schmenner's study of manufacturing. The responsibility for these steps may be given to either the business unit or the real estate staff. Often the other party may provide advice or be required to approve the decisions. Some responses indicate that the decision is a consensus of all parties on the location team, which usually includes personnel, real estate, business unit, or logistics.

The decision to search for new administrative office space is usually initiated by the operating unit needing the space, although in retailing, there may be a development group that initiates the search. Six of the companies interviewed noted that administrative office searches are initiated through formal plans. The others, and even two of the firms mentioning formal plans, said that business units or operation managers initiate the administrative office searches ad hoc. Formal planning tends to be found in centralized corporations. Those corporations in banking and financial services in which administrative office space might be considered production space, rather than overhead, also tend to use formal planning. These findings are similar to Schmenner's. He found that companies with formal planning procedures for identifying plant expansion needs tend to be in more capital-intensive industries. Ad hoc procedures relying more on informal communications and the skill of division or business unit management tend to be used by conglomerates, agribusiness cooperatives and founder- or family-controlled companies. Others use either system with no general characteristics of the firms being related to the type chosen.

Corporate, business unit, and operation managers must agree before administrative office expansion, relocation, or new location is undertaken. Even with formal planning systems, managers reach decisions informally, sometimes after many years. Several mentioned that the decision itself takes longer than searching for and acquiring the space. Schmenner's findings are the same with one exception. Only a few executives are privy to a plant location decision, whereas this is not mentioned in office location.

Responsibility for step 2, the size and design of the office facility, is more diffuse than other steps. No single executive is typically responsible, whereas in industrial plant decisions, an engineering team is usually responsible for size and design. In one case, a facility planning staff separate from real estate handles this function for offices. In those

instances in which real estate is responsible for design and size decisions, the staff includes facility planners in addition to realty personnel. It is clear, nonetheless, that size and design require interaction from real estate. The reason is that real estate staff has a firmer grasp of the general relationship between occupancy costs and the design and size of the facility.

One can speculate that the general purpose nature of office space allows the shift of more responsibility for design and size to real estate staff, whereas the special purpose nature of industrial plants requires engineering staff, as Schmenner found.

Informal rules of thumb about size of facility and unionization do not exist for administrative office decisions as they do for plant locations. Some firms do not allow plants to house more than 500 to 1,000 workers. Some use a rule that no union plant will be expanded on site. Other constraints appear in office decisions. One firm states that geographic diversity is needed for political reasons; another states that labor market areas with unemployment of less than 5% are avoided because of the influence the firm's entry might have on wages.

If you believe that location analysis is part of the study of real estate, the results of this study and Schmenner's are a surprise with respect to responsibility for targeting the geographic area for search. In both studies the business unit or the location team usually is responsible for this step. Even when targeting the geographic area for search is a real estate responsibility, it is often outsourced to a consulting firm.

In the remaining steps of the decision process, real estate is typically responsible for the decision. Schmenner reports similar results. In the Schmenner study, the real estate executive is often chairperson of the location team. Beyond that role, the specific responsibility of real estate for information influencing the decisions is restricted to sites, the layout of each existing structure being considered, the condition of the site and structures, and the ability to option sites for a particular period, and at a particular cost. The office study uncovers more responsibility for real estate in influencing the size and design decision, as previously mentioned.

If real estate is responsible for evaluating alternative sites, usually the actual choice or veto is the business unit manager's. The business unit manager is the client whom the real estate manager is serving. The exception is the company with a more centralized decision process.

It is clear from Exhibit 2 and from the details of the individual interviews that the real estate manager is a negotiator in the middle. The real estate manager is an expert in the elements of a real property transaction and their relation to occupancy costs and value, knowledge used in skillful negotiations with operations and business unit managers to mold the elements of any request so that all conform with strategic needs of the corporation. At the same time, the real estate manager is negotiating with brokers and owners in the marketplace to create a package of elements in the transaction that meets the needs of the business unit manager, as well as other staff, and so that the transaction meets the strategic needs of the corporation. The aim is to create a consistent agreement inside and outside the company.

It is not surprising, then, that the real estate managers are usually responsible for submitting the formal capital acquisition request. They are the executives most frequently involved in acquisition decisions.

Since the pivotal role of negotiation was somewhat anticipated, a question was asked about the number of sites negotiated simultaneously. In any negotiation, moves to

strengthen alternatives to the agreement under negotiation can be the best strategy, as long as the cost of search is less than the expected gains. Nine of the companies simultaneously negotiate with two or three alternatives. One of these companies suggests that a sequential negotiation occurs if the second and third options are weaker. Two of these nine say they negotiate simultaneously sometimes and sequentially at other times. The other four negotiate sequentially with the alternatives.

Although real estate executives are involved in acquisition decisions on a regular basis, neither systematic checklists nor sophisticated modeling are developed for office searches the way they are for industrial searches. This point is related to the earlier statement that real estate executives usually are not responsible for targeting the geographic area for a site search; operating executives are. The lack of systematic analysis may be a result of the uniqueness of office searches, of the lack of sophisticated models, or of the relatively small budgets for offices. No single checklist is suitable because each facility need is different. Office selection is situational and depends upon the particular circumstance. Global rules do not lead to appropriate selections.

The most important factor is the activity to be housed in the facility. The second is the linkage of the activity with other corporate functions. In one case, the CEO paced off the distance from headquarters to alternative office space and said that only those offices within 100 steps of corporate headquarters would be suitable. In other cases, the activity being housed has direct supervision or a direct linkage to stores or other activity, so that linkage controls the targeted search. Given the information processing function of offices, it is not surprising to find firms more concerned with telecommunications, power, fiber optics, and dual cabling. Labor market analysis and commuting relationships are commonly important. But occupancy costs are also critical, so efficiency of design and energy is emphasized.

## Conclusions

For the academic real estate researcher interested in the definition of real estate as an area of study, it is interesting that practitioners do not consider targeting the geographic area for a site search an aspect of their expertise. Although it often is remarked that the foundation of real estate value is "location, location, and location," the term refers to the location characteristics of a specific site in a local property market. Real estate expertise and its contribution to corporate strategy emphasize evaluation of alternative sites, the condition of the site and structures, the ability to option sites for a designated period, and at a particular cost, the relation of occupancy costs to design and size, and the ability to mold the transaction to enhance corporate goals. This would suggest that an area of further research is to study how alternative ways of structuring real property transactions enhance corporate strategy.

If the real estate expert is to maximize his or her contribution to corporate strategy, negotiation skills are essential for molding decisions within the company, for acquiring options from sellers or owners, and for making the agreements inside and outside the firm consistent with each other and with a strategy that enhances corporate shareholder value.

If corporations outsource the real estate function, the outside consultants, or the internal executive responsible for supervising them, must be brought in at the capacity

and design stage of the decision process to make the most effective use of real estate knowledge.

## References

- [1] R. W. Schmenner. *Making Business Location Decisions*. Englewood Cliffs, NJ: Prentice-Hall, 1982.
- [2] R. K. Yin. *Case Study Research: Design and Methods*. Beverly Hills, CA: Sage Publications, 1984.

## Appendix

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### INTERVIEW PROTOCOL

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- A. Questions about the company.
  1. What is the name of the company?
  2. What are the company products?
  3. How many employees are in the company?
  4. How is the company organised?
    - a. Decentralized?
    - b. Centralized?
    - c. May I have a copy of the organization chart?
  5. How many facilities does the company occupy?
    - a. Offices
    - b. Plants
    - c. Warehouses
    - d. Stores
    - e. Other
  6. How many square feet of office space?
  7. How are these facilities geographically dispersed?
    - a. In one city
    - b. In one state
    - c. In one region
    - d. 48 contiguous states
    - e. United States plus Canada/Mexico
    - f. U.S. plus Europe
    - g. U.S. plus Far East
    - h. International locations
- B. Questions about the stages in the decision process for an administrative office change.
  1. What initiates review of capacity needs?
    - a. Formal planning
    - b. Ad hoc procedures
    - c. Other
  2. What argues for a new office rather than on-site expansion or relocation?
    - a. Size of employment
    - b. Commuter costs
    - c. Prestige
    - d. Proximity to activities to be controlled
    - e. Proximity to consultants and other professionals
  3. What procedures are used for determining the size and design of the facility?
  4. What procedures are used for selecting areas for a site search?
  5. What procedures are used for selecting sites within a targeted area?
  6. How are sites evaluated? Do you have a checklist I could have?
  7. Are guidelines set before beginning negotiations with second or third choice, or are negotiations conducted with several choices before site chosen? How many sites negotiated simultaneously?

8. How much time is spent on each stage of the decision process?
    - a. Initial need
    - b. Size and design
    - c. Selecting target areas
    - d. Selecting sites within target areas
    - e. Site evaluation
    - f. Negotiation
  - C. Questions about the people influencing the decision
    1. Who initiates decision for expansion?
    2. Who makes office vs. relocation vs. on-site expansion decision?
    3. Who decides on the size and design of the facility?
    4. Who targets area?
    5. Who tracks down sites?
    6. Who evaluates sites?
    7. Who negotiates?
    8. What is the nature of the corporate staff-division-business unit interaction?
    9. Who prepares the capital appropriations request?
  - D. Questions about the factors in the decision.
    1. What factors are important in determining the size and design of the facility?
    2. What are the factors for targeting area of site selection?
    3. What are the factors important in selecting among sites evaluated?
    4. What makes an area or city appealing?
  - E. What costs turned out higher or lower than anticipated?
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