



**A Paradigm Of Office Building Obsolescence:
An Occupiers' perspective**

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Background

The past two decades have seen varying trends, all of which combine to alter business activities. The most notable of these are changing work practices encouraged by advancements in technology and necessitated by corporate demands to reduce costs while at the same time improve workplace efficiency.

There is a commonly held belief that these advancements in technology and the resultant new work practices will eventually lead to the demise of the office. While it is true that changes in technology, organisations and employment trends will impact on the real estate requirement of organisations, offices continue to play a number of vital functions such that its complete demise, is but a hoax.

One of the impacts of change on the organisation, with which this study is mainly concerned, is the possible onset of obsolescence in the office buildings that organisations use. Views on factors leading to obsolescence are as yet to be identified in a succinct fashion and are in some cases ill defined.

Knowledge of the various factors that cause obsolescence would provide an invaluable tool for corporate real estate managers who, over the last two decades or so have come to appreciate the fact that operational property does impact on the way that a business is run.

Above all, the need to be aware of the occurrence of office building obsolescence is emphasised in this study, which provides a broad framework for exploring these, and possible future obsolescence issues. This research is intended to generate theories on the obsolescence of office buildings that are grounded in data. One of the conclusions reached is that obsolescence will occur in every organisation. It is a continuum that can neither be stopped nor have a single point of its origin accurately identified. It is possible, however, to manage the obsolescence of office buildings by being aware of its occurrence, its manifestations and its likely effects on organisations.

This study therefore provides an aid for decision-making, which will be used not only by corporate real estate managers but also by all who are involved in the development and management of commercial office property interests.

The research aims

The research aimed to broadly outline the following:

- What office building obsolescence is.
- How office building obsolescence can be identified
- What organisations have and can do about office building obsolescence.

In particular, the research also addressed the following issues:

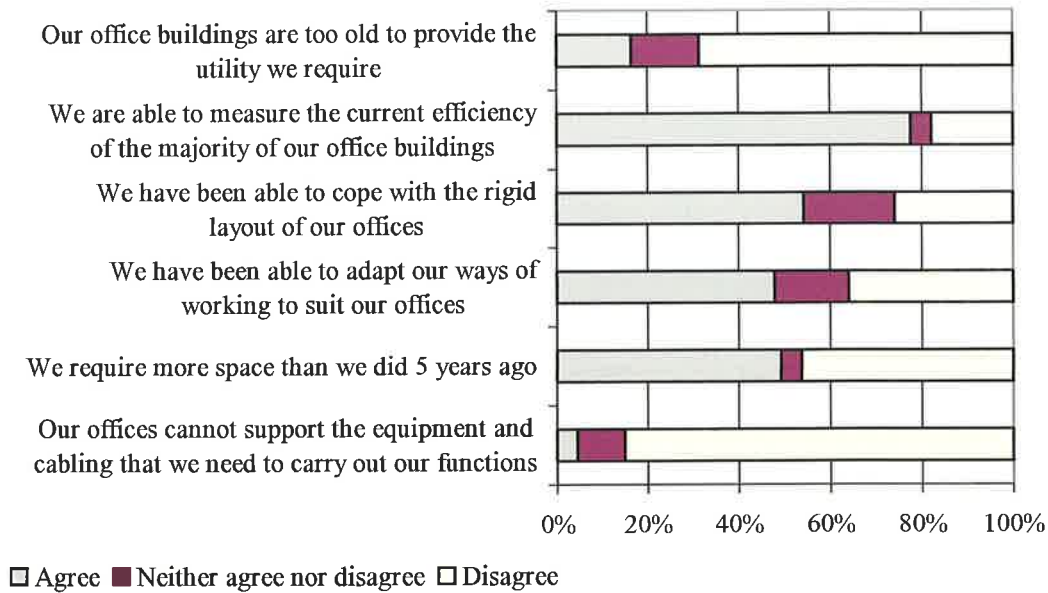
- How organisations interpret their environment and implement change
- How corporate real estate decisions are made in relation to the type of changes an organisation experiences.

The findings

Rather than an overall definition of office building obsolescence, what emerged from the research is that obsolescence is in the eyes of the beholder. Respondents provided various aspects that they related obsolescence in their office buildings to. These included the following:

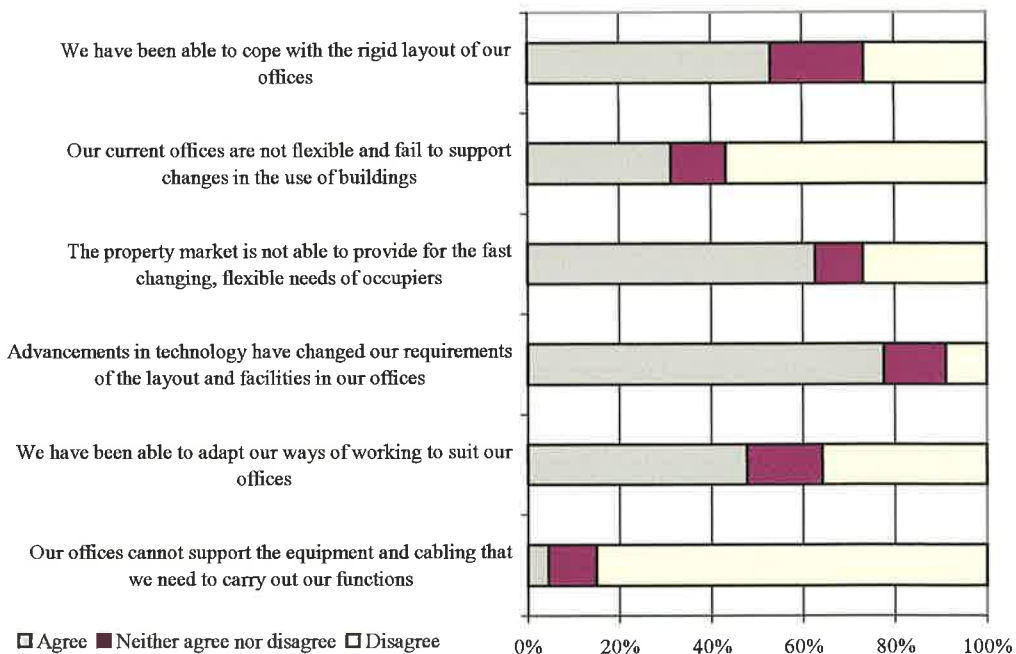
- The function of their offices,
- The structure and services provided within their offices,
- The age of the buildings used,
- The flexibility within their buildings as well as their ability to accommodate change
- The information technology incorporated and the types of work practices adopted therein
- The comfort, ambience, style and social aspects within their office environment
- The control or legal issues surrounding the use of the offices
- Changes in the business environment, the economy and the culture that give the office its identity
- Issues related to the location of the offices.

Opinions related to the function of offices are shown below:



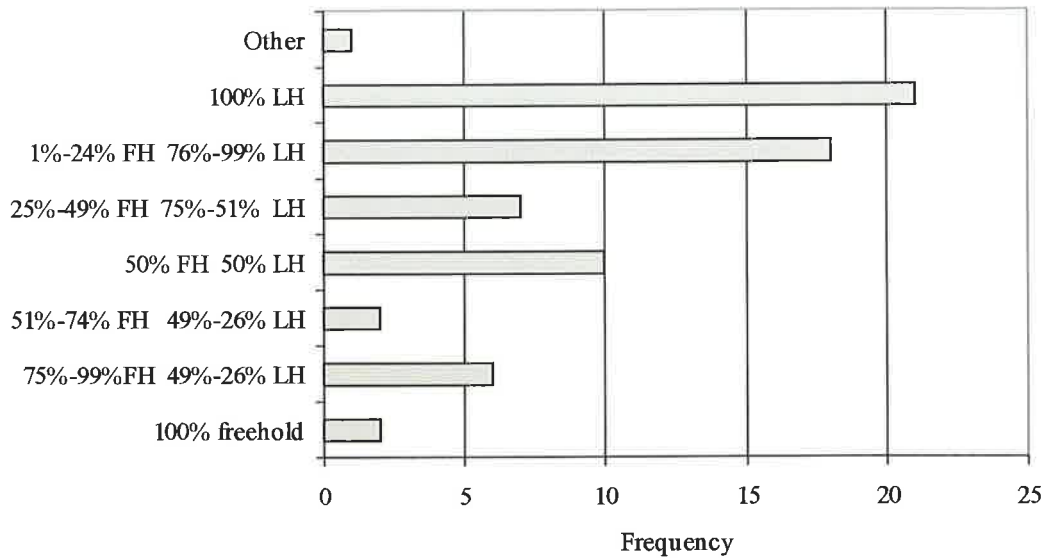
Opinions on flexibility and change in buildings are shown below:

Opinions concerning flexibility and change

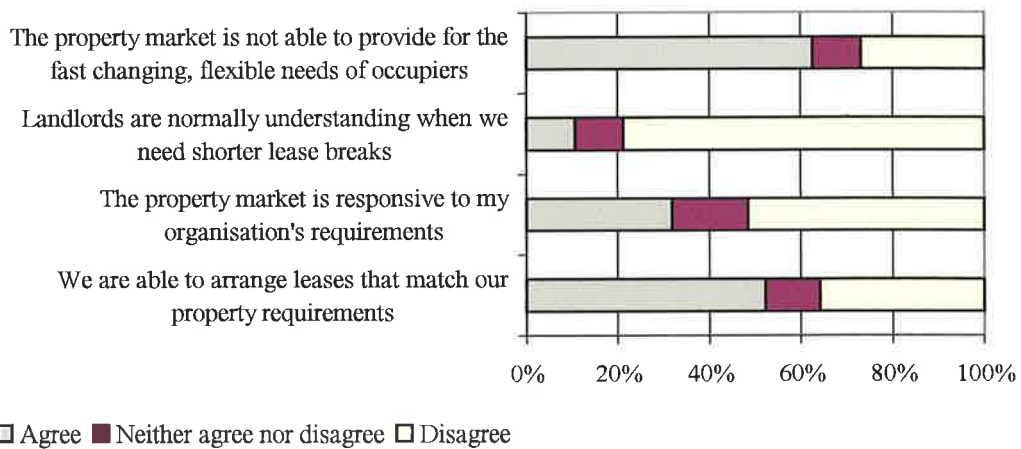


In terms of the tenure arrangements on the office portfolio and the property market as a control factor, the following graphs demonstrate the findings:

Leasehold/freehold arrangements for office portfolio



The property market as a control factor



In order to explore how office building obsolescence may be identified, respondents were asked to plot their utility curves and provide reasons for their curves.

Four general curves were identified, those demonstrating increasing utility, decreasing utility, a constant level of utility and those with fluctuating levels of utility. A total of

58 graphs were plotted with the majority, 37 indicating increasing utility, 6 showing decreasing utility and 7 showing constant and fluctuating utility respectively.

Analysis into the following and was carried out in order to explore similar trends in these groups of organisations as well as establish the influence on office building obsolescence:

- The business sectors of these organisations,
- The type of environment they considered themselves to be in, in terms of how simple, complex, static or dynamic it is;
- Whether or not they have a single property or hold a portfolio of office property;
- The tenure arrangements of the offices

What was expected was that those organisations in complex and dynamic environments depending on their business sector would experience increasing obsolescence in their office buildings. It was also expected that obsolescence in offices would be a factor of the tenure arrangements.

This analysis however proved inconclusive. No consistent pattern emerged when the types of utility curves shown by the various organisations were grouped according to their sector, environment, tenure or whether or not they had single or multiple office property.

The following conclusions were made however:

- The problem of office building obsolescence can be identified in terms of the factors that bring about this state in buildings. These were identified as including forces in the general environment, the property market and the organisation. These differ for every organisation, as will the changes that will occur within and around them, making obsolescence a problem that would have to be individually analysed in any organisation.
- Those that manage the corporate real estate for organisations have a significant role to play concerning the occurrence of obsolescence in their office buildings. They are the link between the changes in the external environment of an organisation and how the organisation reacts to these

changes. In this role therefore, the way these real estate managers understand and interpret their changing environment, may ultimately lead to accurate or inaccurate decisions being made about their real estate.

- The context of the environment that organisations operate in also influences how accurately changes can be predicted and interpreted. This also impacts the rate, frequency and levels that an organisation will experience obsolescence, a factor that has implications for the nature of the real estate management that needs to be adopted for an organisation. This could either be reactive or proactive, depending on how the real estate managers interpret the environment in which their organisation operates.
- Occupiers, therefore, have the ability to precipitate or manage obsolescence in their office buildings.
- Given that complex and dynamic environments will have more factors and components within them compared to say simple and static environments, a hypothesis that could be formulated from the theories outlined so far is that an organisation's ability to manage obsolescence will depend on the number of factors, or variables that are identified as important for their organisation.
- Another theory is the question of who or what may be responsible for office building obsolescence? Could it be the environment and the factors within or the corporate real estate manager for their role in predicting and interpreting the impact of changes in the environments on their organisation?
- The obsolescence in office buildings is still in the eyes of the beholder and not particularly dependent on the environment, sector, age, portfolio or the tenure of the office buildings. Obsolescence in office buildings is individual to organisations despite the similar environments that they may operate in.
- Organisations that have a portfolio of office buildings could use this as a way of managing the risk of obsolescence in their buildings by the filtering functions among that various office buildings. This is because an organisation comprises a number of functions. The greater the number of functions carried out, the more complex it may be to manage and appropriately house these. Filtering presents an ideal starting point should there be need for change in the space used. Organisations with a single office building may be limited in effectively they can filter their functions.

- Among the variables explored, there has been no consistency in the way obsolescence manifests itself to enable any conclusions to be drawn from this.
- Where organisations opt to relocate, the demand for new space is rarely for the space, per se but more for what organisations want to achieve which may only be done by having a new kind of space altogether.
- What occupiers appear to do is to make the most of the real estate that they have. Proactive occupiers will be prepared for the onset of office building obsolescence and this could equip them to manage obsolescence. What occupiers cannot do is stop obsolescence altogether. They will instead make decisions that they believe will put them in a better position as regards their real estate requirements. Such decisions will range from refurbishing their premises, acquiring more space, disposing of surplus space, relocating or just making do with the space they have. Whether or not they can carry out any of these decisions will also depend on the factors prevailing within the general business environment, the property market and within the objectives and rules of the organisation itself.
- The culture in organisations is paramount as the office is seen as not just a place to work but a club or place where people go to meet, greet and eat. The continued need by organisations to reduce on costs may be at odds with incorporating this changing culture and thus the need to strike a balance as to whose utility takes precedence- the organisation's or the individual occupier?
- Obsolescence is a continuum that will occur in every organisation, at any point in time of its existence.