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A comparison of four strategies with the \textit{ec}'s own real estate strategy and O'Mara's generic strategies

\textbf{Preface}

Each year at the \textit{tu} Delft master course Real Estate and Housing of the Faculty of Architecture students can opt for the Corporate Real estate Management (\textit{crem}) module. In this course students design a real estate strategy. This year the real estate portfolio of the European Commission (\textit{ec}) has been researched. The main question of this paper is: “What real estate strategies did the four best students design and how do they compare to the present \textit{ec} real strategy and to the generic real estate strategies O'Mara (1999)? The real estate strategies are presented in chapter four. In total six strategies will be introduced: the four students strategies: Feenstra (2008), Koppelman (2008), Muijderman (2009) and Schootbrugge, Van der (2008) but also the \textit{ec}'s own real estate strategy and O'Mara's (1999) generic strategies. Before these strategies are presented three other questions need to be answered: In what context are these real estate strategies made? meaning that in the introduction (chapter one) the \textit{crem} module will be introduced, the \textit{ec}, the \textit{ec} organisation and her real estate. The second question is “Why is a real estate strategy necessary for the \textit{ec}?”, it will become clear (chapter two) that the settlement of the European institutions in the city, and the city’s preliminary status as seat of the \textit{eu} contributed to a large extent to the deterioration of the urban environment. Today, the Commission faces a number of challenges in terms of its accommodation. Its building stock is ageing and inefficient both in terms of use of space and energy consumption. Furthermore its stock is relatively expensive. Above this are possible future political and economical changes awaiting. “What could be future problems in the \textit{ec} real estate portfolio”.

By using scenario planning (chapter three) it will become clear that the \textit{ec} might need 926.000 m$^2$ or even 1.300.000 m$^2$ depending on how the future will evolve.

“How do they compare to the present \textit{ec} real strategy and to the generic real estate strategies O'Mara (1999)? It will show that the generic strategies are not used explicitly. The different strategies however can be labeled using the generic strategies: incremental, standardization and value based. Students, the TU Delft and the Commission (chapter six) learn some lessons of this real estate strategy presentation. Also it is suggested that the generic strategy theory looks at disadvantages not only at organisational level but also at urban level.

1. \textbf{Introduction}

An introduction into the corporate real estate management module is given (1.1) in order to understand the context is which the students have made their real estate strategies. After that the European commission (\textit{ec}) is introduced because the \textit{ec} is the case study for the students in the \textit{crem}-course of 2007/2008 (1.2). The \textit{ec}'s organization is briefly explained (1.3) as well as the current real estate portfolio (1.4).

1.1 \textbf{The Corporate Real Estate Management module at the TU Delft}

The Corporate Real Estate Management module is part of the Real Estate and Housing master at the Faculty of Architecture at the \textit{tu} Delft. This module is part of the master course and focuses on the management of Corporate Real Estate (\textit{cre}) and Public Real Estate (\textit{pre}). The module deals with the real estate stock of companies such as \textit{abn amro} and Philips, a university or the State. Real Estate Management is approached from the viewpoint of the owner. Various subjects with a bearing on the requirements of the real estate stock are tackled from four different perspectives: General Management, Asset Management, Facility Management and Maintenance Management. A vital part of \textit{crem} is the integration of the various approaches in the coordination of supply and demand, at both portfolio, building and workplace level.
The module has a duration of eight weeks and consist of three parts:

1. Case and module introduction (2 weeks) in which the students are introduced to the case of the European Commission through lectures and a visit to Brussels;
2. Case studies (3 weeks) in which the students work in groups on four cases.
3. Strategic real estate plan (3 weeks) in which each students individually writes a strategic real estate plan.

1.2 The European Commission

The European Project started on April 18, 1951, with the Treaty of Paris, establishing the European Coal and Steel Community (ECSC). The establishment of the ECSC in the aftermath of World War II meant to prevent armed conflicts between Europe’s great powers. By creating an international economic authority governing the coal and steel (principal resources for the arms industry) industries, interdependencies were created between member states, so that another war on European soil would be an unlikely event to happen. The six founding countries, Belgium, the Federal Republic of Germany, France, Italy, Luxembourg and the Netherlands, continued their cooperation with the establishment of the European Economic Community (EEC) in 1957, a wider common market. The concept of economic integration proved to be successful and the EEC expanded. New member states joined the EEC and more fields of common policy were being developed, and consequently new European institutions were established. In 1979 the first direct elections for the European Parliament were held and in 1993 the European Union was established. Two years later the Union consisted of 15 member states and in 2002 a European currency was introduced. Today, the European Union has 27 member states, with a number of other countries eager to join.

1.3 The EEC organization

“The Commission is independent of national governments. Its job is to represent and uphold the interests of the EU as a whole. Like the EP and the Council, the European Commission was set up in the 1950s under the EU’s founding Treaties. The European Commission has four main roles:

1. to propose legislation to Parliament and the Council;
2. to manage and implement EU policies and the budget;
3. to enforce EU law (jointly with the Court of Justice);
4. to represent the European Union on the international stage, for example by negotiating agreements between the EU and other countries.” (How the European union works (2007; 23)).

The EEC consist of 27 Directorates General which are all headed by one of the Commissioners. “In September 2002 the Office for infrastructure and logistics (OIB) in Brussels is established. The Office is attached to the Directorate-General for Personnel and Administration. The Office shall operate as from 1 January 2003. The purpose of the OIB is amongst others to “ensure that all activities associated with the housing of staff, the management of social welfare infrastructure and the logistics of the institution, ..., are carried out.” (2003/523/EEC (2002; 1)).

1.4 The EEC real estate

In 1958, three cities were appointed to host EEC (and later EU) institutions: Brussels, Luxembourg and Strasbourg. Today, Brussels hosts the European Parliament (together with Strasbourg), the European Commission and the European Council. For Brussels, the European institutions are of great economic importance. The presence of Europe in Brussels was consolidated in three periods of time: the launching of the Community (1957-66), the consolidation of office space (1967-85) and the re-launching of Europe (1986) (Borra et al. 2006; 72). The Leopold Quarter, a nineteenth century residential area just east of the historical centre, was assigned by the local authorities to accommodate the European institutions, which led to mass demolition of housing estates in the area. Most of its office buildings were developed by private developers, without any regulations imposed by the local government. The way in which the offices were physically integrated with the urban fabric contributed to an undesirable urban environment. It was not before 2000, with the Treaty of Nice, that Brussels became officially the capital of Europe. Until then, there was neither an urban plan nor a vision of how Europe should be physically represented in Brussels.

“At the end of June 2007, the Commission in Brussels occupied approximately 865,000 m² of space in Brussels over 61 buildings, housing a total of almost 22,000 staff (officials and contract staff). The majority of buildings are small or very small
(under 15.000 m$^2$, accounting for two third of the total) and only 8 are larger than 20.000 m$^2$. In Brussels, the Commission’s premises are primarily clustered together in three different areas:

The “Quartier européen” 5 (710 000 m$^2$ with almost 19 000 members of staff);
The Beaulieu area (80 000 m$^2$ with 2 000 members of staff);
The Rue de Genève/Da Vinci area (56 500 m$^2$ with 1 250 members of staff).” (COM (2007) 501; 4).

2. What are the current real estate problems the EC is facing?

The city of Brussels and the European Commission face a wide range of problems, from the living environment to little cooperation between EU institutions, and from urban decline to an ageing building stock. The problem analysis of the four students is given first (2.1), than six problems are explained more indepth (2.2), ending in an overview of demand for real estate and mismatch current portfolio (2.3).

2.1 Problem analysis four students (in keywords)

<table>
<thead>
<tr>
<th>Feenstra</th>
<th>Koppelman</th>
<th>Muijderman</th>
<th>Schootbrugge, Van de</th>
</tr>
</thead>
<tbody>
<tr>
<td>expanding floor space</td>
<td>appearance</td>
<td>living environment</td>
<td>image representation</td>
</tr>
<tr>
<td>high priority safety</td>
<td>quality buildings</td>
<td>soci economic environment</td>
<td>contract duration</td>
</tr>
<tr>
<td>better overall integration</td>
<td>sustainability</td>
<td>european quarter</td>
<td>age of duration</td>
</tr>
<tr>
<td>low energy use</td>
<td>livability</td>
<td>timing and qualitative gap</td>
<td>near public transport</td>
</tr>
<tr>
<td>efficiency policy</td>
<td>portfolio size</td>
<td>freehold with flexibility</td>
<td>optimal urban environment</td>
</tr>
<tr>
<td></td>
<td>mobility</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>integration</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>cooperation</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 2: problem analysis student strategies

Koppelman (2008) has made a division in problems mainly related to image (the first four) and to efficiency (the latter four items). All students refer to problems relating to image and efficiency.

2.2 Six problems explained in depth*

The city of Brussels, its inhabitants and the EC want a healthy living environment. Brussels is among the most polluted capitals of Europe. A study performed by Energie-Cites in 2001 indicates that “transport alone is responsible for 87% of carbon monoxide (CO) emissions, 89% of polynuclear aromatic hydrocarbon (PAH) emissions, 58% of nitrogen oxides (NOx), 69% of lead and 48% non-methane volatile organic compounds (NMVOC)” (Energie-Cites 2001). In addition, the level of fine particles exceeds limiting values many times yearly.

The city of Brussels wants a better socio-economic situation. Brussels is the second richest urban region in Europe (Forbes.com in Muijderman 2008). The region’s GDP doubles the national average, but the average taxable income decreased since 1992 to 89% of the national average in 2001 (BIM, 2002 in Muijderman 2008). This is said to correlate with the exodus of middle and higher incomes to the periphery (in the Western Brussels). Together with the lower income migration into the city, this results in an overrepresentation of lower incomes (in the Canal zone) and widening the income difference which has consequences for mobility, fiscal revenues and maintenance of buildings as well.

Inhabitants want a livable European Quarter and EUR want an efficient real estate portfolio. Borra et al. (2006:74) indicate that this “As the EU settled in Brussels, the CED – Central Executive District – was adopted as a model to anticipate the growth of the European office market”. “[...] here, the built environment acted simply as a passive matrix or canvas for urban transformations initiated by political and economic forces, failing to direct its own form of political, economic and aesthetic choices”. The area suffered steady decline due to the exodus of residents, its anonymous architecture and congested streets. Soaring prices for real estate in the area caused by the EU (omni-) presence have only deepened the problems.

EC employees want a good workplace and EUR want to manage the stock properly. Only a small portion of the Commission’s real estate portfolio is own property (freehold), the bulk of the portfolio is comprised of leasehold contracts (either...
leasehold, usufruct or rental). In the next 25 years all contracts expire more or less at the same time. The problem for the ec is that a substantial part of the portfolio will be obsolete on the date of expiry. Most buildings are considered of low architectural value, too small, and many buildings do not meet today’s energy efficiency standards.

Oib wants an efficient portfolio
The Internal Audit Service calculated (in Muiderman 2008) that renting is 40 to 50% more expensive than ownership for long term occupation. Ownership also entitles the ec to modify the building to new requirements and, when developed in close collaboration with private developers, it gives the ec the opportunity to enhance the quality of the building (see 1.4). These advantages however, could turn into disadvantages when the building becomes obsolete for the organization in the future and needs to be disposed of. oib has indicated that a balance between contract types in order to achieve an efficient portfolio and maintain a certain degree of flexibility at the same time.

The ec wants better cooperation
Communication, cooperation and exchanging best practices between the institutions can be enhanced. The founding of oib did not yet improve this. A policy document (com (2007) 501) on real estate from the Commission proposed a new methodology, based on four principles: (1) better information of the market; (2) increased competition among the market players; (3) increased transparency of the procedure, both internally and externally and (4) greater cooperation and interaction between the departments.

2.3 Overview of demand for real estate and mismatch current portfolio

In the latter paragraph the problems of the ec portfolio have been discussed. In this paragraph the mismatch is given related to the building level.

**Demand for real estate**
- The city of Brussels, its inhabitants and the ec want a healthy living environment
- The city of Brussels wants a better socio-economic situation
- Inhabitants want a liveable European Quarter and oib wants an efficient ec portfolio
- Ec employees want a good workplace and oib want to manage the stock properly
- Oib wants an efficient portfolio

**Mismatch current portfolio**
- 18 buildings are not situated within 300 meters of public transport
- At present none of the offices of the ec are situated in the Canal zone
- 26 buildings have a moderate, bad or very bad mixed use of functions in 1 square kilometer around their building.
- No specific financial data was available.
- 12 buildings are older than 13 years
- 17% is ownership, 10% is rent, 49% is lease and 22% usufruct.

<table>
<thead>
<tr>
<th>Table 3: Overview mismatch</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Demand for real estate</strong></td>
</tr>
<tr>
<td>The city of Brussels, its inhabitants and the ec want a healthy living environment</td>
</tr>
<tr>
<td>The city of Brussels wants a better socio-economic situation</td>
</tr>
<tr>
<td>Inhabitants want a liveable European Quarter and oib wants an efficient ec portfolio</td>
</tr>
<tr>
<td>Ec employees want a good workplace and oib want to manage the stock properly</td>
</tr>
<tr>
<td>Oib wants an efficient portfolio</td>
</tr>
<tr>
<td>The ec wants better cooperation</td>
</tr>
</tbody>
</table>

3. What could be future problems in the ec real estate portfolio?

Another 370,000 m² needed untill 2030? In the former chapter we have seen which real estate problems the ec currently faces. In this chapter we explore what the future problems might be. The eu principal organizational goals are strongly depending on the economic developments in the eu and the World. Since these developments are unpredictable scenario planning (Dewulf et al. in De Jonge (2008:49) is used to see how the future can develop and what the consequences of these developments can be on the real estate of the ec. This is done in four steps: first existing future scenarios are studied (3.1), secondly these developments are categorized in three parts which relate indirect to real estate (3.2) and thirdly the qualitative and quantitative consequences for real estate are given (3.3). Finally the scenarios are matched with the current supply to see whether (new) problems occur and to determine what the minimum and maximum demand for real state is (3.4).

3.1 The CPB scenarios for Europe

The Central Planbureau (Lejour 2003) has studied the world economy and made four possible scenarios for Europe until 2040 constructed on two key uncertainties:

The second key uncertainty refers to institutional reforms in the public sector in European economies.
3.2 The developments categorized

The next step is to translate these four scenarios to real estate demand. Therefore developments are categorized in three parts which relate indirect to real estate: (1) EU growth, population and labor, (2) technology and growth and (3) trade. The numeric information has been adjusted to the period 2008-2030. The space use per potential new member state is determined by relating the amount of EC employees to the amount of total EU inhabitants.9

<table>
<thead>
<tr>
<th>Trend EU 2008-2030</th>
<th>S1 Strong Europe</th>
<th>S2 Regional communities</th>
<th>S3 Global economy</th>
<th>S4 Transatlantic market</th>
</tr>
</thead>
<tbody>
<tr>
<td>New member states</td>
<td>Adding Croatia, eastern enlargement, new member states gain a more permanent character.</td>
<td>Adding Croatia, Macedonia, Turkey, Bosnia, Bulgaria, Serbia, Montenegro, Albania, Ukraine, Georgia, Moldova, Armenia</td>
<td>Uncertain, states limit role of state.</td>
<td>EU decision making is not reformed, which complicates further integration.</td>
</tr>
<tr>
<td>EU government</td>
<td>Reforming process of EU decision making</td>
<td>Reforms are blocked on their core task</td>
<td>Concentrates on their core task</td>
<td>EU decision making is not reformed, which complicates further integration.</td>
</tr>
<tr>
<td>Population growth</td>
<td>EU High (8%)</td>
<td>Low (-6%)</td>
<td>High (8%)</td>
<td>Moderate (0%)</td>
</tr>
<tr>
<td>Participation rate</td>
<td>Low</td>
<td>High</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Employment growth</td>
<td>3%</td>
<td>14%</td>
<td>11%</td>
<td>3%</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>Moderate</td>
<td>Low</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Technology and growth</td>
<td>Labor productivity Moderate</td>
<td>Low</td>
<td>High</td>
<td>Moderate/high</td>
</tr>
<tr>
<td>Energy efficiency</td>
<td>High</td>
<td>High</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>Climate-change policy</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Savings policy</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Capital mobility</td>
<td>High</td>
<td>Low</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Trade</td>
<td>Int. trade barriers/cor growth Low/53%</td>
<td>High/18%</td>
<td>Low/34%</td>
<td>Moderate/66%</td>
</tr>
<tr>
<td></td>
<td>Int. cooperation &amp; world export (wr) Yes, wr 328%</td>
<td>No, wr 189%</td>
<td>Yes, wr 435%</td>
<td>No, wr 267%</td>
</tr>
<tr>
<td></td>
<td>Public/Private sector Substantial</td>
<td>Substantial</td>
<td>Substantial</td>
<td>Substantial</td>
</tr>
<tr>
<td></td>
<td>Public transport &amp; institutions Growing pressure on public sector, gives rise to reforms. New institutions are based on private initiatives</td>
<td>Growing pressure on public sectors, give rise to reforms. New institutions are based on private initiatives</td>
<td>Growing pressure on public sector, give rise to reforms. New institutions are based on private initiatives</td>
<td>Growing pressure on public sector, give rise to reforms. New institutions are based on private initiatives</td>
</tr>
<tr>
<td></td>
<td>Deepening EU market Substantial</td>
<td>Substantial</td>
<td>Substantial</td>
<td>Substantial</td>
</tr>
</tbody>
</table>

Table 4: Filtering aspects relating to real estate demand en quantifying until 2030 (Schootbrugge, Van der 2008)

3.3 The quantitative and qualitative consequences for EC real estate per scenario

Strong Europe

The new member states result in 278.000 m² extra portfolio space. Because of the population growth (8%) there will also be an 8% extra portfolio growth. Because of the energy efficiency and climate change policy all EU buildings should be within 300 meters the public transport. The dominant, international role leads to a demand of at least 40% prominent offices, an (icon) eye catcher. 10 Trade is based on international cooperation with a high world export (WE), but pressure on the public sector remains and the EU fulfills the equitable distribution of welfare. On portfolio level this is visible on integration. The level of “mixed use” (other 60%) should score as a moderate to a very good mix.

Regional communities

In this scenario the EU cannot cope with enlargement. The portfolio stays at its current 926.000 m². The unemployment rate is high; therefore the EU portfolio should not emit too much power, with exception for some existing icons like the Berlaymont and CCB. 20% within a pole scores good on image (icon) eye catcher). Mixed use (other 80%) should score form moderate to very good. This makes the EU social acceptable and resistible against unsatisfied citizens in times of recession. Because of the public responsibilities public transport should be good (within 300 meters).

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9 In total the 27 member countries have 483,7 million inhabitants, and the EU has 23,600 employees, resulting in an average 1 employee to 20,496 inhabitants (Schootbrugge, van der 2008 appendix 5).

10 Schootbrugge, Van der (2008; figure 6) made a 6 point scale for qualitative aspects based on the Real Estate Norm (REN).
Global economy
The new member states are again resulting to 278,000 m² extra portfolio space. Because of the population growth (8%) there will also be an 8% extra portfolio growth (to 1,300,000 m² total). Employment growth, dgp increase en world export is very high and the eu focuses at their core task. The increasing economy parameter raises the eu demand for a high image and newer buildings, but also integration in the city (mixed use). Public transport must be within 300 meters and at least 60% of a pole should score on image ((icon) eye catcher). The mixed use level is moderate to very good.

Transatlantic market
In this scenario it is uncertain whether there will be new member states. Probably the countries in queue will be added (Turkey, Croatia and Macedonia) resulting to 1,204,000m². The market exchange is replacing the role of the state and member states focuses on national interests. The private sector is expanded which results in an increase of inequality. Because of that the mixed use levels are low. To redirect attention from the US the image is more important (30% icon eye catcher) and public transport improved (within 300 meters).

3.4 Possible future problems in the ec real estate portfolio

<table>
<thead>
<tr>
<th>Current supply</th>
<th>S1 Strong Europe</th>
<th>S2 Regional communities</th>
<th>S3 Global economy</th>
<th>S4 Transatlantic market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Space use m²</td>
<td>1,300,000 m²</td>
<td>1,204,000 m²</td>
<td>926,000 m²</td>
<td></td>
</tr>
<tr>
<td>Image</td>
<td>Only BBI scores as an icon eye catcher (14%, 130,000m²)</td>
<td>40% of pole must score high, (icon) eye catcher</td>
<td>20% of pole must score high, (icon) eye catcher</td>
<td>30% of pole must score very high, icon eye catcher</td>
</tr>
<tr>
<td>Mixed use</td>
<td>62 buildings</td>
<td>60% must score</td>
<td>(very) good mix (780,000m²)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>average score moderate mixed use 692,000m²</td>
<td></td>
<td>(very) good mix (520,000m²)</td>
<td></td>
</tr>
<tr>
<td>Image/mixed use</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>in percent and on total portfolio</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public transport</td>
<td>Within 300 m</td>
<td>Within 300 m</td>
<td>Within 300 m</td>
<td>Within 300 m</td>
</tr>
</tbody>
</table>

Table 5: Match with future (qualitative and quantitative) demand (Schootbrugge, Van de 2008)

In all the scenarios a certain percentage of a pole should be icon eye catcher, but at least 20%. Currently a few buildings qualify as but none of them is clearly situated in a European pole. They are all mixed up in the urban environment. The demand for mixed use is increased in the scenarios but this does not lead to more problems in the current real estate portfolio another buildings. When public transport should be within 300 meters 5 more buildings become problematic. In the next figure the minimum and maximum demand for real estate is given together with the necessary flexibility. The necessary flexibility (bandwidth) is the difference between the minimum and maximum.

<table>
<thead>
<tr>
<th>Minimal demand</th>
<th>Maximal demand</th>
<th>Necessary flexibility-bandwidth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Space use total</td>
<td>926,000 m²</td>
<td>1,300,000 m²</td>
</tr>
<tr>
<td>Image m² per pole</td>
<td>20%</td>
<td>60%</td>
</tr>
<tr>
<td>Mixed use per pole</td>
<td>40% (average or more)</td>
<td>80% (average or more)</td>
</tr>
<tr>
<td>Public transport</td>
<td>within 300 meters</td>
<td>within 300 meters</td>
</tr>
</tbody>
</table>

Table 6: Minimum and maximum demand (Schootbrugge, Van de 2008)

4 Six real estate strategies
Six real estate strategies are presented in this chapter. First the four student ec real estate strategies are given (4.1 to 4.4). Than the current ec real estate strategy is described (4.5) followed by the generic real estate strategies of O’Mara (4.6). A summary of the six strategies in keywords is also provided (4.8). In the next chapter these strategies will be compared.
4.1 EC real estate strategy Feenstra (2008): four poles

A four pole strategy is chosen of conflicting interest between low the real estate costs and concentration in the European Quarter. The European quarter maintains to be the centre point connected at short distance with the three other poles.

European quarter
The European Quarter remains the centre point because a large part of employees live and work in or close around this area. Therefore it is both wise, logical and efficient to use this area. But the area needs drastic reconstruction: old buildings should be disposed and more green zones, open spaces and image buildings should be added.

One new pole
A good option to solve the existing pressure to expand only in the Quarter is a search for a new concentration pole in the city. This will open the urban tissue; thus it improves a better integration of the political body within the city. By this, we can also think of developing high aesthetic quality buildings. Opportunities can be found for example in a big, icon building. Creating image and useable as orientation point for the entire city. A position of the new pole for the European Commission in the west part of Brussels creates a public attraction in this area and may have a positive effect tackling this division between poor and rich areas and thereby gaining unity.

Intensifying Genève
This pole has really good opportunities for further growth while thinning out the European Quarter. A few smaller buildings (smaller than 20.000m²) are already in use by the European Commission. The area has a low density, meanwhile there are several potential brown fields and prices are less high. Genève has a good strategic position because of its accessibility. Ring roads are on short distance, and the airport of Brussels is nearby. It also is a residential area, which gives opportunities to reduce home -work traffic. It is suited for smaller EC’s or Agencies. The critical mass for an efficient pole is larger than 100.000-150.000 m².

Beaulieu
Beaulieu, like Genève, is a current pole of the European Commission. Actually it is a row of proper buildings positioned next to each other on the side of a ring road. It is a strong residential area where a lot of European Commission employees live. The accessibility by car is very good. Several brown fields give opportunity for further expansion on the long term.

4.2 EC real estate strategy Koppelman (2008): masterplan

The strategy for the building portfolio of the EC exists of five elements:
1) public transport zones for offices in the European Quarter;
2) relocate office space from European Quarter to Geneva and Beaulieu;
3) increase EU image towards Brussels and the member states;
4) building size of 10.000 m² to 50.000 m²;
5) upgrading to technical and sustainable quality standards.

There will be a Masterplan for the redevelopment of the European Quarter. By cooperation between the EC and the municipality, the problems regarding image and efficiency can be solved.

4.3 EC real estate strategy Muijderman (2008) The Road to Symbiotic Coexistence

Main objective of this strategy is to create a situation where the Commission and the local community benefit from each other. Although there is a certain level of benefit at hand for both the city of Brussels and the Commission (Brussels benefits economically and politically; the Commission is accommodated), their coexistence has evidently contributed to the deterioration of the city. Since the Commission is such a vital player on the Brussels real estate market, it is the most eminent stakeholder in the matter to bolster Brussels’ redevelopment: the question is what the Commission in particular, and in a broader perspective, all European institutions present in Brussels, can do to support the redevelopment of Brussels and put a halt to the urban decline which is currently in full process. First, the Commission has the responsibility to work in close collaboration with the local authorities and especially the people of Brussels whenever new sites for development are being considered. Second, the commission needs to subordinate its site objectives to an urban development plan, aimed at narrowing the gap between poor areas and prosperous neighborhoods. Third, the Commission has a responsibility to foster the city’s policy to reduce traffic. Therefore it could promote and stimulate the use of public transportation under its staff. In return, the city of Brussels has to urge investments in (underground) public transportation.
The trade-off
Currently the commission’s real estate is concentrated in the Leopold Quarter, Beaulieu and Genève. Where its presence in the Leopold Quarter is overstrained, its other poles are somewhat meaningless. Given the status of the European Union and its meaning for the city of Brussels, its representation should be more manifest. The Union is the city’s most prominent brand and should therefore be concentrated in the city centre. Beaulieu and Genève will be disposed when contracts of facilities in these areas expire. Concentrating all European administrative functions in the Leopold Quarter would only worsen today’s problems though, and a single opportunity to redevelop other deteriorated areas would be missed out on. But what would be the best area to develop the next EU pole? Important criteria are a connection to the (underground) public transportation system, availability of office space for (preliminary) accommodation, availability of potential construction sites and an urban fabric able to absorb large scale office buildings and housing. Brussels’ North District is chosen if the local government is willing to support the Commissions’ moving to the North District and will develop large scale housing.

4.4 EU real estate strategy Schootbrugge (2008): poles, icons and integration

One or more European pole(s) with a large/high icon for perception and surrounding offices mixed up with dwellings as intervention. One or more centered, but also partially mixed with dwellings, European quarter(s). The quarter(s) will have large icon(s) that give recognition and perception to the city but are also representing the powerful image of the EU/EC.

The icons and supporting offices are concentrated and close to public transport, but within a system of interventions. Residential and green areas will be close and partially mixed up in the European areas. The residential areas are close to the icon(s) but do not experience the detrimental side (for example less daylight, more car traffic etc.) of the EU presence. For example tunneling is possible for traffic intensive roads.

4.5 EU real estate strategy

“Since [...] [1997], the Commission has defined on three occasions its policy objectives in terms of buildings policy. Through its Communications of 1996 on buildings policy in Brussels and Luxembourg, of 1999 on property policy in Brussels and of 2003 on buildings policy and infrastructures in Brussels11, the Commission highlighted and confirmed the three following objectives:

The rational installation of services and better working conditions for staff;
The intensification of acquisition policy;
Reflecting the impact of the Commission’s buildings policy on the urban environment of Brussels, through the intensification of the dialogue with the Belgian authorities.” (COM(2007) 501; 2)

“The existing approach, as defined by the previous Communications on buildings policy, must be reinforced and rationalised through:

The definition of a sufficiently long-term planning of space requirements to avoid piecemeal acquisition or rental of buildings; this task will be primarily undertaken by the offices O11 and O11 through the Multi Annual Policy Framework (MAPF), that is validated by the respective Management Committees of the Offices;
Increased market prospection, transparency and competition regarding the procurement of buildings;
The limitation of buildings in the “Quartier européen” in Brussels, with a view to avoiding upward pressure on cost;
Taking into account the whole life costs of the buildings acquired, leading to large future renovation costs, in many cases before the end of purchase or usufruct contracts.[...];
Reinforcing existing efforts to reduce the atomisation of the Commission across a very large number of buildings, which has the effect of increasing costs of infrastructure ICT and related services management, requiring unnecessary additional space, preventing the Commission from realising economies of scale which should be achievable for an organisation of the Commission’s size, reducing the Institution’s physical symbolic impact in the host country and making urban planning difficult for the host countries;
The need to build and reinforce partnerships in the past with the host country authorities, in particular the Brussels Capital Region. In this respect the Task Force “EU – Belgium” has started to play a useful role;
The need to further strengthen efforts undertaken so far to increase efficiency in terms of energy consumption, reflecting the growing importance in recent years of measures to combat climate change.
Based on this approach real improvements should occur. With the development of much larger, more efficient buildings and the ability to gain full advantage from our position in the property market by strengthening the necessary elements of competition at different levels – including an improved market prospection – there will be scope for making much needed improvements to buildings, so as to ensure that they meet the needs of the Commission and its staff, and comply with policies advocated more generally by the EU.1

4.6 Generic real estate strategies O’Mara (1999)12

In her book “Strategy and Place: Managing Corporate Real Estate and Facilities for Competitive Advantage (1999)” Harvard Design School lecturer Martha O’Mara describes three different approaches to real estate strategy in order to help practitioners better align real estate with their company’s needs. Corporations should either pursue an incremental, standardisation or value-based strategy13. O’Mara’s generic corporate real estate strategies are classified based on (a) the level of uncertainty about future real estate requirements and (b) the perspective on organisational action: symbolic or rational.

An incremental strategy is apparent when space is acquired in bits and pieces over time. The more uncertain managers are about their company’s future, the more they want to delay major commitments until either better information or a clearer vision is available. A standardization strategy focuses at efficiency and attempts to control and coordinate facility design and real estate operations across the entire organization. Standards are set centrally and applied throughout the company. A value based strategy deliberately expresses the values and strategic direction of the company in the real estate.

4.7 Summary of the six real estate strategies in keywords

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Feenstra</th>
<th>Koppelman</th>
<th>Muijderman</th>
<th>Schoobrugge</th>
<th>ec Van de mote</th>
<th>O’Mara</th>
</tr>
</thead>
<tbody>
<tr>
<td>Elements</td>
<td>multi pole</td>
<td>masterplan</td>
<td>symbiotic</td>
<td>existance</td>
<td>none</td>
<td>multi pole</td>
</tr>
<tr>
<td>Energy use</td>
<td>upgrade</td>
<td>technical status</td>
<td>and sustainability</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Spread of m²</td>
<td>integration</td>
<td>multi pole</td>
<td>value based</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High</td>
<td>architectural quality, efficiency &amp; sustainability cooperation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10 to 50.000 building size</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 7: Summary real estate strategies

5. How do the students real estate strategies compare to ec’s own real estate strategy and the generic strategies of O’Mara?

The ec real estate strategies of the four best students have been presented in chapter four as well as the ec’s own real estate strategy and the generic strategies of O’Mara (1999). This chapter answers the second part of the main question: how do the students plans compare to the ec’s own real estate strategy and to the generic strategies? First the comparison is made between the students’ plans and that of the Commission itself (5.2). Secondly the student strategies as well as the ec’s own real estate strategy are compared with the generic strategies of O’Mara (1999).

5.1 Comparison students strategies to ec’s own real estate strategy

The ec’s real estate strategy comprises of five main elements. The first element is the “concentration in fewer larger buildings”. Feenstra (2008) focuses on bigger buildings as well. Koppelman (2008) makes a statement on building size but accepts buildings from 10.000 m² upto 50.000 m². The other two express themselves on building size. The second element is process related and is about “improving to act in the property market, the students do not refer to this aspect as such but do weigh this element in determining the amount and location of the poles. Feenstra for instance chooses a multi strategy for this reason. The third item multi pole is used by all students, although the amount of poles chosen differs (see table).
The fourth element is a high architectural quality, efficiency and sustainability. Most aspects of the students’ strategies are about this element. This aspect is dealt with in more detail14 by the students. The last element, cooperation, is only dealt with by Muijderman.

The site selection is mostly based on one or two arguments. Feenstra (2008) decides for 4 poles based on efficiency (keep competition/low real estate cost) and decides for one extra pole to give the European quarter a central position while enhancing the socio economic unbalance between West and East Brussel. Koppelman (2008) is focused mainly on livability and choose location because of accessibility while enhancing the integration in the European quarter by reducing the m2 in this area.

Muijderman (2008) chooses for two poles because of the substantial size of a pole and chooses for the North distrcit because of the socio economic unbalance between West and East Brussel. Schootbrugge, Van de (2008) concentrates around the Wetstraat but needs another pole because of insufficient size. Evere is choosen because of the accessibility and possible size.

Main conclusion of this comparison is that the Commission is on average more process oriented than the students (except for Muijderman) and starts “more abstract15” than the students. The students on the other hand immediately determine the consequences of the real estate strategy at pole and building level16.

5.2 Comparison between the student’s and ec’s to the generic strategies

When comparing the strategies to the generic strategies three points of view are taken: first if an explicit reference to the generic strategies is made, secondly whether the strategies can be labeled as generic. Thirdly the (dis)advantages of the incremental strategies are compared to the current real estate problems and finally O’Mara’s classification tool is used to determine which generic startegy is possible.

No explicite reference to generic strategies
The students and the ec both did not use the generic strategies explicetly. No reference has been made to O’Mara or the generic strategies: incremental, standardization and value based.

Strategies can be labeled as standardization and/or value based
Implicitly however the standardization and value based strategies are used. Feenstra’s (2008) strategic elements all refer in one way or the other to efficiency and therefore to the standardization strategy. Koppelman (2008) introduced the problems as related to image and efficiency, respectively value based and standardization oriented. The elements of her strategy are however slightly more oriented on efficiency. Muijderman (2008) is mostly focused on value based (his main argument being the enhancing the socio economic unbalance) just as Schootbrugge, Van der (2008) although his arguments are different. His focus lies on icons and integration within the urban tissue. The ec’s own real estate strategies has elements of standardization (costs) and value based (integration and image). However at several moments efficiency has been given priority.

<table>
<thead>
<tr>
<th>poles</th>
<th>Feenstra</th>
<th>Koppelman</th>
<th>Muijderman</th>
<th>Schootbrugge, Van de</th>
</tr>
</thead>
<tbody>
<tr>
<td>#</td>
<td>4</td>
<td>4</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>location</td>
<td>Leopold</td>
<td>Leopold</td>
<td>Leopold</td>
<td>Leopold</td>
</tr>
<tr>
<td></td>
<td>Beaulieu</td>
<td>Beaulieu</td>
<td>North</td>
<td>Evere</td>
</tr>
<tr>
<td></td>
<td>Geneve</td>
<td>Geneve</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>North</td>
<td>Overijse</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 8: Amount of poles and location of poles

14 The Commission also refers to this items in detail, although in the summary this is not reflected as such.

15 (1) Rational installation of services and better working conditions for staff; (2) The intensification of acquisition policy and (3) Reflecting the impact Commission’s buildings policy on the urban environment of Brussels.

16 In the summary it is not visible that the students translate to building level, but they do as can be seen in the various plans. It can very well that the Commission does this as well, but does not include this in cos(2007)501.
The European Commission (EC) has different advantages and disadvantages than stated for the incremental strategy. The EC has been following an incremental strategy before the status of Brussels became permanent in 1997 (COM(2007) 501; 2). The real estate problems the EC is facing as discussed in Chapter 2 are caused by this incremental strategy. As is shown above, the EC pursues a combination of a standardization and value based strategy since 2007. O’Mara (1999, in Singer, 2005) addresses the advantages and disadvantages of pursuing an incremental strategy. In the table below it is stated whether or not the EC has encountered the same (dis)advantages.

### Table 9: Real estate strategies classified in terms of generic strategies

<table>
<thead>
<tr>
<th>Advantage</th>
<th>O’Mara</th>
<th>European Commission</th>
</tr>
</thead>
<tbody>
<tr>
<td>Can wait for more information</td>
<td>For the EC it is different, it is not so much that they can wait for more information.</td>
<td>They have to wait for more information. Only when a decision about the organizational change is formally made the EC is able to acquire or rent real estate. The EC is also only able to commit itself within 1 year.</td>
</tr>
<tr>
<td>Shortens the forecasting horizon</td>
<td>This means that for the EC there is no forecasting horizon since formalization is necessary. It is shortened maximally. In that case it is clear what is needed and no forecasting is needed anymore.</td>
<td>The EC’s (omni-) presence in the European quarter has led to soaring prices for real estate in the area – not exactly lean and mean.</td>
</tr>
<tr>
<td>Symbalizes a lean and mean attitude</td>
<td>The EC’s (omni-) presence in the European quarter has led to soaring prices for real estate in the area – not exactly lean and mean.</td>
<td>The EC’s (omni-) presence in the European quarter has led to soaring prices for real estate in the area – not exactly lean and mean.</td>
</tr>
</tbody>
</table>

### Table 10: Advantages of generic strategies

When looking back to the problems in the current real estate portfolio of the EC we notice that some problems overlap the disadvantages of O’Mara (1999). The (dis)advantages O’Mara (1999) mentioned are all on organizational level. At the EC however some problems are clearly larger than the own organization: like the polluted living environment and exodus of higher and middle incomes. These problems are not (only) caused by the EC although the EC employees do add to these problems (mobility and choice of living environment). Besides these the destroyed urban fabric and the negative EC image as a result are also problems on urban level.

### Table 11: Disadvantages of generic strategies
Another aspect disadvantage for the EC is the quality of their building stock. Both architectural and technical quality as well as the performance on sustainability standards are low. Because this aspect is not mentioned by O’Mara (1999) it is unlikely this is caused by the incremental strategy solely. Especially the inability to make a commitment (buy or sign a lease) in advance (longer than 1 year) to a specific building makes it difficult to influence the quality of the building. The EC is dependent on what the market offers.17

Students assess the uncertainty as high while the EC does not address uncertainty in their communication on policy. The EC states with respect to future requirements:

“Over and above the 2,500 staff who joined or will be joining the Commission in Brussels within the period 2004-2008 as a result of the accession of 10 new Member States in 2004, a further 850 new staff are expected to join following the accession of Bulgaria and Romania as of 2007. The projected growth in staff numbers will generate additional demands with respect to the current situation11 on office space estimated at approx. 33,500 m² over the coming 3 years. In this context, particular attention will be devoted to the development of new conference facilities.”

(com(2007) 501; 6). Uncertainty is not addressed although it plays a very important role at the EC as can be seen in the scenarios made by the students. Schootbrugge, Van de (2008) identified three major uncertainties (see paragraph 3.4):

- the amount of m² needed (difference 374,000 m²);
- importance of image (difference 40%);
- importance of mixed use (difference 40%).

The view on action of the EC is rational on the one hand (efficiency oriented) and value based on the other (image and integration). The EC however does not indicate which view on action is preferred at which time. This will make decision making in future difficult. Although the EC has indicated to choose for both a standardization and a value based strategy, their financing possibilities can make this strategies difficult or impossible to implement. The financing options will push the EC towards an incremental strategy. Based on the classification of O’Mara (1999) and the scenarios of Schootbrugge, Van der (2008) one could argue the following:

<table>
<thead>
<tr>
<th>generic strategy</th>
<th>focus</th>
<th>minimal demand</th>
<th>m²</th>
<th>contract type</th>
</tr>
</thead>
<tbody>
<tr>
<td>value based strategy</td>
<td>image per pole</td>
<td>20%</td>
<td>185,200</td>
<td>freehold</td>
</tr>
<tr>
<td>standardization</td>
<td>mixed use per pole</td>
<td>40%</td>
<td>370,400</td>
<td>freehold</td>
</tr>
<tr>
<td>standardization or v&amp;b</td>
<td>image or mixed use</td>
<td>40%</td>
<td>370,400</td>
<td>lease</td>
</tr>
<tr>
<td>minimal demand</td>
<td></td>
<td></td>
<td>926,000</td>
<td></td>
</tr>
</tbody>
</table>

Table 12: Possible strategy EC based on classification O’Mara (1999)

For 40% of the (minimal) portfolio it is not clear which strategy is preferred (370,400 m²). For the remaining 374,000 m² extra maximum demand – if the scenario Strong Europe evolves – a incremental strategy is the best choice due to the high uncertainty.

5.3 Lessons learned

Lessons for the students and the educational program

Make more use and reference to the current real estate strategy of the EC and clearly state when and why an alternative strategy is chosen (except for Muijderman); The students plans are more focused on the content of the real estate strategy and less on the implementability of the strategy, while an organisation needs to focus at both at the same time. Introducing implementability in the program could be an option;

The educational program at the TU Delft is focused at the process of real estate strategy making and is less focused on the content of the strategies. The program can be expanded with more specific strategy content.

Lessons for the European Commission and OIB

Scenarios have given insight in the future uncertainties;

Defining more clearly for which part incremental, standardization or value based is appropriate to avoid unclear decision making in the future.
Lessons for generic strategy making

The (dis)advantages of the incremental strategy do not apply, the EC has especially not been able to make use of the advantages while confronted with the disadvantages. This is caused by the financial possibilities of the EC;

The EC also faces disadvantages on an urban level (destroyed urban fabric and no mixed use in the European Quarter) while the generic strategies focus solely on the organisational disadvantages. This might be caused by the size of the EC portfolio with respect to the office market.

Literature


Internet

Building map and building list – http://ec.europa.eu/oib/index_en.htm


Lectures crem module (in chronologic order)

Vande Putte H. J. M. (04-02-08) Introduction Brussels
Wortmann-Kool C. M. (05-02-08) The European Parliament
de Bois, P. G. (05-02-08) Urban environment
de Jonge, H. (07-02-08) Corporate Real Estate Management (crem)
Roberto Rocco, R. C. (06-02-08) Corporations and cities
Declerck, J. (06-02-08) Brussels a Capital for Europe
Vries, J. C. de (11-02-08) Facilities Management
Ramselaar, P. P. (12-02-08) Office for infrastructure and logistics (oib).
Moritz, B. (12-02-08) Brussels
Geens, H. (12-02-08) Brusselsse Raad voor Leefmilieu
Leloutre, G. (12-02-08) Elements of the Brussels complexity
Grimbergen, J. van (13-02-08). Europese wijk.
Buijssen E. (19-02-08) Asset management
Keeris, W. G. (19-02-08) Asset management from a institutional stakeholder
Straub A. (22-02-08) Maintenance management
Arkesteijn M. H. (03-03-08) Designing an Accommodation Strategy: an framework
Hordijk, A. C. (10-03-08) Valuation