LESSON 2

Decision Framing: Finding the Most Effective Question for your Client

Assigned Reading

Selected assigned readings can be found on the BUSI 460 Course Resources website, under "Online Readings".

1. UBC Real Estate Division. 2011. BUSI 460 Course Workbook. Vancouver: UBC Real Estate Division. Lesson 2: Decision Framing: Finding the Most Effective Question for your Client


Recommended Reading

Selected recommended readings can be found on the BUSI 460 Course Resources website, under "Online Readings".


   Chapter 9: Market and Marketability Analysis.

   Chapter 1: Introduction to Managerial Decision Making.
   Chapter 2: Biases.

   Chapter 2: Problem: How to define your decision problem to solve the right decision.
   Chapter 3: Objectives: How to clarify what you’re really trying to achieve with your decision.


Learning Objectives

After completing this lesson, the student should be able to:

1. recognize that uncertainty and multiple attributes are inherent complexities in real estate decisions;
2. recognize that many real estate decisions involve multiple stakeholders with different interests;
3. recognize the limitations of traditional framing perspectives;
4. recognize the need for a systematic decision-making process due to cognitive limitations;
5. apply a sound process for framing decisions;
6. describe how decision framing can incorporate complexities of various types;
7. structure decision problems; and
8. incorporate clients' needs in framing decisions.

Instructor's Comments

In Lesson 1 we observed how critical thinking can contribute to effective problem solving. In this lesson, we learn how to put this into practice in decision framing, which is the first phase of the decision-making process.

Take a moment to answer this question:

A client comes to you with a proposal to invest in a retail strata unit in a local shopping plaza. The property is currently leased to a dry cleaning operation. He asks you if he should invest in the property or not? How would you go about helping this client make this decision?

Write some questions you might ask your client in the box below:

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Later in this lesson, we will revisit your approach to solving this problem.

Introduction to Decision Framing

Decision framing is about finding the best perspective from which to view a decision. In Chapter 2 of Winning Decisions, Russo and Schoemaker look at how traditional decision perspectives and failures to think "out of the box" have led to lost business opportunities. They also illustrate how creative thinking during decision framing has led to extraordinary success in business.
Decision framing is about finding the best perspective from which to view a decision. Russo and Schoemaker explain that "frames are mental structures that simplify and guide our understanding of a complex reality" (p.21). Given the volume and complexity of information we need to deal with in making decisions on a daily basis, we require some process to simplify and process the data into a form we can manage effectively.

While this process operates sub-consciously for most of us, Russo and Schoemaker point out a number of possible flaws in our imperfect (human) approach to decision framing. For example, we are at risk that our frames will:

- filter or distort the information that we consider as facts for decision making;
- result in tunnel vision where we do not become aware of other frames or ways of viewing the data;
- provide an inaccurate picture of the real world decision that is required; and
- become steadfast, resistant to change, and make us a victim of our own biases.

It is helpful at this point to consider some practical applications of decision framing in real estate.

**Applications of Decision Framing**

You are a real estate counsellor to a high net worth private investor. She is excited about the ever-improving prospects for commercial real estate in BC’s Lower Mainland, and is considering investing in a older retail strip mall in south Vancouver. You believe her decision frame is distorted because she is only seeing the reward, not the associated risk. You believe the client will be taking on far more risk than is optimal given the potential return and the size of the equity investment required. In this case, there is a disconnect between your frame and your client’s. Your client’s frame is influenced by her belief in the importance of owning and holding real estate as a long-term investment; your frame is anchored in your history with the boom and bust of real estate cycles and your knowledge of the market-specific risks associated with older retail properties.

Consider another example of a real estate decision frame: many appraisers define their business as primarily point in time opinions (appraisals) of real estate value, focussing on the clear outcome and highly technical and reliable function for clients. The characteristics of this frame are:

- a statement of the decision or problem to be solved, in this case providing a reliable opinion of value;
- the boundaries of the decision, providing only point in time appraisals and not other advisory services; and
- the reference point or point of view that appraisers have about their profession, their capabilities, and what clients are seeking.

In the article "Management Frames and Decision-Making", Hoch, Kunreuther, and Gunther discuss the importance of each of these features of decision frames. The authors point out that the boundaries of the decision provide the scope of the problem to be solved. The reference points provide the criteria for the decision framer to determine whether they have succeeded or failed.

The decision frame also includes metaphors and analogies that offer insight into concepts captured in the frame. For example, the terms "highly technical and reliable" provide clear messages about the type of work that appraisers typically perform.

Decision frames can help explain decision making problems. Important factors may be kept in the shadows by frames, which can establish mental boundaries that preclude important options. For example, an appraiser’s frame may limit business expansion opportunities. Frames may also establish improper yardsticks and reference

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points. People with different functional backgrounds or cultures likely have different frames, which can cause distortions and communication problems.

Consider the appraiser’s decision frame and the potential problems resulting from the problem solved, boundaries, and reference points. What limitations in provision of real estate consulting services do you think appraisers using this frame have consciously or unconsciously adopted?

TIP TO REMEMBER

Although good outcomes may result from bad decisions and vice-versa, it is much more likely that good decisions lead to good outcomes.

Russo and Schoemaker demonstrate that applying a narrow and biased frame to the decisions we face will inevitably lead to poor and limited conclusions. To help us evade these problems, we need to understand three major variants at play in decision making: complexity, cognitive bias, and focus.

Complexity in Real Estate Decisions

In order for us to appreciate the importance of good decision framing we first need to recognize some of the inherent complexities of real estate decisions.

Uncertainty

Uncertainty is the easiest kind of complexity to appreciate, since most people are aware that very little is certain when considering the future. Uncertainty is inherent in most real estate decisions. The outcomes of most real estate decisions depend not only on the decision alternative that we adopt as our course of action, but also on one or more uncertain events outside the decision maker's control. In fact, this is the primary reason that good decisions sometimes result in bad outcomes and vice-versa. In order to reduce the likelihood that unfavourable outcomes will occur, we need to acknowledge our uncertainties. This is accomplished by explicitly recognizing and accounting for uncertainty within the decision-making process.

Multiple Attributes

Another common form of complexity in real estate decisions involves the fact that the outcomes of our decisions can be evaluated in relation to a number of different attributes. For example, building private housing on the endowment lands of a university with the objective to create a healthy community can be evaluated in terms of the following economic, social, and cultural objectives:

- a positive investment return and contribution to the university's endowment;
- no adverse impacts on traffic circulation and off-street parking in the neighbouring area; and
- a contribution to the increased sense of community that it might develop on campus.

It is not difficult to imagine other attributes that could be used to evaluate the outcomes of this decision.

Multiple Stakeholders

A third form of complexity involves the fact that in most important real estate decisions there are typically several decision makers or people who are affected by the outcomes of the decision or who can influence the outcomes. For example, the redevelopment of a downtown parcel of land into a mixed commercial/residential complex may involve not only the actions of the developer, but also those of potential competitors who own a
nearby property, regulators at City Hall who can influence the availability of zoning variances, nearby residents who are directly involved through a government initiative to involve the general public in local level decisions, and the requirements of potential occupants of the commercial portion of the development.

**READING TIP**

When Russo and Schoemaker talk about using "multiple frames" to guide decision making, they are referring to multiple stakeholder decisions. In other words, "frames" refers to the viewpoint from which the decision is viewed (e.g., a land use decision could be viewed through the frame of developer, lender, broker, appraiser, planner, politician, neighbour, community group, etc.).

**Incorporating Complexity into Decision Making**

In this course, we will consider how all of these types of complexity affect real estate decisions, but most attention will be focused on dealing with uncertainty. We will consider how decision makers and their advisors can use techniques to understand which uncertain events are most influential in determining the outcomes, which uncertain events are most likely to occur (or how likely a range of possible outcomes are to occur), and how one can best take into account these uncertainties. This focus on dealing with the uncertainty in real estate decisions will be prominent in Lessons 3-5, where we investigate gathering information about uncertain events, influence diagrams, and decision trees; in Lessons 6-9 where we consider forecasting techniques; and in Lesson 10 where we investigate risk analysis techniques.

**Decision Framing and Cognitive Bias**

Bazerman (2001) developed the following test to illustrate how we often fall prey to biases in our perceptions of uncertain events:

**Self-Test of Cognitive Biases**

**Problem 1:** Which of the following lists was the cause of more premature deaths in the United States in 1999?
(A) Tobacco use, obesity/inactivity, and alcohol
(B) Cancer, heart disease, and auto accidents

**Problem 2:** Mark is finishing his MBA at a prestigious university. He is very interested in arts and at one time considered a career as a musician. Is he more likely to take a job:
(A) in arts management, or
(B) with an Internet start-up?

**Problem 3:** A certain town is served by two hospitals. In the larger hospital about 45 babies are born each day and in the smaller hospital about 15 babies are born each day. As you know, about 50 percent of all babies are boys. However, the exact percentage varies from day to day. Sometimes it may be higher than 50%, sometimes lower. For a period of one year, each hospital recorded the days in which more than 60% of the babies born were boys. Which hospital do you think recorded more such days?
(A) the larger hospital
(B) the smaller hospital
(C) about the same (that is, within 5 percent of each other)

*from *Judgment in Managerial Decision Making*, 2001, M.H. Bazerman
Let’s see how well you have done at avoiding each of three common psychological traps or cognitive biases:

- **Availability trap (also known as the recallability trap):** individuals assess the frequency, probability or likely causes of an event by their memory ability to recall its instances or occurrences (Bazerman, 2001). One bias associated with availability is one’s tendency to judge vivid and recent events as being more numerous than events of equal frequency whose instances are harder to recall. How did you decide on your answer for Problem 1? Bazerman found that most people selected List B. However, List A contains the leading causes of premature deaths in the United States. At the time of Bazerman’s test, auto accidents were eighth on the list of premature deaths, and cancer and heart disease were even further down. Bazerman suggests that comparatively higher media coverage of conditions in List B biases our perception of their actual frequency. Likewise, recent media coverage on a crime committed in the area you are conducting a property appraisal is likely to influence people’s perception of safety in the area. As a result, the market value of the property may be substantially reduced based on one vivid piece of information that may conflict with available data from reliable sources.

Hammond, Keeney, and Raiffa, in their January 2006 Harvard Business Review paper, suggest the best approach to avoid this trap is to be very disciplined in decision making by considering the highs and low of a range of outcomes before adjusting your range of values, and challenging others in a similar fashion.

- **Representativeness trap:** individuals are inclined to look for specific characteristics of an individual, object, or event based on their pre-determined stereotypes (Bazerman, 2001). For example, Bazerman found that most people addressed Problem 2 by conjuring up images of people who work in arts management and Internet start-up firms, then choosing the one that Mark seems most representative of. In Bazerman’s test, most people selected option A, the arts management job. However, research identified that MBA students are more likely to take a job with an Internet start-up than in arts management. The same mistake occurs when people predict the success of a real estate investment based on the similarities of that investment to successful and unsuccessful investment types. This is a problem particularly when individuals insist on relying on this strategy even when better information is available for making a more accurate judgment.

Problem 3 illustrates another dimension to the representativeness trap, calling our attention to insensitivity to sample size. Bazerman found that most individuals choose C as the right answer, expecting the two hospitals to record a similar number of days in which 60% or more of the babies born are boys. As Bazerman points out, basic statistics tell us that variance around the mean reduces as sample size increases and therefore the smaller hospital is more likely to register 60% of male babies on any one day than the larger hospital. This scenario is not dissimilar to estimating the value of a property based on an analysis of only two or three similar properties.

- **Anchoring trap:** individuals make assessments starting from an initial value derived from past experience and/or random assignment and typically make insufficient adjustments from that anchor when making the final assessment (Bazerman, 2001). For instance, Bazerman explains that people make economic forecasts assuming future outcomes are directly predictable from past outcomes. In Bazerman’s words, “assuming that tomorrow will be a replication of yesterday is a flawed appraisal tradition.” If an outcome is extreme, we should not expect an identical outcome in the next period. We need to recognize there is a tendency for outcomes to move back toward the middle range of possible outcomes after an extreme outcome has occurred. For example, in real estate it may not be reasonable to assume that potential purchasers will have similar perspectives and behave similarly to purchasers in the past.

Hammond, Keeney, and Raiffa describe anchoring as the tendency for decision makers “to give disproportionate weight to the first information received”. During rapid change in real estate industry cycles, the authors claim that anchoring of historical estimates will lead to poor forecasts and misguided choices. It is suggested that adoption of simple techniques will help avoid anchoring traps, including
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giving thought to the problem before asking for the views of others, being open-minded, and avoiding a "self-fulfilling prophesy" by limiting the information provided to consultants and others involved in the decision.

The authors also describe a "status quo trap" where the decision maker’s tendency is to display a strong bias to alternatives which perpetuate the status quo. The premise is that individuals tend to avoid damage to their egos, resulting from risk taking and wrong decisions. The easiest path to avoid ego issues is to avoid taking action — in other words, avoid departing from the status quo. Options suggested to avoid this trap include reviewing the status quo in relation to the decision making objectives, identifying other alternatives, and using hindsight to consider whether you would have selected the status if it was not the status quo. The authors also remind us that the status quo may be the best choice in some cases.

These examples show us that cognitive biases can cause us to mismatch our frames of reference. We suggest that creative critical thinking can be an effective tool to fight our natural tendency to use narrow frames and to uncover the cognitive biases and psychological traps we fall into while making estimates of uncertainty.

Consider the following example, which illustrates how you may have to break unfounded assumptions that prevent you from seeing the solution.

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The Cheap Necklace Problem
(from Bazerman, 2001)

You are given four separate pieces of chain that are each three links in length. It costs $100 to open a link and $150 to close a link. All links are closed at the beginning of the problem. Your goal is to join all 12 links of chain into a single circle. Your total budget for forming the single circle is $750.

How would you solve the cheap necklace problem? Most people try opening a link at the end of one chain, inserting and end link of another chain, and closing the joining link. Then, they open one end of the six-link chain and insert one of the other three-link chains, and so on. This strategy will, however, cost $1,000. Other similar strategies will also exceed $750.

In order to find the solution for this problem, you need to think "outside the box". You need to go beyond the assumption that when you open a link, you can only insert one link from another chain. Breaking this assumption leads to successful alternatives. For instance, if you open all three links of one three-link chain and use these to link each of the other free chains, your total cost will be $750.

This example illustrates how we may miss an optimal solution due to a failure to consider an optimal choice as feasible. One of the easiest to ways to break unfounded assumption and fight our biases is to use objective focused thinking, which will be discussed in detail later in this lesson. But first, let’s look at traditional alternative focused framing techniques and their limitations.

2.7
Decision Framing and Focus

Before discussing the intricate details of decision framing, it is important to talk about *alternative focused* and *objective focused* thinking as these are fundamental to decision framing.

**Traditional Decision Framing Using Alternative Focused Thinking**

Traditional framing focuses on alternatives. Examples of decision questions framed in an alternative focused way include:

- Should we invest in this retail space?
- Should we invest in condos, apartments, or houses?
- Should we build a shopping plaza, a residential area, industrial warehousing units, or a pulp mill in this region of suburban residential/industrial growth?

Which one of these questions has the best frame? Can you suggest a better question using a different frame or perspective?

Write your answer below:

The simplest form of alternative focused decision frames is a "yes/no" type question. For example, the question "should we buy the office building?" presents only two possible alternatives: "yes we should" or "no we should not".

An alternative focused decision process usually starts with a general question, for example, "what shall I invest in!", which is followed by a search for potential alternatives. Each alternative is evaluated and after "enough" alternatives have been considered, which could be 1 or 10 or 100, a best alternative is chosen. Figure 2.1 illustrates a typical alternative focused thinking process.
However, there are limitations to alternative focused thinking. In reality, the chance of happening across the most appropriate alternative is slim. We often start from a single option we find attractive. We usually end up moving from one alternative to another until we come across one that seems attractive enough to settle on. This method is very time consuming, not very cost effective, and typically makes for poor quality decisions. In sum, it is plain bad decision making. Unfortunately for real estate advisors, such alternative focused decision-making approaches are a common occurrence, especially among newcomers to the business world.

Alternative focused thinking assumes that the alternatives you have to choose from reflect your objectives. However, framing our decisions this way means we are at the mercy of our cognitive ability and have no guarantee that this is effective, even though we might imagine it to be. In fact, we often choose alternative focused thinking because it plays to our cognitive biases and limitations.

### Decision Framing Using Objective Focused Thinking

It is a lot more effective to frame decisions by looking at the various objectives that the decision is trying to achieve. That is, do not wait until the outcomes of a decision have occurred to evaluate the objectives, but instead use the objectives as a driving force to create promising alternatives. Figure 2.2 illustrates the process of *objective focused* thinking along with an example.
The major advantage of objective focused thinking is the power to focus on only good quality alternatives. For example, in the earlier endowment land scenario (creating a healthy community), objective focused thinking would consider the important attributes of the decision (maximize contribution to the university’s endowment, minimize nuisance traffic in the neighbouring area, maximize sense of community) right at the very start of the decision-making process. This would help to identify alternatives for development of a housing project that best matches the attributes. In letting the objectives drive the alternatives, it may no longer be deemed necessary to restrict the options to private housing, but other types of housing might be considered as well.

Here are some examples of both alternative and objective focused decision frames. The list illustrates how a shift to objective focused thinking can open up opportunities.
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<table>
<thead>
<tr>
<th>Alternative focused framing</th>
<th>Objective focused framing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Individual level decisions</strong></td>
<td></td>
</tr>
<tr>
<td>Should I invest in condo development A, B, or C?</td>
<td>Which residential development is the best investment?</td>
</tr>
<tr>
<td>Should I invest in this retail plaza?</td>
<td>Where can I best invest my money?</td>
</tr>
<tr>
<td>Should I build a community shopping mall on this land?</td>
<td>What is the best development option for this land?</td>
</tr>
<tr>
<td><strong>Multi-stakeholder decisions</strong></td>
<td></td>
</tr>
<tr>
<td>Shall we develop an entirely new city or continue with suburbanization?</td>
<td>How should this region best be developed?</td>
</tr>
<tr>
<td>Which of the suggested sites for the new Olympic stadium should be chosen?</td>
<td>Where is it most appropriate to site the new Olympic stadium?</td>
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</tbody>
</table>

With this objective focus in mind, reconsider the questions asked earlier in this lesson. The first two questions, "Should we invest in this retail space?" and "Should we invest in condos, apartments, or houses?" could both be better framed as "What is our best investment opportunity?" The third question: "Should we build a shopping plaza, a residential area, industrial warehousing units, or a pulp mill in this region of suburban residential/industrial growth?" may be better framed as "What real estate development is our best option for this area?"

Objective focused decision framing helps us break from our cognitive biases, which are naturally resistant to change. However, fighting that natural resistance can bring untold successes. Changing from alternative focused thinking to objective focused thinking means changing your decision frames from questions such as "which parcel of land shall I buy?" to "how should I best invest this money?" By framing the decision this way, you are able to actively create alternatives that fit these criteria. In being objective focused, the decision making process becomes more systematic and you are able to eliminate unsuitable and even mediocre alternatives early in the process, leaving only the greatest opportunities (many of which you might never have considered in an alternative focused frame) in the pool of alternatives from which the best or most appropriate is selected.

**Good Decision Framing**

Many people believe that what you are deciding is the key to a successful outcome. However, the key to a successful outcome is more likely to be how you decide: that is, the framing of the decision that occurs at the start of a decision-making process rather than the choice among alternatives. This is because without good objective focused decision framing, the best alternatives might not even be considered.

Important things to remember from Russo & Schoemaker’s Chapter 3:

- No matter how expert we think we are, our natural decision-framing abilities are at the mercy of our past experience.
- As soon as you consider a decision problem:
  1. Make yourself aware of the decision frame (e.g., viewpoint, scope, assumptions, variants, cognitive biases).
  2. Evaluate the "fit" by challenging viewpoint, scope, assumptions, and changes in circumstances.
  3. Use new insights to re-build the frame in the most appropriate fashion.
The importance of self-awareness of your decision frame and the frames of others were examined earlier in this lesson. By "fit", we refer to our natural tendency to believe our frames are complete and provide a good approach for the decision to be made.

Now that you know more about how to frame decisions, return to the question asked at the beginning of the lesson:

Client: Should I invest in the retail strata unit at the shopping plaza?

Step 1: Assess the decision

Step 2: Evaluate the fit

Step 3: Find or rebuild frame

New Decision Frame:

**Self- Evaluation**

In your initial assessment, did you fall into any psychological traps that influenced your initial frame?

Write down those traps you think may be important in your clients’ case:
Let's revisit the start of this lesson, when you were asked to comment on how you would go about helping your client. Did you:

1. dive right into the problem and ask for details on the investment and current returns on the property?  
   OR

2. realize that his perspective may be different than yours and ask why he was interested in the proposal?

If you asked questions similar to question 1 above, you are certainly not alone. You accepted your client's viewpoint of looking at decisions from an alternative focused perspective. Alternatively, if you asked something like question 2, well done! You have adopted an objective focused perspective and are well on your way to achieving more effective decision framing. Asking your client why he is interested in the proposal helps you better understand his perspective. It also acknowledges that however little money your client has to invest, the opportunities out there for your client are numerous and some of these may be better. In objective focused decision making, the reasons why your client is interested in the proposal determines which alternatives your client should consider.

**DISCUSSION POINT**

The issue of questioning the "fit" of decision frames is starkly illustrated in the Canadian real property appraisal profession. The Appraisal Institute of Canada's Board is attempting to reframe the concept of professional services their members provide to clients in the public and private sector. This exercise is being driven by competitive pressures and the changing needs of clients, as well a change in the demographics of the membership.

The difficulties faced by the AIC in bringing about this shift in thinking is two-fold: (1) challenging the frames of key client groups about the range of services AIC members can provide and (2) expanding the frames of individual members who haven't considered the full range of services they could potentially provide clients. Appraisers are being asked to question the fit of their frames in terms of meeting the evolving real estate consulting services their clients are seeking.

This reframing exercise is highly controversial and the Board is being challenged by the AIC membership on a number of fronts, including the assumptions about the changing business environment, competitive pressures, and need for members to shift their paradigms or views of the world.

**Decision Framing in a Client-Consultant Scenario**

In Chapter 2, Russo and Schoemaker illustrate decision framing using an example of family versus free agent company culture. Let's revisit this example in more detail.

*Case-study: Family versus free agent company culture*

**Viewpoints:** Family and free agent orientated companies. The family-orientated company focuses on lifelong relationships, loyalty, security, and a "we’re all in this together" frame. The free agent orientated company highlights employee mobility, independence, and selling your skills to the highest bidder.

**Alternatives:** The family-orientated company will likely provide the employee a range of support including counselling, paid leave, and/or access to in-house or external group support. The company with a free agent frame will likely have employees be seen as "on his-her own" and responsible for their own actions. In this scenario, the options will follow a progressive discipline policy process leading to suspension and possible dismissal.
**Discussion:** This case presents one problem (an intoxicated employee) and two very different solutions (fire employee or increase support). Each company has different viewpoints and is probably confused by the other’s solution. As long as there are employees looking for both family and free agent employer-employee relationships, there may be nothing wrong with the companies framing themselves in these different manners. More importantly, this example illustrates how solutions need to be crafted from frames designed from relevant perspectives. As a consultant, you have a more complex role because the decisions you are making are not for yourself but for others. Decision frames need to fit the perspective of your client in order for the client to be satisfied with the solutions you provide. This is not to say that the client’s original perspectives and frames cannot be altered, but they do need to remain true to your client.

**Think outside of the box:** When framing a decision for a client, try to take on a facilitator role. If you can offer some creative thinking about expanding decision frames, you need to run this past your client to see if they resonate with the client.

**Aside:** It would be wise for these companies to reconsider their frames because employee characteristics change with time. For example, consider which of these two company viewpoints might be more effective in today’s labour environment where employers face the "perfect storm" of an accelerating retirement of the baby boom work force, low unemployment, and a declining volume of new workers.

Russo and Schoemaker’s offer advice in Chapter 2 on dealing with clients.

In the client-consultant relationship:

- The client may not be willing to change the frame.
- You might not always be successful.
- You should always try.

Trying means:

- Commitment and time to recognize your own, and your client’s, mental models and resulting viewpoints.
- Stretching frames rather than changing frames.
- Understanding cognitive biases and psychological traps.
- Being creative in finding ways to communicate the benefits of changing frames.

And beyond this, tips from your tutor:

- It is more important that the frame makes sense to your client than to you.
- You can easily get to understand a client’s perspective by repeatedly asking the question "Why is that important?"

**READING TIP**

Chapter 3 of *Winning Decisions* (page 39-59) discusses two uses of decision framing: one is for decision making and the other is for marketing products. You need to be able to differentiate between the two and know when each is appropriate.
The Next Stage: Intelligence Gathering

As you will have observed throughout this lesson, real estate decisions involve uncertainty of various types. Therefore, the decision-making process will require some form of intelligence gathering to mitigate this uncertainty. Russo and Schoemaker also point out the problems that occur when decisions are made with opinions and without facts. Perhaps the most notable example of this trap was the general sentiment that the Titanic was unsinkable and would stay afloat even if one-third of her watertight compartments were flooded. Intelligence gathering and research will be the topic of Lesson 3.

The Bazerman and Chugh article explains how a failure to "see information", use, share, or seek information can lead to major errors in decision making. In a real estate consulting context, you do not want to be sitting in front a client who asks you "why didn't you consider this information?" and have no good response!

The outcomes of most important real estate decisions usually depend both on the decision alternatives we choose and a number of uncontrollable uncertain events that might be thought of as "drivers" of the outcomes. The diagram below highlights schematically how these outcomes are influenced by different types of "drivers". For real estate investment decisions, supply and demand are often the most direct drivers of uncertain outcomes. However, these direct drivers are themselves often influenced by more fundamental indirect drivers. Figure 2.3 provides an "influence diagram" to illustrate the relationships and dependencies between the drivers of real estate and decision outcomes. Influence diagrams will be covered in depth in Lesson 4.

We have categorized the indirect drivers as being of five types:

- Political drivers — e.g., regulation, zoning laws, land claims, public attitudes.
- Economic drivers — e.g., interest rates, unemployment rates, economic growth rates, disposable personal income.
- Socio-demographic drivers — e.g., population growth, changes in age structure.
- Technological drivers — e.g., innovations such as Internet, new construction materials or processes; access to technology from home/office.
- Competitive drivers — e.g., actions of competitors such as nearby developments, advertising, encouragement of regulatory intervention.

To illustrate the relationship of these drivers to real estate, consider a decision to develop a seniors’ residential complex. The future value of the complex depends directly on the relative supply and demand of similar real estate capacity within the same general location. These are the direct drivers of the outcome. However, both the supply and demand for a seniors’ residential complex will depend on the zoning laws that guide development in that location, current interest rates, changes in the age structure of the population in the area, the availability of new home-based health care technology, and the availability of similar projects nearby the proposed development. These make up some of the indirect drivers of the outcome.
In the next several lessons, we will continue this theme to investigate the relationships between these “drivers” (and their inherent uncertainty) and the outcomes of real estate decisions. Lesson 3 will investigate “intelligence gathering” concerning these drivers, while Lesson 4 will consider how influence diagrams and decision trees can be used to model the relationships between decisions, uncertain event drivers, and outcomes. Lessons 6-9 will consider these same issues in a forecasting context, where the drivers’ past behaviours are assumed to offer insight into future outcomes.

**Summary**

- Uncertainty, multiple attributes, and multiple stakeholders can contribute to complexity in real estate decisions.
- Traditional alternative focused framing limits our opportunities for success. Consider objective focused framing as a precursor to good quality decision making.
- Developing an effective frame perspective is an important starting point for good decision making.
- When faced with a decision problem:
  1. Assess the frame.
  2. Evaluate fit.
  3. Find or rebuild frame.
- When faced with a client’s decision problem, it is necessary to make efforts to understand the client’s perspective in order to facilitate a successful change in decision frame.
Review and Discussion Questions

1. When two people involved in the same decision have different decision frames, what are some of the problem that can occur?

2. What are some of the factors that contribute to the complexity of real estate decisions? How can we manage these "factors" in decision making processes?

3. Think about the cognitive biases that operate at our sub-conscious level. Can you recall a recent decision in which biases by yourself and others played a major role in the outcome of the decision making process?

4. Which of the principal decision making processes, alternative focused or objective focused, is most commonly used in your organization? Considering the strengths and weaknesses of both approaches, critique how decisions are typically made in your organization. Would you advocate using more of an objective focused approach?

5. Research a recent real estate story covered in a local newspaper involving either a successful or unsuccessful project (e.g., residential subdivision or condominiums). What can you learn from this project about the impact of direct and indirect drivers affecting the outcome of the decision? Can you see any flaws or gaps in the intelligence gathering for these impact drivers?

6. Reconsider the following case study introduced in Lesson 2:

   A client comes to you with a proposal to invest in a retail strata unit in a local shopping plaza. The property is currently leased to a dry cleaning operation. He asks you if he should invest in the property or not.

   Explain how you would help your client in this situation. Specifically, you will need to:

   (a) Define the decision problem decided upon between you and your client and explain how and why you got there.

   (b) State who you need to approach for more information and what you are going to ask them and why.
ASSIGNMENT 2

Decision Framing: Finding The Most Effective Question For Your Client

The following questions should be submitted using the Real Estate Division’s website www.realestate.ubc.ca. See "How to Submit Multiple Choice Assignments" in the Real Estate Division Student Handbook for more information.

Marks: 1 mark per question.

1. As an assessor your goal is to ensure accurate and equitable assessments. You rely on a range of statistical measures to ensure quality of the assessment roll as a whole. One of the property owners you deal with every year owns an office building and he isn’t happy with his latest assessment. In a recent phone call to you he said: “I don’t care how equitable my assessment is with other similar buildings, the value is simply too high given the rents I can achieve in today’s market.” Which of the following responses describes the decision frame issue:

(1) The owner and assessor have similar decision frames, but disagree about the importance of the problem to be solved.
(2) Both parties have very different decision frames; the assessor and owner disagree on the specific problem to be solved.
(3) Both parties agree on the yardsticks or reference points for their respective decision frames.
(4) None of the above are correct.

2. June Green is conducting research for a property with residential housing development potential. She has made assumptions for the specific "build-out" (i.e., density), time-frame for development, and lot value. June feels that the only uncertainty associated with the project is the profitability of the final outcome. Would you agree?

(1) This statement is true because all the uncertainty associated with the decision can be identified and measured when the outcomes are known.
(2) This statement is false because there is also uncertainty associated with each step in June’s decision making process (e.g., assumptions, gathering of intelligence, etc).
(3) This statement is false because it is inconsistent with June’s decision frame.
(4) This statement is true because the only uncertainty in this decision is associated with events beyond June’s control.
3. A large grocery retailer is seeking a new food store location in Grand Prairie, a rapidly growing northern Alberta community. The retailer has in-house real estate development and property management staff. Due to time constraints, the real estate manager has decided to contract out the decision making process to a real estate consultant. The consulting assignment is to determine which of the two alternative vacant sites identified by the company for a new food store will be the least expensive to acquire. Which of the following is/are TRUE regarding the food store’s decision frame?

(1) The real estate manager's assumption that only two properties are suitable alternatives for further investigation may be incorrect.
(2) Because of time constraints, the company may be biased to one or two obvious sites, while missing less obvious but better sites.
(3) The real estate manager could re-frame the decision in broader terms to address the social, community, and political interests in Grand Prairie associated with a development of this type.
(4) All of the above.

4. As a West Coast real estate broker, you regularly listen to clients' fears about "leaky condos". Clients moving from a single family property to a condo are particularly sensitive to the "leaky condo" issue, despite the fact that the water infiltration problem was largely associated with wood-frame properties built within a certain era (1980-2000). While there has been extensive media coverage of "leaky condos" in recent years, evolving construction methods for newer condos have largely addressed water infiltration issues. However, you find that buyers in your market from elsewhere (e.g., East Coast of Canada), don't seem to have this point of view. Which of the following explains why?

(1) East Coast purchasers tend to be more knowledgeable about real estate purchases than those on the West Coast.
(2) You are dealing with people who owned a leaky condo in the past and are basing future expectations on their past experience.
(3) The West Coast clients appear to suffer from "availability" and "representativeness" traps. The East Coast clients haven't been exposed to the same media coverage and are not subject to these traps.
(4) Your decision frame is too narrow relative to that of your clients.

5. Your boss feels the study you prepared on downtown rents for retail properties in Cornwall is flawed and overly optimistic. She claims the rental surveys used in developing the report findings were based on too narrow a time frame using too few rent comparables. You relied on the most recent rents achieved over the past six months in an improving market, but did not consider the large volume of rent comparables for the last two years. Which trap best describes your boss’ complaint?

(1) Anchoring trap.
(2) Representativeness trap.
(3) Availability trap.
(4) None of the above.
6. Jim Stanley is expanding his Halifax appraisal practice and is looking for a qualified commercial appraiser. Jim has just received a resume from Charlottetown, PEI, appraiser, Rita Moreno. However, Jim and his partner feel there isn’t much point in following up with Rita, because they are skeptical about the depth of commercial experience possible from working in PEI. Which trap has led to Jim and partner screening out Rita for an interview?

(1) Anchoring trap.
(2) Representativeness trap.
(3) Availability trap.
(4) None of the above.

7. You are renting retail space and your lease is coming up for renewal. You don’t want to move and hope you can conclude the deal as soon as possible. The landlord offers you a rent of $25 per sq. ft. over five years with two rent steps of $1 per sq. ft. over the term. Your instinct tells you to counter at 90% of the landlord’s offer. The leasing broker acting on your behalf warns you that you are falling into a trap and need to consider market rents. What trap is the broker referring to?

(1) Anchoring trap.
(2) Representativeness trap.
(3) Availability trap.
(4) None of the above.

8. As a commercial real estate broker, you are working with a client seeking office space in the downtown district of Moncton. Your client has provided a list of firm criteria: 2,000 sq. ft. of space; 6 underground parking spaces; and elevator access in a high quality, well-maintained building with a net rent of no more than $12 per sq. ft. After applying your client’s criteria to your commercial space for lease database, you find no matches. Which of the following is/are TRUE regarding this approach?

(1) Using alternative focused thinking with a very narrow frame (i.e., client’s inflexible and extensive criteria) means that the opportunity for a successful outcome is very low.
(2) The approach is based on the premise that this type of office space exists in the Moncton downtown district at net rents of $12 per sq. ft.
(3) Re-framing the client’s needs with objective focused thinking would lead to a much broader range of alternatives to meet the client’s need for affordable office space.
(4) All of the above.

9. Which of the following decision frames reflect objective focused decision-making?

(1) Where is the best opportunity in the City for a new big-box retail development?
(2) Will the forecast yield from purchase of this office building meet my target internal rate of return?
(3) Which real estate investment is likely to meet my target internal rate of return?
(4) Both 1 and 3 are decision frames reflecting objective focused decision making.
10. Clients will often have a different decision frame than the one preferred by their consultant. In this case, a consultant’s best approach is to convince the client to change their decision frame. Is this statement TRUE or FALSE?

   (1) True, since clients may not be willing to change their frame and will need persuasion to change their objectives.
   (2) False, since the consultant should attempt to understand their client’s frame and stretch it, rather than change it to another frame.
   (3) True, since a failure to align the client and consultant decision frames will lead to a poor decision.
   (4) False, since the consultant should accept the client’s decision frame and work to solve this problem.

11. Melissa Arden has hired you to provide consulting advice on options for an older rental apartment in Montreal. She needs to know whether she should retain the property as is or re-invest and rehabilitate the building to improve the rental income. Melissa is influenced by her belief that there will always be a strong demand for rental property in this Montreal neighbourhood. You feel that Melissa has retained you for too limited a range of investment options and the outcome of this research will not lead to a good decision. Considering this client-consultant relationship, what approach should you take?

   (1) Attempt to better understand your client’s frame.
   (2) Work with your client to expand her frame to provide for more possibilities.
   (3) Work with your client to help her recognize her cognitive biases about the demand for rental accommodation.
   (4) All of the above.

12. A client of your firm has complained to the senior partner that you have been going beyond providing advice and have been too aggressive in trying to "steer" him to a high risk decision regarding the management of his portfolio of downtown parking lots. The client told the partner he is more interested in security of income, minimal management, and low risk, than re-development potential. What is the problem in this client-consultant relationship?

   (1) The client doesn’t understand the benefits you can offer with your expertise and you need to get him to "stretch" his frame.
   (2) You need recognize your bias and go back to work with your client to communicate the benefits of the various alternatives in a way that recognizes his goals.
   (3) Its time to move on. Suggest to the partner that this client isn’t a good fit for your firm.
   (4) All of the above.
Lesson 2

13. Over the past year you've been following the progress of a new high-rise multi-family project in Surrey. Things have been looking great: according to friends at City Hall, all the approvals have been secured, everyone is quite positive, and the project appears quite attractive with a strong market. In fact, according to the "word on the street", the developer pre-sold all the units early in the marketing cycle. However, a year later construction still hasn't started. Which of the following "drivers" has most likely been over-looked in this real estate decision?

(1) There is no market for the property and hence the owner has failed to consider competitive drivers.
(2) Due to changes in demographic drivers there is little interest in high-rise living.
(3) Economical drivers: the cost of single family residential construction has risen
(4) Political drivers: the local residents have successfully lobbied City Council to prevent this project.

14. The advent of computerized valuation models has impacted the business of residential fee appraisers, offering low cost valuations to lenders. Automated valuation models, or AVMs, now represent up to 80% of the residential valuation advice provided in many markets. Using the influence diagram model concept, identify which indirect driver likely resulted in the lenders' decision to move to AVMs.

(1) Political
(2) Competitive
(3) Demand
(4) Socio-economic

15. Your client proposes converting an older office building to a mixed use residential-retail project. You are analyzing the major drivers impacting this proposal. Your influence diagram illustrates how zoning only impacts the supply of suitable candidates for conversion. Is this relationship correct?

(1) Yes, since zoning will constrain the availability of properties for conversion to mixed residential-commercial use.
(2) Yes, since zoning will mainly affect the outcome of the investment decision, not supply or demand.
(3) No, since zoning is more likely to impact the demand for properties.
(4) No, since zoning will impact the supply and demand for properties which have potential for conversion.

15 Total Marks

PLANNING AHEAD

Go to the Project section at the end of this workbook and read what will be required for the major project in this course. Assignment 3 will require you to choose your topic, so you should be thinking now about what you might like to do.

***End of Assignment 2***