

# THE LEADER

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CORPORATE  
REAL ESTATE  
& WORKPLACE



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# Work Force Longevity Analysis: Assessing Future Labor Market Risks for Corporate Real Estate

BY KRISTIN BEATTY

As leading Corporate Real Estate (CRE) organizations increasingly refine and enhance their strategic contributions to their organizations, many are proactively seizing the opportunity to align their company's real estate portfolio strategy with labor considerations. The availability and sustainability of a labor force can often direct a corporation's workplace and real estate strategy as well as determine whether they should expand, maintain or consolidate operations in a given market. Making the right decision in each market can help assure long-term success by enhancing the company's revenues, reducing costs, and improving operating efficiencies and customer satisfaction.

A false step could result in competitive disadvantages, lack of labor supply, reten-

tion or recruiting pressure – all leading to increased costs for the company.

CB Richard Ellis' (CBRE) Workforce Longevity Model is a unique, sophisticated supply and demand model designed to help CRE, Operations, and HR organizations to examine the sustainability and positioning of labor force across their portfolio.

The tool can be used for expansion and consolidation strategies, skill set optimization, wage and turnover positioning, capacity planning, lease term justification, as well as merger and acquisition evaluation. This allows both CRE and Operations to prioritize the viability and urgency of their location strategy.

## HOW DOES THE WORKFORCE LONGEVITY MODEL WORK?

CBRE works with Operations, HR and/or CRE to understand the current or

expected labor supply in each market. This customized analysis is based on each client's desired skill set. CBRE benchmarks over 785 occupations, including wage and employment levels for every city with a population over 10,000. This comprises 3,765 markets that can be customized by radius and size to understand the true labor force supplying an operation.

Strategically aligned CRE professionals hear more than Operations' questions – they are anticipating how their advice and portfolio strategy can affect the company's bottom line:

- Which market is best positioned to handle customer service and has the sustainable labor supply to support our growth?
- We are operating well in this market. Outside of floor capacity, does this market have the labor supply to expand in this market or will we can-



A false step could result in competitive disadvantages, lack of labor supply, **retention**

or recruiting pressure – all leading to increased costs for the company.

CRE organizations have incorporated the Workforce Longevity Model into their overall portfolio strategy and effectively opened new locations, consolidated poor **performing** or high-risk facilities, realigned their skill set and wage structures and planned for future growth in existing capacity. The result: multi-million dollar savings and improved risk management strategies implemented by CRE.

nibalize our own labor force by growing too large?

- This center is performing poorly. Is consolidation the only option in this market or are there steps we could take to improve our future in this market? What is the true cause for the poor performance and is there a better use for the center than how we are utilizing it?
- This is a great market – today. What risks should we be managing to be

sure it will continue to support us for the duration of our current lease or potential lease renewal?

As they evaluate their portfolios, CRE teams are faced with questions from Operations such as:

- Where should we add more customer service jobs?
- We are operating well in this market – do we have capacity to expand in this building?

- This location is performing poorly. We would like to consolidate it and combine seats in our other facilities. What are our options?

- This is a great market for us. We'd like to renew our lease. Occupations are selected based on the desired skill set the client is trying to attract. The Workforce Longevity Model can evaluate the supply and depth of each market for an endless

FIG. 1

ABC COMPANY  
WORKFORCE LONGEVITY SCENARIO ANALYSIS



COST PER EMPLOYEE      COST PER SQUARE FOOT  
\$30,800                      \$246

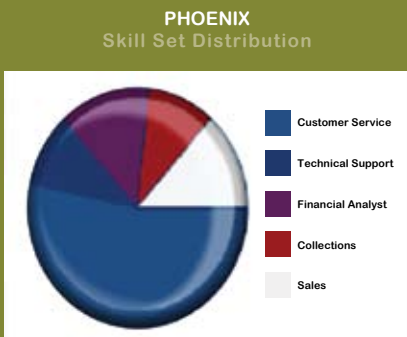
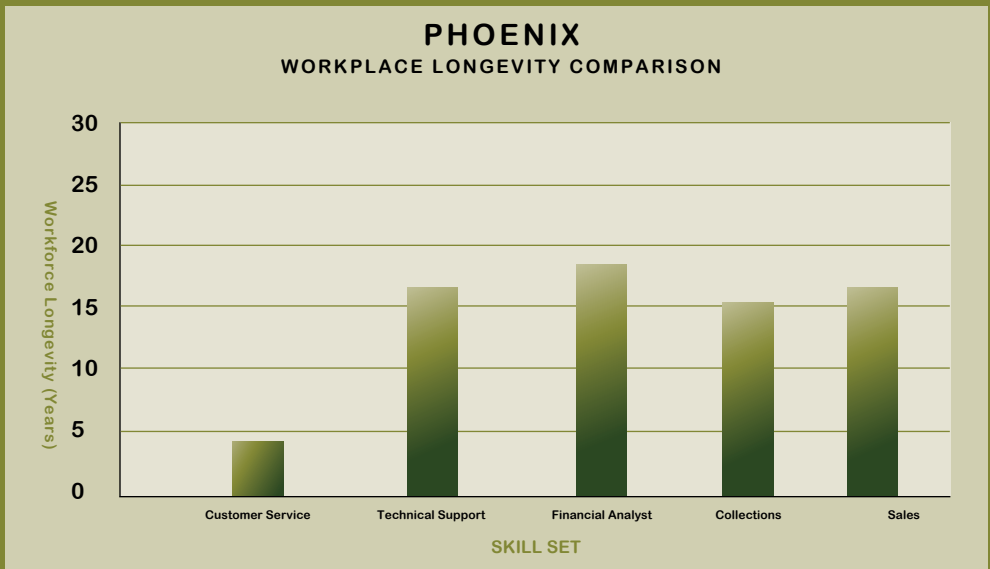


FIG. 2

SCENARIO I:

500-SEAT CENTER ADDED IN 2006  
CAPACITY OF MARKETS TO ABSORB  
NEW POSITIONS

WORKFORCE LONGEVITY  
ANALYSIS

EXECUTIVE SUMMARY

	Location 1	Location 2	Location 3	Location 4	Location 5	Location 6	Location 7	
<b>CLIENT</b>	# Employees	416	78	369	164	238	129	565
	Wage	\$10.00	\$10.19	\$9.50	\$10.19	\$10.00	\$8.92	\$10.00
	Turnover	34%	50%	30%	64%	70%	54%	46%
	Growth	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	Market Share of Call Center Employees	13.1%	3.1%	29.4%	3.6%	3.3%	1.8%	0.4%
<b>COMPETITION &amp; MARKET</b>	# Employees	2,765	2,420	885	4,360	6,870	7,083	141,620
	Wage	0.8%	0.6%	1.3%	1.1%	1.9%	4.0%	5.5%
	Turnover	54%	54%	69%	54%	49%	54%	46%
	Growth	1.2%	1.2%	2.0%	1.1%	0.6%	0.7%	1.4%
Total Labor Force	394,506	431,578	95,494	425,810	376,298	178,791	2,585,477	
Total Potential Applicant Pool	31,592	23,455	5,334	27,046	39,423	17,876	313,751	
% Unemployed	4.2%	3.6%	3.4%	3.8%	5.6%	5.1%	8.2%	
% of Labor Force for Applicant Pool	8%	5%	6%	6%	10%	10%	10%	
<b>ORIGINAL LONGEVITY</b>								
Workforce Longevity	> 30	> 30	23	18	17	6	6	
Years of Optimal Workforce	> 30	> 30	14	13	12	1	2	
<b>NEW LONGEVITY WITH ADDED CENTER</b>								
Workforce Longevity	> 30	28	10	16	16	6	6	
Years of Optimal Workforce	26	28	4	11	11	1	2	

number of business lines, varying from basic skill levels, such as customer service representatives, to advanced positions such as financial analysts, mortgage brokers, and technical support. The targeted applicant pool is designed to be sensitive to wages. Based on the company's wage positioning in the community, the model will demonstrate the sensitivity of applicant flow and market longevity based on wage fluctuations.

Once the applicant pool is defined, the Workforce Longevity Model gauges the demand for each skill set by modeling client growth, attrition, quality of

applicants, as well as competitor hiring for growth and demand. Comparisons can be drawn across markets, illustrating how long each market will perform for each skill set based on current or expected operating conditions.

The result is an estimate of the number of years a labor force can support a given operation. Comparing longevity across a portfolio enables companies to quantify and prioritize a proactive strategy around where they expand or consolidate specific skill sets and how the company can effectively position themselves against competitor wages. The longevity not only indicates how long a

market will last, but also measures the relative elasticity of the labor market.

**INNOVATIVE ASPECTS**

The Workforce Longevity Model goes well beyond the traditional real estate and labor approaches by taking a "market forecast" approach to labor supply. The most evolved CRE organizations know that real estate market dynamics, regardless of how favorable they may be, cannot single-handedly enable business success unless suitable – and, most importantly, sustainable – sources of labor are available. Where traditional work force modeling methods are fairly static, examining

FIG. 3

**QUESTIONS TO CONSIDER**

**Competitive Risk**

- What is our risk to competition?
- What if a competitor enters our market requiring 500 people?
- What if a current competitor grows?
- How much growth will this market tolerate?

**Operation Size**

- What if we want to expand our operations?
- Can we effectively add 200 jobs to this market?
- How many jobs could we ultimately expand?

**Skill-Set Optimization**

- What is the best skill set to employ in this market?
- Should we use our additional capacity for more customer service?
- Can we employ financial analysts in this market?

**Wage**

- What is the market's sensitivity to wage?
- If I increase my wage \$0.50/hr, how many more applicants will I get?
- How many more years can I get out of the market by increasing my wage?
- What is the optimal wage to pay in this market for 15 years of longevity?

**Attrition**

- How does our attrition rate impact our time in this market?
- What if we decrease our attrition?
- What if our competitor's attrition increases?

well as understand how future scenarios may impact their operations. These innovations have been developed through CBRE's market intelligence, as well as through client requests to address specific and previously unanswered questions pertinent to successful CRE strategy.

**CUSTOMIZED APPLICANT POOL**

Clients can adjust the model based on the specific skill set they are trying to attract, by customizing the applicant pool information. The model enables the CRE organization to analyze each market by skill set to optimize the hiring profile in each market for the best performance across the portfolio. The applicant pool shows which occupations the client is most likely to attract based on their wage and the density of each targeted occupation.

**SENSITIVITY ANALYSIS**

A core innovation for the Workforce Longevity Model is the ability to evaluate how each input drives the success of a client in a market. This capability answers essential questions that companies are constantly evaluating, including those listed in Figure 3.

The answer to these questions impacts the sustainability of a labor force as well as present and future decisions regarding real estate and operations. Some factors are completely outside of the company's control, such as competitive growth, but increasingly important to understand as a company evaluates the risk of continuing to operate in a market. By understanding how each of these key factors affect a company, CRE can better manage risk, developing more robust strategies behind expansions,

lease renewals, build to suits, facility and space utilization, capital planning, and expense management.

The Workforce Longevity Model not only shows how sensitive a factor is, but it also allows you to target optimal operations (e.g., At what wage can I realize 15 years of longevity in each market?). This enables management to prioritize expenditures and operations, rather than throw additional dollars towards diminishing returns.

Arbitrage of wages or skill sets becomes evident as companies compare the same time frame across markets. In Figure 4, a corporation can target 15 years of operating longevity (red line). In this example, the skill set in Location 1 requires \$7.50/hour to achieve this duration, while Location 2 requires \$11.50/hour. For a 500-person operation, this could result in over \$4.2M in savings in labor costs alone on an annual basis.

Utilizing space at a ratio of 1:125, this savings equates to annualized savings of \$67.20 per square foot or \$336 per square foot over a 5-year lease. The company now can form a long-term strategy behind the two sites – why pay more for the same results?

**BEST USE OPTIMIZATION**

As portfolios expand through mergers, acquisitions or organic growth, facilities may become misaligned for current business operations. A company may find that a poor performing location for a specific skill set, that was scheduled for disposition, is an ideal facility for another skill set the company is looking to expand.

This unique, labor-driven, "highest and best use" approach to portfolio optimization offers an opportunity to

only labor availability at a given point in time, the Workforce Longevity Model is extremely dynamic, allowing for customization, sensitivity, and scenario modeling over a long-range time horizon. These features allow companies to adjust the model to their specific operating conditions, as

FIG. 4

ESTIMATED LENGTH OF OPTIMAL LABOR FORCE VS. WAGE



HOW HAVE CREs APPLIED THE WORKFORCE LONGEVITY MODEL?

Results & Benefits:

CRE challenges have varied from understanding the length of time they can remain in their current markets or facilities, to identifying future sites with minimal risk, ample labor force, and optimal cost efficiencies. CRE organizations have incorporated the Workforce Longevity Model into their overall portfolio strategy and effectively opened new locations, consolidated poor performing or high-risk facilities, realigned their skill set and wage structures and planned for future growth in existing capacity. The result: multi-million dollar savings and improved risk management strategies implemented by CRE.

Additional CRE Implications

Just as CRE must evaluate the future risk of lease options and real estate cost, they must also identify the future risk of the labor to fill these buildings. An office unable to staff to capacity becomes a dead asset.

The future ability to sell or dispose of that building will also be based on the market’s perception of the company’s ability to recruit in that market. Therefore, understanding the correct size, wages, and skill set to employ in a building not only extends the life of that asset, but also improves the value of the asset, justifies the renewal or term of the lease, and improves the resale of capital assets.

The Workforce Longevity Model is a powerful tool to answer the challenging issues of aligning the flexible operating needs of a company’s different business units to the static and long-term nature of most real estate solutions. A true inno-

redeploy surplus property and chart a course of action for making the best use of available facilities, while identifying gaps that may require a new site selection customized to the skill set, targeted wages and quality for remaining operations. This can provide synergies across business lines, resulting in millions of dollars in annualized savings.

The combination of these innovations allows a company to understand how they can improve situations in their current markets, as well as identify future risk in their present or future markets.

HOW ARE COMPANIES IMPLEMENTING THE WORKFORCE LONGEVITY MODEL?

The model can be utilized by Executive Management, Operations, Workplace

Strategy and Corporate Real Estate departments for a variety of applications and is constantly evolving into additional uses. Often, the tool is used to bridge the intersection between these groups and effectively make the whole greater than the sum of the parts. A few sample uses include:

- Expansions
- Consolidations
- Dispositions
- Skill set optimization
- Cost savings (wage optimization, attrition and competitor minimization)
- Capacity utilization
- Mergers and acquisitions
- Capital planning
- Business planning
- Market perception

vation, the Workforce Longevity Model empowers CRE, together with HR and Operations, to examine the portfolio for additional cost savings opportunities and asset tactics; enhancing the power for either team to increase the company's bottom line. Proactive strategies can be developed for growing businesses, improving speed to market, quality, and productivity once the company deploys assets to those locations. CRE can also use the tool to justify lease terms and duration (i.e. enhancing the renewal option or termination strategies in lease negotiations based on the duration and sustainability of the targeted labor force and risk to competition) CB Richard Ellis' Workforce Longevity Model enables workplace strategy to operate at its best.

Aligning CRE with internal organizations and their corporations, the Workforce Longevity Model empowers companies to make decisions for real estate and labor operations that are, holistically, in the best interest of the entire company, rather than isolated decisions supporting individual business units. Sustainable, low cost and quality labor forces are identified, exploring risks around continuing operations in these markets.

The result is a proactive strategy with upfront identification of a facility's ability to attract a quality labor force, and justified capital and expense planning around facility build-outs, wages, attrition management and lease negotiations. This innovation represents the type of continuous improvement the corporate real estate world must embrace to increase CRE contributions to their company's success.

#### ABOUT THE AUTHOR



As Director of Consulting for CB Richard Ellis' Labor Analytics Group, **Kristin Beatty** develops corporate real estate solutions for site selection and portfolio optimization strategies, utilizing her expertise in North American labor markets.

For more information on this topic, go to CoreNet Global's Knowledge Center Online.

Location Velocity: Good Today, But What About Tomorrow?

<http://www2.corenetglobal.org/dotCMS/keoAsset?assetInode=2700092>.