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“Corporate Real Estate Leader” article:

Emerging Corporate Location Trends

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Introduction

This article highlights the latest thinking in both the design and execution of corporate location strategy. The following dynamics are addressed

1. Location Planning/Strategy
2. Most Critical Location Factors
3. Web-Based Data Sources

The objective of this article is to better prepare corporate real estate executives to create and execute strategies that will maximize economic value from the geographic deployment of office and industrial operations. We begin the discussion with corporate best practices in the strategic planning phase.

Location Planning /Strategy

State-of-the-Art companies have developed processes, work teams, and databases to continually monitor enterprise wide location of corporate operations. The principal objectives from this holistic planning approach are:

1. Ascertain measures designed to enhance the operational performance of corporate facilities
2. Determine which operations should be targeted for
 - Expansion
 - Minimal growth
 - Downsizing
 - Closure
3. Determine if future growth should be accommodated at either existing sites and /or greenfield (i.e. new) locations
4. Develop optimal criteria for siting new operations and hiring new employees
 - Location
 - Site/building
 - Employees

5. Create metrics to ensure that a new operation fully capitalizes on the business advantages afforded by a “greenfield” location.

In effect, this approach toward location planning/strategy represents an outgrowth of the corporate infrastructure management (CIM) model espoused by CoreNet Global. The CIM model calls for a collaborative, integrated approach toward effectively managing the support infrastructure of corporations. Multi-discipline teams are drawn from the following business units:

- Finance
- Real Estate
- Technology
- Legal
- Human Resources
- Logistics
- Environmental

Companies that have adopted the CIM model typically had one or more senior executives as champions of the concept. The corporate real estate executive has often been a “change agent” by advocating the model to top management.

Where the CIM model is in place, the issue of geographic deployment of corporate resources typically becomes top priority. Location is viewed as an ongoing management priority versus a periodic challenge to address when a new facility becomes necessary.

The roles often assumed by the multi-discipline location strategy team include the following

1. Create a database to monitor operational performance, including characteristics of the most and least successful facilities
 - Human Resources
 - Staffing profile
 - Wage levels
 - Turnover
 - Recruiting success/challenges
 - Real Estate
 - Occupancy costs
 - Site characteristics
 - Building characteristics
 - Space metrics
 - Annual rent
 - Annual operating costs
 - Annual one-time expenses
 - Furniture/Fixtures/Equipment churn rate
 - Onsite amenities
 - Parking
 - Building/site security
 - Occupancy costs
 - Disaster Recovery Plan Highlights
 - Location Trends

- Demographics
 - Workforce
 - Competing employers
 - New/expanding employers
 - Downsizing employers
2. Develop performance metrics, both for existing and new facilities (see chart one for a sampling of pertinent metrics)
 3. Recommend measures to improve performance of existing facilities to business operations management
 4. As part of the corporate planning process, contribute input to
 - Which facilities should be expanded
 - Which facilities cannot accommodate expansion
 - Which facilities to close
 - Which facilities comprise the best consolidation candidates
 - Which facilities to relocate
 - The need for greenfield (new) facilities to satisfy projected growth needs
 - Domestic
 - International
 5. Develop criteria for
 - New facility location
 - New sites/buildings
 - New employees
 6. Identify, well in advance, facilities where lease renewal and/or potential expansion will need to be addressed
 7. Review requests from field operations for new capital investment
 8. Augment the core team for new construction, downsizing, or consolidation projects
 9. Issue regular, summary reports to top management of the team's activities and recommendations

By adopting this dynamic, integrated approach toward geographic deployment management, corporations will realize increased productivity, better financial results, and optimal placement of product/service capacity. Firms that have wholly embraced this model, or are moving in that direction, include the following

- American Express Travel Related Services
- Capital One
- CIGNA
- Convergys
- Intel
- Lucent Technologies
- Hughes Communication
- Sitel

Location Factors

As we enter the period of post 9/11 economic recovery, a number of considerations are exerting the greatest influence over location of corporate facilities. These considerations reflect current business imperatives, which include the following:

1. Utilization of technology to maximize operational performance
2. Cost reduction and maximum efficiency throughout the supply chain
3. Rapid delivery of goods/services to customers
4. Recruiting/retaining the best talent, from entry level through professional/technical
5. Minimizing disaster risk and ensuring business continuity
6. Concentrating resources on what a company does best (both products/services and functions such as innovation, manufacturing, distribution, customer service, etc.)

These business imperatives translate into locational criteria when siting new office and industrial facilities. Among the locational criteria that are typically of greatest importance as we enter 2003 are the following:

- Customer/supplier proximity
- Transportation services/cost
- Highway access
- Available buildings or at the least “shovel ready” sites
- Rapid permit approvals
- Labor supply/quality/cost
 - Short term
 - Longer range
- Telecommunications infrastructure
- Electric power
 - Capacity
 - Generation
 - Transmission
 - Reliability
 - System wide
 - Circuits in substations serving targeted soites
 - Cost
 - Current
 - Future price stability
- Disaster risk
 - Natural (e.g. earthquake)
 - Human induced (e.g. site proximity to a nuclear power plant)
- Availability/cost of terrorism insurance
- Site/building security
- Incentives (considered once a shortlist of acceptable areas is identified)

High-technology businesses (e.g., R&D Centers) take into account the above locational criteria. But there are several issues which tend to assume predominance in the siting of these facilities. They tend to relate to attracting/retaining world class talent. Critical locational determinants for high-tech enterprises frequently embody the following:

- Critical mass
 - Similar companies
 - Vendors
 - Talent pool
 - Technical university
- Area perception
 - As a high-tech nexus
 - As a high desirable place to live
- Quality-of-life/transferee appeal
- Telecommunications
- Corporate campuses (live/work/play)
- Selected tax practices/rates (e.g. taxation of R&D equipment)
- Venture capital (especially for smaller firms)

While companies need to look at the full spectrum of locational factors, the above considerations tend to be most important on the majority of corporate site searches. Also, before leaving this section, a few words about human resource concerns are in order.

Companies should not be lulled into a false sense of complacency about the temporary worker surplus emanating from a weak economy. Once economic conditions improve, a national labor shortage will re-surface. In fact, the U.S. Bureau of Labor Statistics projects a 28 million worker shortage by 2030.

Tight supply conditions will appear throughout the skill range, including qualified entry level labor. Differences will appear among areas. But, on balance, companies will be sternly challenged to recruit/retain a quality workforce at an affordable cost.

In most labor markets, this can only be accomplished if a company is viewed locally as an “employer of choice.” To be considered a preferred employer, more than a competitive salary structure is required.

Chart two illustrates human resource oriented considerations that help to shape “employer of choice” stature. When evaluating potential locations for new facilities, it is important to determine how the company compares against the most revered employers in an area on these considerations. It is entirely possible that a company might need to adjust its human resource package to ensure a successful staffing experience in its new location.

Data Sources

The advent of the Internet has allowed for a more efficient process in identifying potentially acceptable locations for corporate facilities. There has been a profusion of top notch databases that produce relevant information for states, metro areas, counties, and cities.

Additionally, economic development organizations have also upgraded information contained on their web sites (both locational data and available sites/buildings). Especially useful are websites that feature databases with informational fields suggested by the International Economic Development Council (IEDC). This organization has recommended some 800 informational categories to be adopted by all metro areas and counties so that uniform comparisons can be made. The corporate site selector will find that assessing an area's locational resources is far more efficient/effective where economic development websites present information per the IEDC national data standards.

It should be emphasized that web-based data can only lead a company to qualified locations. Thereafter, more indepth evaluation is required. This would include surveying economic development agencies and conducting field-based due diligence study in shortlisted locations.

But for early to middle stages of location selection, the Internet comprises an invaluable information resource. A sampling of pertinent data sources follows.

Demographics (Population/Income/Workforce)

- Appliedgeographicsolutions.com
- Anysite.com
- DRI-WEFA.com
- Compusearch.com (Canada)
- CACI.com
- Claritas.com
- Woodsandpoole.com
- US Bureau of labor statistics (<http://stats.bls.gov>)

Salaries

- US Bureau of Labor Statistics
- Economic Research Institute (erieri.com)
- Salary.com
- Salarysource.com
- Wageweb.com

Transportation

- Route optimization
 - Emiler.com
 - Esri.com
 - Maptuit.com
 - Bestroutes.com
 - Promiles.com
 - Cops logistics, Route Pro
- Truck Service
 - American Motor Carrier Directory (cbizmedia.com)
 - EFR8.com
 - Eraterequest.com
- Center of markets software
 - Yellowfreight.com
 - Usps.com
 - Fedex.com
- Rail service
 - Official Railway Guide (cbizmedia.com)
 - American Association of Railroads (aar.org)
- Ports
 - American Association of Port Authorities (aapa-ports.org/)
- Airports
 - Federal Aviation Administration (fhwa.dot.gov/)
 - GCR & Associates (ger1.com)
 - Landing sites by state (airnav.com/airports/state)
- Air Service
 - Official Airline Guide (oag.com)

Environmental/Hazard Risk

- Air Quality Attainment
 - Epa.gov/oar/oaqps/greenbk
 - Epa.gov/airs/nonattn.html
 - EPA.gov/airsdata
- Mapping
 - USPA Enviro Mapper (epa.gov/iwi/iwimapper)
 - USGS National Atlas (nationalatlas.gov)
 - USGS Topographic & Related maps (mapping.usgs.gov)
 - Maptech.com (stock aerial photos and satellite images)
- Hazards/Risk
 - Cdsys.com
 - Epa.gov/enviro/html//em. (brownfields)
 - Epa.gov/superfund.sites
 - Usgs.gov (geologic hazards)
 - FEMA Hazard Maps (esri.com/hazards)
 - Vistainfo.com (environmental conditions within 5 miles of specified sites)

Electric Power

- American Gas Association (aga.com)
- American Public Power Association (appanet.org)
- Edison Electric Institute (eei.org)
- Electric Power Grids by the North American Reliability Council (nerc.com)

Telecommunications

- CDS Business Mapping (cdsys.com)
- KMI Corp (kmicorp.com)
- Atlas of Cyberspace (geog.ucl.ca.uk/casa/martin/atlas/)

GIS Mapping

- Arc View (esri.com/arcview)
- Businessinfomaps.com
- Easidemographics.com
- Geovue.com
- Mapinfo.com
- Delorme.com.

Quality-of-Life

- Accra.org (cost of living)
- Citysearch.com
- Eneighborhood.com
- Homefair.com
- Monstermoving.com
- Theschoolreport.com
- Realtor.com
- Imove.com
- Relocator.com
- [Http://realestate.yahoo.com](http://realestate.yahoo.com)

Available Buildings

- Costar.com
- Loopnet.com

Taxes

- Benderoff.com (statessalestax)
- Commerce Clearinghouse (cch.com)
- Prentice Hall (prenhall.com)
- Vertexinc.com (local sales/property taxes)

Incentives

- CCH.com
- NASDA.com (National Association Of State Development Agencies)
- Corporate Real Estate Journals
 - Site Selection
 - Area Development
 - Plants/Sites/Parks
 - Expansion Management
 - Outlook
 - Business Xpansion Journal
 - Business Facilities

International

- Air Inc for cost of living (airapps.com)
- Runzheimer for cost of living (runzheimer.com)
- Asia search engine (<http://searchasiaco.com>)
- Business.com (country reports)
- Cultrgrams (byu.edu/cultrgrams)
- Doing business guides (big 4 accounting firms)
- DRI-WEFA.com/contact (countries and industries)
- Erieri.com (salaries and cost of living)
- Economic Research Institute's Salaries Review (salariesreview.com)
- EIU.com (country reports)
- Country Compensation Reports by Wyatt Data Services (ecssurveys.com)
- World Markets Research Centre for Country Analyses (wmrc.com)
- Global Business Magazine (globalbusinessmag.com)
- US Department of Commerce Country Reports (stat-usa.gov)
- Political/Financial Risk
 - Political Risk Services Group (prsgroup.com)
 - Global Risk Assessments Inc. (grai.com)
 - The Economic Intelligence Unit (eiu.com)
- Your nation for country profiles (your-nation.com)
- Mosiac by Experian (European market data). experian.com
- Pactac (Asian incentives comparisons) patac.com
- Salaryexpert.com (salaries by occupation by major city)
- UNESCO Statistical Yearbook (bernan.com)
- CIA Country Summaries (www.cia.gov/cia/publications/factbook)

Conclusions

The State-of-the Art in location planning/strategy involves adopting the corporate infrastructure management (CIM) approach to insure optimal geographic deployment of enterprise-wide assets. Benefits of this strategic approach include expeditious response to upgrading the portfolio's financial return/productiveness; creation of pro-active measures to realign the locational configuration of a company before a major crisis arises, and ensuring that new facilities/employees maximize business success potential.

Locational criteria are changing as businesses place greater emphasis on efficiency, cost, resource allocation, workforce, and business continuity. Companies can also expect severe recruiting/retention challenges in the not too distant future. To succeed in the talent hunt, "employer of choice" status will be necessary.

Lastly, reliance on the Internet to identify promising locations will result in far less time expended by a company's site selection team. And when contacting an economic development agency's website, the site selector will find maximum value if the group allows access to a database that includes IEDC's recommended national data standards.

About the Author

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Chart One: Facility Performance Metrics**Internal****Productivity**

- Unit output
- Lead times
- Change over times
- Sales per employee
- Cost per employee

Real Estate

- Size
- Configuration
- Age
- SF/employee
- Flexibility
- Amenities
- Employee satisfaction
- Expansion potential
- Facility churn
- Environmental restraints
- Operating costs
- Improvement costs
- Expansion costs

Human Resources

- Staff demographics
- Payroll costs
- Recruiting
 - Applicant flow
 - Selectivity
- Turnover
- Absenteeism
- Human resource practices
- Supervisor/employee ratio
- Labor quality rating
- Unionization

Technology

- Business process
- Site infrastructure
- Business disruption
 - Telecom
 - Electric power
 - Other
- Business continuity plan highlights

Security

- Perimeter
- Building
- Incidents
- Cost

Disaster Risk

- Natural
- Human induced

External**Labor Market**

- Demographics
- Employment
- Wage structure
- Competitive employers
 - Within industry
 - Others
 - Expanding
 - New
 - Downsizing
- Character of prospective new companies looking at area (from ED agency)
- Unionization activity

Real Estate

- Market trends
 - Cost
 - Absorption
 - Vacancy
- Nearby growth patterns (compatibility)

Other (changes)

- Taxation
- Incentives
- Electric power
- Telecom
- Regulatory
- Political

Chart Two: Keys to “Employer of Choice” Status

1. Competitive wages/benefits
2. Human resource practices, e.g.,
 - Alternative workweek
 - Flextime
 - Telecommuting
 - Personal leave banks
 - Open communication
3. Company reputation
4. Job challenge
5. Career mobility
6. Recruiting sources/methods
7. Investment in training
8. Site proximity to residential concentrations of labor pools
9. Onsite amenities
10. Internal work environment
11. Easily accessible worksite