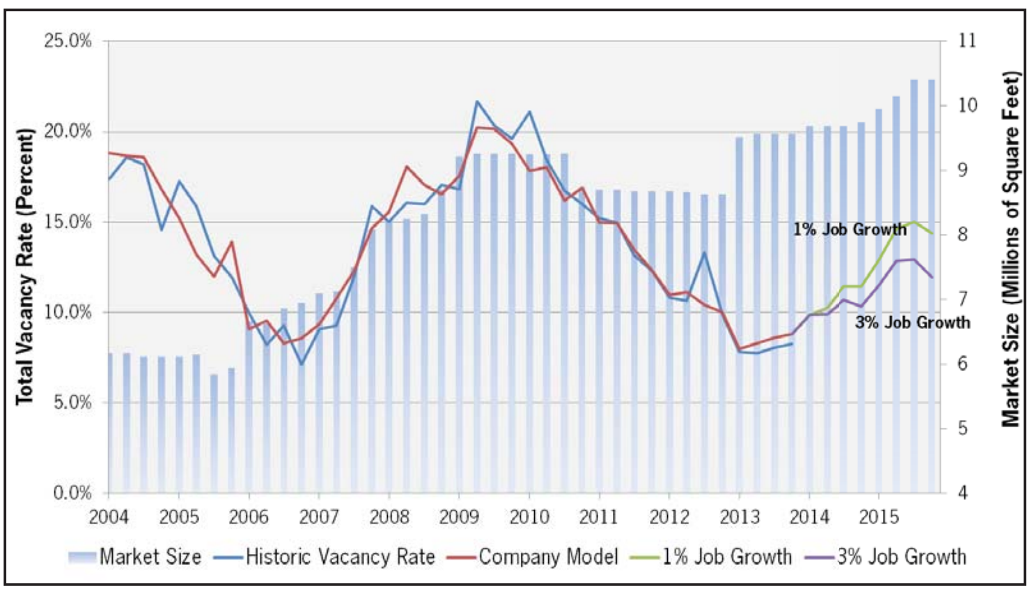
GETTING AHEAD OF THE COMPETITION:
USING ADVANCED MARKET ANALYTICS

By Kristi Svec Simmons, SIOR

One of the most commonly assumed ways to gain an advantage in market analytics is to win the arms race to acquire the most data. While having a large cache of data is important, it is how a firm uses the data which differentiates them from the rest of the pack. Local full service commercial real estate firms can use data to stay ahead of their local and national competition. Using analytics can help firms distinguish themselves, ultimately helping to attract and retain clients.

It seems most commercial real estate firms (large and small) operate in the same manner … collect information about the market, produce reports that organize the numbers, and then present them for others to see where companies are going, the vacancy percentages for each submarket, and what rental rates are in each submarket. This is an extremely useful exercise that is very beneficial to brokers, but if everybody is doing the same thing, then what can you do to stand out? Analytically, there are actually a lot of things that can be done. Creativity, brains, and the willingness to take chances are the three main ingredients in this next level of data analytics.

Don't just do what others are doing. Don't just do what has always been done. Do something that takes a latent question sitting in your brain and use data to answer it. If you have a question that continues to pop up in your head, it likely is a good question to answer. Maybe it is something that seems insignificant and not a good use of resources (i.e. finding out how one new building being constructed within a ½ mile radius of existing buildings affects rental rates/vacancy rates within those existing buildings), but when studied with enough samples and a statistically significant trend emerges, you can use that study on multiple levels. It can be used as a tool to advise clients whether to renew early before a new building goes in nearby or wait out the lease term until the new construction is complete. We have seen this play out with a recent 15,000 square foot law firm. While their incumbent broker was pressing them to move sooner than later, the data we had gathered on the specific submarket suggested a more "wait and see" approach. It can also be used as a marketing tool in pitches to show how your firm is on the cutting edge of data analytics. Tenants are like people in the sense they want to know what is going on around them and who is doing what. While they will want to hear about your firm and want to make sure you are capable of handling the work, you will get a better response if you are a resource. It can also be used as an internal predictor for the landlord representatives when forecasting competing buildings' trends. Below is an example of a graph used to show historical and projected vacancy rates based on varying levels of job growth. This is a great tool to help clients understand what has been and what could be going on in their specific submarket. *(contunued on page 63).*



Up until a year or two ago, the industry media were writing about the "doing-more-with-less" trend as companies looked to squeeze any savings they could out of their built environments. In addition to the massive recessionary layoffs, cubicle spaces shrunk in that time to as small as 100 square feet, according to architecture firm Gensler. But CBRE's Schreyer reports that corporations are awakening to the fact that they can only "cut so far without impacting productivity." At some point, they've got to grow to impact the P&L, and that means hiring.

But it doesn't mean we'll see an increase in cubicle size. "We're finding there's a delta between the exact space you need and the amount of square footage you need for creative, collaborative space," he says. "You're trading empty cubes for environments where people can be collaborative or just be more comfortable, spaces with more comfortable couches or a pool table or foozball, the things that bring people together."

Not your old man's office environment, is it? And that's exactly the point. The office that Schreyer describes, while benefiting all employees, is geared specifically to a younger audience.

All in, Schreyer estimates that there is still a reduction in the total amount of space companies are leasing, but the reduction is, well, reducing. "We're trading dead square footage for interactive square footage," he says. "The net of it may be 20 percent less space but not 40 or 50. It's a slight reduction, but the space you have is much more useful."

"Companies are much more focused on employee satisfaction with the environment," agrees West, who in addition to her SIOR duties is also vice president at the Tulsa CBRE office. "We see so much competition for hiring and recruitment, it's become much more important for companies to attract new employees based on physical space."

She calls it no less than a paradigm shift. "Coming out of the recession, it was all about creating more efficiency by driving down the dollar per square foot." In such a severely compressed environment, "how do we keep that satisfaction number? If employees are more comfortable, they're more productive and less likely to take sick days." Schreyer reports that in CBRE's new, much-publicized Los Angeles HQ, which he says employs many of the above-mentioned types of amenities, there has actually been an increase in the office headcount as employees seek that comfort and collaboration.

But is this truly a sea change? Are we closing the door on an office environment that has existed since the Kennedy Administration? "The American dream has shifted," reflects West. "What the average worker wanted in the '60s is very different than what the average worker wants today."

"This is not a fad that's going to run its course," adds Schreyer. "But there may always be a moderation, some kind of balance over time." But clearly, he says, the people, and especially the younger people, "have spoken." ■

(continued from page 60)

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Another observation about commercial real estate is that there seems to be a fascination on the past. Comparables from as far back as a year ago are used to predict what a good lease should be today, or even in the future. As brokers who have been in the business for a while can attest to, the market changes rapidly. A year old comparable is antiquated in many instances, so why is it such a prominent tool in the business? Why not use a more scientific method in predictions? Admittedly, forecasting is a scary endeavor. There are many factors that constitute market movement that nobody can fully predict, but having a mathematically based model that has had a proven track record for years helps ease some of the tension associated with the unknown future. If it is used in conjunction with modeling out a prospect or client's transaction and using the economics to project their future rental rates, it gives them a basis from which to make tough decisions. A statistical model can be as simple as using past and current job growth, annual absorption rates, or even square feet under construction. Or it can be an analysis on transactions completed in a single building showing the trend in what the landlord perceives to be the market in terms of rate and concessions. These types of analyses can be very powerful during negotiations in a tight market.

The bottom line is that you can still use traditional tools on a daily basis (comparable transactions, market reports, etc.), but be prepared to use other devices to help make more informed decisions for your current clients as well as prospective clients. Commercial real estate is both an art and a science. Ultimately, a fool with a tool is still a fool. You cannot simply imbed yourself into the analytics without having experience or a story to go with it. Accordingly, while using the analytics, they are simply another powerful tool that you possess in order to drive the best economics for your client. Just as the landscape on how to interact with potential clients is ever evolving, so are technological capabilities of the industry. It may be a slow change, but it is changing and is unstoppable. Be at the forefront of this movement, by embracing data analytics, to secure your advantage over your competition. ■