



Critical Core

Portfolio optimization with Core Planning

In today's competitive, fast-paced business environment, corporate real estate executives face continuous pressure to reduce costs, minimize risk, and align real estate solutions with business needs, all in less time. The challenges are even greater in situations that require a portfolio approach -- mergers, acquisitions, restructurings, metropolitan and campus occupancy plans, and back-office and call / contact center consolidations.

At Critical Core, we've developed a proprietary methodology to address these complex portfolio situations. Going beyond databases and spreadsheets, our Core Planning approach helps corporate real estate executives make better, faster and more cost-effective real estate and workplace decisions. Recognizing the importance of specialized portfolio optimization approaches, the leading corporate real estate organization, CoreNet Global, cited our techniques as a best practice in its Corporate Real Estate 2010 report.

Our approach adds the most value when organizations are evaluating a portfolio of five or more locations with business activities that can be relocated between them, for example, a long-term plan for a metro region or a merger consolidation for call / contact centers. Typically in these situations, corporate real estate departments rely on intuition and a complex collection of interconnecting spreadsheets to develop and compare portfolio plans. While sufficient for simple decisions, for complex decisions, this approach is time-consuming, error-prone and can overlook millions of dollars of value added.

With our Core Planning approach, the project team can:

- Complete complex portfolio evaluations in minutes rather than days or weeks
- Easily organize and evaluate the different, and often conflicting, factors involved in making complex real estate and workplace decisions
- Diffuse emotional and political facility issues by providing accurate, quantitative information to evaluate subjective trade-offs
- Minimizing risk by considering the impact of alternative business and real estate market forecasts
- Revise solutions quickly and completely as business plans change
- Save millions of dollars in occupancy, infrastructure and reconfiguration costs

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Our approach excels by combining the project team's knowledge and expertise with the right tools for evaluation. Critical Core team members join the project team to help organize and synthesize the information. The project team provides business and real estate insights and our proprietary software quickly sorts through the alternatives to find the one that meets the specified business needs at the lowest cost.

But that's not the end, there's never one right solution, there's a range of solutions -- from those that keep everyone happy at a high cost to those with cost control as the bottom line. By changing business, real estate and labor market assumptions, our approach provides the set of "best alternatives" for the project team to review and choose from.

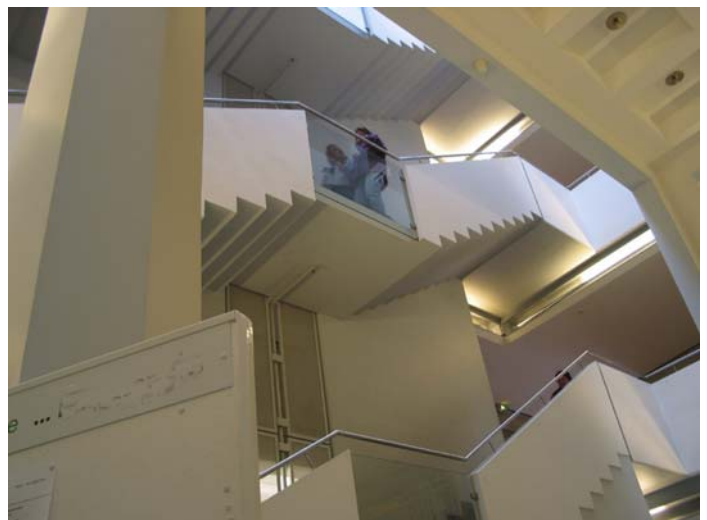
A few projects illustrate the benefits.

"Critical Core's approach significantly reduces the time required to make decisions, and executives can be sure that the chosen solution provides the most benefit for the least cost."

Coy Baugh, Treasurer
PacifiCare Health
Systems

- A high-tech firm needed to relocate several business units to meet new business needs on a corporate campus with 40 buildings. For their analysis, six people needed three weeks to complete multiple analyses. With Core Planning, one person completed the same work in one and a half weeks.
- Following a merger, a financial services firm needed to consolidate space for over 4,000 employees in a major city. While the project team gathered in a conference room for days creating alternatives, we identified the project team's solution and several more cost-effective alternatives in several hours. One Core Planning solution met the same business requirements with additional savings of \$16 million, 3% of occupancy, relocation, and reconfiguration costs.
- A financial services firm wanted to consolidate its back-office locations in 22 cities. We identified alternative solutions with additional savings of \$20 to \$70 million in labor and real estate costs, 25% to 90% more than the original savings. These cost savings were achieved with 30% to 40% fewer layoffs because activities were consolidated in locations where more workers could be retrained for new activities.
- During the PacifiCare Health Systems-FHP merger, Treasurer Coy Baugh noted that he had never seen the CFO and other senior executives approve a major decision so quickly and smoothly. The reason -- the project team came prepared with answers to senior executives 'what-if' questions. "Critical Core's approach significantly reduces the time required to make decisions, and executives can be sure that the chosen solution provides the most benefit for the least cost."

Core Planning achieves these benefits by taking a comprehensive view of the portfolio, by integrating the analysis of real estate, labor, and infrastructure resources, and by using sophisticated search algorithms to sort through the alternatives. Automatic reports add to the efficiency. Possible inputs and outputs are shown on the next page.



Critical Core’s approach reflects the technical expertise and practical real estate experience of its founder, Dr. Jane Mather. Dr. Mather has been creating value through innovation in the real estate industry for nearly twenty years. Before entering the real estate industry, Dr. Mather taught economics at The University of Chicago Graduate School of Business, Dartmouth College, and Zhongnan University of Finance and Economics in Wuhan, China. She earned a Ph.D. in Economics from Stanford University and graduated magna cum laude with a B.A. in Economics from Harvard College.

For more information, contact Dr. Mather at 970.726.9500 or jmather@criticalcore.com.

Core Planning’s Comprehensive Set of Inputs and Outputs

Inputs

Business Group Existing Conditions

- Employee locations in facilities, regions, cities, countries
- Special-use spaces (labs, trading floors, etc.)

Business Group Requirements

- Workspaces required in future by year
- Number and space types
- Persons housed and sharing opportunities
- Special-use space future requirements
- Feasible and preferred locations
- Adjacency requirements
- IT and telecom infrastructure required
- Amenities - parking, training, etc.

Real Estate Existing Conditions

- Facility sizes and configuration
- Lease rates, operating expenses
- Accounting values - depreciation, book value
- Expiration dates and options
- Space efficiency – rentable sf, usable sf, density
- Amenities, parking, security

Real Estate Opportunities

- Feasible new locations and costs
- Market rents and trends
- Sublease benefits and costs
- Purchase and sale prices
- Construction costs

Labor Market Opportunities

- Wage rates and trends

Employee Costs

- Relocation costs
- Hiring and training costs
- Severance costs

Relocation and Improvement Costs

- Relocation costs
- Reconfiguration costs (demolition, construction, furniture, wiring)
- Required capital improvements

Core Planning

Outputs

Occupancy Strategy

- Location occupancy by time period
- Leasing, purchases, subleases and sales
- Construction and infrastructure
- Relocations

Annual and NPV Costs

- By geography, business unit, facility
- By capital and expense
- Cash and GAAP
- Lease rates, operating expenses
- Purchases, sales, and subleases
- Construction costs

Performance Metrics Projections

- Cost per worker
- Cost per square foot
- Vacancy rates
- Space utilization

Scenario Comparisons

- Sensitivities to growth and cost assumptions
- Costs of alternative business requirements
- Impact of alternative workplace strategies

Occupancy Strategy by Year

