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# Are the myths of space utilization costing you more than you know?

Corporate real estate executives can close the gap between what they assume they know about their portfolios and what they accurately measure.

➤ Identifying and eliminating vacancy can save millions of dollars. The importance of efficient space utilization is certainly not new. What's less widely understood, however, is just how difficult it can be to accurately measure space utilization in a corporate portfolio. There is often a significant difference between how much vacancy corporate real estate (CRE) executives think they have and how much they actually have in their portfolios. Moreover, despite increased c-suite demands for accurate space metrics and valid benchmarks, one-fourth of CRE executives surveyed by Jones Lang LaSalle rate their available information as "poor" and three-quarters of them consider it no better than "fair."

While there is no fit-all formula to determine workplace needs, effective right-sizing of portfolios begins with a sound, disciplined process to accurately measure what you have and how it is occupied. This paper outlines key findings of leading companies that have executed an effective portfolio measurement program.

### The myths of space metrics

Is your organization's portfolio "right" for the requirements of your operations and the people who run them? The answer depends on how you define "right." Exact requirements vary with the business dynamics of each organization, but the foundation of any good program lies in accurate measurement tools and methodologies.

Many CRE professionals know that they lack a firm understanding of their organization's workspace metrics. Even among those who think they know the breakdown of their occupied space, perceptions are often mistaken. Reasons can include:

- Measurement definitions eliminate areas that should be included. This measurement shortfall can create density results that are artificially high. For example, companies that look at metrics on a project-by-project basis instead of a portfolio view, or exclude vacated spaces that are still on the books, might report a greater

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density than those that include those spaces as part of their metric.

- CRE teams do not always segment space attributes properly for valid, consistent comparisons. Data collected in an urban high-rise office tower, for instance, cannot reliably be used to predict requirements for a suburban campus.
- CRE executives are often overly optimistic, approaching occupancy planning using target rather than actual measurements. In one scenario, a company assumed that the vacancy rate in its portfolio was about 10 percent, when in fact it was 23 percent.

- Dimensions calculated for particular spaces rely on the validity of square footage quoted by the landlord in the lease documents instead of actual measurements or general standards established by industry organizations such as BOMA International or the American National Standards Institute (ANSI).

When CRE groups try to compare their space metrics to those of other companies, the gap between perception and reality is at least as prevalent. CRE leaders in peer organizations frequently discuss occupancy requirements in terms of their goals, not their actual metrics. It is easy to mistakenly believe that another company's space requirements are smaller than they actually are, and that there is a disparity between your portfolio utilization and that of others.

#### Measurement that works

Best-in-class measurement tools and methodologies are critical. An effective occupancy tracking tool enables the assimilation, viewing and editing of information such as space dimensions, organization assignment and seat projections on an easy-to-use dashboard.

Just as important as a measurement tool is a rigorous process of defining and categorizing space according to important attributes such as:

- Geographic categorizations such as downtown or suburban and building categorizations including high-rise and low-rise.
- Building function types such as headquarters, call centers and field offices.
- Space type classifications such as private offices, open workspace, conference rooms, support areas, and primary and secondary circulation.
- Global regions such as the Americas, Europe and Asia Pacific.

#### Key findings for nine global companies

Jones Lang LaSalle recently conducted a study of space characteristics of eight major companies plus our own office portfolio. The combined measurement was nearly 42 million gross square feet (s.f.) of corporate office space, across the globe, in a total of 583 buildings ranging from about 1,000 to over 1.5 million s.f. The companies surveyed represent a cross-section of industries such as technology hardware/software/support, financial, consumer products and professional services. All companies included have formal occupancy planning practices in place, and some

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have pursued aggressive workplace strategies for at least five years. Here are some highlights from the study:

**Vacancy rate** Dividing vacant seats by the total number of seats yielded one of our most significant findings: a 26 percent average actual vacancy rate. We found that our subjects averaged 13 percent in reported vacancies across their buildings, and another 13 percent in "shadow" vacancy created by seats that have been reserved for various reasons such as new hires, duplicate offices or storage, but not used for extended periods.

This is a marked contrast to typical estimations of vacant space at only 7 to 10 percent. The issue of vacancy seems to be one of the greatest misunderstandings in CRE portfolios. In one case, a company reported a 2 percent vacancy rate, but was found to have 31 percent shadow vacancy.

Accurately measuring vacancy has some of the greatest potential for improved space utilization cost savings. Correcting a nearly 30 percent disparity delivered a \$48 million savings for one of the corporations in the study.

It is also important to manage the occupancy rate. The total head count for all portfolios in our study was 114,624 head count, including employees, contractors and temporary staff, and seat count was 130,925. In itself, this occupancy rate of about 88 percent speaks well to CRE's ability to fill the seats they know about. However, high occupancy and low vacancy must align. One company leveraged a non-traditional work environment to reach an admirable occupancy rate of 123 percent, but negated the gain with a vacancy rate of 34 percent. With the continued acceptance of workplace strategies, this metric is important to monitor because occupancy rate improvements create more vacancy.

**Density** Our study compiled head count and seat count measurements for the nine portfolios to determine averages of both s.f. per person and s.f. per seat.

Density varied dramatically when measured by location and building type. City building occupants averaged 267 s.f. per person and 221 s.f. per seat. Suburban workers fill roughly 50 percent more space: 419 s.f. per person and 324 s.f. per seat. Clearly, there is less shadow vacancy and more efficient office layouts in downtown locations. Density space savings are much greater in high-rise versus low-rise buildings: 324 s.f. per person and 244 s.f. per seat in high-rises, compared to 409 s.f. per person and 314 s.f. per seat in low-rise buildings.

For a comparison, consider that 10 years ago, it was not uncommon for U.S. companies to embrace a company accepted goal of 250 s.f. per person, which was amended to 225 s.f. per person

## The language of inner space

**Vacancy Rate** Total vacant seats divided by the total number of seats.

**Shadow Vacancy** The gap between presumed vacancy and actual vacancy. Often, this occurs when seats are reserved for needs such as guests, new hires and storage. They may remain unoccupied for extended periods, but are not calculated as a vacant seat.

**Occupancy Rate** The total head count including contractors, divided by the total seat count.

**Density:** The actual layout and/or design of a space, calculated by the total square feet divided by the number of seats.

**Utilization:** The space usage by people, products or processes, calculated by the total square feet divided by the number of people.

**Gross Square Feet\* (GSF)** Everything within the building footprint, including the external wall thicknesses, but excluding areas outside the building line such as parking areas and loading docks.

**Rentable Square Feet\* (RSF)** Gross square feet minus exterior wall thicknesses and vertical penetrations such as stairs and elevators.

**Usable Square Feet\* (USF)** Rentable square feet minus primary circulation areas such as elevator lobbies and hallways, and building systems such as restrooms and mechanical rooms.

\*Lay interpretation of BOMA specifications



after the economic downturn of 2001-2002. After 10 years—a common duration for at least one lease term—most companies' averages still lag far behind this goal.

One interesting discovery was the disparity in space density when we compared occupiers in different industries. Two participants in consumer products and technology industries achieved an average of about 193 s.f. less than the industry standard. However, almost 80 percent of the companies studied were much higher than that benchmark, an average of 481 s.f. in the financial industry.

**Space usage** Our study revealed that “overall” only 8 percent of corporate space is used for private offices. Again, the exception to the rule is the financial industry, which devotes an average of 14 percent of space to private offices. While the trend of open workplaces is not new, companies have made significant progress in using it to meet the 225 s.f. per person target.

Among other space types, an average of 15 percent of square footage was used for support areas, of which only 4 percent was for conference rooms. We expect to see the percentage of conferencing space increase in the next several years as employees frequently request more collaborative workplaces.

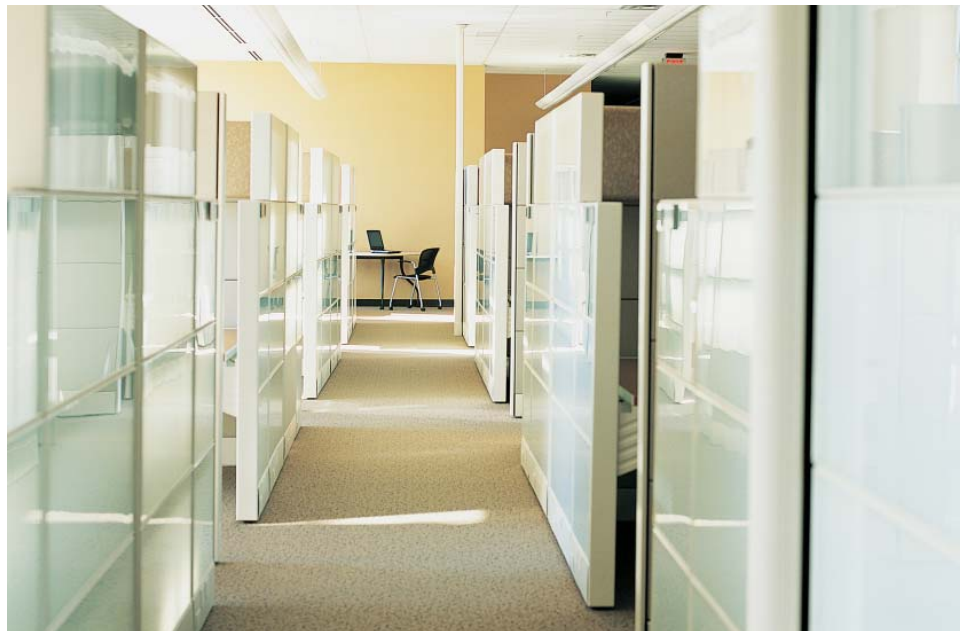
Adding square footage for collaborative areas will push companies beyond their current density metric and will drive them further away from the benchmark 225 s.f. One way to overcome this conundrum is to reduce the size of the workspace. This is the next area of opportunity for many CRE organizations, especially in North America.

#### **Gross versus rentable/usable square feet**

Of the total gross square footage (GSF) of the combined portfolios, almost 81 percent was considered rentable s.f. (RSF) and about 79 percent was usable s.f. (USF).

Building type and location play an important role in GSF/RSF/USF ratios. City locations averaged

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89 percent RSF, compared to 81 percent RSF for suburban properties. Conversely, suburban buildings edged city locations in USF; a suburban average of 79 percent USF compared to 77 percent for the city. High-rise office towers had 90 percent RSF while low-rise buildings average 80 RSF. Low-rise buildings reversed the trend for USF, with an average of 80 percent compared to 74 percent for high-rises.

#### **Global variances**

While the data from our study provides global occupiers a useful base for comparison, we've learned that, as a whole, office space in Europe and Asia Pacific presents some differences that should be factored into making workspace

decisions. In Europe and Asia Pacific, both city and suburban office space are generally more expensive due to population density. Even nations with a larger land mass (such as Russia) are challenged by a supply of office space that lags behind demand.

**Europe** Because of the space crunch, Europe is ahead of the United States in shrinking office sizes. Europeans have long been accustomed to living and working in smaller spaces than their American counterparts. However, many CRE organizations are focused on reducing European office footprints even further.

A frequent goal is a reduction of about 20 percent in s.f. per person and an increase of 20–30 percent in the occupancy rate, indicating the implementation of non-traditional workplaces. Though workplace strategies have developed less quickly in Europe than in the United States, the gap is rapidly closing. With less latitude to further shrink office dimensions, European focus is on shifting the metric from s.f. per seat to occupancy rate. This will likely mean an increased adaption of workplace strategies and the technologies that support them.

**Asia Pacific** The dearth of office space is magnified in the Eastern world, where mega-business centers such as Singapore, Hong Kong, Japan, Korea and Taiwan operate in constricted boundaries. In China and India, where land is more plentiful, office development and construction race to keep pace with exploding economic development.

The result is an emerging standard for seat size in the densest areas of about 20 s.f., tiny compared to the expectations of employees in other parts of the world. India and Australia have a larger benchmark of almost twice that size, but in India there may be pressure to reduce average seat footprints should business growth outpace office space supply.



Workplace strategies are being explored, but with the exception of Australia, face greater challenges in Asia Pacific. The at-home work that enables office sharing and hoteling is not as feasible as it might be in places such as the United States, where living quarters tend to be much larger. Also, a dedicated office is considered an entitlement in many Eastern cultures, and many employees are reluctant to relinquish or share space. Resolving these challenges will be key to addressing space needs in this area of the world.

#### **Summary: The power of meaningful metrics**

Geographic region, building function and space classification must all be carefully considered when optimizing space utilization. While complex and multidimensional, an accurate portfolio measurement and reporting process empowers CRE executives to identify vacancy and make fact-based decisions. In virtually every case, effective portfolio measurement programs deliver significant cost savings.

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