



# EVOLVING LOCATION STRATEGIES IN THE ERA OF COVID-19.

A series of topics considering the impact of COVID-19 on the workforce environment from CBRE Labor Analytics.

**BUSINESS CONTINUITY AND OPERATIONAL RISK**

## As COVID-19 continues to change lives across the globe, many employers are wondering what effects the pandemic will have on industries, jobs and the workforce over the near and long term.

The severity of these impacts will depend on the duration of the pandemic and the effectiveness of the solutions and government actions taken to handle the crisis. Initial data already indicates which industries are being impacted most and how the pandemic is set to potentially alter the labor landscape over the long term. Corporations should be mindful of these impacts and thoughtful about how the shifting labor landscape informs their short- and long-term location strategies.

Through a series of articles, CBRE Labor Analytics outlines a select number of key short- and long-term changes that are likely to affect U.S. labor markets as well as the strategies employers can take in response to these changes.

Topics covered in this series include:

- Anticipating a Changing Landscape in the Workforce: Industry Impact on U.S. Labor Markets
- Business Continuity and Operational Risk
- Cost Containment in a Decelerating Economic Environment
- Sector Focus: Technology and E-commerce

For many companies, the pandemic has triggered a fundamental shift in perspective from growth centric to a holding pattern as employers navigate uncertain waters. Although there is a lack of clarity on how long this shift will last, the initial market disruption has been significant, and its breadth is increasing. This economic disruption caused by the pandemic is offering a unique environment in that much of the economic disruption has been the result of self-imposed measures. This calls into question the duration and depth of the economic fallout. While some economists expect the recovery to be strong and fast, it is likely that the unique challenges of COVID-19 will contribute to an uncertainty in the near-term. As a result, many companies are rethinking their past approach to location strategies and will revise them going forward.

Labor Analytics' first discussion of the changing landscape in the workforce focused on the [impact of COVID-19 and how that might affect labor markets across the U.S.](#) The pandemic is likely not only to dramatically change labor environments, but also change how employers and occupiers evaluate their existing locations and future footprints, placing a greater focus on business continuity and operational risks.

In this paper, CBRE Labor Analytics looks at these key operational risk areas and how they may influence workforce and location considerations going forward.

## BUSINESS CONTINUITY AND OPERATIONAL RISK

One of the fundamental differences between the Great Recession and the impact of COVID-19 is the operational and workforce risk brought on by infectious diseases. This key difference puts a priority on the welfare of the employee and the continuity of the business. New questions are being asked about safety policies, cleaning protocols and densification. In these early days, many of these questions are focused on the work<sup>space</sup>. However, as businesses determine the safest methods for getting employees back to the office, focus will naturally shift to the work<sup>place</sup>. In a growing number of cases, the workplace may be an employee's home. However, it is expected that, over time, many workers will gravitate back to the office in some form or fashion.

The unique risks brought about by a pandemic create an entirely new set of location criteria and considerations. We will discuss some of these below, including:

- Consolidation vs. Diversification
- Population Density and Public Transportation
- Technology Infrastructure
- Healthcare Infrastructure

*A note on public policy: A fifth category that can have a significant impact on location strategies in the current environment is government policies to reduce the spread of disease. Their significance can be seen in the very different approaches and resulting outcomes in cities like San Francisco and New Orleans. However, because these policies are changing and evolving quickly, more time is required before the results of these differing approaches can be properly evaluated.*

## A CONSOLIDATED VS. A DIVERSIFIED FOOTPRINT

As the Great Recession gave way to the longest period of economic expansion in U.S. history, many companies pursued a real estate location strategy centered around “fewer and bigger.” State Farm consolidated regional operations across the U.S. into three primary campuses in Atlanta, Dallas and Phoenix— each employing 4,000–10,000 people. MetLife migrated large swaths of employees from high-cost locations to new hubs in Charlotte and Raleigh. Tech giants like Apple, Google and Amazon have built large technology hubs in Austin, Denver and, of course, Crystal City, VA (home to Amazon's HQ2). The conventional wisdom behind these consolidated campuses has been that having fewer locations makes it easier to manage, build culture, reduce real estate costs and create better career paths for employees. The benefits of a consolidated footprint can align well with some corporate

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strategies, however, recent events are causing many companies to consider different strategies. The COVID-19 pandemic has brought on such deep and immediate changes to our work environments that many long-held beliefs about workplace and workspace are now being reviewed again with a fresh perspective.

Some of the challenges with this strategy were becoming evident even before the onset of the COVID-19 pandemic. When large numbers of corporations pursue a “fewer and bigger” location strategy, only a small number of labor markets can support the resulting hiring demand. Clear market winners emerged: Dallas-Fort Worth, Atlanta, Phoenix, Austin, Orlando and Denver, to name a few. However, many of these markets also became some of the tightest and most competitive in the country, with

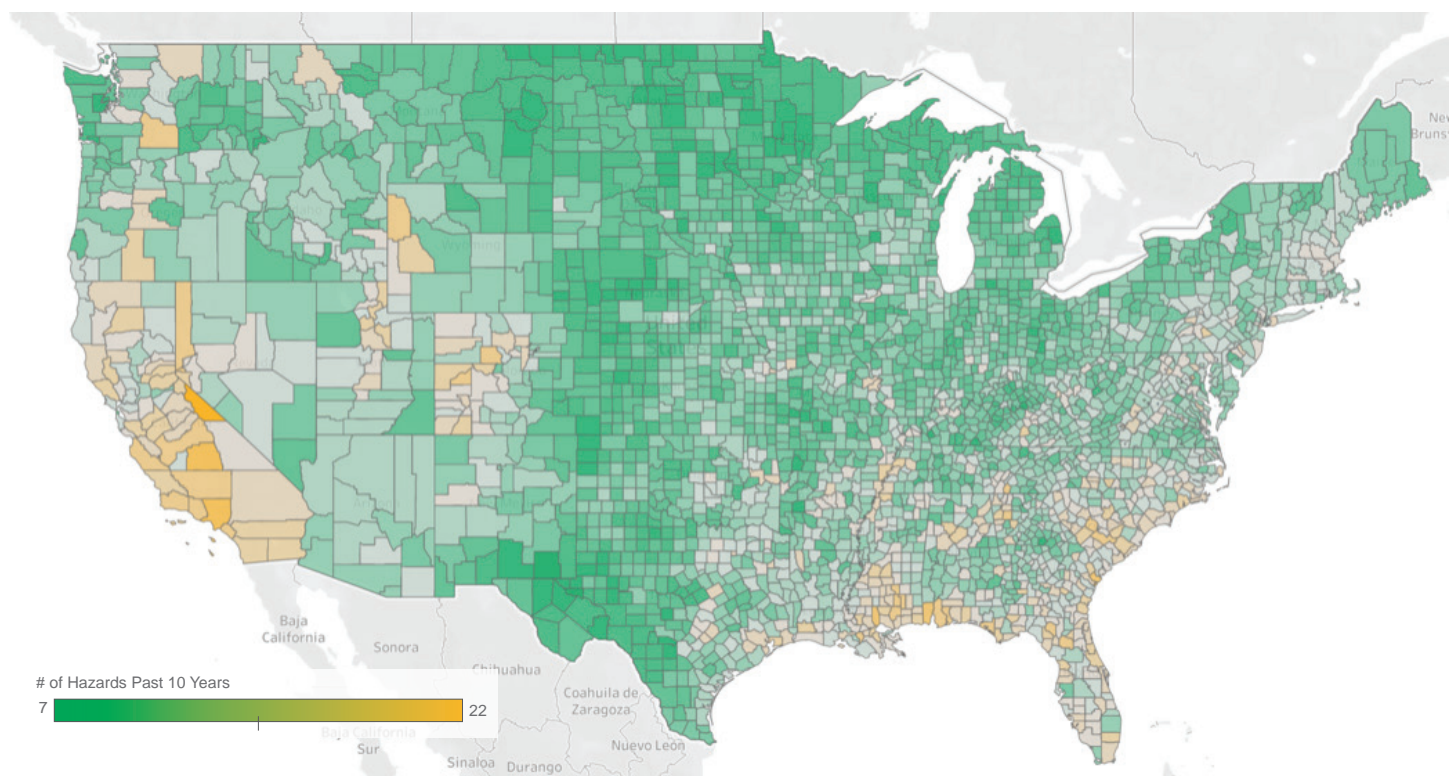
rapidly declining unemployment rates and strong upward wage pressure. Many companies found themselves unable to compete for talent, and rising labor costs eroded real estate savings.

Amid today’s changing environment, new questions are emerging regarding employee safety and proximity. Some companies are questioning if a “fewer and bigger” location strategy is the best approach, considering the unique risks posed by infectious diseases.



Geographic diversification helps reduce the risk of disruption to business operations. This has always been true and has been a common counterpoint to the “fewer and bigger” strategy. In the past, however, this assertion was typically made in relation to risk from weather and other natural disasters. Throughout history, various impactful events have shaped the way employers approach where they conduct business. Past major weather disruptions, whether from tornadoes, hurricanes, floods or earthquakes, have reminded employers of these risks, and as a result, the influence of these natural disruptors is often heightened in the location decision matrix. Areas that have historically exhibited higher risk for weather disruption— as illustrated in Figure 1.1— were often less attractive for higher headcount or highly concentrated operations, particularly after a major weather event that caused significant damage to an area. This is especially important for functions such as customer support, where continuity and redundancy are critical for business operations.

Figure 1.1: Extreme Weather Map (Past 10 Years)



#### Multiple Hazard Index

The multiple hazard index was created by coding the individual hazard classifications and summing the coded values for each United States County. Each individual hazard is weighted equally in the multiple hazard index. Alaska and Hawaii were excluded from analysis because one third of the individual hazard datasets only describe the coterminous United States.

Geographic diversification is a key consideration and is often weighed against the benefits of consolidation. Now, with infectious diseases coming to the forefront of corporate location risk, companies need to reconsider the benefits and risks of a consolidated footprint. We’ve highlighted some of the key benefits and risks associated with a consolidated versus diversified footprint strategy in Figure 1.2.



Figure 1.2: Diversifying Footprint – Advantages vs. Disadvantages



## ADVANTAGES

- Greater potential for collaboration across business units.
  - Easier to operationally organize.
  - More ideal for building a cohesive culture.
  - High potential for in-market career progression for employees.
  - Higher potential for reduced RE costs.
- Diversifies location risk (not all eggs in one basket).
  - Ability to enter smaller, less competitive and lower-cost markets.
  - Potential to create a more intimate work environment.
  - More opportunity to tap into different market labor strengths.
  - Less commitment needed to the market (flexibility to exit markets without higher disruption to the employee base due to lower headcount concentrations).

## DISADVANTAGES

- Concentrated business continuity risks.
  - Typically need to be housed in Tier 1, higher cost markets.
  - Higher commitment/less flexibility for RE and operations (Larger space requirements usually require longer lease commitments).
  - More centralized footprint means less potential for overall cultural diversity.
- Potentially reduced team synergies/collaboration.
  - More difficult to create a common brand/culture.
  - Can increase operational complexity.
  - Can limit employee career path options.

One of the benefits of the “fewer and bigger” strategy has been the potential for increased employee collaboration. Workplace design has transformed dramatically to promote this collaboration. Now, the pandemic has forced many operations and organizations to adapt and use collaborative/communication technologies to continue operations with a decentralized workforce. As offices begin to reopen, it is highly likely that workplace design will need to adapt once again to promote social distancing. This could pave the way for employers to reconsider the advantages of a more diversified footprint in a new world where these collaborative advancements may mitigate or remove some of the disadvantages previously associated with a more geographically diverse footprint.



## POPULATION DENSITY AND PUBLIC TRANSPORTATION CONSIDERATIONS

While it's difficult to predict which markets are most vulnerable to the spread of infectious diseases, there are some data points that can be instructive and may become more common considerations in the site-selection process going forward. Population density and public transportation use rates are two indicators worth evaluating. The pandemic has created a unique situation that is affecting the entire globe but will affect local geographies differently. More densely populated metro areas with high public transportation use rates, such as New York and Chicago, posted high volume and growth rates of the virus during the initial stages of the pandemic. While the correlation between these two factors and the spread of the virus should not be overstated (markets like San Francisco suggest other factors like public policy and adherence to social distancing measures are at least as important), density and public transportation may become considered more often in the near-term in location strategy , especially prior to the widespread availability of a vaccine.

The charts in Figure 2.1 and 2.2 show which U.S. locations have the highest population density combined with the highest public transportation utilization rates.

Figure 2.1: High Density/High Public Transportation Markets

PUBLIC TRANSPORTATION USAGE & POPULATION DENSITY

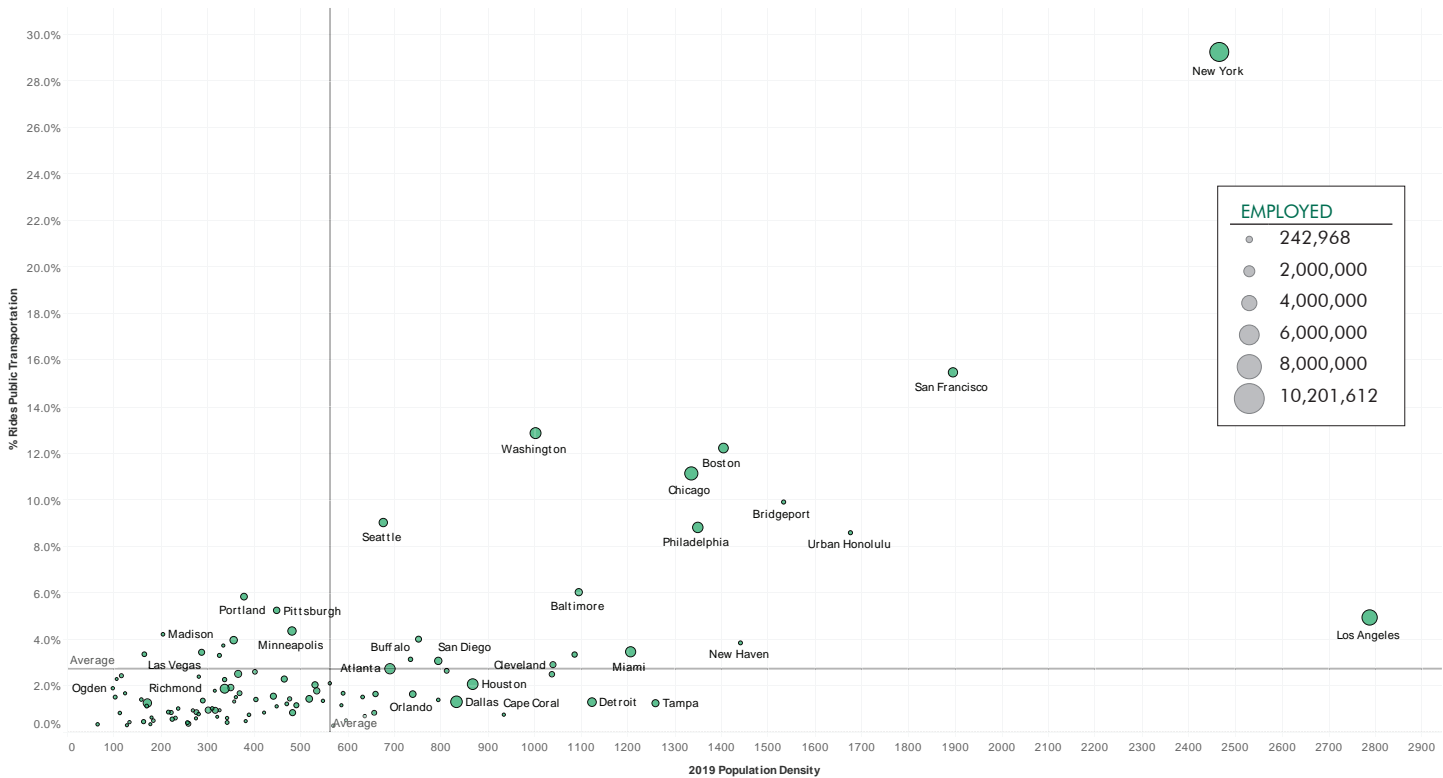


Figure 2.2: High Density/High Public Transportation Markets

TOP 10 HIGHEST % PUBLIC TRANSPORTATION MARKETS

	% Rides Public Transportation	2019 Population Density
New York-Newark-Jersey City, NJ	29.3%	2,464
San Francisco-Oakland-Hayward, CA	15.5%	1,894
Washington-Arlington-Alexandria, VA	12.9%	1,001
Boston-Cambridge-Newton, MA	12.2%	1,403
Chicago-Naperville-Elgin, IL	11.1%	1,334
Bridgeport-Stamford-Norwalk, CT	9.9%	1,532
Seattle-Tacoma-Bellevue, WA	9.0%	675
Philadelphia-Camden-Wilmington, PA	8.8%	1,348
Urban Honolulu, HI	8.6%	1,675
Baltimore-Columbia-Towson, MD	6.0%	1,093



## BOTTOM 10 HIGHEST % PUBLIC TRANSPORTATION MARKETS

	% Rides Public Transportation	2019 Population Density
McAllen-Edinburg-Mission, TX	0.3%	568
Jackson, MS	0.3%	126
Boise City, ID	0.4%	64
Fayetteville-Springdale-Rogers, AR	0.4%	176
Oklahoma City, OK	0.4%	258
Knoxville, TN	0.4%	256
Greenville-Anderson-Mauldin, SC	0.4%	341
Wichita, KS	0.5%	132
Tulsa, OK	0.5%	162
Lakeland-Winter Haven, FL	0.5%	380

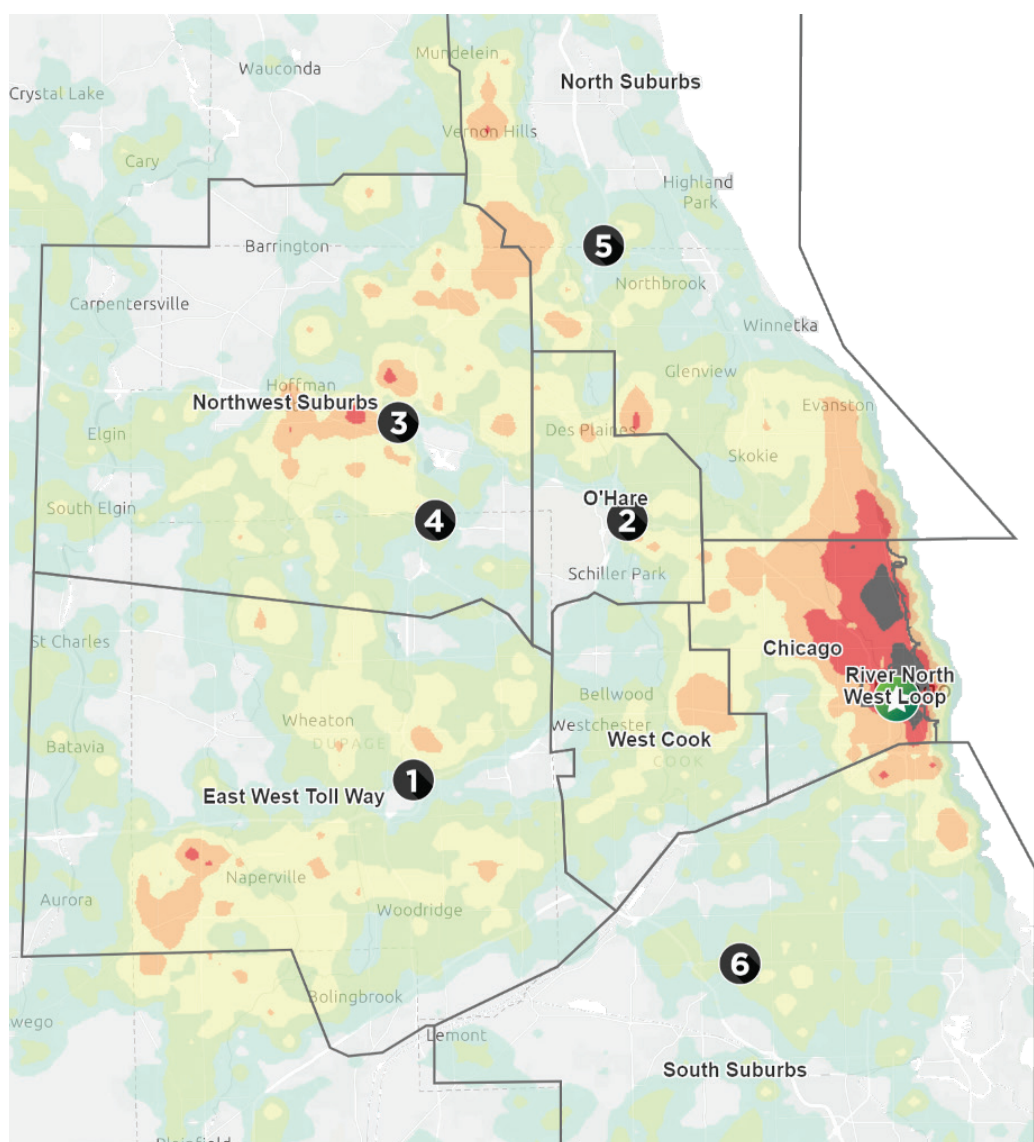
\*Population Density figure refers to the number of people living in an area per square mile

Dense markets with a highly-utilized and multi-modal public transportation infrastructure may cause employers to contemplate their presence in these markets, but that does not necessarily equate to a lack of job growth or corporate considerations for these markets. Many of these markets like New York and Chicago house deep, diverse and sought-after skills which continually attract employers. It may however prompt employers to contemplate different strategies that allow them to take advantage of these talent-rich markets while diversifying risks through strategies like the “hub and spoke” strategy discussed later in this piece.



Perhaps most relevant in the discussion of population density and public transportation use are the intra-market considerations. Of course, even the most densely populated cities are surrounded by less-dense suburbs. In many metro areas, the public transportation options also diminish as you move outward and the ease of a car commute increases. An intra-market real estate strategy going forward may include a hub and spoke orientation that combines access to downtown talent with geographic diversity in the less dense suburban markets. Such a strategy would pair well with increased work-from-home formats and offer optimal flexibility and safety to workers that still want in-office workplace options. By creating thoughtful and engaging satellite offices proximate to concentrations of workers, these offices serve as magnets, attracting employees and promoting culture, collaboration and innovation.

Figure 2.3: Example Chicago Hub and Spoke Strategy



“  
...these satellite  
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and innovation.”

\*This map depicts where people with technology skills live within the Chicago metro area. The areas with the deepest concentrations are shaded in red and black.

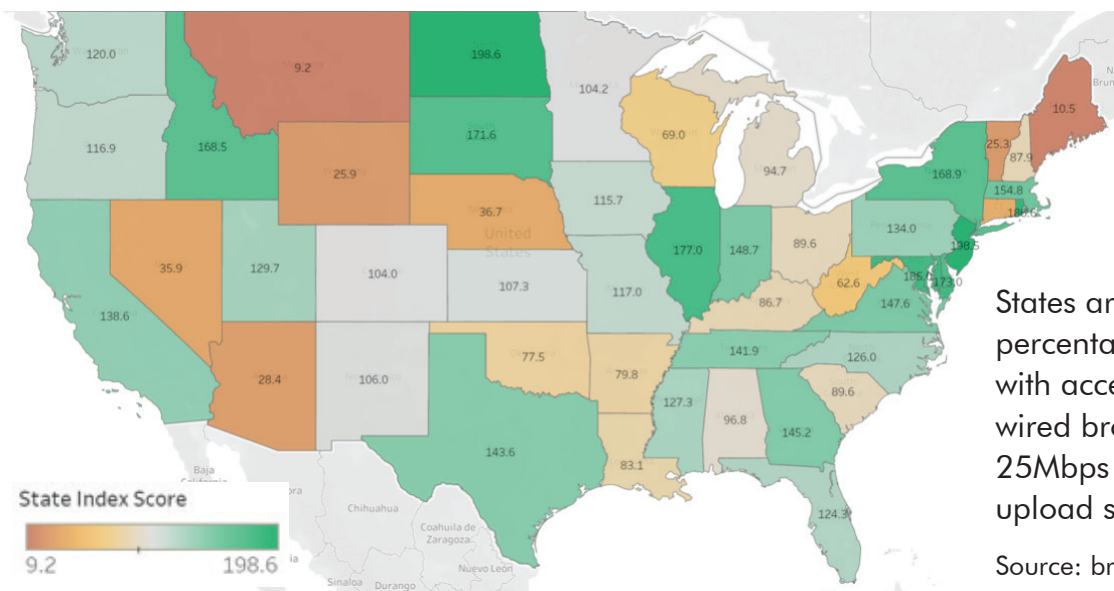




## TECHNOLOGY/TELECOM INFRASTRUCTURE

An immediate impact of the pandemic on corporate America has been the nearly instantaneous shift to work-from-home solutions, particularly for white-collar occupations. While there is little certainty about what portion of the workforce will continue to work from home in the future, it is widely believed that a certain percentage (and perhaps a very significant percentage) of employees will continue to work from home for a portion of their work week or at least have the flexibility to do so. As these large swaths of workers have transitioned to the home, employers are discovering the critical importance of the quality, reliability and affordability of the telecommunications infrastructure. All markets are not created equal in this respect, and we expect evaluations of residential technology infrastructure to become another important location factor going forward. Figure 3.1 provides a visual ranking of states with the greatest access to affordable broadband. As depicted in the map, the diverse environments with regards to geographical scoring for broadband availability/affordability suggest that this infrastructure is going to be influenced by many local conditions, such as population the competitive marketplace for these services and governmental legislation and regulation, to name a few.

Figure 3.1: Broadband Availability and Affordability by State



States are scored on the percentage of the population with access to \$60/month of wired broadband with at least 25Mbps download and 3Mbps upload speeds or higher.

Source: broadbandnow.com

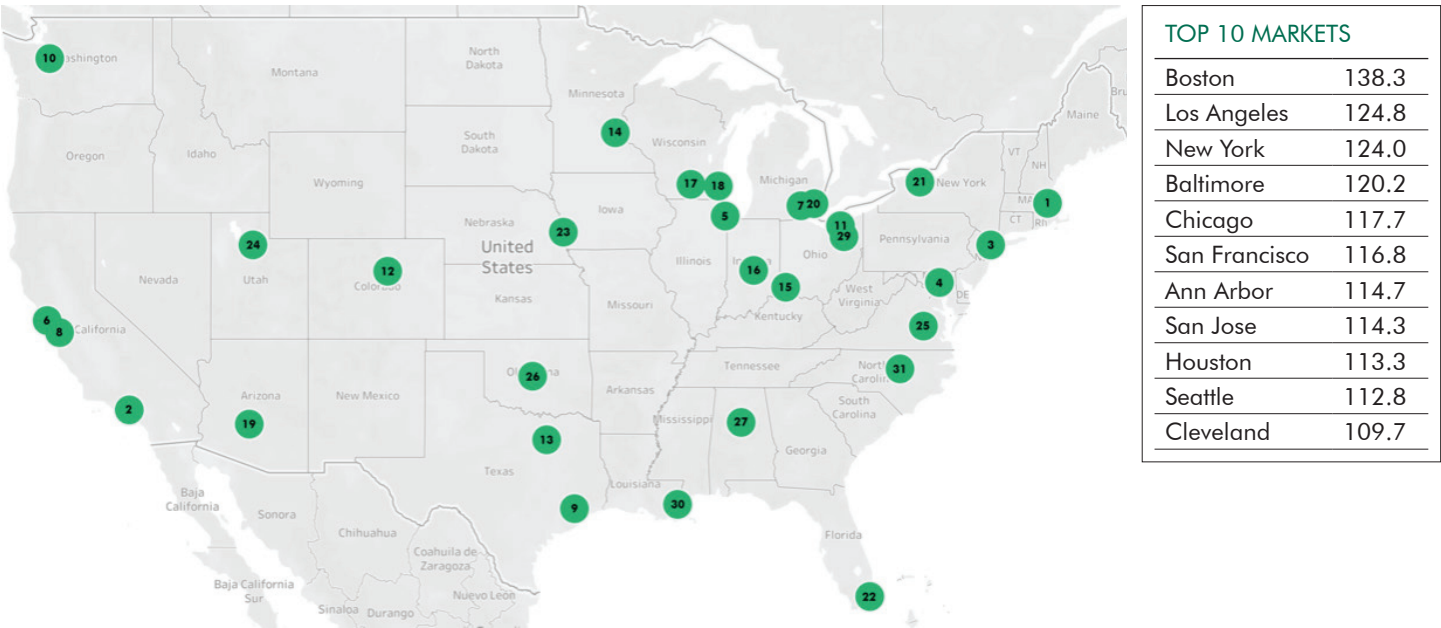


## HEALTHCARE INFRASTRUCTURE CONSIDERATIONS

Healthcare infrastructure is another consideration that will likely become more prominent in location strategies going forward. Access to quality and affordable healthcare has been growing in importance for employers for several years as employees have prioritized wellness initiatives in the workplace. With the heightened risks brought on by the pandemic, companies are highly focused on the health and safety of their employees, and locations with strong healthcare systems provide a better foundation for protection and recovery in this new environment.

Figure 4.1 shows the 31 highest-scoring markets on a healthcare index that considers infrastructure, quality of care and access.

Figure 4.1: Hospital Preparedness Index Ranking – Top 31 Markets<sup>1</sup>



1. <https://www.medbelle.com/best-hospital-cities-usa>

The study looked at the best hospitals and medical schools to create a shortlist of the world's top hospital cities. Then, we split the factors which determine the best hospital cities into three categories: Infrastructure, Quality of Care and Access. Within these categories, we've included research ranging from the quality of medical education and the number of hospital beds, to the cancer survival rate and the number of nurses. Additionally, elements such as the cost of medicine and the prevalence of mental health specialists were included. These data points were then used to score each city based on their overall hospital infrastructure to determine the top 100 hospital cities in the world, in addition to the top 31 hospital cities in the U.S. We should more clearly state the source of this study so as to give that source proper credit.

In conclusion, while this paper has identified some of the new and increasingly important location considerations going forward, these factors will evolve. New considerations will certainly emerge while others may become less important. These considerations are also subject to local context and each organization may prioritize these considerations based on their strategic needs.

Today, many companies are focused on the immediate tasks of reopening their workplaces in a safe and responsible way. Soon businesses will move into a second, more strategic phase of reorganizing processes, policies, technology and locations to reflect the new reality. It is in this more strategic phase where the foundations of long-term viability will be set and a smart location strategy, re-designed for the new world, will be critical.

## METHODOLOGY

Labor Analytics understands there are multiple drivers factored into location strategy. This paper outlines additional location strategies that could be considered amid the COVID-19 pandemic. Building owners, investors, and corporate tenants might have different processes in finding the perfect site for their facilities, however, their objective is the same: to locate a property that will attract a qualified tenant and resulting workforce to inhabit the building with some stability. For office-based industries, access to quality labor markets continues to be the driving force in site selection.

Sources: CBRE Labor Analytics Primary Research; Emsi-economicmodeling.com, medbelle.com/best-hospital-cities-usa, broadbandnow.com

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