Gill

Quantifying the Risk of Events of Mass Disruption

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Conceptually at least, decentralization seems like a sound strategic proposition. That is of course until organizations begin tabulating. Soon, it becomes clear that the decision to proceed with dispersion is a complicated process. Many issues must be considered. How much will it cost to carry additional facilities? How will an organization provide incentives to relocate for knowledge workers who are accustomed to working in an urban area rich in amenities? How much time and money will it take to adequately staff remote locations? These are weighty issues that suggest dispersion can be an expensive, logistically involved nightmare for organizations. Why, then, are planners and strategists alike predicting that dispersal represents a sustainable new corporate location paradigm that will replace highly concentrated clusters of workers with a regionalized, decentralized framework? It's all about risk management.

In our first paper, *Quantifying the Risk Associated with Events of Mass Disruption*, Gill reviews the economic impact of large scale events on both the broad economy and individual organizations. It provides decision makers with an overview recent issues and trends in real estate risk management. In some cases, depending on the nature of the business, extended periods of downtime can seriously compromise an organization's very existence. We are only beginning to enter an era where there will be a renewed emphasis on decentralization. Thus, there are only a very specified list of industries that will pursue this strategy. Over time, however, it is inevitable that others will follow these leaders.

CEOs, CFOs and CIOs, who previously considered a set number of scenarios when considering risk, now only have to look at the economic damage that unanticipated events can impose to expand the number of scenarios that need to be considered. The sheer magnitude of these events, regardless how improbable their occurrence may be, makes the acceptance of such risk absolutely intolerable. This paper presents recent anecdotes that detail the economic costs associated with the terrorist attacks and other recent events, including SARS, earthquakes, floods and other natural phenomena. The paper provides a useful discussion to guide decision makers in formulating an expanded framework for quantifying risk.

Part of the Gill value proposition is providing insight from our research that targets individual verticals, enhancing our clients' understanding and providing analytical insight to support their key decisions. For example, the information gleaned by a corporate real estate executive may be different from the one absorbed by a REIT analyst. Recognizing these differences, Gill provides specific learning outcome summaries to key executives in the following verticals that assist them in their decision making process:

Industry Vertical	Principal Learning Benefits
Real Estate Executives	• Assists in aligning strategies with BC Planners; introduces concept of risk management into decision making process. Design a more robust planning framework. Use this as guide to prepare internal surveys used to plan
Business Continuity Planners & Strategists	• What is the cost of and replacement cost of real estate assets? How is the physical environment of the workplace incorporated into BC planning? Provide practical ways to better coordinate activities with RE department. Provide suggestions on how to address long-term BC planning through real estate.
Institutional Owners, Landlords & Managers	• Provides additional insight into tenant's thought process. How flexible and accommodating is existing portfolio to nuances of risk management? Identify on-site risk mitigation strategies. ID resources available to create redundancy.
Industry Analysts	• Identify geographic/topographic areas of potential risk. Use this as basis to diversify fundamental portfolio characteristics. Identify areas of risk and assign probabilities to these events where possible. Invest in new areas of RE that address the concerns.
CEOs, CFOs, CIOs	• Could cost justification of massive decentralization projects be made through thorough risk analysis? Could better efficiencies result if BC and RE departments better communicate? What are costs associated with shut-down? What is the PV of cost of RE over different time horizons?
Commercial Brokerage	• Gain greater insight into the macro issues that impact usage decisions. Use as a basis to better evaluate all potential client space alternatives. How can portfolio strategy for clients be devised as alternative to single premises?