

Real Estate Continuity



Special Interest:

- Disaster Recovery, Business Continuity and Real Estate.

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Q4 2003

Blackouts

Shortly before rush hour on August 14th, much of the northeast was hit by a massive blackout that plunged over 50 million people into complete darkness as evening set in. Two days later, authorities were still scrambling to get the power on. Electricity, many of us would find out was not just the thing that enables us to turn a light on or watch TV, it powers the pumps that bring water to our taps, and provides the critical juice we need to refrigerate the food we eat. Indeed, this was the big one and made us not only question the problems associated with an outdated power grid, but also problems on the demand side. Many of these demand side issues are discussed in our white paper that was released in September that discusses the logic associated with Smart buildings.

Just as we assumed that was the end of the story there was more to come. Over the next 6 weeks, major blackouts also occurred in London, Scandinavia and Italy. Curiously or coincidentally, these events were considered the largest blackouts in those respective areas history. As we assured our readers in

our blogs, Gill is not in the business of conspiracy theory, however, these events, taken together demonstrated the vulnerabilities that exist within our energy transmission systems, but more importantly showed how a minor mishap can cascade into a major problem.

Amidst all the positive stories of people using this event as a catalyst to get out and meet their neighbors, there were stories of how this event seriously affected the operations of businesses. One that hit close to home concerned a corner grocer whose shop is just around the corner from my house. When the lights went out, my wife and I stopped in to buy some buns for an impromptu barbeque. The checkout people were happily going along with the flow and using calculators and ripped pieces of paper to substitute for the cash registers that had gone down.

All seemed quite normal until about 5 days later when massive quantities of their inventory was taken off the shelves. For the four weeks that followed the operators were able to offer their customers about one



Italian pedestrians navigate through darkened streets; one of a series of bizarre outages that occurred over a six week period between August and September

third of the inventory they normally offered. It took time to replenish shelves, and during this period the revenues required to run the store went down and they lost customers. A month ago, I drove by and saw that substantial renovations were going on. When I stepped in to say hello to the owner and see how things were going. I was told he was no longer around. He had declared bankruptcy because the fine print didn't cover him for his loss. We have to be prepared.

“Quotable”

“The preparedness of U.S. business for the blackout is seen...as a vindication of the disaster-recovery systems that many companies deployed following 9/11...business continuity planning... (has) made tremendous progress, making the impact of the outage far less than it would have been two years ago.” **Simon Mingay, Gartner Research**

“Manulife's multiple locations-which include offices in Hong Kong, Tokyo, Boston, Montreal and Waterloo, Ontario-contributed to the continuity effort” **insurancetech.com**

“The Blackout revealed some areas of weakness that need ongoing attention such as geographic diversity and strengthened telecommunication systems. There is a need for more back-up facilities outside high-risk environments” **NASDAQ Business Continuity Fact Sheet**

“the (\$50 M, 310,000-sq. ft. in Boca Raton) data center is the lifeline of the company...from day one of design...we had disaster prevention in mind and that was especially important for the data center; it's about committing attention to devote resources to ensure businesses continue” **NCCI CFO Alfredo Guerra prior to Hurricane Isabel**

“We concentrate huge resources – human capital, financial resources, some of our best equipment and technologies in very small locations which makes us vulnerable. I think we'll find in the next decades a tendency to disperse this stuff...because it will be safer” **Thomas Homer-Dixon on CBC's The Current**

Tales from the Trenches: BCP during the Blackout

What became clear within days of the blackout was that in the past two years BCP and DR in public/private sectors have made tremendous progress. A few interesting anecdotes:

- When outage occurred, HP transitioned to battery-operated UPS, then to backup diesel generators loaded with enough capacity for one full week
- Manulife had in-depth multi-facility strategy providing multiple layers of backup for its 14 operational units
- Insurance companies such as Manulife and Progressive of Ohio, spread call center functions to back-up locations
- Securities Industry Association created direct link between affected workers and Office of Emergency Management - very useful for instructions
- Some firms overcame limitations in communication by having dedicated analogue phones in key areas to maintain critical communication functions
- NASDAQ was fully operational throughout/following Blackout; their ability to operate on diesel generators and outside Eastern power grid was key asset

- critical elements of the payments infrastructure (ATM & credit card networks, the automated clearinghouse, Federal Reserve networks) largely unaffected; upgraded inter-bank communications proved their resilience
- Event served as a coming out party of sorts for mobile communication devices such as mobile phones, Blackberries, two-way radios

We will keep you up to date with new developments on the weblog.



Satellite image of Northeast US/Canada 20 hours prior to blackout.



Same region during blackout.

Outsourcing

Slowly but surely the issue of outsourcing is making its way from the organizational backroom planning sessions to the 6:00 o'clock news. If you have been following the news lately, you will have noticed news organizations such as MSNBC and CNN have couched this discussion into the wider phenomenon of "The Selling of America."

During this quarter we joined the discussion, as it is our firm belief that outsourcing functions such as call centers and IT departments to countries such as The Philippines, India and China play an important

role in decentralization.

We never thought this area would become as emotionally charged as it has, but opponents and proponents alike are passionate about their respective positions. To get a more complete picture of some of the issues, we encourage you to visit our website and view some of the posts made in October - if anything, it makes for some lively reading.

In addition to the blog posts that have been published, we also went into our files and released an out-

sourcing case study paper written in 2001 providing an overview of outsourcing in action. This document is available on the research page of our website.

As we move forward, we will expand our discussion on outsourcing. Regardless of the controversy, we believe that an organization who might be considering outsourcing as part of a broader decentralization strategy needs to gather as many facts about this phenomenon as possible. We plan to make the website a destination that helps you decide.

"it is our belief that outsourcing functions such as call centers and IT...play an important role in decentralization"

Conversations with Gill

We will be publishing our next *In Conversation* segment in the next few weeks, and like the first segment will focus on an area that contributes to advancing our area of research.

Since our last newsletter, we have assembled a tremendous lineup of interviewees for our Conversations with Gill feature, whose particular areas of expertise develop the field of world of real estate continuity.

For example, in the months ahead we will be interviewing one of America's foremost experts on the

changing security standards of facilities, a professor from the UK who specializes in human issues associated with business continuity planning, an expert whose research in the field of broadband will inevitably affect site selection standards for backup facilities. We also plan to interview a couple of folks whose groundbreaking research in areas of broadband and long term sustainability will make a valuable contribution to our overall theme of real estate continuity.

In order to advance our field in a meaningful way, it is vital that we

take a holistic approach in developing new ideas. It is very easy to get caught in the familiar approach of developing new ideas within an isolated cylinder, however, if this approach is taken we run the risk of having those ideas clash with new approaches developed in other areas. The best way to create traction is integrating pieces of knowledge from areas directly or peripherally associated with our core focus. As the field develops, our readers will see how all the pieces fit together.



In a fully connected world, you still can't beat a good old fashioned conversation

Storage Guardian

Over the past several months, we have worked diligently to assemble a team of advisors whose particular areas of expertise serve to enhance the value proposition we forward to our clients. One of the cornerstones of strategic business continuity planning is data storage and backup. Our advisor in this area is Toronto-based Storage Guardian.

Storage Guardian's core offering is StorGuard, a cost-effective solution that provides a more robust backup and secure backup solution than what is available with tape technology. This is particularly notable, because the StorGuard solution provides an alternative to

mirroring technology that can often be cost prohibitive.

Since Storage Guardian joined our Advisor team, I have been particularly impressed by the extent to which they have developed their line of products and services by becoming active participants in forums that contribute new knowledge and insight into a growing field.

For example, company principals are continually participating in or sponsoring forums where some of the field's most senior experts will gather to discuss new issues. Instead of passively watching, these folks roll their sleeves up and fully

involve themselves in the dialogue. Clearly, a far cry from an anonymous service provider that makes modifications based upon what they happen upon at trade shows or read in magazines.

Most of their solutions are crafted to respond not as much to the technical minutiae of data storage and recovery (which they do very well, by the way), but to address the issue of business impact and downtime.

One gets a very complete picture of the breadth of knowledge and experience Storage Guardian brings to the table by visiting their website at www.storageguardian.com.

“We live in an environment where events of mass disruption are on the rise, and some of these events can't be predicted under any statistical model”

Insurance Implications: Tears in the Umbrella

We live in an environment where events of mass disruption are on the rise, and some of these events can't even be predicted under any statistical model. It is any surprise then to say the insurance industry finds itself at a crossroads? Uncertainty is the key operative, especially in a post 9-11 world where in the year that followed, insurers had to deal with claims associated with an event whose costs exceeded \$50 billion.

An insurance quandary was developing, as the cumulative claim amount represented a substantial

portion of the total reserves, and funds available to cover events of this magnitude in the future simply didn't exist. As a result, owners of large portfolios of CBD real estate assets were now unable to get terrorism coverage unless they paid premiums that were cost prohibitive. This uncertainty forced the US insurance industry to lobby for help. It was looking for a government-secured backstop that would provide a safety net. The backstop came in the form of the Terrorist Risk Insurance Act of 2002 (TRIA), which President Bush

signed into law on November 26, 2002.

The prevailing assumption when TRIA was passed was that the industry's problems were over. In fact, this piece of legislation provided only a temporary stopgap solution to a much wider problem. In October we released the abstract of a new research paper that explains the particulars of this phenomenon and how this will affect facilities selection going forward. The abstract is available on our research page.



Managing Mother Nature

All along the US eastern seaboard fall is not only a period associated with changing colors and chillier temperatures, but also hurricanes. Within a two week period in September, two consecutive hurricanes packed a collective wallup of destruction. Both hurricanes Isabel and Juan carved swaths of destruction extending from the Carolinas to Nova Scotia. Prior to making landfall, we gauged preparedness, and we followed that up by exploring how well we fared.

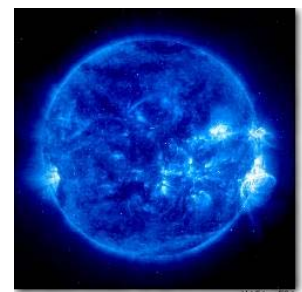
What made this season particularly unique was the degree to which organizations deployed business

continuity plans on a wide scale. Although we didn't use the website to make a posting about Juan (fearing we may start looking like an adjunct to The Weather Network), we tracked the storms and assessed the degree of preparedness that was embraced. Isabel and Juan present two opposing stories that provide a testament to how well affected areas reacted to a pending disaster. Results of these findings are available upon request.

This was also a season marked by devastating forest fires in BC and California, as well as floods that reeked havoc in some parts of BC.

Again, these events caused a tremendous amount of destruction and dislocation. We have added to our mother nature files by gathering anecdotes of success and non-success, and track the role of facility selection and decentralization as a key component contributing to some of the success stories.

One of the more interesting stories that seemingly appeared from outer space (literally) was the effect of the solar flare in late October. We are still tracking the effects of this event on business interruption and its long term impact. Stay tuned.



NASA - ESA

Ultraviolet image from sun showing three pronounced areas of solar outburst activity

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Real Estate Continuity

Institutional real estate policy needs to be approached in a new way. We advocate that large organizations make this function more strategic, rather than tactical, especially in an era when external factors that might compromise the very existence of the entity cannot be predicted.

Gill Advisors Inc. is committed to creating solutions for institutions that seamlessly integrate real estate strategy into business continuity planning. By bridging these areas, Gill makes real estate planning a more strategic component of overall organizational policy.

Quarterly Blog Review

Since our last update, you may have noticed the expanded role of our corporate weblog (or "blog"). Blogging has evolved from its humble origins to a platform that can be effectively used by businesses to provide timely updates on issues pertaining to a core area of focus. You may have noticed that we use this forum not only to muse about day to day activities di-

rectly or peripherally associated with real estate continuity, but it also becomes a logical place to introduce new research - the primary driver of our business. If you missed it before, we have covered a wide range of issues over the past quarter including risk compliance, naturally-occurring phenomenon that have had an impact on business operations, the growing visibility

of DR and BCP around the world, as well as a string of bizarre blackouts. This is only the beginning.

If you work in facilities planning (or know someone who does), and you need to bring yourself up to speed with the rapidly growing area of BCP, this site is a good place to start. Think of it as your online edition of Cliff's Notes for BCP.

What's Popping Up in Q4 2003?

Research:

- Upcoming research papers for the fourth quarter of 2003 include an analysis of the human elements involved in facilities planning, secondary location standards, and facilities-related outsourcing.
- We are working on an important study that addresses the issue of redundant facilities, their locations and success factors. We hope to have this completed early in '04.
- The Gill Conversations will feature discussions with experts in security, and the human nuances of organizations.
- We are assembling a management survey to be administered in the US and Canada that should provide valuable information that can be used for planning purposes.



Watching:

- The ongoing development of business process outsourcing and how this is being integrated into organizational planning
- How the insurance industry adapts to a changing landscape of risk, and how this

will contribute to decentralization

- Do BCP and DR standards remain the exclusive domain of institutional-grade organizations, or is there scope to see these standards adopted within SMEs?
- What are some of the emerging management issues associated with dispersal?
- What are some of the potential changes in supply chain management that create better redundancy?
- How is dislocation associated with dispersal neutralized through technology?
- How will the ongoing reconfiguration of the insurance industry in the US exert an impact on global real estate?



*...bridging the chasm
between real estate
strategy and business
continuity planning*

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