

# Benchmarking based on 'total occupancy cost' concept

## 1: Hot topic

Benchmarking the performance of the accommodation asset in a way that allows robust comparison across companies, countries and industries is a 'hot topic'. Why? Because, more so now than ever before, accommodation is being seen for what it is: an expensive overhead.

## 2: Gaining in acceptance

Benchmarking based on 'Total Occupancy Cost' (TOC) is a subject area that has gained momentum over the last 10 years principally because simple comparisons of cost effectiveness such as rent per square foot or floor area per person have, at best, proved misleading.

## 3: Means to an end

The critical issue with this benchmarking is not to lose sight of the question: **What do we have to do to improve performance?** The answer is to optimise the relationships between quantity of space, headcount using the space, accommodation cost, output, space utilisation and flexibility of tenure. To do this we need to understand the relationship between them.

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## 4: Four performance triangles

There are four inter-related performance 'triangles' which maintain the relationships between the measures. As such, your choice of which to focus on depends on your priorities. (See diagram on page 2)

## 5: 'Efficiency' triangle

How efficiently do we deliver accommodation into the business? Head count utilizing the accommodation, space in standard measures (see point #15) and TOC. This data set is the one typically associated with TOC benchmarking and the first data set to be investigated.

## 6: 'Liquidity' triangle

Space, TOC and duration of tenure to the next break date. This gives a series of measures as to the total liability the business exposed to at any one time. The costs need to be discounted to present value.

## 7: 'Utilisation' triangle

For how much time are we actually using the space? Sometimes known as Space Utilization, it is a combination of space, headcount and duration of occupation of that space by that headcount. A typical office utilisation is only about 15%, peaking at 40%. Some functional spaces are far worse, such as training rooms, 5%. This area is a good place to look for cost savings (see *20 Thoughts on 'Workplace Strategy'*).

## 8: 'Return' triangle

Head count, TOC and economic earnings of the occupiers. Sometimes this is easy to measure, such as income from sales or in legal practices, gross fees generated.

Resist the temptation to set targets too early. It is best to let the data flow, measures be taken, results be trusted, etc.

## 9: TOC standards

TOC is best defined by IPD Occupiers, the leading property performance measurement experts. However, their TOC definition document is very detailed and at the outset it is best to rationalize this standard to something you can comfortably achieve (see below).

## 10: TOC grades

Consider 'grading' TOC at three levels: TOC#1 = rent, service charge (inc. parking and sinking funds), government taxes. This typically captures 80% of the costs. TOC#2 = TOC#1 + all capital works amortized in accordance with normal standards (but no longer than the lease term!) + energy + dilapidation estimate + cost of money of deposit. TOC#3 = TOC#2 + all remaining costs as per the OPD standard.

## 11: Over-ambition

Striving to gain a TOC#3 level understanding of the estate is difficult to argue against. However, TOC is a means to an end, and to work must be easy to operate, inexpensive and credible. An under resourced TOC#3 initiative can be like an over laden plane trying to take off; either it fails to lift off or stalls soon after getting airborne.

## Benchmarking based on 'total occupancy cost' concept continued

### 12: 'TOC Lite'

TOC#1 is usually adequate, as it accounts for about 80% of costs and all the data can be obtained from known transaction figures (i.e. it's inexpensive to procure, or those who have are obliged to give it). However, the sooner one can move to TOC#2, the better, as capital works can create distinct 'outliers' (see below).

### 13: History

If possible it is worth seeking out historic deals which have less political resonance and defining them as examples of good or bad economics. Most countries have indices which allow prices to be adjusted to the current day.

### 14: Approval process

Of course, TOC#2 is excellent as the basis for an approval process. New accommodation deals can now be compared reasonably fairly.

### 15: Measurement (floor area)

This should always be the net internal area, i.e. the area that is actually capable of being utilised.

### 16: Published indices

The common ratio of performance, used by published indices (see below) are costs in USD, per square foot, per month, to which you then apply your own headcount data. Sources include CBRE, Cushman & Wakefield, JLL, DTZ (who quotes cost per workstation, which is akin to 100 square feet of space).

### 17: Outliers and data gaps

Mainly we are interested in understanding who is doing very well and very poorly and the reasons behind that performance. The 70% or so in the middle of the distribution are less revealing. A big problem to achieving this can be gathering data sets without gaps. (See 20 Thoughts on Management Information Systems).

### 18: Setting targets

Resist the temptation to set targets too early. It is best to let the data flow, measures be taken, results be trusted etc. Time critical? Then find a competitor and work backwards to identify how they achieve better metrics.

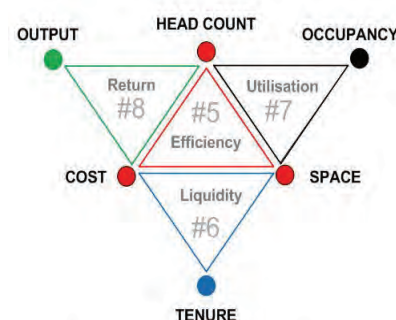
### 19: Building into the approval process

A good benchmarking system is 'hard wired' into the expenditure approval system, i.e. for expenditure to go ahead, the applicant must explore objectively the relative cost/benefits of schemes with transparency and so credibility.

### 20: Cultural issues

This sort of benchmarking inevitably highlights cultural differences. Some societies place a lot of value on non-financial 'signals', such as spaciousness as a proxy for business strength. Approach with caution... holding up a big mirror and saying 'Look I'm fat' may not elicit the co-operation you hoped for!

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4 Performance Triangles of Real Estate Occupancy

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