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WeeklyTAKE

My Hometown: How Tech Talent is driving local real estate decisions
W/ COLIN YASUKOCHI, LEXI RUSSELL AND DAN HARVEY [07.24.2020]

Spencer Levy

I'm Spencer Levy and this is The Weekly Take on this episode. We're going to experience tech issues, but don't call the Help Desk.

We're heading towards Silicon Valley to explore CBRE comprehensive new report on tech talent. We welcome three of CBRE top thought leaders in the sector, all joining us from their homes in the Bay Area, including Lexi Russell.

Lexi Russell

In our report, we actually include all industries, tech talent is what most industries and companies require in order to operate. So this report is really a labor market report.

Dan Harvey

And Dan Harvey is kind of looking at everybody else. You know, it's like fall fashions, right? What are bellbottoms coming back? I don't know who's gonna tell us that. Right.

Spencer Levy

Don't touch that dial. We're talking tech talent right now on The Weekly Take. Welcome to The Weekly Take, and I'm delighted to be joined by three great friends of mine in San Francisco. Two of the primary authors of our tech Talent report, Colin Yasukochi and Lexi Russell, and a Vice Chairman at CBRE brokerage Dan Harvey. So, folks, Lexi, welcome. Thanks for having us.

Colin Yasukochi

Spencer, great to be here with you.

Spencer Levy

Thanks for joining the show. Good morning. So let's talk about tech talent and the terrific new 2020 Scoring Tech Talent report that came out. And then Dan's going to amplify that. How the real world looks at the report and uses it for our clients. Well, let's begin big picture. Colin, who are you and what do you do?

Colin Yasukochi

Well, Spencer, I'm the Executive Director of CBRE is a newly formed tech insight center, which is dedicated to providing real estate connected perspectives on the tech industry.

Spencer Levy

What makes tech so interesting to you?

Colin Yasukochi

Well, I've been in the real estate industry my entire career, and I've always been fascinated with the tech industry and its connection to real estate and how it's really influenced patterns and trends and it really affected our daily lives. So when I traded in surfing at the beach in Hawaii and started surfing the Internet in San Francisco, my fascination with tech grew even further.

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Spencer Levy

Lexi Russell, another great friend of mine and a terrific author not only of this report, but a leader of our research group up in the Pacific Northwest. Lexie, tell the group a little bit more about what you do.

Lexi Russell

I'm the research director in San Francisco. I cover all property types. When it comes to commercial real estate, focusing on tech and how it impacts office markets, specifically in the Bay Area, Seattle and Denver. I've been with the company for five years now and working with Colin on this wonderful report.

Spencer Levy

Awesome. Well, Dan, thanks for joining the show. And Dan is one of the senior most professionals in our brokerage business, a vice chairman based in San Francisco. Dan, tell our listeners a little bit about who you are and what you do.

Dan Harvey

Yeah. Spencer, thank you. As you said, I sit in San Francisco and work on the occupier side of CBRE business and the industry vertical I focus on is technology and tech companies.

And to quote a great venture capitalist in the Bay Area, Marc Andreessen, we really focus on companies where software is at the heart of everything they do or mobility or A.I.. So those are our clients.

Spencer Levy

What got you interested in tech as a segment of the real estate industry?

Dan Harvey

I think just how dynamic it is and I think being in the Bay Area, you really get drawn in sort of the gravitational pull of disruption and innovation is pretty compelling.

And, you know, real estate in and of itself is kind of a slow moving business. But when you move towards the technology and workplace side, working with these amazing companies, it's just exhilarating. So I think that's the draw.

Spencer Levy

So let's turn now to that report if we can. And let's start with you, Colin. What is it and what are we trying to achieve with our report?

Colin Yasukochi

Tech talent is a profession. It's what most industries and companies require in order to operate. So this report is really a labor market report trying to better understand what the trends are in tech talent, where they're located, where they're going to school. It comprises of 20 different occupations, anywhere from a software developer or hardware engineer to a computer system administrator. And in the U.S., there's about five point four million people in the tech talent profession. And they represent, you know, a very small portion of the overall U.S. workforce of three and a half percent. But they're extremely innovative group that really drives a lot of what's going on in our country. Many of them work across all industries. The tech industry, maybe the largest employer of tech talent at thirty seven percent, but 67

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percent of them work for other industries such as health care, financial services or even the government. They're all included in our report.

Spencer Levy

Well, let's see what people think tech. Most people think software engineering. But there's biotech. There's fin tech. We go right down the line. How do you try to distinguish between those that are pure tech workers and those tech workers that work for real estate or other companies?

Lexi Russell

In our report, we actually include all industry, as if you are a software developer working for CBRE. You are included in this report. What's really nice is that the Bureau of Labor Statistics has a survey that is focused on occupations. So we've taken about 20 of those occupations and aggregated them by market across the U.S. and Canada. We look at probably 10 to 20 different data sources.

So, yes, we look at the employment growth from the Bureau of Labor Statistics focusing on these 20 occupations and probably 10 different ways to look at that data, aggregated growth rates, concentration of tech talent. We also look at tech degrees. How many tech degrees in each market is produced? We look at the population, population segmented by generation.

How Gen Z versus Millennial versus Baby Boomer and Gen X are there in each of these markets? And how does all of that come together into our score? We look at 13 different metrics and their comparative advantage across each of these markets to come up with a score. And these are both quantitative and qualitative is not correct, that quantitative side, we have cost of this talent average across all industries, but quality was something that we had to mull over. Colin and I reached out to our labor analytics group and determined a high level version of quality to rank the markets. We look at the top twenty five universities in the US and Canada for our technical degree graduates, including a lot of really high name institutions. And we look at the software engineers with three or more years of experience.

Spencer Levy

Dan, let's bring this to the practical application of the report. Tell us how important this report is to your clients and how do they use it?

Dan Harvey

It's become very important. There's, in fact, an anticipation for this report. So, you know, Lexi and Colin, thank you for creating a sense of desire and expectation for this report.

I think what I'm finding in this particular moment is we're in this intense phase of what I'm calling diagnostics and epidemiology around workforce. I can borrow from epidemiology, from COVID. And the tech talent report is really critical to that diagnostic and epidemiology.

It's how distributed is work force going to be? Where could it be located? What are the tradeoffs to be made with a labor base that becomes more distributed across our country, Canada and globally?

A lot around. What's the diminishing point of returns from work from home as we are in this grand experiment? And this report really allows us to run algorithms and diagnostics on

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different scenarios and then model out those tradeoffs.

We really don't even think about real estate as our No.1 nomenclature anymore.

It's work place and really work. Real estate's become a second derivative of workplace and frankly, it's a third derivative of a workforce or talent. So it's really important.

Spencer Levy

Let's talk now about the element of an innovation in a city, I used the term recently called innovation in infrastructure. What is innovation infrastructure and how does that play into tech town?

Colin Yasukochi

Innovation infrastructure is primarily the tech talent. So the people who are creating things and innovating, that's really number one. It's also the tech degree graduates that are being produced by regional universities. So it all really goes back to the people and the people who are creating unique products and services that we all just can't live with. And that was especially amplified during this COVID time period where we were forced to stay at home and had to leverage technology to work, to get our food, to entertain ourselves, everything. Then we also looked at research and development funding that fosters innovation and finally had how the tech industry or the tech talent is clustered in certain locations and how their nearby key research universities that help even push this innovation even further, where they're experimenting with things in large cities and small cities where they can test their products and services. That's really what innovation infrastructure is. And so the more that a particular location has, the better off they're going to be in terms of growing their tech workforce and economy.

Spencer Levy

Lexi, I know the audience is waiting to hear the list. Who's coming out on top on the big and the small cities?

Lexi Russell

The largest cities are on the top of our list. San Francisco Bay Area. Comes in at number one every year this year.

Washington, D.C., which is a heavily university centric met market, came in at number two, followed by Seattle, Toronto and New York. What's really interesting is all of these markets have a very high proportion of educational institutions, these educational institutions are a huge source of tech talent. And what we've worked with, specifically with Dan and other professionals inside our industry is trying to find that talent.

Spencer Levy

I know you mentioned the big cities scoring well, but interestingly, you have a subcategory for smaller cities, Huntsville, Alabama, Omaha, Nebraska. So two questions. cHow do these small cities make our survey number one and number two, given the whole work from home phenomena? Does that give them the edge? Moving forward, yes.

Lexi Russell

So each year we do try to add something new and different. When we when Colin really started the report, there were 50 markets that received a score. We have been consistently

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asked. OK, I've heard about Austin. I've heard about Nashville. I've heard about the Bay Area.

Where else can I look for Talent?

Lexi Russell

So we took a look at the next twenty five largest tech talent labor pools in the U.S. and Canada, and that's where we get the water. Is the Huntsville, Alabama, Omaha, Nebraska, going down the list? This year, we are also very fortunate enough to work with our labor analytics group to add in the 10 largest Latin American markets, including Sao Paulo and Mexico City, among others.

Spencer Levy

Well, let's look at part of the question is really this, Lexi. The biggest question today is work from home. Changes to the workplace. And if work from home becomes the thing, becomes bigger, is durable. Does that give a second leg up to these smaller cities? People no longer have to live in the big cities.

Lexi Russell

That's a great question. I do believe that there will be a small leg up if you have the opportunity to move to a lower cost market and keep your high paying job. Why not, particularly if you are a millennial that wants to have a family buy a home that you may or may not be able to do and afford at this time in your life, in a large city like the Bay Area or New York, having an option to move to a smaller, more cost effective market. That could be a Denver, which is also a large market. But that could be an Omaha or Oklahoma City or Tulsa, and that could provide some growth there.

But I don't see a mass exodus to small cities unless.

There is movement on the leadership side. Innovation and collaboration are very, very important for tech companies. I mean, even for what we do. I personally miss being on an office and seeing my friends and colleagues around and having those organic conversations. That's how you create new products. So I think that there will be a give and take.

Dan Harvey

I would say that there's been a dystopian take on great cities, super cities, as COVID has played itself out. But they've not dampened overall, the trajectory of urbanization and the drive to cities makes people more innovative and productive. And one thing I'll say about San Francisco that I really believe strongly is there's a density of founders that are living in the future. They have a set of proprietary insights that are the result of seeing something that's missing because they're living in the future.

They have a breakthrough insight. They have a breakthrough value proposition. They have a breakthrough growth strategy. They syndicate that truth. And then they have amazing teams, you know, talent that they're able to assemble. And while some of that be able to be worked from home for sure, it's the question of dosing and the titration. And I would say is we talk to series A, B, C companies.

You see the CEOs and particularly very focused on distributed workforce, maybe complete

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remote workforces. When you think of more of your larger tech companies, there is a commitment to core workplace. The question will be the dosing of that. And in San Francisco, we are seeing a lot of activity around life, science, biotech and digital therapeutics, ghost kitchens. I mean, there are definitely areas that are that are growing in tech that we're seeing that in San Francisco.

Spencer Levy

So, Dan, what are your clients saying about changes to the workplace as a result of COVID?

Dan Harvey

There is definitely going to be opportunity and there is. But I think it will be strategic. It's gonna be carefully done. And I think there's kind of just a real wait and see. Everybody's kind of looking at everybody else. You know, it's like fall fashions, right?

What? Were bellbottoms coming back. I don't know. What do we need do? Who's gonna tell us that? Right. In terms of the workplace itself. I was having a conversation literally just yesterday with a fintech client of ours who is doing a lot of thinking about what's going to be the configuration of space. Lexi talked about wanting to get together for the serendipity, the novel combinations of human beings coming together. All of those things may well create a different configuration about how much what the size of our conference rooms are. Do we? Do we have much more of a flowing workspace, less assigned seats?

Do we have a lot more data driven collection from sensors, from badge data to temperatures, all that stuff? Contract tracing, all that sort of information that flows up to give intelligence knowledge to managers in the company, but also to the individual employee themselves.

So I think there is undoubtedly going to be a long tail of COVID will be the design of the workplace and the changes that will certainly see.

Spencer Levy

Well, Dan, you mentioned the key question is, is this faddish or is this durable?

Will bell bottoms come back or some other trend? So let's talk now about something that is durable, which is the always the balancing act between quality and cost.

How did the quality versus cost analysis play into the TechEd Out report?

Lexi Russell

Yes. So the quality versus cost is one aspect that we worked closely with our labor analytics group on because we're getting a lot of questions on both of those. Companies need to find the highest quality talent, but don't necessarily want to pay the Bay Area prices. What we found, as you can get high quality individuals in every single market, the cost piece really does vary. And what's really interesting in our report is that we do include Canadian markets. Canadian markets come with a U. S dollar conversion discounts. And we have had a lot of questions about those markets, specifically when it comes to cost.

Spencer Levy

And how does the cost of real estate factor into a tech talent location decision?

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Colin Yasukochi

It's really about the talent and not so much about the real estate. The real estate is an enabling tool to attract and retain your talent and to foster innovation. So across the country, Spencer, when we looked at those two elements, the costs of wages for tech talent. And the costs of real estate. Ninety five percent of that is the wages and five percent of that is real estate. Companies don't really start with real estate costs. They really start with where is talent. How much does it cost? Are the skills available for what I'm trying to accomplish in terms of my business? And that's really how they proceed. And then they compare and contrast that across all the markets that we cover to determine what the best fit is.

Spencer Levy

I think another element that is living costs fewer younger tech professional. How do you factor in the cost of living in your decision to take a tech job in San Francisco?

Dan Harvey

Yeah, I think it's such a great question from just the arc of the millennial generation. We have the millennials getting married. They're starting to collect cats, dogs and children. And doing that in the city is difficult, not only expensive, but it's space. So I think we're seeing a definite just not COVID notwithstanding what we're seeing kind of a diaspora, the beginning of the diaspora, of the millennial workforce, you know, towards suburbs in some cases, I think COVID is going to be an accelerant to that. So I think in our clients, my clients are really believing cities are going to get younger. They're not going to go away. They're going to get younger. Interesting question will be, are you going to see the millennials decide to move to these second tier cities further away because they don't necessarily need to come into the city? You know, a super city, a San Francisco in New York. So that is fascinating to me. I do not know the answer, but it's a really interesting question that we're exploring again with tech talent report. It's a huge piece of exploring that particular scenario.

Spencer Levy

Let's dig a little bit deeper into that aspect, that suburb versus CBD and what some people are calling the hub and spoke model. Lexi and Colin, let's continue that thread. Suburbs of major cities. How do they play into the report?

Lexi Russell

Yes, so the markets themselves that we look at are the full labor market set that does include both downtown and suburb. So for the Bay Area, we are actually looking at the fall. Bay Area, including San Jose, Oakland and San Francisco and everything in between, because that is your labor market. We look at that. Same for Austin. Same for Nashville.

The overall market and what has happened is that more of these tech companies were going downtown. They were leasing up space here. Young people wanted to be downtown, more urban. Everything that Dan just said with the millennials we saw play out.

Colin Yasukochi

You know, younger people who represent the largest sort of cohort of the tech talent industry, that they're really looking for opportunity and excitement.

And that really means cities. So as they grow in age, it's a demographic thing. The suburbs become more important and there's a bit of a more of a rotation out to the suburbs. But I

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firmly believe that cities are going to continue to thrive. They're temporarily stalled right now because of transportation issues related to COVID. People don't want to get on the mass transit, but eventually they're going to get past those fears. Cities are going to continue to thrive and grow and they're going to maintain their status as a central hub for many of these companies. Were people from, regardless of where you live, can come in and collaborate and innovate. And I think that that's a really important aspect that we can't lose sight of, that they distributed workforce across multiple offices is really inefficient real estate strategy and one that I don't think is really going to have a material change in what we're doing right now.

Spencer Levy

This is going to be the crystal ball portion of today's conversation, because now that we've come out with our terrific lists of big and small cities in the US, Canada and Mexico or in Latin America, I want to now get your points of view on who is going to be the fastest risers on these lists, starting with you, Lexi. Who are the next cities?

Lexi Russell

Washington, D.C. did just move into the number two spot this year. And we really see with the data that there is a lot more potential for Washington, D.C., the metro, to continue to increase its competitive advantage, not necessarily overtake the Bay Area, because the Bay Area has a lot more history going for it. It's got the education factor. It's got lower costs compared to other tech cities. It's a diverse market. So it's not just a tech market. You've got a life science up near Baltimore and you've got that whole court or on the East Coast. And a lot of space to build. So I would say Washington, D.C., is probably on my list of one of the fastest movers that we'll see. Colin, do you have another horse in the race?

Colin Yasukochi

Yeah, well, you know, I'm really looking at themes as we get to the other side of this COVID pandemic. And what is really taught us is how reliant we are on track. So let's talk about home entertainment, streaming media content. So I'm looking at Southern California, particularly in Los Angeles, as being a market that's going to grow. If you look at e-commerce and you know how we facilitated work at home, Seattle is going to be another market that's going to continue to rise with all of this online streaming. We're also going to be more reliant on cybersecurity and making sure that our connections are secure. And that really means the market like Baltimore and even Washington, D.C., that are going to continue to thrive. Health care and therapeutics is also a really important aspect that's very heavily dominant in Boston and the Bay Area. So I think if you look around the themes of what's going to be important going into the future, that those are the markets that are going to thrive because they have that expertise, along with Collins said.

Dan Harvey

I think you've got to look at Texas. You got to look at Houston. You look at Dallas. And you have to think of taxes and you have to think of great educational institutions. So I think those are on the list and being talked about. I couldn't agree more about L.A., Colin, with you. I think a couple of others strike me. Columbus. Nashville. Indianapolis. Pittsburgh. Bentonville. And Tulsa. Believe it or not. Cities that all are being talked about regularly and the conversations that I'm having.

I think there's going to be a play for rural creative class centers. It's going to be a grand experiment. And you're going to have CFOs in particular, who are going to want to

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arbitrage labor and talent and see it play out and try to reduce work place and expensive workplace.

Spencer Levy

So let's get final thoughts now from everybody.

Starting with you, Lexi, talk about the future of the tech talent report, what directions do you think we could use in the future to make this report even more robust?

Lexi Russell

We actually think about that pretty intently. And one of the things that I would like to do is to make it even more digital. So we have a website that is phenomenal. We've got the PDF of the report, which this year is one hundred and eight pages long. And we utilize our CBRE dimension tool as an interactive way to sort and select your markets and your data and take a look at these markets on a map. It's really great. But one of the things that I've been working with Colin on this, trying to make it even more digital, even more interactive, something that our tech clients and non tech clients are really interested in, particularly the more markets we add. So we've got eighty five markets in this report and it's hard to see them all in one place.

Spencer Levy

Colin, you've been involved with this report from the beginning. How does it evolved going forward?

Colin Yasukochi

Well, Spencer, I think is, as Lexi mentioned, is just creating a better decision making tool that puts analytics in the hands of our clients so that they can estimate their location and business decisions. I think that that's really number one. One of the other things that we've been looking very hard at and want to be able to add to next year's report is really better understanding and analyzing tech talent, geographical mobility. If we can understand where you're from, where you went to college and where you've worked. You may be able to better identify growth patterns and help employers choose locations that meet their business objectives and how they can better appeal to tech talent that they're trying to attract. So that's something that all of our clients are really wanting to understand much more so they can make these decisions based really, truly on data driven analytics.

Spencer Levy

And the last word to you. Times are pretty scary right now, then, for a lot of people, for young professionals, for our clients, for everybody. What are the words of wisdom that you would give particularly younger professionals today that are going through a very tough time in coping?

Dan Harvey

Yeah, that's ah, boy, thank you for a team that went up.

I mean, part of the way humans cope with stress, with strain, with prolonged and profound uncertainty is to test and run scenarios and come up with, you know, what ifs. And so I think the tech talent report is such an amazing way to turn data into information and information, into knowledge and meaning and ultimately impact. The question will be, you know, when do we get to the impact moment where real decisions are made?

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But this is the process that we're going through. And I think I hear every single day at this point in COVID. So, you know, here we are from March to mid-July and work from home has been productive. It's also stressful. The magic is gone. Serendipity is gone. Everything's planned. There's a lot we can do remote, but there's a lot that we can't. And so that, I think, is what we're testing and we'll find out how that plays out. And this would be my answer to your final question: Is this the first germ was an accident. You know, it these things happen in cities, the great protozoa. It happens in cities. You have to get to the primordial soup where the electrons and protons of human beings collide to create amazing things. And it's hard to envision that happening on Zoom as much as Zoom's been amazing or Google Meets or Blue Jeans or pick your pick your virtual tool and Slack is great and Microsoft teams is great and all those things really have helped us. But I don't know that it ultimately solves for the primordial soup that we need to be in, which I think is amazing, great cities. So get to a city, whether it's New York, San Francisco, London, get to a city if you're young and just, you know, take a deep breath. This, too, shall pass.

Spencer Levy

We'll thank you, Dan. We'll have a top primordial soup or protozoans or some of the other terms you use. But thank you very much for that. On behalf of the weekly take, I want to thank three of my very dear friends, Lexi Russell, Colin Yasukochi, Dan Harvey, for joining us today to talk about the terrific tech technology report.

That's some great advice for our clients on where to locate, how to find the best technology. Lexi, thank you. Thank you, Colin. Thank you.

Colin Yasukochi

Great to be with you. Dan, thank you. It's a privilege. Thank you.

Spencer Levy

For more information, go to CBRE, backslash The Weekly Take. Until next time. I'm Spencer Levy. Be smart. Be safe. Be well.