Real Estate Insights, Forecasts & Strategies
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Strategic Advantage

Issue K082211

Prospects For A Real Estate Recovery Could Wait Until 2013

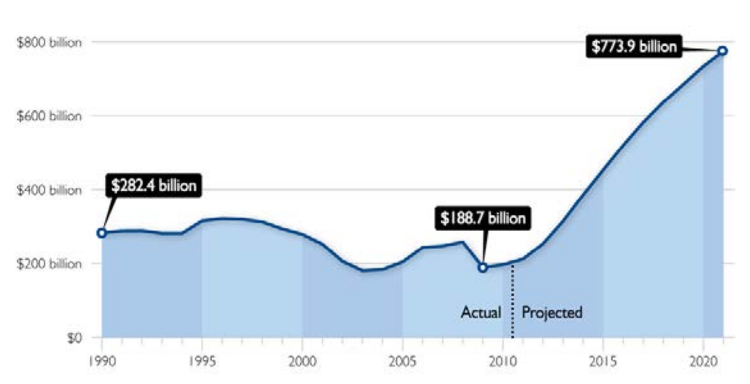
In This Issue

Friends & Colleagues:

"Life isn't about waiting for the storm to pass…it is about learning to dance in the rain." We are in a perfect storm of financial and economic turmoil and chaos that continues to create challenges for the country and the real estate industry. While there is a geographic quilt of opportunities and concerns, the U.S. economy is in fragile shape. The continued drumbeat of political sound bites, financial maneuvering and absentee leadership is edging the U.S. to a point of unnecessary brinkmanship. The consequence of excess discussed in our May 2011 newsletter (*A link to "Age Of Consequence & Opportunity" May issue is found at the end*) has been magnified by continued unprecedented levels of deficit spending, rising government debt and the mortgaging of America's future. The inability and/or unwillingness of political leaders to address the fundamental reason we got into this mess (spending and promising what we don't have) cannot be solved by more of the same or kicking the can down the road.

Three competing theories of economic policy are front and center in this debate: (1) Keynesian (John Maynard Keynes); (2) Friedmanite (Milton Freidman); and (3) Fisherian (Irving Fisher). To date, Keynesian (normal economic contractions are caused by insufficient spending that can be cured by deficit spending) and Friedmanite (normal economic contractions are caused by insufficient spending that can be cured by increasing the supply of money) theories appear to have failed. The Fisherian theory that excessive debt build-up relative to GDP causes economic contractions appears to be correct. Massive government spending has had either very limited or no positive impact on the average American family's standard of living, and **a growing number of experts are concerned that the future impact of deficit spending could reduce the standard of living,** and perhaps U.S. global competitiveness. Right now, I project a 55% – 60% probability of a 2012 recession if the global debt crisis is not

U.S. Net Interest Payments Are Expected To Triple

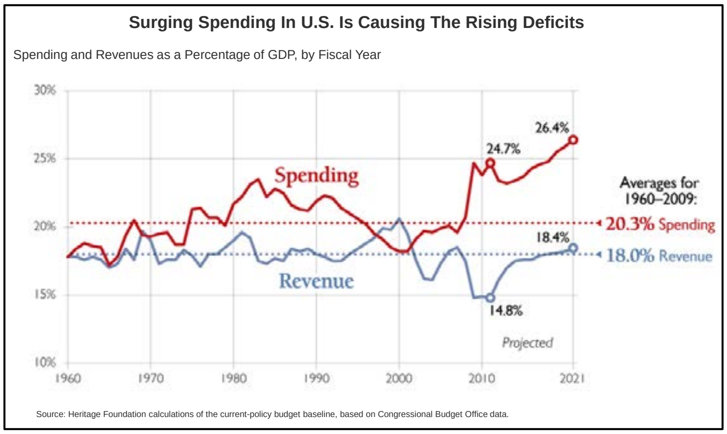


Source: White House Office of Management and Budget and Congressional Budget Office.

stabilized and the U.S. deficit spending is not reined in. It is unbelievable to many that the U.S. government has not had a budget for over two years and has used “temporary” measures and stop-gap omnibus appropriations to get by.

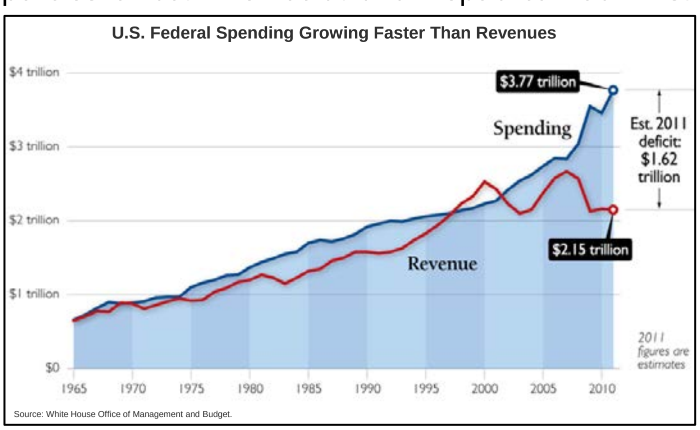
The New Normal Is Anything But Normal

What is the difference between an individual, a couple, a household, a small business or a large corporation and government when it comes to “living within our means?” **Today government spending and entitlement obligations far exceed revenues and future revenue potential**. Approximately 40 cents of every dollar spent by the federal government is borrowed, and the government is now spending 67% more than it earns. There is a 9.9% gap between spending and revenues as a percent of GDP. For the past 50 years, that gap has averaged less than 2%. **If current economic policies and proposed government spending patterns continue, U.S. net interest payments on the debt accumulated will triple from around $189 billion today to $774 billion by 2020**. Since 1970, Federal spending has grown 10 times faster than median income. By 2049, U.S. entitlement spending is projected to consume 100% of all tax revenues. The IMF estimates that by 2015, U.S. gross debt will be 110% of GDP. But when the unfunded liabilities of Social Security and Medicare are added (excluding the new healthcare legislation), the gross Federal debt is already around 500% of GDP. What if your household debt were 500% higher than your ability to pay? At the end of the day, the U.S. economic well-being will not be based on higher government expenditures. It will be based on the dedication, creativity, entrepreneurship and hard work of Americans who want an opportunity for a better life for themselves and their families.



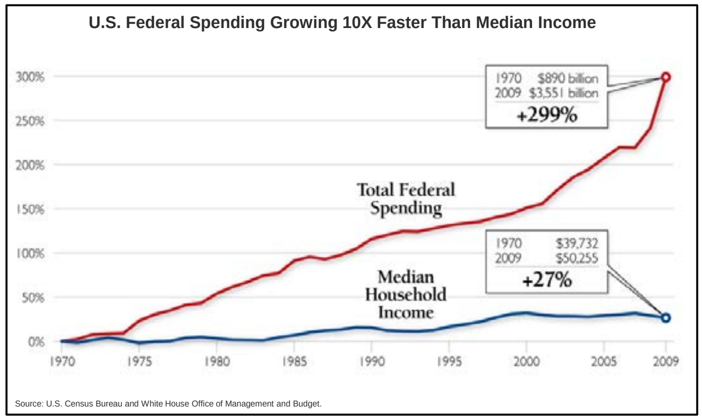
Moody’s has raised the issue of an additional credit rating downgrade for the U.S. if deficit spending is not brought under control. **For the real estate industry to recover fully, there must be resolution to this spending binge in a time when the U.S. economy is in a fragile state**.

The economic recovery has stalled and been mismanaged from the start. Here is a little history. In the 1980s and 1990s, approximately 44 million jobs were created under the non-interventionist policies of both Democrat and Republican administrations. But in 2009, that policy and approach changed. The Federal government became Big Government, with policies and regulations to control, regulate and spend without regard for limitations, prior decades of nonintervention or the dramatic financial impact on future generations. **Gen Y became the Debt Y Generation**. From QE1 and QE2, the $800+ billion stimulus plan that did not stimulate or create jobs, to massive new regulations, **the Federal government’s intervention policies have created a prevailing mood of uncertainty and doubt**. The Consumer Confidence Index declined in May and June. July will be issued next week (currently at 59.5). The percentage of consumers who feel business conditions are “good” is now only 14.3%. Consumers remain pessimistic about the job market outlook over the next six months. A Conference Board survey of CEOs released on July 8, 2011, showed CEO confidence dropped significantly in the 2Q (now 55, down from 67 in 1Q). John Taylor wrote an interesting article on this topic in the July 21, 2011 issue of the Wall Street Journal.



Another trend to watch closely is the new Consumer Financial Protection Bureau which is not accountable to Congress, yet can enact policies and regulations over American business.

Solving this problem will not be easy, the choices will be difficult and sacrifices will be shared. But continuing to spend without being mindful of consequence and absentee fiscal/financial leadership will not work. I do not believe that the Baby Boomers and those over 65 years of age want to leave a legacy of excess and debt obligations for following generations.



U.S. Federal Spending Growing 10X Faster Than Median Income

Source: U.S. Census Bureau and White House Office of Management and Budget.

According to some economists, "An increase in government size by 10% is associated with a 0.5% to 1% lower annual growth rate." In the current fiscal year, Federal spending will exceed 25% of GDP. This follows a 23.8% and 25% excess spending for 2010 and 2009, respectively. For the first 130 years in U.S. history, Federal spending as a percent of the economy averaged only 2.5%. Even in the unlikely event that the "Cut, Cap and Balance" legislation is passed in its current state, Federal spending, according to the CBO, would still increase at an average of 3% per year. With the shrinking value of the U.S. dollar; declining consumer confidence; a fearful private sector; continued excessive government spending; and patchwork proposed debt reduction, economic growth in 2011 and 2012 will be anemic. **More government debt generally results in higher future tax burdens, which reduce private sector expenditures**. Persistent deficit spending is not only irrational, but it will continue to harm the real estate industry. **Current and proposed fiscal and monetary policies are now geared toward exploiting future generations**.

The President's budget of February 2011 projects our economic growth rate of 4% in 2012, 4.5% in 2013 and 4.2% in 2014…up dramatically from the "current" 1Q figure of 0.4% and 2Q growth rate of only 1.3%. The U.S. GDP has not increased annually 4% or more since 2000. **According to a June 2011 Gallup survey, "68% of Americans are cutting back their weekly expenditures."** This is not an indicator of an economy on the mend. Goldman Sachs just forecast a 1.5% GDP growth rate for 3Q 2011. The U.S. Department of Commerce just revised its 4Q 2010 number down from 3.1% to 2.3%. For 2012, Goldman Sachs is projecting a GDP growth rate around 2%. If the President's budget is wrong (an increasing likelihood) and we miss the growth estimate by, say, 100bsp (1%), our GDP will be down $750 billion. Lawrence Lindsey, former Federal Reserve Governor, recently stated that if normal interest rates were to rise to historical averages (past 20 years), the debt service cost to Americans would rise $4.9 trillion. The Federal debt held by the public as a percent of GDP has jumped from 40.3% in 2008 to an estimated 72% in 2011…and is expected to keep rising in future years.

Credit Rating Downgrade & Deficits

On August 2, after months of inactivity culminated by seven days of rancor, sound bites, political posturing and negotiating, Congress and the White House agreed to raise the debt ceiling and reduce Federal spending. Unfortunately, as the saying goes, "All hat, no cattle." The much-heralded agreement was more noise than substance. The blame game is still alive and well in D.C.

America today is approximately $14.24 trillion in debt ($45,000 for every person in the U.S.). The August 2 agreement to cut $2.4 trillion over 10 years is only a 5% cut on total projected Federal spending during that period. By 2021, Federal spending (with the cuts) will be 22% of the nation's GDP…still fully 2% higher than the post-World War II average of 20%. **Even with the "cuts," the Federal government will spend 4% more in 2012 than it did in 2010, and 20% more than in 2008**. Americans and the global marketplace are frankly disappointed.

No sooner was the ink dry on the deficit reduction and debt ceiling increase that the markets reacted. China, the largest holder of America's debt, stated that the efforts put forth to address the U.S. "debt bomb" failed. China's news agency called for "international supervision over the U.S. dollar." On August 4, less than 72 hours after President Obama signed the legislation, the Dow Jones Industrial Average posted its worst drop since December 2008, falling over 500 points. Since peaking at 12,724 points in July 2010, the Dow fell nearly 2,000 points in a little over two weeks. The 10-year U.S. Treasury rate declined to 2.46%, the lowest since October 2010.

On Friday night, only one day after the August 4 stock market drop Standard & Poor's reduced the U.S. credit rating from AAA to AA+. This was the first time since 1941, when S&P began assigning grades or ratings to countries, that the U.S. was downgraded...a downgrade that could last several years. **The reason given by S&P was an absence of a"credible" plan to lower the deficits. They further stated, "America's governance and policy-making is becoming less stable, less effective and less predictable …"** While Standard & Poor's wanted to see at least a $4 trillion deficit reduction, Congress and the President could only agree on $2.4 trillion in cuts over a 10-year period (nearly $1.2 trillion of future cuts were "unknown"). In addition, most cuts were to non-mandatory programs and were back-loaded. A further downgrade is likely over the next 24 months if Congress and the President cannot cut another $2 trillion.

On August 8, the first day of trading after the S&P downgrade, the Dow Jones Industrial Average dropped nearly 635 points, or 5.56%, to slightly below 10,809…the biggest loss since the 2008 economic crisis. Since that time it has experienced dramatic swings up and down. S&P also downgraded Freddie Mac and Fannie Mae to AA-.

The S&P downgrades will result in dramatic declines in the Dow Jones Industrial Average, the likelihood of a double-dip recession will increase and consumers will "hunker down." I expect Treasury rates (the cost of borrowing) to rise 50 bsp – 70 bsp. An increase of only 50 bsp will reduce U.S. economic growth by 0.4%. Borrowing costs could increase $100 billion or more. Consumers will pay more for their outstanding credit balances. **Failure to address the problem has its consequences**. I worry that, in the eyes of the world, the U.S. government is unable or unwilling to address the core problem (too much government and entitlement spending) and is perceived as losing control of the situation.

Words like "fear" and "worry" will dominate investor and consumer decisions over the next three to six months or longer. According to a recent IBD/TIPP poll, 67% of Americans feel that the expenditure cuts did not go deep enough. The Economic Optimism Index dropped 13.5% to 35.8 (readings below 50 reflect consumer pessimism). This is the lowest reading since the poll began in 2001. Nearly three in 10 (29%) of U.S. households reported having someone unemployed. That means that 30 million, not 15 million ("officially" unemployed) want a job.

Consumer confidence in the economy and direction of the country is falling across all groups. The Democrats' optimism about the economy has dropped 17% to 45.3 in the IBD/TIPP poll. Optimism among Republicans is now at 26.9, and among Independents, it has dropped significantly to 33. Perhaps the best indicator of consumer unrest is that economic optimism among Democrats is down 41% since January 2011.

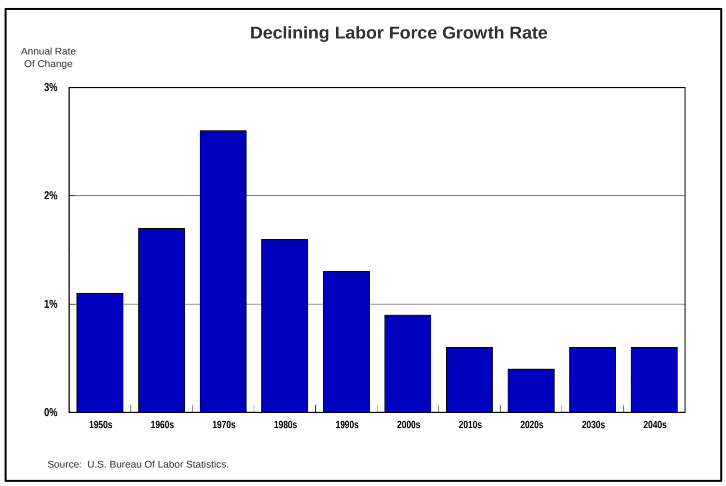
For the real estate industry, these events will create additional challenges, more stress and unique opportunities. The real estate industry thrives and survives on capital (cost and availability of), job growth and consumer optimism. All three factors have been dealt setbacks, which I do not see correcting themselves until 2013 and beyond. There will be calls for higher taxes ("shared sacrifice"), which would not be good in today's fragile environment. A good time to discuss tax reform is when the economy is on the right track. Every real estate firm and professional must take control of his or her individual destiny …don't let someone else choose it for you.

I expect the cost of borrowing to rise, unemployment to stay high, GDP growth to be anemic, political discourse to intensify and consumer confidence to stay low. There are no quick fixes, and a growing lack of confidence in those elected to lead does not bode well over the next 18 months.

Jobs…Where Are They?

The real problem for the real estate industry, however, is a lack of job growth. While the "official" unemployment rate is now 9.1%, **the real unemployment rate is probably closer to 19% – 20%**. Remember, economists estimate that the natural rate of unemployment is 5.2%. At least 18 million – 20 million Americans are either unemployed, underemployed or no longer counted as unemployed (although jobless). **There has been zero net job growth since December 1999.** Net job creation was only 53,000 jobs in May and 46,000 jobs in June (rather than the 125,000 jobs that had been projected). In July, the U.S. added 117,000 jobs, causing the unemployment rate to drop from 9.2% to 9.1%. However, the decline is due to 193,000 people leaving the work force. Around 6.2 million Americans have been out of work for more than six months. Approximately 2.8 million workers want work but have "stopped looking" for work, and of those, 1.1 million have "given up" looking for work. In a few months, 3.71 million Americans could lose their unemployment benefits (the ending of benefits for the "99ers").

Approximately 30% of those unemployed have been so for more than a year, the highest percentage since the Department of Labor began tracking that statistic. Studies have shown that the longer unemployed, the harder it is to find work. Remember during the 2003 – 2007 economic boom, employers added only 176,000 jobs per month. One of the former "can-count-on" job creators—the service sector—grew in July at its slowest level in 17 months. **July was also the third consecutive increase in monthly job-cut announcements**. The ISM Manufacturing Index dropped to 50.9 in July, barely over the 50-level that separates growth from contraction. If employment resumed the same hiring levels achieved during the 2003 – 2007 period (+ 176,000 per month), unemployment would not return to its natural rate until 2018. However, current policies appear to discourage private sector hiring.



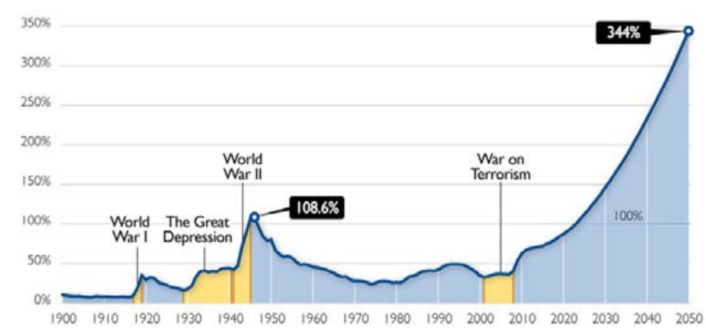
According to a June 2011 survey by the National Federation of Independent Business, 35% of those **small businesses surveyed chose "taxes or government regulations" as their single greatest problem …not poor sales!** Forty-five percent of those out of work have been so for 27 weeks or more. A July 7, 2010, study by the Kauffman Foundation revealed that between 1977 and 2005, existing firms lost 1 million jobs per year, while start-ups added an average of 3 million. I expect "real" unemployment will be around 7.5% in 2020, and a lower standard of living for future generations. **Today the labor force participation rate is 63.9%, the lowest level since 1984**.

The facts are very clear: The current economic policies and government intervention/intrusion are not working. **Goldman Sachs, probably one of the smartest kids on the block, said unemployment would remain high at just under 9% at the end of 2012**. Kiplinger, perhaps a more middle-of-the-road economic forecaster, stated in the June 17, 2011, newsletter that the U.S. "…is teetering on the edge of a recession" and projected a doubling of inflation in 2011 to 3%. **Literally every economic indicator is headed in the wrong direction or is far below expectations or what would be expected in a "normal recovery."**

Inventories of existing single-family homes for sale now total 3.65 million, plus another 4 million – 5 million homes in or likely to enter foreclosure. Homeownership is declining, and the likelihood of further 15% – 20% drop in house prices is looking increasingly like a reality. If this were to happen, the percentage of mortgages underwater would jump from around 23% today to 40%. Household formation, generally around 1 million per year, is now down to approximately 830,000 (only 758,000 if you analyze 1Q 2011 data). **So it could take five to eight years or longer to burn off the growing inventory of available homes for sale. The lingering impact of the single-family housing recession means lower consumer spending**.

Federal Reserve data reveals that households headed by individuals age 60 to 62 and among the 60% in that postwar generation group have only 23% of the savings needed for retirement. Real wages are falling, and as long as unemployment remains high, wages will remain suppressed. You are dreaming if you are over age 50 and think you can grow your savings (via rising wages) over the next decade. So what is likely to happen? **Boomers will not retire, thus creating an impediment for those entering the workforce**. According to a recent study by the Employee Benefit Research Institute, 74% of Boomers expect to work in retirement.

U.S. National Debt Could Skyrocket



Source: Heritage Foundation calculations based on data from the U.S. Dept. of the Treasury, Institute for the Measurement of Worth, Congressional Budget Office, and White House Office of Management and Budget.

Pessimism Is On The Rise

Americans are increasingly restless and forming a negative view regarding both the current economy and the country's general direction. According to a recent Pew Research Center survey, only 8% of Americans think the U.S. economy is in excellent/good shape, and 91% rate the economy only fair/poor. When asked what shape the economy will be in 12 months from now, 79% believe it will be worse or about the same. **Only 38% of Americans believe that their personal financial situation is excellent/good**. The percent of Americans hearing "mostly bad" economic news has doubled since the start of 2011 (24% in January to 46% in June). The percent of Americans who expect the economy to get better a year from now has dropped 13 points since April 2010 (from 42% to 29%).

Looming Threats To The Future Of The U.S. Real Estate Industry
❑ Social Security…needs $3.7 trillion today to meet future liabilities.
❑ Medicare…needs $22.1 trillion to fund future liabilities.
❑ Global restructuring (Europe).
❑ Infrastructure…needs over $1.0 trillion to keep up with demand.
❑ State Pension Funds…need $2.5-$3.0 trillion to fund future liabilities.
❑ Health Care…needs $2.0 trillion to fund future liabilities.
❑ Entitlements…now 18.3% of nation's personal income.
❑ Federal Debt…now $14.3 trillion projected to rise to over $20.0 trillion by 2020.
❑ Household Wealth…still $9.1 trillion below pre-recession level.
❑ Taxes…top 10% of wage earners pay 68% of income taxes.
❑ Government Spending…now 25% of GDP…rising to 35% by 2035.

According to the July 15, 2011, daily tracking poll by Rasmussen, only 27% of U.S. voters "strongly approve" of the way President Obama is performing. Seventy-nine percent of Americans are at least "somewhat concerned" about inflation…only 4% are "not concerned." According to a Rasmussen survey, **only 21% of Americans believe that America is heading in the right direction**. Only 16% of U.S. investors think U.S. economic conditions are getting better…64% think they are getting worse. **Sixty-eight percent of Americans believe the U.S. is still in a recession**. As of August 22, 2011, the Rasmussen Consumer Confidence is 66.4, down 12 points from three months ago.

Twenty-six percent of Americans say that they have had problems paying their rent or mortgage. More than half (55%) of those who work full or part time, believe it is "likely" that they may face one or more job-related problems next year (pay cut, benefits cut, layoff). Across all demographic and political groups, less than 10% have a positive view of the economy. Seventy-nine percent say jobs in their area are hard to find. Nearly two-thirds (65%) say that home prices have gone down a lot (36%) or a little (29%).

Gallup reported on July 20, 2011, that 31% of Americans think the condition of the economy is the biggest issue facing the U.S. Unemployment and jobs was the second biggest concern (27%). In a June 28, 2011, survey, Gallup found that "economic confidence" has been declining since February.

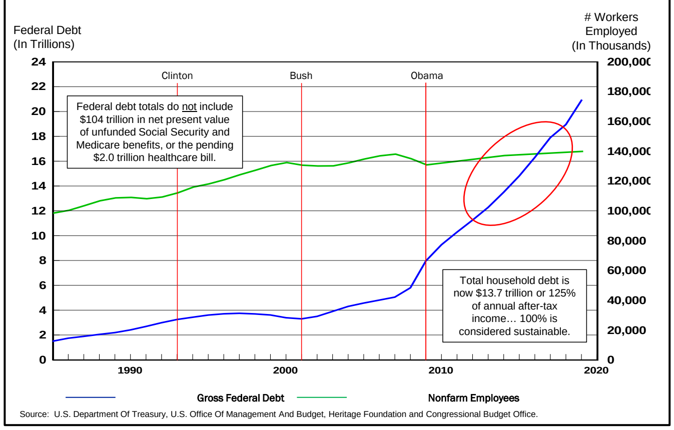
Only 31% believe the economy is getting better. Fifty-seven percent expect higher taxes next year. According to Gallup, the economic confidence of Americans dropped to -53 in the week ending August 7, which is a level not seen since the recession in March 2009. An August 10, 2011 *Washington Post* poll shows nearly 75% of Americans doubt those in Washington, DC (the President or Congress) can repair the economy.

It is hard to find a positive fact regarding the economic direction of the country.

The Impact On A Jobless Recovery On Real Estate

I expect over the next 16 months, we will see a flurry of temporary actions to reinvigorate the economy leading into the 2012 election. U.S. businesses can expect some relief as the Administration probably will delay implementation of costly regulations and postpone tax increases until 2013. However, these delays will not be permanent, and if re-elected, the Obama Administration will very likely seek to reinstitute those measures. Thus, the best opportunities for growth will be in business-friendly states (Texas, Virginia, North Carolina, Tennessee, Indiana, and Utah). In a May 3, 2011, survey of 500 CEOs, the two states to avoid were California (ranked 50th) and Illinois.

Ratio U.S. Workers To Federal Debt

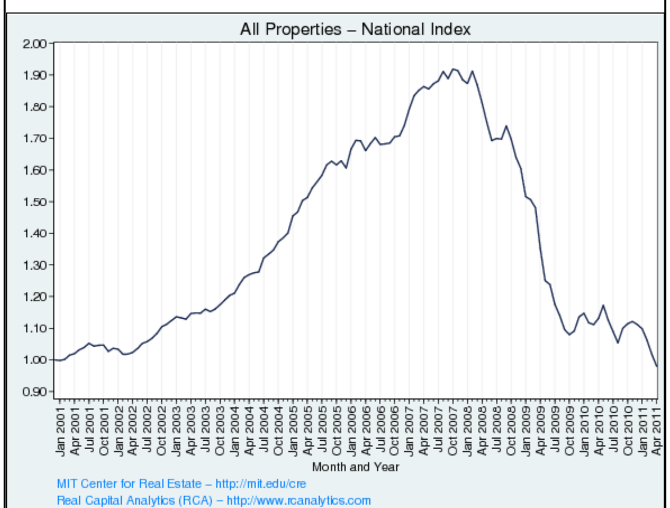


According to Richard Fisher, President of the Federal Reserve Bank of Dallas, **Texas has accounted for nearly 45% of all net job creation in the U.S. since the recovery began**. There are many reasons why employers are moving to states like Texas, Virginia and North Carolina.

But What About The Uptick In Asset Sales?

The significant increases in the sale/purchase of real estate assets since January 2011 are good news, but also highlight the dilemma. According to Real Capital Analytics, Inc., sales of real estate assets through June 30 (compared to one year ago) are up 50% for office; 64% for industrial; 337% for retail (yes, that percentage is correct); and 132% for multifamily. However, digging into the numbers shows that: (1) investors have been buying core assets in core markets; (2) in the first half of 2011, 130 transactions of individual properties or portfolios were valued at $100 million or more; and (3) investor interest has increased in places like San Diego, Atlanta, Boston, Chicago and Dallas.

Moody's / Real Commercial Property Index Is Nearing The Bottom



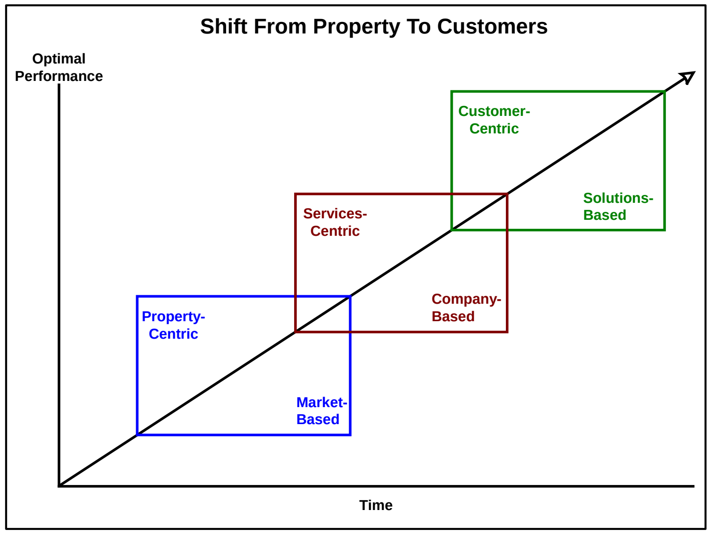
Source: MIT Center for Real Estate and Real Capital Analytics.

According to Real Capital Analytics, Inc., real estate asset sales in May reached their highest level in 2011, rising to $15.6 billion. Through the first six months of 2011, over $90 billion of sales were posted for the four primary asset types. While we see some investment sales activity in select smaller markets, **Manhattan, Washington, DC and San Francisco still account for 45% – 50% of all 2011 sales activity**. Nearly $50 billion of properties were offered for sale in April and May. The volume of new offerings in Q2 was up 79% from a year ago. New transfers of existing properties to distressed status in May dropped to $3.1 billion, or around 50% less than the $6.2 billion monthly average over the past 12 months. While 81 of the top 100 buyers remain active, there has been an increase in new buyers. However, **Moody's/REAL Commercial Property Price Index declined 3.7% in April, the lowest level since its inception**. The Moody's indices are down from their peak: office down 35.0%; industrial down 40.1%; retail down 33.5%; and apartments down 31.0%.

Jones Lang LaSalle reports that the improving marketplace is being divided between the tenants' markets (those in secondary and tertiary areas) and landlord markets (core and primary). JLL sees evidence of improvement in overall leasing activity. It is the expectation of rising occupancies and/or rents that is driving investor interest in perceived undervalued assets.

What You Can Do To Prosper In This Turmoil

The impact this geographic mosaic of have and have-not states will place on real estate service companies and investors is profound and lasting. Success during the 2010 – 2019 decade will be based on many strategies. Here are six critical strategies you should consider.



Become Customer-Centric: Readers of *Strategic Advantage* know we have been strong advocates for embracing a customer-centric rather than asset-centric focus. Now this sounds fairly easy to do, and perhaps your company has professed to do so. However, a recent CEL & Associates, Inc. survey of leading real estate firms discovered there is an enormous difference between surface-level change and cultural transformation. Nearly 65% of customer-centric initiatives fail or achieve results far below expectations. **Too many real estate firms use "bolt on" customer policies rather than a "built in" customer service culture**.

What distinguishes a customer-centric firm from one which is not? Customer-centric organizations have moved beyond catchy phrases/slogans, feel-good initiatives and policy declarations. **In the real estate industry, there is a big difference between those who create their business model, company values and business practices around the customer and customer satisfaction and those who don't**. Customer-centric real estate firms quantify customer segmentation, design customer-friendly processes and understand what derives the greatest value for each customer. In an already shaky economy, astute companies are focusing their growth around tailored customer offerings. Leading real estate firms understand that identifying, targeting, securing and nurturing specific customer segments will create growth and higher profitability.

Growing Industry Sectors

- Industries Serving Seniors
- Software Development
- Healthcare
- Life Sciences/Biotech
- Technology
- Government/Government Related
- Defense/Security
- Communications
- Trade/Logistics
- Data Centers
- Research & Development
- Full Service Grocery
- Personnel Management
- Consulting
- Electronic Media
- Wireless Technology
- Nanotechnology
- Batteries/Energy Storage
- Advanced Manufacturing
- Waste & eWaste Management
- Emerging Technologies
- Colleges/Universities
- Legal/Accounting
- Science
- Green Industries/Clean Tech
- Pharmaceutical
- F.I.R.E.
- Entertainment
- Energy & Alternative Energy
- Internet-Based Entities
- Financial Management
- Computer Programming
- Nonprofits
- Medical Devices
- Network Security

Specialize, Specialize, Specialize: There are far too many real estate generalists and far too few specialists. However, this is rapidly changing. A competitive edge is achieved when the marketplace points to you and says, "They get it," or "They understand my business and our industry," and "They have knowledge no one else can provide." **Customized solutions, focused marketing materials, research and a branding strategy that creates a differentiating story are very important**. Tailored business solutions are valued far more than one-size-fits-all solutions. Today, only 20% of those who retain third party real estate service providers think that their service provider is Best-In-Class. Why? No specialization… "just like all the rest." In a stagnant economic environment with limited customer opportunities, success will come to those who distinguish themselves. Specialization or niche marketing mandates you have the talent and business practices that clearly demonstrate expertise.

Profit From The Core: To take advantage of emerging opportunities, grow and solidify your organization's future relevance, **you must design strategies for success that fit the organization and do not rely upon continuously mining old or existing relationships and remove internal barriers/resistance to change**. Literally no real estate organization today lacks unique, distinct advantages. The problem is that far too many have strayed from their core competencies and/or have tried to imitate competitors. Frequently these firms have too many organization inhibitors and not enough organization enablers. Successful real estate firms understand the hidden value and growth opportunities and the array of core and adjacent business strategies necessary to improve performance and profitability. Often the moment one realizes the advantages of adopting the core strategies, more opportunities seem to come. Desperate competitors are willing to buy customers, opportunities and talent, regardless of the cost, but successful real estate firms embrace a focused approach to business development and growth.

WHAT'S IN	WHAT'S OUT
Mass transit	Cars
Renting	Owning
Multi-culture	Mono-culture
Personal choice	Vendor choice
"We" generation	"Me" generation
Cities as entertainment	Entertainment apart from a city
Reusable	Disposable
Tablets / PDAs	Laptops
e-Media	Newspapers
Telecommuting	Driving to work
Trade / Tech Institutes	Junior colleges
e-Banking	Walk-in banks
Maslow's Hierarchy of Needs	Keynesian economics

Determine Your Priorities, And Stick With Them: Reactive leadership and moment-in-time business strategies cause disruption, are dysfunctional and often create internal operational challenges that are difficult to overcome. **Over 80% of most real estate employees below "Senior Management," according to a recent CEL & Associates, Inc. survey, do not know and/or cannot recite the top three to five priorities of their company**. In an economic and competitive environment where the "edge" can mean the difference between success and failure, everyone must be on board with a clear understanding of the goals and strategic priorities. Setting priorities saves time, money, resources and leadership energy. Working on what is most important first and rejecting the distractions of everyday activities will result in a strategic advantage. I am an advocate of the 100-Day Action Plans, because they keep everyone focused on what needs to be done …now.

Listen To Your Customer: This core strategy should be one of those "no-brainers." However, too many real estate firms "think" they know the true feelings and opinions of their customers or "rely" on those who have a vested interest in sharing only good news to provide customer feedback. After conducting millions of customer opinion surveys within the real estate industry, I have learned that **the "real story" comes out only when independent measurement of customer satisfaction is applied**. A significant percentage of tenants, residents and/or real estate service clients are not happy with their situation. If you aren't keeping score, how do you know you are winning? Hardwiring the voice of the customer throughout the organization is essential, and measuring customer satisfaction is a requirement. Did you know that 71% of building owners are "satisfied" with their service provider, but are "always open to change?" Only 64% of building owners are "very satisfied" with the level and frequency of communications from their service provider.

WHAT'S IN	WHAT'S OUT
Knowledge cities	Manufacturing cities
Emerging cities	Highly-taxed cities
Capital cities	College-less cities
Health cities	"Fat" cities
24 / 7 cities	9 – 5 cities
Green cities	Polluting cities
Connecting cities	Stand-alone cities
Launching pad cities	Single-industry cities

Control Overhead And Expenses: Now is the best time to consider deploying a zero-based budgeting process for the 2012 calendar year. **From operational redundancy to unnecessary overhead expenses, and from process duplicity to a lack of KPI benchmarks, real estate companies must focus on deploying resources where they are needed and will contribute to creating enterprise and asset value**. Now is the time to take a critical look at organizational structure and operational efficiency. Now is the time to avoid the pitfalls of budgeting for what was or is…to budgeting for what should be. This is the time to get away from justifying variances from prior years, managing to a baseline assuming that the past will repeat itself. All expenses must be justified, and budgets should be built around what is needed rather than what exists. **I believe the real estate industry is on a path toward bifurcation between those who are nimble, innovative and capable of responding and those who are not**. Embracing zero-based budgeting is a perfect start to future financial success.

Secure Your Capital Base: Without capital, net worth is difficult to achieve. In the New Normal, every real estate organization must have capital to grow, secure market and customer share, take advantage of competitor difficulties, attend to new lending and refinancing requirements, and make timely investments. The rise in entity transactions and merger activity within the real estate industry is accelerating. Today offers many unique entity opportunities that will not exist by 2015…so now is the time to secure the requisite capital to remain competitive and overcome the financial turmoil ahead. This will be addressed in greater detail in upcoming issues of *Strategic Advantage*.

Closing Comments

In April 2010, I shared with you my prediction that the current economic malaise would not end until 2013. Based on the current trending data, that prediction seems to be on target. However, you want do not want to sit idly by and wait for the recovery tide to come in. Remember, "life isn't about waiting for the storm to pass…it is about learning to dance in the rain." Well, it is raining now, so one needs to figure out how to prosper in times of challenge. **The opportunities await those who understand that in the Age of Consequence, success is earned not guaranteed**.

If you'd like to share your comments, insights or ideas with me, please email them to newsletter@celassociates.com.

Regards,

Christopher Lee

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