Real Estate Insights, Forecasts & Strategies
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Strategic Advantage

Issue K07010

"Twelve Cornerstone Strategies 2010 – 2011"

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Friends & Colleagues:

To paraphrase, "Success doesn't come to you…it is what we make of the opportunities that come before us and what we can create because of our passion and commitment." It is tough enough leading a real estate organization, a division, department or business unit in today's unpredictable, uncertain and challenging time. If it were easy, everyone would be successful. **Today, success is measured by doing the right thing, at the right time, with the right people**. Successful leaders are optimists, believing every day brings opportunities and tomorrow is a source of new inspiration.

However, success (financial, professional and personal) is shaped by the strategies we deploy and integrate into our everyday life. **Success is based on making the right strategic choices amid an endless sea of possibilities**. Whether you are a CEO, CFO, Regional Executive or Site Leader, you can control your destiny…even in times like today!

Faced with what is generally perceived to be unprecedented and daunting market, financial, operating and growth challenges, the real estate industry once again finds itself in a position as one of the economic foundations upon which most all individuals and entities interact each day. The economic turnaround we all believe is essential to the real estate recovery is also an essential element of any recovery at all. **Real estate is simultaneously both an unfinished business of today's society, and at the same time the core of our future societal infrastructure**. In 2010 and 2011 there are some key or cornerstone strategies every real estate firm, leader and enterprise should consider if success and long-term sustainability are desired goals and outcomes.

On the following pages, I have highlighted 12 cornerstone strategies every real estate firm should carefully consider. While there are other strategies, I believe these must be at the top of every real estate leader's priorities over the next 18 – 24 months. The economic, financial and overall marketplace requires this level of focus and commitment.

1. Reset Your Priorities: One of the most difficult things for a Founder, CEO or real estate leader to do is to change direction based on strategic rather than survival or competitive reasons. It is just too easy to "conduct business the way we have always done it." It is estimated over 50% of real estate leaders today change direction or reset their priorities purely out of instinctive necessity and not based on careful thought or strategic thinking. **Over the next 18 – 24 months, the resetting of priorities is not an option…it is a requirement for success and profitability**. Reacting (as opposed to responding) is not strategic; it is tactical, with limited long-term benefits. Highlighted below are several helpful steps for resetting your company's priorities.

Getting Focused

- Link personal goals to Company goals.
- Reject status quo.
- Deploy the proper performance metrics.
- Benchmark your results.
- Do not believe that past accomplishments are recurring.
- Remove barriers to success.
- Assemble the best talent.
- Make sure that the right people are in the right spots.
- Create a culture of discipline and accountability.
- Confront the brutal facts of your current reality.
- Create a culture of innovation and inquiry.
- Don't believe you have all the answers.
- Remove Change Killers.

- Figure out what you and the enterprise do best. Where have you come from, where are you now and what do you want to become?
- Determine your true core competencies and strategic advantage.
- Set a clear and embraced vision. Where are the gaps between what exists now and your vision statement?
- Remove the clutter of legacy biases, outdated precedents/processes and old ways of thinking. How will you manage the process of moving from what is to what can be?
- Don't leave one foot in the past while professing to move into the future.
- What processes will ensure successful priority implementation?
- Adhere to your core values.
- Seek alignment of interests throughout the organization.
- Set extraordinary, yet achievable goals that do not require super-human effort so that each success or accomplishment can be celebrated.
- Focus on the moment and do your best in the here-and-now.
- ***Create 100-Day Strategic Plans.***

The Structure Of A Unified Plan

Source: CEL & Associates, Inc.

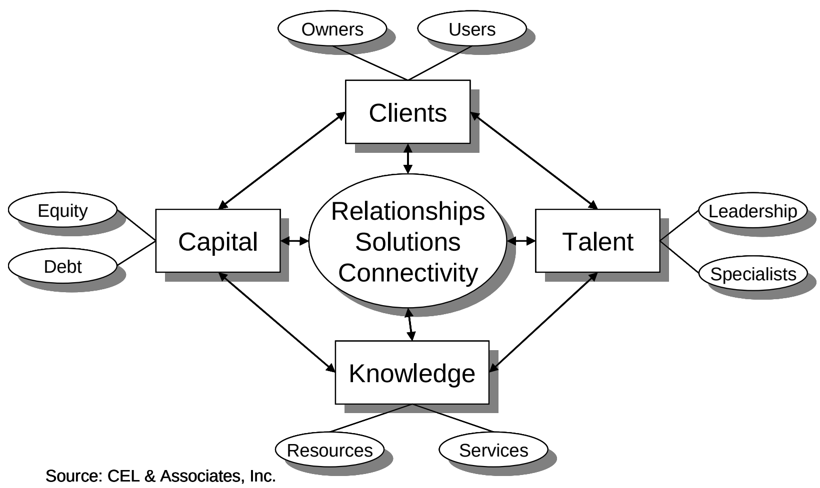
If I were CEO of a real estate company today, I would assemble my leadership team and address the immediacy of each bullet/idea above. My own experience over more than 30 years has proven to me how effective

100-Day Strategic Plans are in this process, and are especially useful as guidelines for all members of the team.

2. Re-Examine Your Business Model: The ability to implement and achieve newly reset priorities successfully will be 100% dependent upon on the business model you have created and adopted. **Structural breaks in the economy are opportunities, not barriers**. Effective business models are built on a thorough diagnosis of the situation, opportunities and challenges. It is the content rather than the context that matters most. By answering the questions listed below, a prototype of your business model will begin to evolve.

- Is your company a client-centric, product-centric, geo-centric, industry-centric, talent-centric or a service-centric organization?
- What do you believe are your 2010 – 2011 "Measures of Success?"
- How can business model innovations create value?
- How are you, and how should you be, organized?
- Based upon scenario planning, what business model offers the best option?
- Based upon a granular analysis of opportunities, what business model is best suited for growth?
- If you could start over, what would you change and/or do differently?

The New Business Model



Source: CEL & Associates, Inc.

I often marvel at the number of real estate firms that continue to believe they have a new business model but operate day-to-day with processes and practices from the past. There is not one real estate company today that does not have past and/or current examples of what went wrong ("great case studies" was a favorite phrase of one of my grad school professors). Business models are not static; they are dynamic and constantly changing to meet current and future challenges and opportunities. As a real estate leader, your business model must:

- Be collaborative.
- Fully incorporate external and internal benchmarks and evaluative metrics.
- Clearly define accountability and empowerment.
- Be understood by everyone vested with the responsibility for successfully implementing.
- Grounded in facts, designed around opportunities and provide a clear direction (i.e., vision) on what the enterprise is seeking to accomplish.

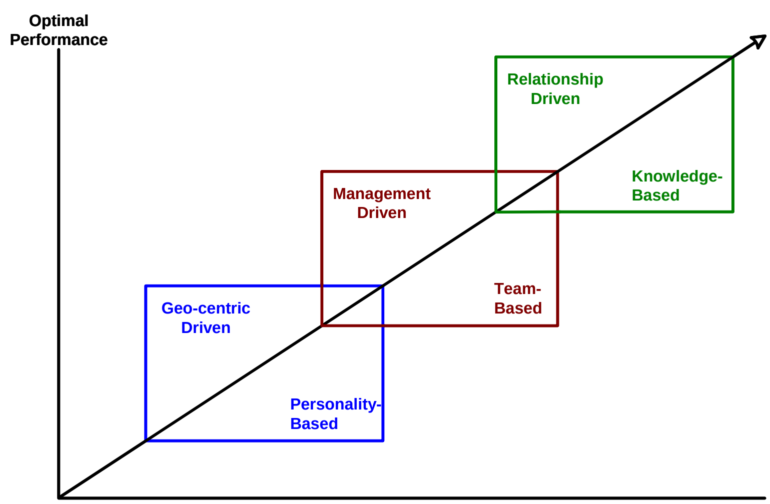
If you haven't taken an honest and thorough review/assessment of your business model during the last 24 months, you are long overdue.

3. Protect Your Most Valuable Asset…Your People: New priorities and business models are merely words on a page without the talent and leadership to execute. **Let me be very**

clear…the real estate industry was never about location or capital. The real estate industry has been, is and always will be about the quality and expertise of the talent within it to create, add and protect value. Everything in real estate requires human interaction or initiative to succeed.. From acquisitions to financing, from development to construction, from leasing to management and from accounting to support services, the quality of the talent separates the Best In Class from everyone else. To protect your most valuable asset, your organization must have a contemporary and robust Talent Management Plan. From recruitment to training and from leadership development to communications, employees at all levels must feel that they are wanted, valued and an integral part of the business model. **Compensation plans must be reflective of today's situation and tomorrow's opportunities … they must, challenge and more importantly support retention.** Staffing models must be dynamic and focused on worker productivity. Employee recognition programs must acknowledge values-based as well as quantitative-based accomplishments. The emergence of the knowledge worker within the real estate industry is underway. Training must be year round, and employees should feel that their voice does matter. According to recent CEL & Associates, Inc. studies regarding employee satisfaction in the real estate industry, over 60% of respondents want more not less involvement and interaction in the actions and decisions that involve their ability to "do their job." Protecting your most valuable asset starts and ends at home.

4. Strengthen Your Brand: An effective brand does differentiate one real estate organization from the rest. Over the next 18 – 24 months, brand awareness, brand equity and brand loyalty will matter. How you respond to the following questions will help understand and determine which branding areas require a refocus.

Emergence Of The Knowledge Worker

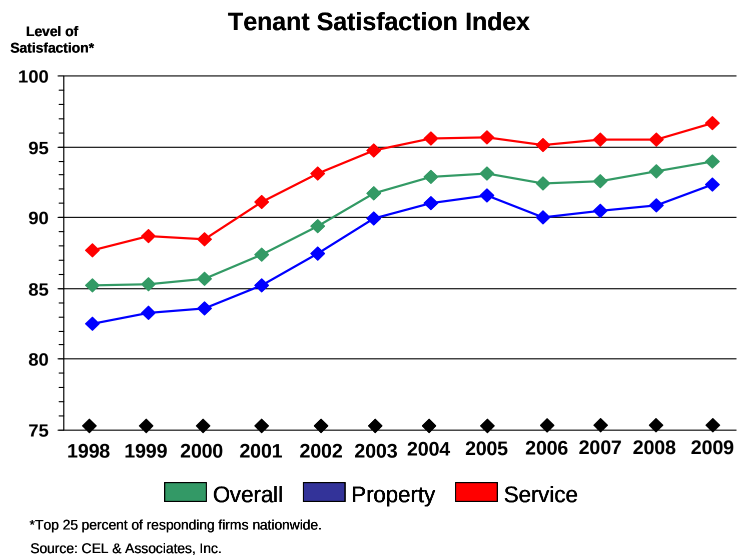


Source: CEL & Associates, Inc.

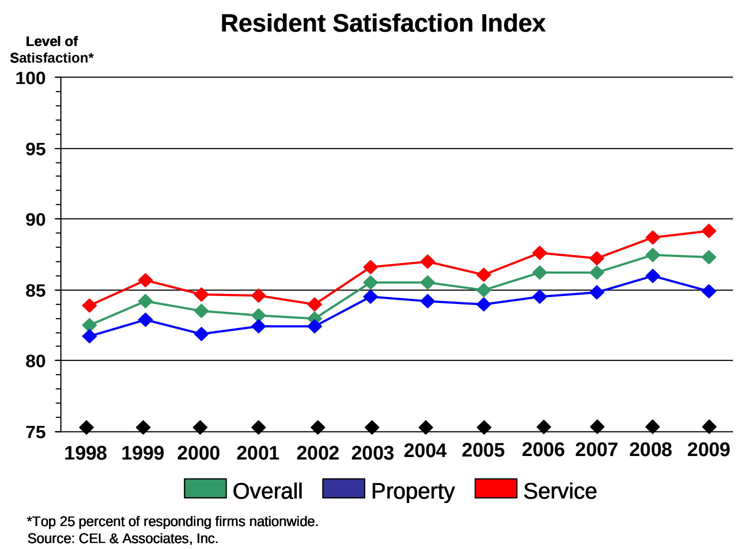
- ♦ What is your company's brand?
- ♦ To the outside world what does your company stand for?
- ♦ When a prospective tenant, renter, client or investor sees your logo, what do they think?
- ♦ What imagery, word(s) or perception comes to mind when someone sees or hears your company's name?
- ♦ What is your value proposition?
- ♦ What is your company's differentiating story?
- ♦ Can you articulate your brand in 5 – 10 seconds?
- ♦ If I asked 10 random employees to describe or tell me about your brand, could they do so? Would they all say the same thing?
- ♦ Do you have a branding strategy?
- ♦ Do your buildings have a brand?
- ♦ Do your services have a brand?
- ♦ How are you communicating/articulating your brand?

As you can see, branding is far more than a business card, signage, brochure or website. **An effective brand transcends media and medium…it is, indeed, the defining message of who you are, what you do and what you stand for**. In times of economic uncertainty, brands which convey trust, valued relationships, quality, service, leadership, innovation and customer centricity tend to outperform those focused on quantity (e.g., the number of offices, employees, square feet owned, managed and/or leased, etc.).

5. Become Customer-Centric: The real estate industry is built on customers, not assets. Customers buy, rent, use, finance and/or sell real estate. It is those customers who drive revenues, profitability, value creation and the performance of real estate firms nationwide. Hard-wiring the voice of the customer in all you do is an essential business strategy. I like the term "becoming real estate multilingual." Every organization must be able to communicate, interpret and understand the language of each very different customer group. Lenders communicate differently from tenants; investors do not speak like vendors; government agencies communicate in a way dissimilar from brokers. Becoming a customer-centric organization means you deploy a *proactive* rather than a *reactive* CRM program. You seek ways to increase the cost of disengagement.



When your organization is customer-centric, you independently measure and monitor the levels of satisfaction and opinions of your customers. **Based on the millions of opinion surveys we have conducted within the real estate industry over the past 15 years, customer opinions vary and absolutely matter**. Your company's key values or principles should contain a statement regarding customers. CEL & Associates, Inc. recently completed a survey of customer preferences in the real estate industry, and the #1 desire of those customers (tenants) was to have "a valued and trusted relationship with the service provider." From hiring practices to communications and from branding to leadership, the customer is the cornerstone of every leading real estate organization. A customer-centric company is sustainable and authentic. Cultivating prior, existing and potential customers is a 24/7 job and should be a constant priority of



any firm. Understanding your customers' needs and expectations is essential. **Remember, listen to your customer, not yourself**.

6. Improve Internal Systems & Processes: Fact: Not one real estate company in America today is free of redundancy, duplication and the unnecessary. Not one! Throughout the 2010 – 2011 period, real estate leaders and their companies must streamline their business practices and seek process efficiencies. It is too easy to reduce one's workforce and thus avoid the challenge to rethink and re-engineer the delivery system. As one real estate CEO recently told me, "We (real estate leaders) are really good at growing, but we aren't so good at changing direction until it is often too late." I have found that when you get four or five senior executives in a room, free of the day-to-day pressure and clutter of their jobs, and ask them to envision a clean sheet of paper on which to design the "perfect" real estate company, "Newco" is very different from current "Oldco." When one focuses on internal improvements (the use of technology, empowerment, reduction in paperwork and elimination of cumbersome layers of bureaucracy), processes become vehicles for improved efficiency and performance. **Eliminating waste, curtailing no-longer-needed precedents and creating a "can-do" versus "no-can-do" environment are paramount**. Remember, every real estate firm has 10% – 18% inefficiency embedded in old systems and business practices. Your job in the next 18 – 24 months should be to get rid of or reduce your embedded inefficiency.

7. Take Advantage Of Competitor Difficulties: Unfortunately, the economic, financial and market downturn during the past 24 months has placed or is currently placing a number of real estate firms at risk. From the pressures brought about by over-leveraging, poor timing, unforeseen tenant challenges, reluctant lenders, or protracted resolution negotiations, there is a growing pool of struggling real estate organizations. With an economic recovery that appears to be painfully slow and probably years rather than months away, companies have an opportunity to take advantage of competitors' difficulties today. Here are just a few examples of how you can be steps ahead of your competition.

- Seek opportunities to "step in" and, through artful negotiation, acquire existing or under-construction assets in need of capital and time.
- Pursue merger/acquisition opportunities. In today's depressed market, enterprise values are at historic lows.
- Aggressively/opportunistically pursue client or tenant relationships that may be in jeopardy due to current economic or financial challenges.
- Seek situations to collaborate with competitors.
- Take time to re-establish your leadership in a niche or sub-niche that was formerly a competitor's domain.
- Use pricing power to capture additional market or client share.
- Capitalize on your ability to change, adapt and invest in future technologies, services or lines of business and talent.
- Actively recruit disgruntled or frustrated star or rising star performers.

Paying deference to the past is now a prescription for failure, or at a minimum, mediocrity. This is the time to move aggressively and grow your business. Don't wait, or others will capture opportunities you have today.

8. Recognize Opportunities: The often-used quote, "You can't see the forest for the trees," can be applied to many real estate firms today. Bogged down by underperforming assets, less-than-stellar revenues and net operating income results in a sluggish economy that appears, at times, leaderless, some real estate companies and leaders seem to be wearing blinders. **In today's uncertain and challenging times, pessimists or cynics should not be leading real estate organizations**. In prior issues of *Strategic Advantage*, I have highlighted many current and emerging opportunities. The problem is not a lack of opportunities, but rather the inability or unwillingness to recognize and capitalize on the opportunities here today!

Among the best ways to recognize opportunities is to follow the six steps highlighted below.

- Remove or silence pessimists, defeatists, negative thinkers and employees who appear to be disheartened.
- Instill encouragement in your workplace environment and make it a place that rewards innovation and creativity.
- Create a "Futures" Committee whose sole purpose is to explore and examine opportunities.
- Expand the "opportunity vision" of your organization's business developers. If the parameters are too restrictive for investing or new business pursuits, you will never see (or pursue) possibilities.
- Establish a critical path decision-making process allowing for quick and efficient pursuit of newly identified opportunities.
- Recognize "change-killer" phrases and eliminate them from discussions. These include, among others, "we tried that before," "that won't work," or "the problem with that is…"

Opportunities abound…**the job of every leader is to capitalize on each opportunity as if it were their first and their last**.

9. Expand Your Service Lines & Specialization: In changing and tumultuous markets, the ability to add, modify and/or discontinue product or service offerings is essential. What worked yesterday may not work tomorrow. What was in demand a year or two ago may be out of favor today. However, simply adding new lines of business is also not an assured prescription for success. Careful thought, realistic assessment of risk and opportunity, as well as identifying an internal champion to lead the effort must be undertaken. All leading global real estate service providers have over 15 different lines of business or specialization. Today's focus on valuation, portfolio optimization, troubled assets, and consulting/advisory services are just a few of the many new or expanded specializations emerging within real estate service providers. Developers are focusing on niche customer segments, mixed-use and tenant-centric build-to-suit opportunities. MBE/WBE programs, green, government and other new ventures also are growing today.

Best advice I would give? Ask yourself the following questions.

- Do we really need all our current services lines?
- Are all services lines at or exceeding potential?
- What are our customers seeking that we currently do not provide?
- What lines of business are most profitable, and which are not?
- What is the probable cost and timing to implement and stabilize a new specialization?
- What synergies can be created by an expanded service portfolio?

Expansion of one's business capabilities and offerings is a must today. Waiting will put you further behind your competitors.

10. Understand Your Risks: There is little to be said about this strategy. It is, or should be, the cornerstone for all decisions. **The problem with many real estate companies is not their ability to understand risks; it is to "honestly" understand risks**. Take emotions out of it. Risk evaluation should be SOP within every real estate organization. Once it is understood, management of that risk can be undertaken/addressed. The most common question heard in leading real estate firms and Board rooms is, "What if?" Adopting a "what-if" practice is not negative; it is realistic thinking and a prudent business practice. Risks always are present, and your job is to mitigate those risks. If you haven't started, now is the time to get going. I would not assume that every lender or tenant will renew. I would not assume that computer-generated timelines are real. I would not assume that there won't be any more economic or global surprises.

Everyone must know and agree with what constitutes a threat, vulnerability and a risk. Questions to consider include:

- What could go wrong?
- What must go right in order to succeed?
- What information do we most rely upon? Is it reliable?
- What decisions require the most judgment and information?
- What are the area(s) where we spend the most money?
- Where are we most vulnerable?
- What business assumptions do we control?
- What is the impact if a risk actually occurs?
- Who is managing risk in our organization?

Risks are inherent in every business. Managing risk successfully usually determines who wins and who loses.

11. Strengthen Your Capital Base: Although I have placed this core strategy toward the end of the list, it is by far not the least important. In fact, many (myself included) would argue it is among the top five, if not the top three key strategic priorities within real estate organizations today. From lines of credit to asset loans, and from investor capital to entity/shareholder capital, securing stable, reliable and aligned sources of equity and debt capital is key to growth and prosperity in the months and years ahead. Do not, I repeat, **do not assume that your source(s) for equity and debt will be around tomorrow**. Do not assume that your lender "loves" you or that 20-30 years of banking at one institution will assure future access to capital. Do not assume you ever have enough capital. And do not assume that all your competitors are in or having the same capital issues.

If strengthening your capital base means selling non-core or underperforming assets at a discount, so be it. If strengthening your capital base means raising capital from others, go do it. If strengthening your capital base means more retained earnings, lower distributions or higher reserves, that is reality.

Without a stable source of capital for growth, the future looks fairly bleak. With low interest rates and a bottoming-out economy, now…not tomorrow…is the perfect time to expand one's capital sources.

12. Grow Personally: I wanted to save the best for last. A career in real estate must be rewarding and the fulfillment of ambition. Over the next 18 – 24 months, take time to grow personally. Lead a balanced life…learn, discover, explore. Take new-found perspectives or knowledge and determine what is useful and valuable. Be open to new ideas, embrace change and live a "breakthrough" life. Taking those "thorough personal inventories" can be liberating. Our industry and today's marketplace require you be at the top of your game. More importantly, so do our families and friends.

Conclusion: Well, there you have it. Twelve core strategies for growth and success over the next 18-24 months. Clearly, managing and leading a real estate enterprise is far more complicated than just 12 strategies, but it is abundantly apparent that leaders and leadership will dominate the real estate industry through 2011. Now is the time to lead not follow; to grow not re-trench; and to position for tomorrow's opportunities. I encourage you to do so.

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

Please Note: I know that many of you will be going on vacation during July and August, so we will resume our monthly distribution of *Strategic Advantage* again with our September issue. This is our combined July/August issue.

Regards,

Christopher Lee

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2010 Economic Outlook:
http://www.celassociates.com/onlinenewsletter/EconomicOutlook-2010-SA-K012010.pdf

2010 Real Estate Outlook:
http://www.celassociates.com/onlinenewsletter/EconomicOutlook-2010-SA-K022010.pdf

Real Estate Cycles – They Exist…And Are Predictable:
http://www.celassociates.com/onlinenewsletter/Cycles-2010-SA-K040110.pdf

Real Estate Outlook 2010-2010 Part I:
http://www.celassociates.com/onlinenewsletter/RealEstateOutlook.2010-2020-PartI.SA-K050110.pdf

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