


CEL & Associates, Inc.
Real Estate Strategies, Benchmarking & Performance Solutions
STRAIGHT TALK FOR REAL ESTATE OWNERS AND EXECUTIVES
INSIDE :
1. Moving From Good To Great To Outstanding.

Discover the types of real estate firms and nine factors that can create success and bottomline results.

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An in-depth assessment of the emerging trends and current conditions impacting or soon to dramatically impact the real estate industry.

4. Talent First...

Find out the five steps to shift your organization from an asset- to talent-centric enterprise.

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Today's operative phrase is "how to manage the expectations" of the eight core Stakeholder groups.

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Real Estate Strategies, Benchmarking & Performance Solutions

MOVING FROM GOOD TO GREAT TO OUTSTANDING

Today, one of the major challenges (some might say struggles) facing many real estate organizations is the inability to change at the speed required to remain competitive. While change is inevitable and all firms eventually change, the differential between success and limited success or success and failure can be directly linked to the speed of organizational transformation.

Real estate enterprises, regardless of size, ownership structure, location or specialization have consistently demonstrated over the past two decades that a failure to change at a pace equal to or greater than the pace of change occurring within their respective business environment(s) will (not could) result in ultimate failure. The challenges and oppor-

tunities facing the real estate industry are very different than they were 5 or 10 years ago. Dramatic changes to one's business environment mandate drastic changes to one's organization to truly be outstanding.

There is no firm, region or leader that is immune to the need for change. However, the route to change can be very different. Some firms evolve... waiting or delaying to the last moment the decisions needed to remain somewhat competitive. These **evolving firms** are constantly looking to their competitor's actions as the indices for change. "If my competitors do not do this, why should I?" is a phrase often heard in these evolving firms. Some firms declare their intention to change, even going so far as to create specific initiatives, but quickly backslide into a business as usual operating style. These **regressive firms** are easily identifiable by phrases such as "we have great ideas... we just can't seem to follow through" or "we know what we have to do... it is difficult getting everyone on board." The third group of firms are the **well-intended firms** who actually try to initiate change

and generally can point to one or two successes as "progress." However, these well-intended organizations often rely on the personality, power or persuasion of one or two leaders to actualize the needed transformation. Unfortunately, these change agent leaders "get too busy," "don't have the time," or "have other more important crises to deal with" and the transformational process eventually fades away.

CEL & Associates, Inc. conducted a recent study of the factors contributing to a real estate organization's failure to realize its full potential, and the findings were both confirming and surprising. The study identified factors that were inhibitors to performance and transformation or were drivers toward an organization's realization of

its full potential performance and profitability. The following paragraphs highlight a summary of the study's key findings and the nine factors that will determine success or failure.

■ **No Vision... No Strategy:** A vision is a picture of the future, a declaration of aspirations, a clarifying reason for change and a foundation from which all organizational decisions can be determined and measured. It is amazing the number of firms that: believe a three- or five-year budget is a vision; believe that they can create an alignment of interests and clear priorities within their organization without answering the question, "why?"; and that "are afraid" to set a clear vision because it "might ruffle some feathers" and avoiding conflict is apparently better than doing what is right. A good vision statement should be 5, 8, 10 words in length that is measurable, motivating and memorable.

■ **No Sense Of Urgency:** Change will not occur at the

"Dramatic changes to one's business environment mandate drastic changes to one's organization."

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MOVING FROM GOOD TO GREAT TO OUTSTANDING

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pace needed to compete without a reason why (the vision) and a compelling reason as to why now. Complacency, delays (“we’ll get to it later” syndrome), and a failure of leadership to communicate why status quo is not an acceptable behavior are just some of the reasons preventing action now. Real estate firms that lack a sense of urgency are the ones that: (1) do not set or deploy the proper performance metrics; (2) fail to link personal goals to Company goals; (3) share success stories, but keep silent on bad news; (4) believe that somehow they have the best of everything (people, process, systems, products, etc.) and their competitors have none of the aforementioned; (5) rely on historical victories, projects or events to suggest that history will repeat itself; and (6) kill the messages of new ideas, seek every avenue to avoid conflict and engage in too much happy talk. Transforming an organization requires a sense of urgency... not business as usual.

- **Too Many Personal Agendas And Egos:** One of the biggest barriers to success, according to the CEL & Associates, Inc. study, was the presence of and/or inability

to effectively deal with burgeoning personal agendas and egos. “What’s in it for me,” “why should I change,” or the “me, me, me or I, I, I” professionals are significant inhibitors to an organization reaching its full potential. As one CEO remarked when asked how many employees he had, “I have 1,000 employees, 2,000 agendas and 4,000 personalities.” In today’s team-based performance world, too many agendas and egos will consistently create far more problems than value.

- **Conflicting Generations:** Very few 55 or 65-year-old CEOs have a clue on what drives, motivates and engages a 25 or 35-year-old. How can a leader (say 55 years of age and older) who grew up with black and white television, rotary phones, no Internet, no computers, no email, no FedEx, no cell phones, 7 to 10 television stations (versus hundreds of cable stations today) relate to a young professional who grew up with all of that? How can the “do-like-I-did” or “it-has-always-been-this-way” leaders affect (or even perceive the need for) change? How many Boards of Directors, Executive or Leadership Committees or Partner meetings include one or more 25 or 30-year professionals? Why do organizations give

titles based on tenure or years of experience and believe that young talent “does not know enough to make any recommendations on how we need to change.” Talent is not an exclusive domain based on age or years in the business.

- **No Silos:** Transforming one’s organization mandates the elimination of functional, geographic and personality-based silos. Teamwork, knowledge sharing, customer relationship management and right people/right place are cornerstones for realizing an organization’s full potential. There is no room for groups or entities to work autonomously in today’s rapidly changing business environment. Recent CEL & Associates, Inc. surveys of customer expectations revealed that prima donnas, what’s-in-it-for-me professionals and “I-can-do-it-all” individuals are increasingly a less desirable commodity among customers who wanted the best teams doing what is best for us.
- **Right People In The Right Positions:** According to the CEL & Associates, Inc. survey, real estate firms are frequently challenged by having talented professionals in the wrong positions (the take-the

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2005 NATIONAL REAL ESTATE COMPENSATION & BENEFITS SURVEY IS NOW UNDERWAY

Invitations to participate in CEL & Associates, Inc.’s **2005 National Real Estate Compensation & Benefits Survey** have recently been distributed to company leaders, executives and HR directors. **Covering 82 positions**, this national survey is the **largest of its kind within the real estate industry**. **Data from approximately 400 firms** was included in

last year’s survey and it appears that participation in the 2005 survey will be even greater. This is the **16th consecutive year** that CEL & Associates, Inc. has conducted this survey, which has become the industry standard. **There is no cost to participate** and all participating firms receive a complimentary copy of the results. If your company would like to

participate and obtain a complimentary copy of this valued resource, please contact Janet Gora at 310.571.3113 immediately. Survey forms in Excel can be downloaded online or submitted via the printed survey form. Act now to avoid having to pay the non-participant rate of \$795 for a copy of the 2005 National Real Estate Compensation & Benefits Survey. ■

AS WE SEE IT

CEL & Associates, Inc. has developed a Real Estate Industry Index to reflect a particular point in time, illustrated by a 100-point scale. The CEL Index is based on the premise that at any point in time, a snapshot of the real estate industry can be taken. The CEL & Associates, Inc. Real Estate Index is based on extensive interviews with industry leaders, review of published reports and documents, analyses of regulatory, governmental and financial trends, assessment of market data and

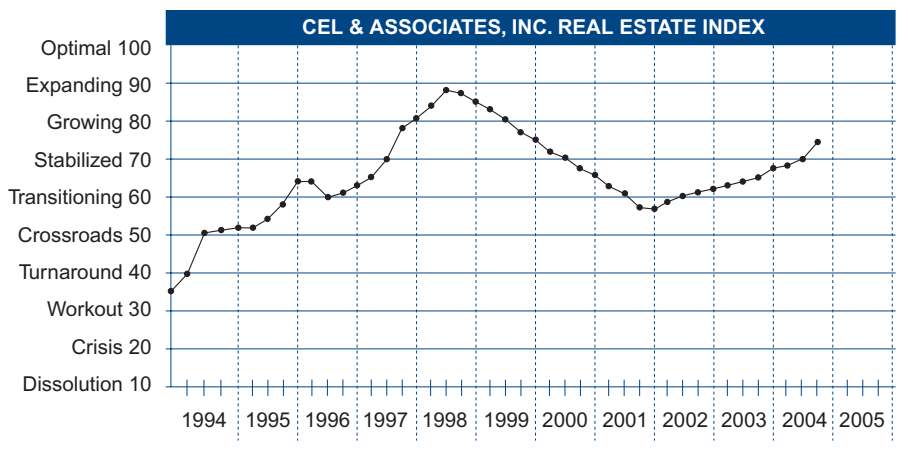
CEL & Associates, Inc.'s optimism for 2005 is based on the trending data and historical real estate cycles over the past 30 years. The following trends reflect our concerns and optimism for the balance of 2004.

- New home sales will likely total 1.16 million units by year-end, while existing home sales in 2004 will likely end up around 6.4 million. This will be the fourth consecutive year for record home sales. However, most analysts are projecting

following a 37-month period of contraction. Inventories, however, are now growing... reversing a four-year trend of inventory reduction.

- CEL & Associates, Inc. expects the Federal Reserve to raise short-term rates to 2.0 percent by year-end.
- Continued job growth and higher interest rates bode well for the multifamily sector. CEL & Associates, Inc. expects overall apartment unit production to steadily rise to nearly 400,000 units annually over the next 10 years. The key variable to watch is interest rates (too high and the demand for rental units soars... too low and the homeownership percentage could increase to 71% - 72%). By 2013, Freddie Mac expects outstanding mortgage debt to be \$17 trillion or more than double today's \$8 trillion.
- Torto Wheaton Research, however, has reported that apartment values will likely (97.5% chance) decline between year-end 2003 and year-end 2006 and a 50 percent chance values could decline 12 percent over that same period.
- The current industrial vacancy level (8.9%) is expected to remain at or slightly below that level over the next three to five months. Through August, over \$6.8 billion of warehouse/distribution centers and \$3.2 billion of flex properties have been sold. Buyers are paying 95 percent of asking price. REITs have been the largest net buyers in 2004.
- Apartment vacancies (around 6.7% nationally) are expected to improve over the next six months.
- The national office vacancy level, however, remains high around 16.5 to 17.5 percent. The availability of over 250 million square

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a review of other proprietary reports. Accordingly, the scale has increased slightly from 70 to 74 as the real estate industry and economy have emerged from the bottom of the decline, which began in 1998 and reached its lowest point in the 4Q of 2001. While there continues to be optimism heading into 2005, CEL & Associates, Inc. believes that 2004 may have been the best year of the decade. Clearly, the uncertainty and likely year-round struggle to reduce/remove the threat of terrorism, a continued stream of global crises and the stimulus generated during an election year will have an impact on the economic recovery in the U.S. Moving toward 2005, real estate rents and values will increase; operating costs will continue to rise, profit margins will begin to improve and overall property yields will rise.

slightly lower numbers for 2005, as interest rates will likely continue to rise in 2005 and then stabilize in 2006. The national supply of resale homes is at 4.6 months.

- The unemployment rate now at 5.4 percent is likely to go lower (perhaps as low as 5.1% over the next 24 months) as job growth continues. While total employment is still below the record high leading into 9/11, the continued pace of job formation will be subject to continued consumer confidence, peaking rates of worker productivity and global events.
- The Institute For Supply Management Index (59.0 in August) reflects the 15th consecutive month of an "expanding" economy. The ISM Employment Index grew for the 10th consecutive month... this is

TALENT FIRST... CUSTOMERS SECOND... LOCATION THIRD

Is there anyone in the real estate industry who does not believe that talent creates and adds the most value to a real estate organization's bottomline? Is there anyone who believes that location, location, location is still the defining mantra within the real estate industry? Is there anyone who knows of a customer who negotiated a lease, rented an apartment or purchased a building without interacting with a real estate professional? In today's unpredictable, challenging and opportunity-filled global business environment, real estate firms are placing an increasing focus on hiring, retaining, motivating and rewarding the right people.

However, with this renewed focus on "right people... right positions," many real estate companies continue to deploy outdated and/or ineffective hiring practices. Some firms continue to push hiring decisions down to the site level... one of the biggest mistakes. Decentralizing the recruitment and/or hiring decision to a Property Manager typically fails 35 to 50 percent of the time. This very high failure rate is due to: (1) the wide range of hiring skills of each on-site Manager (some are great, some are so-so and others are horrible); (2) the inability to transfer staff because the "who I would hire" decision of one Property Manager differs from "who I would hire" of another; (3) the inconsistent delivery of the same message (e.g., different answers to the same Interviewee questions); (4) the injection of personal bias/preference in the hiring decision; and (5) the diversion of time away from enhancing customer relationships and Shareholder/Investor value. As one CEO remarked, "talent is everything... I have never seen a building negotiate a lease or make cold calls."

Customers, the second priority of most Best In Class real estate firms, are often the focus of attention and priority. However, many firms today

say that "our customers," "exceeding customer expectations," or "customer service" is one of their top priorities. Yet, these same firms: (1) do not independently measure customer satisfaction; (2) do not tie a portion of incentive compensation for all company leaders to some measure of customer satisfaction; (3) do not have a customer goal in their long-range business plan; and (4) do not have a customer-centric organizational structure. If the satisfaction of customers is the #2 priority, then many real estate firms will need to shift from marketing slogans and brochure babble to specific action plans and independent customer satisfaction metrics.

To achieve maximum productivity, efficiency and effectiveness, CEL & Associates, Inc. recommends the following tactical actions:

First, undertake and complete an independent look at your overall hiring, goal setting, compensation, performance evaluation and training processes and practices. Find out what is working and what is not. Discover what other firms are doing when faced with similar issues. Step aside and let experienced consultants direct the assessment and recommendation processes.

Second, conduct an independent survey of employee satisfaction. Find out what concerns, issues, opinions and attitudes exist regarding your organization's approach to personnel. Learn what other firms are doing and how your organization compares.

Third, deploy a Performance Scorecard-based goal setting and evaluation process. Weeding out the non-performers and underproducers is key to a talent-first organization. Make sure that each of the six to eight goals are measurable, not subjective.

Fourth, examine each and every process and procedure and determine what can and should be changed to improve performance and profitability. CEL & Associates, Inc. has found, in similar projects, that 25 - 30 percent redundancy can be found in nearly every firm.

Fifth, develop career plans for all key employees. It is difficult to expect an employee to change and advance if the roadmap to get there is not clearly defined. Every employee's career plan should be reviewed and updated annually.

Conclusion: Talent does come first. Customers and opportunities come to an organization because of its talent. Talent builds a competitive advantage. Talent can make an organization money or it can cost a firm dearly. Talent, not buildings, creates relationships. Talent separates the good from the great and the great from the outstanding. "Talent," as one real estate leader remarked, "has become my customer." ■

For more information on how CEL & Associates, Inc. can assist you in becoming a more talent-focused organization, please call us at 310.571.3113 or contact us via email at cel@celassociates.com.

COMPENSATION TRENDS

Year	Senior Mgmt.	Exempt Employees	Non-Exempt Employees	Company Average	Inflation Rate
1998	4.7%	3.9%	3.0%	3.8%	1.6%
1999	5.2%	4.0%	3.4%	3.9%	2.2%
2000	5.5%	4.3%	3.7%	4.2%	3.4%
2001	5.8%	4.9%	4.2%	3.9%	2.8%
2002	4.0%	3.8%	3.5%	3.7%	1.6%
2003	3.7%	3.6%	3.4%	3.6%	2.3%
2004	3.9%	3.5%	3.2%	3.5%	2.4%*
2005e	4.0%	3.3%	3.1%	3.3%	2.6%*

*Projected.

Source: CEL & Associates, Inc.

SUCCESS IS BASED ON MANAGING EXPECTATIONS

Success in real estate is directly attributable to how well an organization manages the expectations of its Stakeholders. The techniques, processes and manner in which expectations are identified, defined and fulfilled will vary by group, situation and expected outcome. For some, managing expectations may be accommodated by the mere implementation of standard procedures and processes. For others, managing expectations may require a customized variation from existing procedures and processes. And, for some, managing expectations requires a new set of procedures and processes. The determination of expectation priorities and the blending of Stakeholder expectations can be a difficult and, at times, undesirable task. However, failing to manage expectations is akin to driving with your eyes closed.

To highlight the very important role every company leader must assume and executive flawlessly, CEL & Associates, Inc. has summarized the expectations of each core constituent group.

- **Managing Employee Expectations:** Every individual has a minimum of five primary and five secondary reasons for seeking employment. These reasons include, but are not limited to: compensation; career development; professional growth; affiliation; benefits; position/title; values/standards; training; advancement; etc. If every employee has 10 expectations, a company employing say 200 employees has 2,000 expectations to manage... a company with 1,000 employees would have 10,000 expectations. To identify employee expectations real estate companies are increasingly using Employee Satisfaction Surveys, Performance Scorecards, Career Development Plans and Personal Coaches.
- **Managing Customer Expectations:** Over the past 36 months, CEL & Associates, Inc.

has conducted approximately 6.0 million customer satisfaction surveys within the real estate industry. Less than four percent of the surveys conducted at the same time regarding the same property had identical opinions or expectations... 96 percent were different! Real estate customers today have different expectations regarding such matters as: service; appearance and condition; quality; communications; maintenance; features; amenities; leasing;

attention to detail; pricing; design; location; etc. Real estate firms nationwide have embraced customer opinion surveys, focus groups, service cards, newsletters and special events to identify and, more importantly, quantify customer expectations.

- **Managing Shareholder Expectations:** Every real estate company has one or more Shareholders or Partners and a Board of Directors. Every Shareholder and/or Board member has a vision of what they want or envision the organization to be and accomplish. Each Shareholder and/or Board member has their own expectations regarding financial goals, the performance of the company's leaders, compensation, strategy and direction. Real estate companies are using the preparation of strategic and long-range business plans, Board meeting facilitators and Board member goal setting processes to better quantify, determine and prioritize Shareholder expectations.
- **Managing Vendor Expectations:** Next to payroll, the monies paid to outside vendors is generally the second largest operating expense (excluding rent) within a real

estate company. Like employees, customers and Shareholders, vendors have expectations as well. However, their expectations tend to be self-serving (e.g., pricing, performance dates, payment terms, contract length, fulfillment terms, etc.) and are often directly connected to their success. If every vendor had five expectations — most companies have at least 100 vendors (some have 300 to 400) — there could easily be 500 vendor expectations to manage.

"Failure to manage expectations is akin to driving with your eyes closed."

- **Managing Community Expectations:** For developers, managing the expectations of the governmental, regulatory and interested citizen groups can be a full-time job for one or more people. Entitlement, permitting and zoning processes are taking longer and longer to complete. Knowing what the community expects also means knowing what the community wants. Managing community expectations is often accommodated by Community Liaison professionals, Outreach Programs, Volunteerism and Community meetings. One can only imagine, however, with say 5,000 or 10,000 "impacted" community residents, the number of expectations may be 50,000 or 100,000!
- **Managing Personal Expectations:** In addition to managing each of the various Stakeholder expectations, each real estate leader/professional must manage their own set of goals and expectations. "What do I want, what do I need, what do I expect and what are my metrics for success" are just a few of the questions every real estate leader must ask themselves. Additionally, "why am

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feet of vacant office space and current absorption levels indicated a four- to five-year supply of space to return to a 10 percent vacancy level. When off-shoring, corporate consolidation, bankruptcies and small business growth factors are included, CEL & Associates, Inc. projects an additional two to three years to "burn off" the excess space.

- Foreign investors are increasing their acquisitions of U.S. real estate properties. According to Real Capital Analytics, German (\$3.8b), Australian (\$.3b) and Middle Eastern (\$.6b) were the major buyers in 2003.
- Interest in multifamily properties remains high. Approximately 75 percent are private buyers and it is not uncommon to get 10 to 15 credible offers at cap rates in the 5.5 - 6.0 percent range. Buyers are now paying 95% of asking price. This private buyer frenzy has kept some REITs out of the

market. For August, and for the sixth consecutive month, sales of apartment properties topped \$3.0 billion.

- Hotel occupancy is now around 64.2 percent (up 4.2% over the 2Q of 2003) according to Smith Travel Research. Average room rates are up 4.3 percent to \$86.17 while RevPar has increased 8.6 percent.
- Real GDP growth is expected to be 4.3 percent in 2004, up from 3.0 percent in 2003. CEL & Associates, Inc., however, forecasts a 3.3 and a 3.4 percent increase in 2005 and 2006 as the economy slows down from its current high recovery pace.
- CEL & Associates, Inc. projects a 2004 year-end unemployment rate of 5.5 percent, declining to 5.3 and 5.1 percent in 2005 and 2006, respectively. The U.S. should add 1.9 million jobs per year over the next two calendar years.
- Inflation (now around 2.6%) is likely to remain at, or around, that level as the Fed raises interest rates to slow down hyper

growth.

- Customer spending remains high (\$9.63 trillion in July 2004) despite rising oil prices, hurricanes and political gamesmanship.
- After three consecutive years of decline, the U.S. office furniture industry will likely end 2004 with a 5.6 percent growth over the prior year.
- New construction over the first eight months of 2004 was up 10 percent. The Dodge Index was 173 in August, down from July's 179, yet well above the 2003 average of 159.
- Through May of 2004, condo converters paid \$1.6 billion for properties and expect to pay nearly \$3.0 billion for the entire 2004 calendar year (up from nearly \$2.0 billion in 2003).
- One bright spot in the U.S. economy is the 24 million family-owned businesses nationwide. According to a recent survey by Mass Mutual, revenues have grown 50 percent since 1997. This same survey found that 55 percent of CEOs of these companies over 60 years of age expect to retire within the next five years.
- Sales of strip retail and other retail properties are up 71 percent and 58 percent, respectively, through August when compared to the prior year. Sales of regional malls are down 10 percent. Through August, approximately \$23.0 billion of retail properties have changed hands. Private investors have sold more retail properties this year than in all of 2003.
- Sales of office buildings are up 53 percent (for suburban) and 68 percent (for CBD) through August. The private sector has sold \$23.0 billion (far above the \$19.4 billion sold in 2003).
- REITs now trade at 13x cash flow... up from the 11.5x rate posted over the past 15 years. ■

WORTH READING

The following books, articles and reports are considered to be very timely and worth reading:

- *Authentic Leadership*, by Bill George, Jossey-Bass, 2003.
- *On Becoming A Leader*, by Warren Bennis, Perseus, 2003.
- "The Labor-Shortage Myth" by Alison Overholt, *Fast Company*, August 2004.
- "Stop Customer Churn Before It Starts" by Martin Kon, *Harvard Management Update*, July 2004.
- "Is The Housing Boom Over?" by Shawn Tully, *Fortune*, September 20, 2004.
- "X-It Plan" by James Morrow, *American Demographics*, May 2004.
- "Survey Tenants On The Preference Of Retailers", *Professional Office Building Mgmt*, October 2004.
- "Increased Board Scrutiny..." by Keith Kefgen, *Hotel Business*, October 6, 2004.
- *Credibility*, by James Kouzes et al., Jossey-Bass, 2003.
- *Energize Your Workplace*, by Jane Dutton, Jossey-Bass, 2003.
- *Call Of The Mall*, by Paco Underhill, Simon & Schuster, 2004.
- *Strategic Innovation*, by Nancy T. Snyder et al., Jossey-Bass, 2003.

Source: CEL & Associates, Inc.

MANAGEMENT REPORT

The following items highlight several emerging trends that have had an impact on, or will be affecting, human resources and operating practices within real estate organizations. Further information can be obtained by contacting CEL & Associates, Inc. at 310.571.3113 or via email at cel@celassociates.com.

- Healthcare costs, which have risen 12 to 14 percent per year over the past four years are expected to increase 10 to 12 percent in 2005. According to a recent study, the average annual healthcare costs for a family are now around \$12,000. To reduce costs, employers are now offering tax-free healthcare reimbursement accounts and/or medical savings accounts, implementing medical management programs and considering self-funding (with stop-loss insurance). A recent CEL & Associates, Inc. survey discovered that as real estate companies seek to “pass along” healthcare costs to their employees, their employees “want more say” and “more options” on how to spend their money. CEL & Associates, Inc.’s Human Resources & Risk Management Division’s “Healthcare & Benefits Audit” is one way to get your company’s rising healthcare costs under control.
- MetLife has introduced two new savings programs that can come from payroll deductions; one specifically for younger workers called the Personal Pension Builder, the other for near-retirement employees called Retirement Income insurance. Personal Pension Builder (an after-tax deduction) combines the personal savings features of a 401(k) plan with the guarantees of a traditional pension plan. This innovative plan may be a solution for those real estate companies seeking ways to retain employees who may not be eligible for their firm’s long-term incentive plan.
- HR outsourcing will likely continue within those real estate firms that are not large enough to support a human resources function or among those HR departments that have not demonstrated their value to the business.
- Did you know that the full cost of employee absence is more than four times total healthcare costs when productivity loss is included?
- “Comparative caution” is the new buzz phrase among CEOs, Compensation Committees and Boards of Directors when it comes to compensation. Getting a second opinion from a real estate compensation expert is essential business judgment protection. Whether one is a large or small firm, public or private, the assistance by an experienced compensation advisor will generate far more

“The average annual healthcare cost is expected to be nearly \$11,000 by 2009.”

savings than the costs of each increase mistake. Compensation in 2005 will be more complex and challenging than ever before. “Fair and reasonable” has replaced “my opinion.”

- In the Don’t Be Surprised category, CEL & Associates, Inc. predicts that over the next 10 years “in demand talent” will be represented by talent agents who will negotiate compensation, benefits, job responsibilities, titles, incentive plans and perqs. “Show me the talent” will be replaced by “show me the money.”
- Outsourcing within the real estate industry continues. The costs of keeping project specific and corporate overhead talent often exceed the costs of outsourcing. Real estate leaders are discovering that “assigning the best talent” may not come from within. An example of the demand for these “temps” is the nearly 23,000 chargeable temp hours posted by Real Estate Talent Solutions (www.retsusa.com).
 - Employee recognition programs are becoming more popular within the real estate industry. While only 38 percent of real estate firms have a clearly defined recognition program, 94 percent believe that satisfied and motivated employees reduce employee turnover, increase productivity and reinforce desired behaviors.
 - A recent CEL & Associates, Inc. study of annual base salary increases found that there was only a 1.75 percentage point differential between COLA and best performance annual base salary increases. This finding reinforces the shifting pattern away from automatic annual COLAs and a more disproportionate weighting toward the increases for outstanding performers. The difference between reward and entitlement base salary increases is growing.
- A growing healthcare insurance crisis within the real estate industry remains a secret to many. Who will pay for medical benefits for those who retire before age 65 and who will pay for Medicare supplemental insurance for retirees? It appears that potential retirees will not be retiring full-time in order to pay for this coverage.
- Reducing healthcare costs has become an important priority for real estate firms. The average annual healthcare cost is now around \$6,000 per employee and is expected to be nearly \$11,000 by 2009. What is your company doing to control these rapidly rising costs? Interestingly, in a recent study by MetLife, 92 percent of employees listed medical insurance as their most important benefit, yet 63 percent spend less than 60 minutes considering their options during open enrollment.

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-best-producer-and-make-him/her-a-leader syndrome) and/or by hiring talent to fill a position that has now changed (or is in need of dramatic change). The fear of taking away titles, responsibilities, reorganizing roles and/or shifting levels of authority and accountability is, according to the study, fairly common within the real estate industry. Further, the lack of empowerment, workforce diversity, career development plans and performance scorecards have become barriers to success.

■ **Open Communications:** It is difficult to transform an organization if information is withheld, communications are in one direction, forums for idea exchange are absent and dissident opinions are discouraged (even penalized). No one has an exclusive on good ideas. The sharing of information is a reflection of strength... the withholding of information is a reflection of fear or insecurity. When employees understand the "why" and are the contributors to the "why not," meaningful and constructive change

can occur.

■ **An Alignment Of Interests:** If the interests, goals and expectations of the Shareholders, Leaders and Senior Executives are not in alignment, change will not occur. If the annual and long-term incentive compensation program does not reflect the goals and expectations of all Stakeholders, change will not occur. The creation of an alignment of interests requires an embraced vision (highlighted earlier), key values, defined strategies and a common purpose.

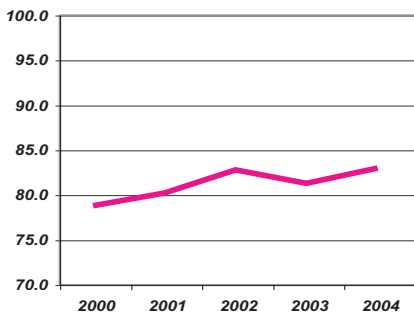
■ **Deployment Of Contemporary Performance Benchmarks:** "We need to move beyond the actual to budget performance benchmarks used 10 to 20 years ago and incorporate performance metrics that enable us to do our jobs better," commented one CEO in the CEL & Associates, Inc. study. The use of new performance metrics (e.g., productivity, customer satisfaction, staff ratios, training, ROI, etc.) is growing rapidly among Best In Class real estate organizations. These ahead-of-the-pack firms have also embraced external

comparative measures to find out where they stand compared to their peers. Access to these new performance metrics is generally available through consultants and/or alliance/network relationships.

Conclusion: Moving from good to great to outstanding is not easy. However, an inability or unwillingness to do so will result in failure. Remember that a company is merely a legal structure under which business can be conducted. It is the vision, talent, processes, leadership, customers, systems and strategies that transform that legal entity into an organization. Addressing each of the nine factors above will give each organization, that does, a jump on its competitors and a much clearer path to realizing (perhaps exceeding) that enterprise's full potential. If you do not change today, you will be behind by tomorrow. ■

For more information on how CEL & Associates, Inc. can transform your organization from good to great to outstanding, please call us at 310.571.3113 or contact us via email at cel@celsociates.com.

OVERALL EMPLOYEE SATISFACTION



* Represents the top 25% of reporting firms.

Source: CEL & Associates, Inc.

SECOND HOME GROWTH LIKELY TO CONTINUE

The number of second homes sold in 2003 (445,000) is up 24 percent since 2001. Approximately six percent of all homes sold in the U.S. are second homes. There are currently 7.0 million vacation homes and 3.6 million second homes in the U.S. Seventy-one percent of those deciding to purchase a second home are seeking a location near an ocean, river or lake, and 84 percent of second homeowners are not likely to rent their second home. ■

FOCUS ON SENIOR HOUSING

- 82% of people age 60 to 74 own a home.
- 69% of homeowners age 65+ live in a single-family detached home.
- 67% of homeowners age 65+ have homes with three or more bedrooms.
- Homeowners age 65+ have an average of 1,037 square feet of living space per person (vs. approximately 720 square feet for all Americans).
- More than 75% of seniors age 55+ have a high school diploma.

Source: Research Alert, October 1, 2004.

THE IMPACT OF RISING CONSUMER DEBT ON THE REAL ESTATE INDUSTRY

The American consumer comprises nearly 70 percent of the Gross Domestic Product (“GDP”). Over the past decade, the U.S. consumer has been besieged by instant access to credit, low interest rates and a revolution in consumer lending practices. Borrowing to purchase homes, automobiles, apparel, take vacations, acquire discretionary items under the guise of “improving one’s standard of living” has fueled the rapid growth of the U.S. economy. However, the price for this exuberance and perhaps “living beyond one’s means” is and will increasingly have a significant impact on the real estate industry over the next 10 to 20 years.

Over the past 10 years (1994 - 2004) total consumer debt has more than doubled (\$4.4 trillion in 1994 to over \$9.1 trillion today). Overall, U.S. per capita consumer debt (including mortgages) is now over \$33,000. Mortgage debt has increased from \$3.5 to \$7.2 trillion. The American household has used consumer credit to supplement their incomes, fill the gaps during periods of economic uncertainty, “keep pace” with their friends and neighbors, and to “take advantage” of the availability of “cheap money.” Between 1984 and 1994, the marketing of credit cards was extremely aggressive as banks relentlessly sought “new customers.” During this 1984 - 1994 period, “revolving debt” increased from \$73.7 billion to nearly \$280 billion. Today, revolving debt is approaching \$640 billion. Debt is no longer perceived as an obligation, for many it has become a way of offsetting financial setbacks and/or filling the gap between “what I need and what I want.” Consumer credit, not savings, has kept the durable goods section of the U.S. economy alive.

The cost of this debt (interest rate charges, financing fees, and annual charges) is significant. Personal bankruptcies set an all-time record in 2003 (1.6 million) and over the past decade there have been over 12 million personal bankruptcy filings. The net worth of the middle class (20% of U.S. families) rose only 0.4 percent between 1989 and 2001, yet their average household debt increased 37 percent. The personal savings rates of Americans is essentially zero. Debt service obligations (expressed as a percent of discretionary household income) rose from 57 percent in 1989 to 85 percent. Consumer credit has eliminated the need to defer expenditures, but the long-range impact is significant. Lines of credit, home equity loans, revolving loans and installment credit have kept the economy growing, but the future implications for the real estate industry are significant. Today, stagnant wages, modest job growth, a rising cost

of living, increasing health care costs, rapidly rising energy/fuel costs raise early warning signs that an economic slowdown is likely ahead.

First, any and all rises in interest rates will slow down, delay, defer or indefinitely postpone purchases that were perceived as “doable” because the financing costs were considered to be manageable. The retail sector will begin to feel this decline in consumer expenditures by the 3Q of 2004.

Wal-Mart, the world’s largest retailer, has already announced an expected decline in previously declared revenue growth. Retail sales are up only 1.1 percent at stores open at least a year — the smallest gain in 18 months.

Second, home sales (existing and new) are likely to slow down as consumers are increasingly unable to “afford” the home they want in the area they want to live. This will likely result in a decline in some homebuilding activity, an increase in the demand for rental properties and a downsizing of the average home size. “Living within our means” will replace “keeping up with the Joneses” over the next decade. Condominiums, apartment communities and affordable housing will prosper. Sales and values of existing homes will decline in many markets.

Third, there will be a decline in the number of small businesses that will be unable to weather a slowdown of activity. Watch for further instability within multi-tenant office buildings.

Fourth, U.S. imports will decline or stabilize. Between 1990 and 2000, the total volume of international merchandise trade nearly doubled (\$3.45 trillion to \$6.45 trillion). The U.S. demand for international goods and services was financed by foreign lenders as the balance-of-trade deficit increased from \$111 billion to \$452 billion from 1990 to 2000. How long foreign governments will lend U.S. money at relatively low rates is debatable, but it will not continue.

Fifth, the cost of servicing the growing U.S. federal deficit (now over one half trillion dollars) will take money out of the consumers’ hands further slowing economic activity.

Conclusion: The real estate industry is about to change dramatically as a result of rising consumer debt. Now, more than ever, location, client relationships, tenant/resident satisfaction and retention, and restructuring staffing levels while controlling costs are “must dos” for real estate organizations. Product diversification, lower loan-to-value ratios and growth of ancillary income sources are essential. These next 10 years promise to be surprising, challenging and perhaps a little frightening for those who do not prepare themselves for the inevitable. ■

“Over the past 10 years, total consumer debt has more than doubled to over \$9.1 trillion today. The average per capita consumer debt in the U.S. is now over \$33,000.”

QUALITY IS NOT A POLICY

The pursuit of quality, while a noble goal, is often doomed before the journey begins. Quality is not only a standard, it is a blending of expectations, resource allocation, leadership, talent, policy, process and business practices. Quality within the real estate industry can be measured by the: level of customer satisfaction; volume of recurring customer relationships; incremental asset value created and added; and performance. Unfortunately, many real estate service providers equate quality with adherence to policy and a flawless execution of process. This misguided belief regularly contributes to "below expectation" frustrations among those who seek, and those who provide, quality. Quality should not be a goal, it should be the result of a constancy of purpose and way of thinking.

A recent CEL & Associates, Inc. survey of quality and standards within, and among, real estate organizations revealed some very interesting findings. First, quality fulfillment cannot be mandated through policies, edicts, declarations or marketing slogans. Best In Class real estate service providers have learned, according to the study, that managing quality expectations and creating a continuous improvement process produce significantly higher levels of customer satisfaction. Second, "you can't train quality" was a consistent theme among best practice service providers. Leaders in service quality indicated that hiring talent that recognizes quality deficiencies, and takes ownership of curing those deficiencies, creates the highest levels of customer satisfaction. Third, the definition of quality varies widely among customers. Leading real estate service providers have learned that a single quality standard for all customers does not work... exceeding each customer's "quality expectations" does work.

Owners, Asset Managers and others utilizing third-party service providers (Property Managers, Brokers, Construction Managers, etc.) are now discovering that quality must be a behavior, a philosophy and a way of life within their service provider's organization. Selecting the "right" service provider will increasingly be made on the basis of their business model, hiring and continuous improvement practices, quality initiatives and customer relationship skills. Obviously, price/cost is very important, but creating a competitive edge, if you are a service provider or an owner of real estate, often begins with how one defines, provides and measures quality.

The Disney, Marriott, Ritz Carlton and Southwest Airlines companies do not have to tell their employees to pick up a gum wrapper or smile when interacting with customers. They do it naturally! The real estate industry's transformation from an asset- to customer-centric service provider has mandated a tsunami of change. It is easy to add marble or beautiful landscaping (the way real estate used to define quality), it is a challenge to make quality a behavior, not a policy.

Over the next decade, the successful service providers will be those who demonstrate that quality is not a marketing slogan, a promise or a policy, but an integral part of their business model. Quality is not a desirable goal, it is a way of conducting business. Quality drives customer satisfaction, performance and growth. Quality is not an option; it is an integral part of ongoing business activities. Owners of real estate are increasingly giving an added "selection value" to service providers that have made quality: a behavior, not a policy; a result, not a goal; and an integral component of, not an appendage to, their everyday business practices. ■

FOR BUDGETING PURPOSES

The following is a summary of likely increases (2004 to 2005) for key operating expense categories.

Compensation	3.2% - 3.4%
Healthcare	8.5% - 9.5%
G&A Costs	2.7% - 2.9%
Operating Costs	4.6% - 4.8%
IT Costs	4.4% - 4.6%

The following is a summary of likely macro economic changes in 2005.

GDP Growth	3.3% - 3.5%
Inflation	2.4% - 2.6%
10-Year Treasury	5.3% - 5.5%
Conventional Mortgage	6.5% - 6.7%

Source: CEL & Associates, Inc.

ASSET OWNERS' KEY DETERMINANTS OF QUALITY WHEN HIRING THIRD-PARTY SERVICE PROVIDERS

- Hiring and training practices.
- Continuous improvement processes.
- A consistent service delivery system.
- Team-based solutions.
- Standards of excellence.
- Leadership commitment.
- Absence of barriers limiting performance.
- Ability to take ownership of problems.
- Demonstrable customer satisfaction.
- Compensation programs that recognize quality and contribution.
- Quality management plan.
- Responsiveness and follow-through.
- Quality and frequency of communications.
- Track record of "walking the talk."

Source: CEL & Associates, Inc.

KNOW THY CUSTOMER

How well do you know your customers? How deep or extensive are your customer relationships beyond your primary point of contact? What do your customers say about you when you are not in the room? Do you know the business drivers of your customers? Do you know how your customers really feel about your performance and relationship? The answers to these questions and others like them provide a framework from which strategic, organizational, operational, hiring and investment decisions can be made. Knowing thy customer extends far beyond meeting occasionally for lunch, exchanging contact information or email communications. Knowing thy customer is an operating philosophy that transcends occasional, event-based customer events.

“An independent, unbiased solicitation of customer opinions is the only way to obtain the truth regarding what is really going on.”

Becoming a customer-centric company requires the organization to: (1) hardwire the voice of the customer in all decisions (e.g., “how does that get us closer to our customers”); (2) hire and reward customer-centric employees; (3) approach each customer interaction and opportunity from a “we” and an “us” (versus “me” and “I”) perspective; (4) create a database of customer knowledge that is shared throughout the organization; (5) regularly solicit/survey the opinions of your customers; and (6) develop and implement a customer relationship management program. Customer-centric organizations have customers in their key values statement, in their vision statement and in their performance metrics.

CEL & Associates, Inc. has recently discovered that over 90 percent of customers want and value a relationship (albeit at different levels)

with their real estate service provider. According to a 2004 CEL & Associates, Inc. study of tenant and resident opinions, 77 percent of tenants and 68 percent of residents want their service provider to place “their” interests ahead of their own. Within the real estate industry the shift from buildings to customers is accelerating. The increasing competition for a limited number of customers is acute. Losing a prospective customer is a mistake... losing an existing customer is a tragedy.

Customers and customer relationships change and, as a result, real estate organizations need to change. What worked five years ago may not work today. What was important a year ago might not be important tomorrow. Who the customer point of contact was yesterday may not be the individual assigned to that account in the future. An increasingly growing number of firms are developing and implementing Client Relationship Management (“CRM”) Programs that assure ongoing and future connectivity with their clients. Some real estate firms have embraced the Strategic Account concept whereby a select number of clients are clients of the firm, not of one individual. Other firms have adopted the 5/1 Connectivity Plan, whereby for every major client there are a minimum of five client contact points. Change is inevitable... real estate firms that have placed their customers at the forefront of their business activities have and are taking steps to assure the retention of those customers tomorrow.

Within the multifamily industry, customer satisfaction and retention are critical. With an average customer turnover rate of 18 months, quickly connecting and staying connected is

critical to extending their customers’ length of stay and/or garnering the maximum share of each resident’s housing expenditure. Within the brokerage industry, getting the second, third and future transaction opportunities is directly related to the quality of the first “experience”, the relationship with their Broker, their level of satisfaction and the Broker’s ability to know the current and prospective needs of their customers. Within the retail, office, industrial, hospitality and residential sectors, staying connected with one’s customers comes from: (1) knowledge of that customer; (2) a trusting and valued relationship with that customer; (3) ongoing communications and interaction with that customer; and (4) the creation of a company-endorsed operating philosophy that customers are far more than a source of revenues.

Knowing thy customer is more than having a good mailing list or taking a customer to lunch or staging a one-time customer event... it is a core value, a key strategy and an integral component of all business practices. Utilizing internal and external resources to develop and build your customer knowledge base is one of the critical first steps. CEL & Associates, Inc. has, over the past decade, discovered that it is not the lack of awareness to what needs to be done... it is the inability or unwillingness to prioritize customer relationships, the lack of dedicated resources and a vacillating leadership commitment that prevents a customer focus from occurring. In today’s highly competitive world for customers, there is no room for “could have, would have, should have” excuses. Now is the time to “know thy customer.” ■

For more information on how CEL & Associates, Inc. can assist your organization in the development and implementation of a customer-focused initiative, please call us at 310.571.3113 or contact us via email at cel@celsociates.com.

MANAGING EXPECTATIONS

(continued from page 5)

Here, what do I want to achieve, what motivates me and what gives me the most satisfaction" are questions that help define and refine personal expectations.

■ **Managing Investor Expectations:** No two investors are alike and no two investments are identical. Managing the financial expectations of investors (equity or debt) requires an understanding of the focus driving the capital they are soon to have, or have already, deployed. Beyond managing the numbers, investors often have expectations that exceed or do not involve rates of return. Portfolio strategy, risk, asset concentration and created value metrics are increasingly becoming the cornerstones of investor satisfaction.

■ **Managing Unknown Expectations:** These are perhaps the most difficult to manage. They are inevitable and a part of normal business activities. How a firm manages the expectations of time-sensitive Stakeholders during times of surprise, change and crisis can either solidify or ruin long-term relationships.

Conclusion: Today's operative phrase is "managing expectations." Balancing the hundreds, if not thousands, of expectations can be a challenge. However, with proper quantification/delineation of each Stakeholder's expectations the process can become significantly easier to complete. Expectations change constantly and leading real estate firms, and their leaders, recognize the value in managing expectations. ■

For more information on how CEL & Associates, Inc. can assist your organization in managing expectations, please call us at 310.571.3113 or contact us via email at cel@celassociates.com.

TRAINING FOR TRAINING SAKE

In a well-intended effort to "get better," many real estate firms continue to offer and grow training programs. With a focus on specific training needs, these organizations seek to improve the performance of their employees. Unfortunately, this "we need more training" operating strategy can miss the big picture.

Before enhancing one's training program, an organization must have: (1) a clearly defined, measurable vision statement of what it seeks to achieve; (2) a clear definition of the organization's current and desired core competencies and a definition of the factors critical to the organization's success; (3) a concise delineation of what performance metrics relate to each core competency; (4) an agreed upon weighting of each core competency within each position; (5) a definition of what is important; (6) a staffing model that reflects the vision, goals and core competencies; and (7) an organizational structure that defines roles, responsibilities, level of authority and accountability.

Training should not be measured on "how good the attendees felt," "were they entertained," or "were they satisfied." Training should be evaluated on knowledge gained, behavior changed, performance improvement, increased productivity and profitability, customer satisfaction, etc. Why train if improvement is not the end product? Investing tens of thousands of dollars on training without corresponding value being created may not be the best use of a company's resources.

Very often, the performance issue is not solved by more training... it is solved by new staff. Real estate firms are discovering that hiring a Best In Class professional dramatically shifts training from a skills to a strategic emphasis. Recent studies have shown that training for training sake does not result in improved performance or productivity. ■

RESIDENT RETENTION TIPS

- Implement a rent-to-buy program.
- Enforce existing policies consistently.
- Establish a regular fixed schedule to walk the property.
- Adjust staffing so that staff is visible when residents are leaving, returning and at home.
- Consider providing extended/early office hours a few days a week.
- Always perform one additional service check with every service request (e.g., change out A.C. filters, check smoke alarms).
- Adjust trash pick-up schedule to accommodate high traffic days.
- Ensure trash and landscape vendor hours don't interfere with residents' quiet enjoyment.
- Improve frequency and quality of verbal and written communications.
- Establish standard follow-up procedures for phone, walk-in, fax and e-mail communications.
- Clearly state when follow-up will occur and beat it.
- Enhance lighting between the parking area and the resident's front door.
- Measure resident satisfaction and respond to their stated concerns.
- Hire resident-centric employees/team members for all positions.
- Repair/improve "visible areas" first.

Source: CEL & Associates, Inc.

MOBILE OFFICE

Believe it or not, a British firm has created a 9x12 foot conference room that comes in a two-foot tall pail. Plug in the pump (housed in the pail) and eight minutes later you have your own office or conference room. You can view office in a bucket via www.inflate.co.uk/oiaab. ■

THE RAPIDLY GROWING HISPANIC POPULATION

Excerpt from a recent CEL & Associates, Inc. study of the Hispanic population.

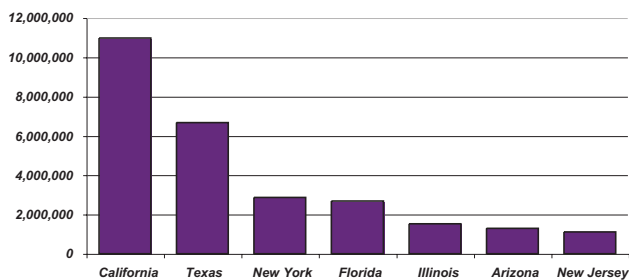
Over the past 25 years, the rise of Hispanics as a percent of total U.S. residents has been dramatic. In 1980, Hispanics comprised 6.4 percent of the U.S. population. By 2002, that percentage had increased to 13.4 percent... and by 2030 Hispanics are expected

to comprise over 20 percent of the U.S. population. Between 2000 and 2030, over 37 million Hispanics will join the U.S. population. The average Hispanic household is 3.52 (vs. the U.S. average of 2.42 persons). As of 2000, nearly 44 percent of Hispanics live in the West and approximately 33 percent live in the South. As a percent of the total state population, New Mexico

(42.1%), California (32.4%), Texas (32.0%) and Arizona (25.3%) have the largest concentration of Hispanics. California has over 11 million Hispanics (31% of the U.S. Hispanic population). The number of Hispanics in the workplace has increased from 5.5 million in 1980 to over 17.3 million in 2003. Hispanic employment growth

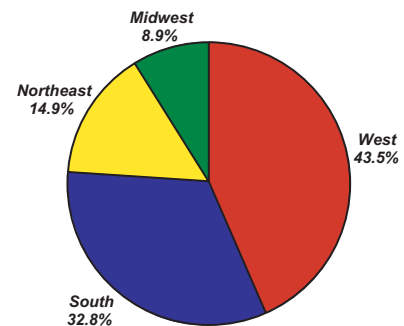
(continued on page 14)

STATES WITH THE HIGHEST HISPANIC POPULATION



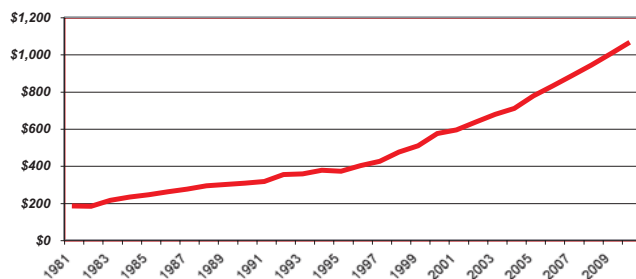
Source: U.S. Census

DISTRIBUTION OF THE HISPANIC POPULATION WITHIN THE U.S.



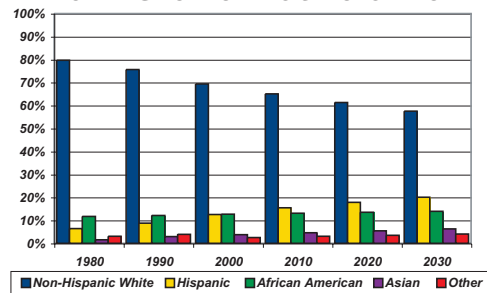
Source: U.S. Census

HISTORICAL PURCHASING POWER OF HISPANICS IN BILLIONS OF DOLLARS



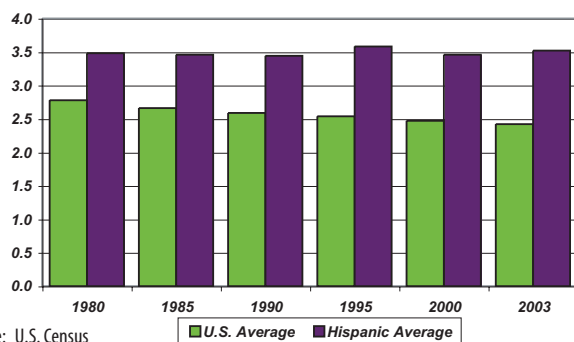
Source: Hispanic Business, Inc.

DEMOGRAPHIC SHIFT WITHIN THE U.S. PERCENTAGE OF TOTAL U.S. POPULATION



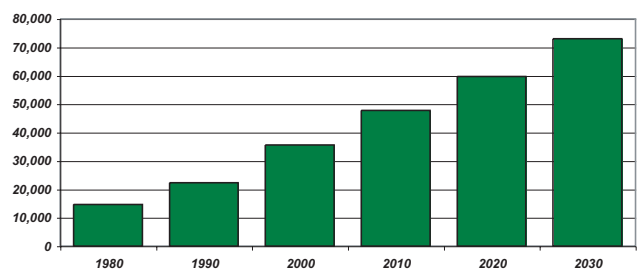
Source: U.S. Census

AVERAGE NUMBER OF PERSONS PER HOUSEHOLD



Source: U.S. Census

POPULATION GROWTH OF HISPANICS WITHIN THE U.S. (IN MILLIONS)



Source: U.S. Census

MANAGEMENT REPORT

(continued from page 7)

- Did you know that only 58 percent of workers say that they are currently saving for retirement, 66 percent of workers expect the same standard of living when they retire and only 42 percent have tried to calculate how much money they need to save in order to retire.
- CEL & Associates, Inc. expects overall base salary increases within the real estate industry to be 3.3 percent.
- According to the Vision Council of America, 60 percent of the U.S. population and 72 percent of the people in the workforce need some kind of vision correction.
- Return To Work Programs ("RTWP") can, according to a recent study by the Integrated Benefits Institute, result in a 20 percent average reduction in workers' compensation medical costs and a 30 percent average reduction in lost time claims expenses.
- Has your bonus program become an entitlement? If your company consistently gives the same bonus award or percentage each year you may be in trouble. To avoid the entitlement trap, real estate firms are restructuring their annual incentive programs to a Performance Scorecard system with measurable (not discretionary) performance criteria.
- Work-life balance is becoming an important issue within real estate firms as the sandwich generation (Boomers who are taking care of their children and elderly parents) seeks to juggle everything from childcare to senior care. According to a U.S. Department of Labor study, 28.8 percent of all full-time employees took advantage of flex-time policies in 2001. What is your firm's work-life balance policy?
- U.S. companies paid out more than \$10 billion in tuition reimbursement and a majority of firms were not sure what value they received for doing so. ■

THE RAPIDLY GROWING HISPANIC POPULATION

(continued from page 13)

has averaged 3.5 percent annually for the past ten years (vs. the U.S. employment growth average of 1.1 percent). The number of Hispanics receiving college degrees has quadrupled in 26 years. By 2010, the number of Hispanic-owned businesses is expected to grow 55 percent to 3.2 million. As Hispanics rapidly enter the professional workforce, their incomes will rise. The value of Hispanic purchasing power is expected

to grow to \$1.1 trillion by 2010.

The impact of the Hispanic population on the real estate industry will be dramatic. No sector will be immune from this growing population segment. Based on preliminary studies, CEL & Associates, Inc. has identified a major void in Spanish speaking as well as Hispanic professionals. The brokerage, multifamily, retail and homebuilding sectors have acute Hispanic staffing needs today.

BABY BOOMER RETIREES

CEL & Associates, Inc. recently compiled various statistics on the growing number of Baby Boomer retirees and their likely/expected housing needs and location desires. The findings included some surprising data. By 2010, the number of Baby Boomer retirees (50-69 years of age) is expected to increase from 41 to 69 million. Six out of ten of these retirees will move to a new home.

Approximately 30 percent of Baby Boomer retirees plan to move more than three hours from their home. Not so surprisingly, 43 percent of retirees plan to work in retirement. Florida (21%), Arizona (18%), South Carolina (10%), North Carolina (10%) and Tennessee (9%) are the states these retirees are most likely to move to.

Eighty-five percent of Baby Boomers think that their health is "good, very good or excellent." Approximately 25 percent of Baby Boomers feel, on average, 15 years younger than their age. Thirty-seven percent expect to increase their level/frequency of exercise in retirement. Walking (87%), bicycling (37%), and swimming (37%) are the Baby Boomer retirees' favorite forms of exercise. ■

GUESS WHAT?

Teams at Cornell University, MIT and the University of California at Berkeley have been developing a process that will enable consumers to order and produce spare parts for printers and computers from a desktop manufacturing device. This new technology could dramatically impact the manufacturing sector (and industrial properties) by eliminating the need for assembly line factories. ■

Source: Business 2.0, September 20, 2004.

FOR MORE INFORMATION

Would you like more information on the various performance improvement or profit enhancement programs described in this publication? Copy this page and fax or mail it to us to receive more information on the following programs. Check below for more information.

Program	Description
<input type="checkbox"/> REACT - Customer Opinion Surveys	REACT is a performance measurement and benchmarking process that surveys the opinions, perceptions and attitudes of clients (existing and potential), tenants, residents, building owners, property managers and customers. REACT is the nation's most popular and widely-used survey tool within the real estate industry.
<input type="checkbox"/> Strategic Planning	Setting a vision, (re)establishing an organization's core values, determining the various performance/financial goals, shaping the proper strategies to achieve the vision and goals, and developing the action plans that successfully enable the strategies to be implemented are the main components of Strategic Planning .
<input type="checkbox"/> Compensation	A must for anyone structuring a pay-for-performance compensation program, comparing company compensation data to industry standards, and those desirous of establishing a meaningful evaluation system.
<input type="checkbox"/> Employee Opinion Surveys	CEL & Associates, Inc.'s Feedback program enables real estate firms to gather valuable opinions and perceptions of employees and identifies those barriers to employee productivity.
<input type="checkbox"/> Human Resources Audit	Identifies those areas that may not be in accordance with governmental regulations and/or company policy.
<input type="checkbox"/> Employee Benefits	From plan design recommendations to broker selection and employee communication programs, we custom design creative solutions that provide competitive programs for your organization.
<input type="checkbox"/> Risk Management Audit	This provides an overview of your organization's exposure to risk as compared to best practices. It can provide a roadmap to taking control of your risk and cost of risk.
<input type="checkbox"/> Insurance Plan Design	Our experts will work with your senior management and insurance broker(s) to design an insurance program that will be just right for your organization.
<input type="checkbox"/> Compensation Online	For human resources directors, administrators, CEOs and owners, Compensation Online takes salary and bonus information and compares it to the national industry standards and to a composite profile of comparable organizations. Over 80 positions are available for comparative purposes from Compensation Online .
<input type="checkbox"/> Benchmarking	Benchmarking is a critical resource for real estate CEOs and senior leaders to evaluate financial, operating and performance results. CEL & Associates, Inc.'s benchmarking services highlight the Real Estate Industry's Best Practices.
<input type="checkbox"/> Succession Planning	If you and/or your organization are unclear on what will or should happen upon the retirement, death or sudden disability of the CEO, CFO or key leaders, then Succession Planning is the tool for you.
<input type="checkbox"/> 2004 National Real Estate Compensation Survey	Approximately 400 firms nationwide participated in this study — the largest of its kind in the U.S. Copies are available for \$795.



FAX OR MAIL REQUEST TO:

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Tel: 310.571.3113 Fax: 310.571.3117 E-mail: cel@celassociates.com

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TRENDS TO WATCH

Trends to Monitor Closely

- Single family real estate brokers, who continue to lose control of their clients due to the Internet, may find growth opportunities in capturing a greater share of the buyer's overall transaction fees.
- Call Centers are becoming the 24/7 answer for multifamily companies nationwide seeking to "connect and capture" prospective residents.
- Converting vacant, old and/or underperforming commercial properties to apartments and/or condominiums is gaining momentum.
- The recently released National Academy of Sciences study of mold concluded that there is no evidence that mold causes serious illnesses such as cancer. If true, this study could change the litigation focus within the multifamily sector.
- The \$3.1b acquisition of Extended Stay America by an affiliate of the Blackstone Group should be an early warning to multifamily property owners.

Likely Impact

Watch for a rapid growth in Broker participation in title insurance, escrow and other closing services. Today, that participation rate is 65 percent. Over the next five years, that rate could climb to 75 to 80 percent.

With a 1:20 lease to call ratio, watch for multifamily owners and operators to insist on better trained call center agents who can relate to the typical "after hours" callers.

While the demand for affordable housing is increasing, the cost, patience and expertise required to complete an adaptive reuse often mandates a more conventional or high-end product. Watch for new Federal legislation that will incentivize urban redevelopment projects and mitigate some of the adaptive reuse risk.

While a blow to litigators and renters who want to supplement their income, multifamily property owners are celebrating the findings. Watch for the mold litigators to shift to "allergies-based" lawsuits caused by dampness, carpeting, etc.

CEL & Associates, Inc. predicted in 1997 the likelihood of a major apartment portfolio acquisition by a lodging chain. We still contend that share price of select multifamily REITs could rise 10 percent to 18 percent if they were acquired by a branded hotel chain. Watch for other transactions that blend multifamily and lodging components.



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