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Strategic Advantage

Real Estate Strategies, Insights & Forecasts

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Flight To Quality…And I Don't Mean Properties!

From Wall Street analysts to real estate pundits…from industry leaders to capital markets experts, the prevailing real estate advice in these challenging times is "to move to quality properties." "Buy quality assets in quality locations" is the mantra heard from Board Rooms to Investment Committees and from deal makers to developers. Lenders have joined the bandwagon by requiring very conservative underwriting policies for projects that fall outside the perceived "quality bandwidth." Consequently the alive-and-well herd mentality within the real estate industry has received the message and implemented strategies to find "quality assets."

There are two fundamental problems with that focus and those priorities. First, there is no universal definition of what "quality" means…it's a very subjective term. Bring 10 deal makers into a room and you'll get 10, or more likely 15 – 20, different interpretations of what constitutes a "quality" asset. Second, and perhaps the bigger problem, is that once again many in the real estate industry place an inanimate object—a building—ahead of the core asset of every organization, and that is its talent and business practices!

CEL & Associates, Inc. believes that a flight to quality must focus on the cornerstones of success…people, process, leadership, relationships and core values. Physical assets—buildings—are acquired, developed, designed, financed, leased and managed by people; supported by process; and able to generate value as a result of human capital. Fulfilling the requirements of physical assets (e.g. leasing, property management, finance, etc.) requires scalable processes and integrated business practices. Making decisions on what and/or when to do something that involves a physical asset requires leaders and leadership. There isn't one aspect of a building that does not have a people component attached. Thus, success or failure, beating budget or making budget, or exceeding or meeting expected returns are reflections on the quality of the talent hired and the infrastructure/platform in place to enable them to "do their job." Winners have quality talent not quality buildings!

However, a flight to quality "people assets" cannot be accomplished by declaration, policies or osmosis. A flight to talent quality requires eight sequential and interdependent steps.

First: Every flight to talent quality requires a vision and a long-range plan on what the enterprise is seeking to become. Recruitment, rewards and retention of talent mandates a clear and embraced statement of what the organization seeks to accomplish or achieve. No organization can achieve and sustain its growth and prosperity without a clear vision. Perhaps the best questions to ask the leaders within your organization are: What is your company's purpose? What is your company's relevance? What are your company's metrics of success? Do you want the company to go on beyond the current group of senior stakeholders? What will be your legacy in how you want to be remembered? A vision sets a clear course…and if you don't know where you are going, all roads lead there.

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CEL & Associates, Inc.

Major Challenges Facing Real Estate CEOs

- Finding, hiring and retaining talent.
- Finding and acquiring deals "that work."
- Accessing capital (equity and debt).
- Achieving growth targets.
- Growing/expanding into new markets.
- Managing costs and corporate G & A.
- Maintaining corporate culture.
- Leadership and staff development.
- Achieving targeted return goals.

Source: CEL & Associates, Inc.

Second: Every flight to quality begins with an organizationally-embraced set of key values or principles. It is not acceptable to have a "desk set" of key values if they are not an active part of your company's DNA. In addition to the traditional values such as integrity, trust, professionalism, quality, service and honesty, real estate firms are increasingly adding values statements around customers, talent, community, quality of life and the future. Remember, an organization's values are often, if not always, measured by the ability to "live out" and not merely state its values. What are your company's values, and are they a part of rather than apart from your daily business practices?

Third: Every flight to quality mandates a clear and concise set of standards. The hallmarks of external services are based upon a foundation of performance standards that govern every business practice. From communications to employee reviews, from client interaction to tenant relationships, from budgets to Investment Committee presentations, a set of internal and external standards or behavioral expectations is required. If you don't know what you stand for, how can you realize your full potential?

Feature Continued:

Fourth: Every flight to quality needs valued, recurring customer relationships. How an organization treats, interacts with and honors its customers reflects on its leadership, core values and performance. Customers, like talent, are not easy to: identify; secure; and build a sustainable relationship. There is no way one can have a relationship with a building…one can have a relationship with a customer. From 360° client profiles to client events, how you are valued by your customers is reflected in your results.

Fifth: Every flight to quality must have scalable business practices that are efficient, effective and that achieve a competitive advantage. Real estate firms have discovered that past success is not a precursor of today's performance or tomorrow's outcome. Deploying the new organizational, staffing and operational models can mean the difference between winning and losing. Business practices rooted in the past can inhibit growth in the future. Every flight to quality must have the internal infrastructure and systems necessary to compete in today's and tomorrow's challenging world.

Sixth: Every flight to quality mandates a robust, constantly improving and user-friendly technology system. Receiving accurate, timely and thorough information can often mean the difference between success and failure. Technology, if deployed correctly, can improve overall productivity, enhance service and product quality, eliminate mistakes and empower the entire workforce.

Seventh: Every flight to quality requires a Scorecard of Performance. From Tenant Satisfaction to G & A ratios… from revenue growth to profitability… and from productivity to expense ratios, every real estate organization concerned about quality "keeps score." Establishing performance benchmarks, fully integrating dashboards throughout the organization, and regularly sharing results will enable the entire company to improve the bottom line results and take one or two steps ahead of one's competitors.

Eighth: Every flight to quality requires an empowered workforce and visionary leaders who guide, coach, cajole, push, direct and drive the organization toward the desired goals. Leaders in today's very challenging world don't manage…they lead! Leadership is the talent gained from the power or relationship and the ability to get others to realize and exceed their abilities. When focusing on a flight to quality, hiring, training, mentoring and measuring leadership and leaders are invaluable components of achieving overall organizational success.

A flight to quality is not, and should it ever be, about buildings. Success begins and ends with a flight to quality talent and business practices.

So the next time you hear someone say "there is a flight to quality," you should remember that it is NOT about physical assets…it is all about human assets and their pride of being a part of the organization.

2008 – CEO Priorities

Rank	Top CEO Priorities
1	Retention Of Talent
2	Recruitment Of Talent
3	Business Development
4	Managing Client Relationships
5	Creating A Differentiating Story
6	Increasing Broker Production
7	Improving Leadership/Communications
8	Getting Brokers To Collaborate
9	Controlling Operating Costs
10	Getting Brokers To Share Information
11	Integrating Technology
12	Working Within Corporate Structure
13	Managing Prima Donnas

Source: CEL & Associates, Inc. and Participating Firms.

AS WE SEE IT:

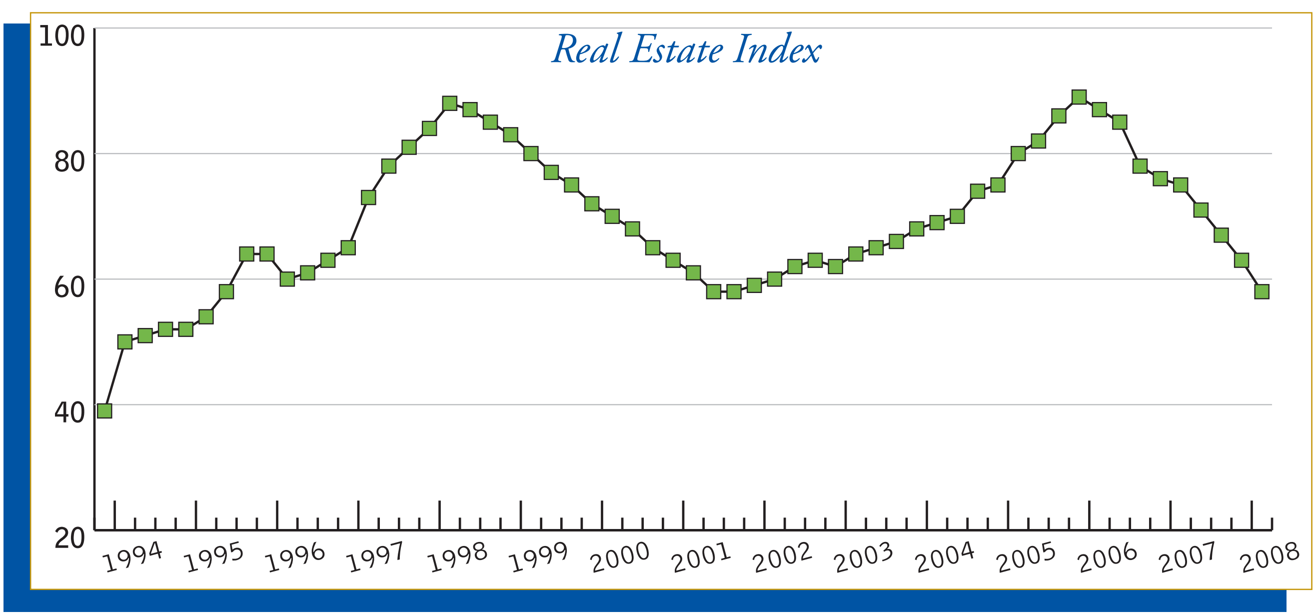
Challenges Continue to Mount

CEL & Associates, Inc. developed, in 1994, the National Real Estate Industry Performance Index to reflect the current conditions and trending data on a quarterly basis. Illustrated by a 100-point scale, the CEL & Associates, Inc. Index is based on the premise that, at any point in time, a snapshot of the real estate industry can be taken. The CEL Real Estate Index is based on extensive interviews and feedback received from industry leaders, review of published reports and documents, analysis of regulatory, governmental, capital, property, market and financial trends. A review of proprietary databases and an examination of confidential reports have also been included in the determination of the CEL Index. Accordingly, the scale continues to decline from 63 in the 1Q to 58 in the 2Q of 2008 as the real estate industry painfully experiences: a credit crisis; further scarcity of deals that make sense…and those which do, take much longer to consummate; continued malaise in the housing sector; a rapidly declining GDP; rapid rise in the price of crude oil, gasoline and food products; the real risk of stagflation; declining consumer confidence; a slowdown in the world economy; a likely rise in interest rates by the 4Q; rising costs of construction, insurance and a protracted entitlement process; and a dramatic increase in the requirements for building owners and developers to "go Green." The following points highlight why the second half of 2008 will look a lot like the first half…reinforcing the growing challenges and risks in this year of turmoil and transition.

• Overall GDP, a result of the sudden and rapid rise in energy costs, is now expected to grow only 1.0%, while inflation continues to hover near 5.0%. While the overall unemployment rate remains low (5.7%), net job growth will likely be only 10,000. The unemployment rate for college graduates remains very low at 2.4%, a level likely to remain throughout the remainder of 2008 and through 2009; and overall wages are expected to rise between 3.5% – 4.3%, placing additional pressure on companies to increase productivity and reduce operating expenses. Retail sales growth continues to slow (around 2.0%) as consumers struggle with $900 billion in credit card debt, and $13.8 trillion in overall household debt. Most retailers are forecasting a very slow and reduced level of year-end holiday spending.

• The real estate industry is feeling the effects of a dramatically reduced level of CMBS market. CEL & Associates, Inc.'s forecast of 50% – 60% decline in loan originations in 2008 may be slightly understated as current data suggests a 55% – 65% drop. In 2007 CMBS income totaled $233.7 billion…an all-time high. There was a 96% decline in CMBS conduit loans in the 1Q of 08 compared to one year ago. Wall Street continues to be the fulcrum of the debt markets and there is an increasing level of discussion about what role Investment Banks should or could have with Commercial Banks. CEL & Associates, Inc. expects this credit crisis, brought about primarily as a result of the subprime meltdown, will likely result in up to 200 banks becoming prime acquisition candidates before their need to declare bankruptcy.

• The number of U.S. workers paying more *Continued, p.4*



Source: CEL & Associates, Inc.

than 50% of their income for rental housing has more than doubled since 1997 (both multifamily and single-family). Affordable housing is likely to get a financial boost in 2009 as the new Administration and Congress come under increasing pressure to reduce the financial burden of "working families."

• Despite a wave of refinancing (63% of all loans funded) in the 1Q of 2008, residential lenders funded only $525 billion of loans…a 30% decline from one year ago, and based on the current level of loan originations, 2008 is likely to be the worst year since 2001 when just over $2 trillion of mortgage loans were written. Interestingly, 78% of all loans in the 1Q of 08 were fixed-rate loans versus a year ago when 62% of all loans were FRMs. Subprime loan originations are down 95% from the 1Q of 2007. CEL & Associates, Inc. expects Congress to authorize FHA to refinance 400,000 – 500,000 "at-risk" borrowers.

• Direct exposure to subprime loans is higher in Europe than in the U.S., according to a recent survey by the Atradius Group.

• Commercial and multifamily loan originations declined 53% in the 1Q of 08 on a year-over-year basis. When compared to the 1Q of 07, according to the Mortgage Brokers Association, there was a 75% decline in loans for office properties; 60% decline in loans for hotel properties; 53% decline in loans for retail properties; 37% decline in loans for industrial properties; 27% decline in loans for multifamily properties; and 15% decline in loans for healthcare properties.

• In the 1Q of 08, 8.82% of home loans were more than 30 days past due, up 151 bsp on a seasonally adjusted basis from one year earlier. The percent of loans in foreclosure has increased to 2.4%, up 119 bsp from one year earlier. While subprime ARMs account for only 6% of loans outstanding, according to the Mortgage Brokers Association, they account for 39% of all foreclosures. According to the U.S. Census Bureau, there are approximately 2.25 million "completely vacant" unsold homes in the U.S., compared with 1.25 million in a normal year. There are nearly 8.5 million homeowners owing more than their home is worth. According to the S&P/Case-Shiller home price index, 19 of the nation's 20 major housing markets had value declines in the 1Q of 08. CEL & Associates, Inc. expects home values to decline 20% – 25% before values stabilize…which means another 5% – 7% decline in the second half of 2008. Interestingly the FBI saw a 47% increase in mortgage fraud investigations over the past 12 months.

• Further consolidation is likely within the full-service brokerage firms over the next 24 months. Recently acquisition activity has included Staubach Company by Jones Lang LaSalle for $613 million; CBRE spent nearly $458 million to acquire 50 U.S. and international property firms over the past three years; Cushman & Wakefield's acquisition of San Diego-based Burnham Real Estate; Grubb & Ellis/NNN Realty Advisors merger; NAI Global; Colliers International; and Sperry Van Ness, among others. These companies are aggressively seeking to grow, diversify and expand their market and client coverage through strategic mergers and acquisitions. CEL & Associates, Inc. expects further consolidation through 2010 as "exiting Founder(s)" continue to monetize their enterprise value.

• In 2008 it is estimated that over 133,000 new hotel guest rooms will be added to the U.S. marketplace…up from slightly over 100,000 in 2007. There are currently over 166,000 new rooms in the development pipeline for 2009.

• The volume of TIC offerings (down 20% – 25% in the 4Q of 07, following a 22% drop in the 3Q), has declined nearly 50%, a trend CEL & Associates, Inc. expects to continue through 2010. Total TIC equity in 2007 was slightly over $3.0 billion. The one bright spot for the TIC industry is the National Association of Realtors request to the SEC for an exemption that would allow licensed real estate brokers to advise clients on the purchase of TIC properties…and receive a "consulting fee" for doing so.

• Consumer bankruptcy filings rose 34% in 2007.

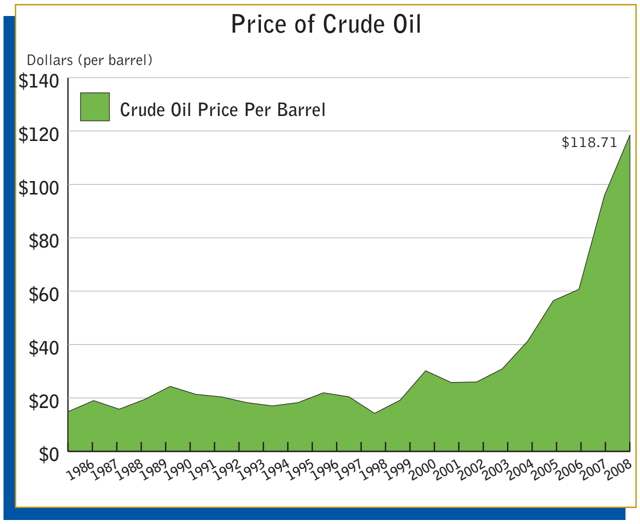
Real Estate Service Company Performance Forecast

	Percent Change Over Prior Year		
Category	**2008**	**2009**	**2010**
Leasing	-9.0% to -17.0%	-7.0% to -11.0%	+6.0% to +9.0%
Investment Sales	-17.0% to -25.0%	-6.0% to -12.0%	+5.0% to +8.0%
Property Management	+7.0% to +10.0%	+9.0% to +12.0%	+6.0% to +9.0%
NOI	-10.0% to -14.0%	-8.0% to -11.0%	+7.0% to +10.0%

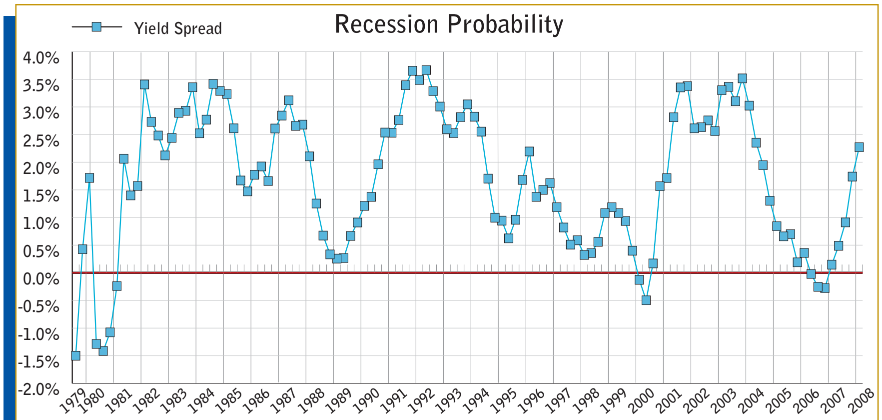
• According to Real Capital Analytics, in 2007 foreign buyers purchased $3.8 billion in apartments; $12.6 billion in retail properties; $19.1 billion in office buildings; and $2.0 billion in industrial assets. However, this trend is weakening in 2008 and will likely not reverse until 2010.

• Sales of medical office buildings nationally totaled nearly $5 billion, up 11.7% over 2006. Cap rates have risen 20bsp to 60bsp nationwide (the average is now 7.2%). MOBs can generate above-average rents. It is important to remember that in 2006, the nation's healthcare bill was $2 trillion; 3 out of 10 jobs created between 2007 and 2015 will be in *Continued, p.14*

KEY INDICATORS: *Economic Snapshot*



Cushing, OK WTI Spot Price FOB (Dollars per Barrel) as of 08/05/08
Source: Energy Information Administration



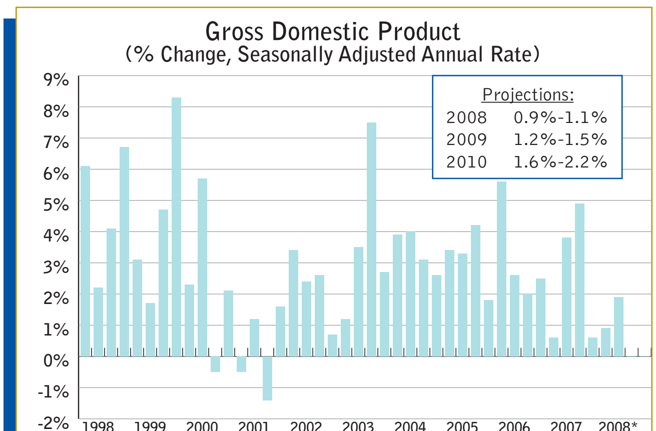
Recession Probability*	Percent Spread	Recession Probability*	Percent Spread
5%	1.21	40%	-0.50
10%	0.76	50%	-0.82
15%	0.46	60%	-1.13
20%	0.22	70%	-1.46
25%	0.02	80%	-1.85
30%	-0.17	90%	-2.40

*Estimates the probability of recession four quarters in the future as a function of the current value of the yield curve spread between the ten-year Treasury note and the three-month Treasury bill.

As of 2Q 2008.

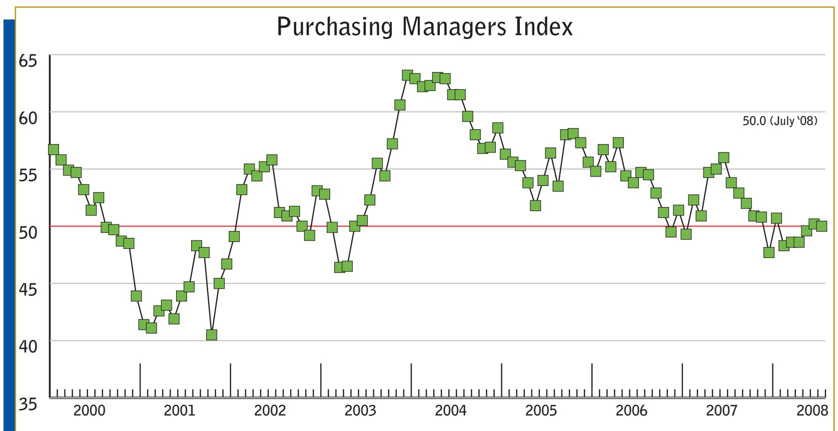
Current Spread: 2.27%

Source: New York Federal Reserve Bank

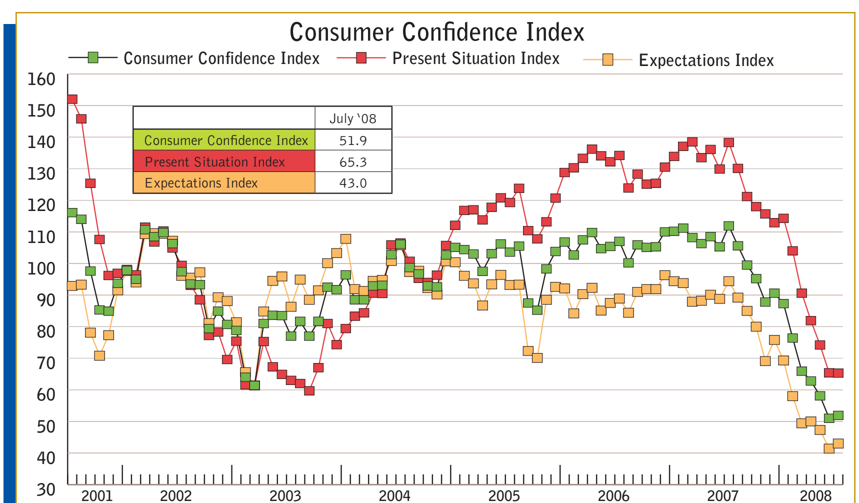


Year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Overall	4.2%	4.5%	3.7%	0.8%	1.6%	2.5%	3.6%	3.1%	2.9%	2.2%	

*2Q 2008
Source: Bureau of Economic Analysis

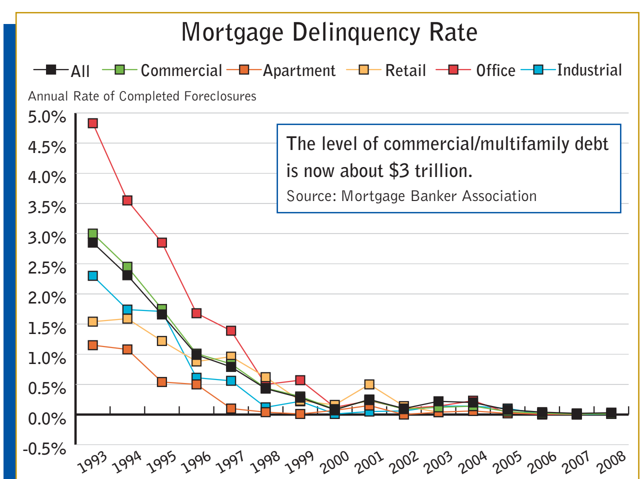


* Over 50=Growing Economy. Under 50=Declining Economy.
Source: Institute for Supply Management



	July '08
Consumer Confidence Index	51.9
Present Situation Index	65.3
Expectations Index	43.0

Source: The Conference Board



Source: American Council of Life Insurers

OPINION

Environmentalism: An Essay Of Common Sense

The real estate industry and environmentalists have had a love-hate relationship since the 1970s. Each views their position as improving the human condition yet each take very different paths to reach/achieve the same ends.

While developers and environmentalists are members of the same society, each views the world from two very different points in time—one of opportunity and one of despair. While both acknowledge the world as they know it has limits, they journey in different directions in how they intend to cope with their differing reality. Thus, the conflicts created are short- rather than long-term…the difference between today and tomorrow, the known and the unknown and between current and future benefit. Each party to this conflict views the other as a villain and themselves as the hero in a never-ending play that should be entitled "Never Together…Always Apart."

From scare tactics to slogans to emotional images, environmentalists have focused on the policies of limits, pending catastrophes and the end of the earth as we know it. Identify a problem and passionate environmentalists will point to progress as the primary culprit. Real estate developers, on the other hand, have viewed the environment as a quantitative resource that enhances value and a part of, not apart from, the final result. Post World War II affluence created a demand for environmentally-based assets (i.e. homes, shopping centers, resorts and workplace environments). Land was viewed by developers as a pre-condition for, not a limitation of, growth. Environmentalists viewed development in this era of prosperity as the antithesis of a quality lifestyle. However, like two speeding trains on the same track heading toward each other, the real estate industry and the environmentalists played a continuous game of "chicken"…neither willing to compromise or "give an inch." The result is the polarized condition in which we find ourselves today.

In the eyes of many, this "insurmountable problem" can be easily resolved with a renewed focus on solutions and stewardship…not conflicts and clashes. The one essential unifying foundation for bringing these two groups together is a shared belief in natural capital. The world is finite and it should be the common cause of all to embrace a new environmental ethic that balances reality with a consensual, social contract with nature. The first step in this renewed stewardship of our national resources is to stop the endless clash of good intentions. There is no moral superiority, there should be no stereotypes and there should be no losers…only collective winners. Neither developers nor environmentalists have a monopoly on what is "right." Rhetoric must give way to relationships based on mutually-shared goals and an appreciation for leaving the land and society better off as a result of joint, not separate, actions.

A second and much-needed step is to combine forces that can create solutions. Population is growing and/or relocating, new jobs are being created requiring additional commercial space needs, many non-historical buildings are no longer efficient and must be replaced and new technologies often require new facilities. Thus stopping economic growth is not an option…creating incentives for sustainable solutions is.

Third, the use of labels, rumors, partial truths and conflicting data must stop. Solutions are derived by collaboration not combat. Both the real estate industry and environmentalists should combine forces to create and unleash a new economic reality that accommodates growth in an environmentally sensitive manner. Economic development with pari passu value given to the environment will harness the resources necessary to become better stewards of the world in which we live.

Fourth, there are no villains, losers or culprits…only heroes, winners and collaborators. The real estate industry and environmentalists need fewer, not more, regulations…they need more, not fewer, incentives…they need values-based, not emotional-based, leadership. Environmental solutions will be crafted by inspiration not mandates. What is needed today is not to dwell on what is broken, but to accelerate pragmatic solutions on how to make things better. Yesterday's clichés and images must be replaced by a vision of possibilities. Addressing the significant challenges today requires optimism not despair; hope not calamity; preparedness not reactive behaviors; and adaptation not acceptance of pending doom. We need less not more self-interest-based advocacy groups.

The real estate industry and environmentalists have a great deal of common ground. Unfortunately perceptions and misconceptions have driven a wedge between both groups. It is time to shed the fringe antagonists and seek common solutions for our common environmental challenges. It is time for a little common sense. ●

Apartment of the Future

You have just signed your state-approved, standard apartment lease online after taking a virtual tour, reviewing the published rating data from an independent consumer group and blogging with current community residents…your new neighbors. You were able to set up and print out your biometric access card before arriving at your new home. Arriving in your car, a sensor scans your parking and entrance access chip on your car's window to open the gates and welcome you to your new home. The lapel chip you received from the Welcome Office activates access to the elevator and notifies the on-site team of your arrival (this notification system was put in after the last natural disaster). Walking in your new unit, you are pleased to see that all the paint colors, amenities, appliances and features you ordered online have been added. The first thing you do is activate the smart walls which are linked to emergency centers, security, your doctor(s) and the hospital; they are capable of sensing any sudden medical emergency. Your sync your "Twin" (an electronic companion you have had since birth that "remembers" everything in your life). Next you slip your custom "My Home" disk into the room monitor and all your favorite songs, television/cable shows, internet links are set up for the flat screen monitors throughout the unit. You are pleased to see that your digital artwork is now in all the picture frames... the multimedia room has been activated. The sensor-operated faucets and touch-screen appliances are working, all approved "green" materials were used, and the special automated window shades now operate between two panes of glass. Perhaps the most exciting feature is your "assigned robot"…a featured amenity in this apartment complex and "free" with your lease...and you can't wait to activate your new copier that will reproduce objects not merely paper copies. Opening your organic gift basket stock full of environmentally-friendly products and gift card with "links" to popular Websites, you sit back, sigh and think…"Life is pretty good."

The apartment industry is estimated to be a $155 billion industry, employing over 1.1 million onsite personnel who oversee 35.2 million units throughout the U.S.

Office of the Future

Before leaving your home, or as you get into your totally automated, friction-free, silent engine Smart Car (you are still saving for your own "flying" car) or board one of many readily available mass transit ground or air options and head to work, you push a button on your wrist PDA or computer that "activates" your trip to work. As you prepare to exit your transportation mode, a GIS (geographic information system) device "picks you up" and begins to activate, in sequential order, your workplace environment. Your purchased electronic transportation shoes and your newly-issued "Tenant Chip" assure you that security is monitored, elevators are instructed to access your floor and your presence in the building sets off a series of events customized by the Tenant Chip. The elevator's electronic signage greets you, and your individual media profile (news, music, etc.) is activated, but only you can hear and see it on a Bluetooth-type device attached discreetly over your ear. As you exit the elevator, your Tenant Chip boots up your computer, activates your biometrically controlled main door entry, turns on your solar-powered lighting, activates the digital art work and pictures you selected to adorn your work space and "makes ready" your morning beverage of choice. As you are greeted by a holographic receptionist or robotic facsimile, your connection to the "outside" is transferred to the "inside," much like the air traffic control system today. You arrive at your office to find your emails have been prioritized and your wireless telecommunications connectivity has been activated, your perfect cup of coffee is waiting and your first Webcast and video-conferencing meeting of the day is about to begin. Your "assigned" personal assistant robot is at your side, ready to provide or assemble whatever you need by mere voice commands. The one big change you no longer notice…there are no days, dates or times…everything has become virtual and "for the moment." Today's newscast announced the first virtual, non-land-based country to gain U.N. membership, and Microsoft just announced the first "smart dust particle" application (embedded in building materials) to track your every move, predict the weather and activate building sensors. Oh… if we could only bring back the 1990s!

Emerging Opportunities: *Growth Sectors*

Growing Industry Sectors

- Software Development
- Waste Management
- Healthcare
- Emerging Technologies
- Life Sciences/Biotech
- Colleges/Universities
- Technology
- Aging Population/Retirees
- Government
- Gaming
- Defense/Security
- Science
- Communications
- Nonprofits
- Trade/Logistics
- Distressed Debt
- Data Centers
- Pharmaceutical
- Leisure/Food Service
- F.I.R.E.
- Research & Development
- Entertainment
- Green Industries
- Energy

Hot Multifamily Markets

- **Seattle** (rapid service sector employment growth)
- **San Francisco Bay Area** (supply/demand imbalance)
- **Southern California Coast** (6 of the top 10 most expensive places to live)
- **Washington, D.C./Northern Virginia** (rarely a downturn)
- **Phoenix** (Baby Boomer migration spurs sustainable growth)
- **Raleigh/Durham** (high barrier to entry market)
- **New York City** (can you think of a more expensive place to live)
- **Dallas/Fort Worth** (125,000 new residents in 2008)
- **Houston** (energy, energy, energy...)
- **Tacoma** (great lifestyle city)
- **Denver** (one of the highest non-coastal housing markets in U.S.)
- **Nashville** (a blend of country, corporate and capital city lifestyles)
- **Panama City** (could be the next major port city)
- **Philadelphia** (3.3% vacancy level can't be all bad)
- **Portland** (voted one of the "Best Places to Live")
- **Austin** (young people + capital city = vibrant multifamily market)

US Growth Markets

- **Centers of Knowledge** (San Francisco Bay Area, Boston, New York City, Austin, Seattle)
- **Ports** (Long Beach, New York, Seattle, Oakland, Charleston, Norfolk, Savannah, Miami and Houston)
- **Lifestyle Cities** (Phoenix, Tampa, South Florida, Portland, San Diego, Minneapolis)
- **Gateway and Hub Cities** (Dallas/Ft. Worth, Atlanta, Miami, Los Angeles/ Orange Counties, Charlotte, Chicago)
- **Capital Cities** (Nashville, Austin, Washington, D.C./Northern Virginia)
- **Energy States** (Texas, Colorado, Alaska, Central Plains States)
- **Coastal Cities** (52% Of U.S. Population)
- **Theme Cities** (Las Vegas, Orlando, Nashville)
- **Corridors** (Atlanta→Raleigh, Kansas City→Dallas→San Antonio, Boston→ No. Virginia, Sacramento→San Jose, Los Angeles→Riverside/San Bernardino→Las Vegas among others)

Growing Services Sectors

- Asset/Portfolio Optimization
- Strategic Facilities Planning
- Supply Chain Management
- Occupancy/Workforce Strategies
- Structured Finance
- Strategic Consulting
- Proprietary Research & Analysis
- Green Conversions/Energy Conservation
- Project & Cost Management
- Corporate Real Estate Services

What Residents Want

- Anything "Green"
- State-of-the art Business Centers
- Keyless entry cards (biometric technologies)
- Front-loading washers and dryers
- Art integrated in common areas
- Upscale golf carts for touring
- Real flowers in Welcome Center
- Curved shower rods
- Plantation shutters
- Poolside/Clubhouse WiFi
- 24-hour follow-up guarantee
- Sensory Clubhouse branding...music selected to match your demographic

Hot Multifamily Products

- **"Class A Light"** (all the amenities at a moderate price)
- **"WiFi-Ready"** (becoming the norm at lower cost)
- **"Resident Portals"** (from electronic payments to communications)
- **"Home-Style Amenities"** (state-of-the-art and "full-size" kitchens and amenities)
- **"Children's Play Area"** (more prevalent in Middle Market communities)
- **"The iPad"** (400 square feet workforce housing for young workers)
- **"Mixed-Use Suburbs"** (30- to 60-minute commutes are not for Gen Ys)
- **"Amenities of Place"** (combines renter lifestyle with commoditized product)
- **"Walk-Able Village"** (an option for aging Boomers and hip Gen Ys)
- **"Inhabit" Units** (Unico's prefab apartment for young urban professionals)
- **Anything sustainable!**

Can't Miss Growth Areas

Anything Around:

- Colleges/Universities
- Transportation Hubs
- Ports/Coastal Cities
- Biotechnology Enterprises
- Government Centers
- Entertainment/Lifestyle Locations
- Digital/High Tech Enterprises
- Medical/Healthcare
- Large/Midsize Airports

Anything Involving:

- Mixed-Use/Podium Projects
- Corporate Campuses
- High Security Business Parks
- Self-Storage
- Day-Time Retail
- Development/Transactional Complexity
- Ethnic Retail Centers (Hispanic)
- Urban/Suburban Redevelopment
- Infrastructure Improvements

Store of the Future

Just imagine…you enter your favorite retail store, and upon doing so, you grab a smart cart or an iShopper PDA to act as your Personal Shopper. You walk through a sensory-filled store with sights, sounds and smells customized to fit your particular likes and needs. Your iShopper tells you what is on sale, what styles and colors best meet your "profile," and the touch screen displays give you all the "rating" and "green" score information you need to make a decision. At the end of each aisle are three-dimensional body scanning devices that enable you to "try on" various brands and styles to determine which can custom-fit your body or automatic links to "determine how the product fits and/or looks" in your home. With a push of a button on your iShopper, a holographic Personal Shopper appears to answer any questions you might have; the dressing room mirror is a high-resolution digital screen providing three-dimensional views of the item you try on and "suggesting" or "enabling" you to add accessories, change color, pattern or style. You can see the "Carbon Footprint Rating" and read about the environmental makeup of your item(s).

When you complete your selection(s), a biometric fingerprint device scans your finger, links it to your credit card or bank account and records the purchase. As you prepare to leave, your iShopper recommends other "points of interest" in the mall and/or immediate area for additional shopping, dining or entertainment experiences. Forget something? Merely dial-in using your mobile phone, bring up the Website or desired item(s), point, click and purchase. Your order will be delivered to you in the mall or at home. When you get home, you can scan each new item into your computer, which does a "closet" search to remind you of coordinating, seasonal or out-of-date apparel items; additionally it gives you ideas, tips and recommendations on "what's hot" and, more important, how you might look in the purchased item and add the new item to your "household inventory" for insurance purposes. Since you opted for the "Manufacturer's Survey" to get a price discount, your purchase has an embedded chip to track how frequently you use the product (which electronically transmits that information to the manufacturer). As you sit down at your favorite cyber cafe and pause to admire your purchases, your watch (a full-service PDA) beeps and flashes some hints on additional product upgrades for new purchases… I guess some things never change!

WORTH READING

CEL & Associates, Inc. is pleased to recommend the following books for their relevance, timeliness and/or application within the real estate industry.

- *The New Age of Innovation: Driving Co-Created Value Through Global Networks*, by C. K. Prahalad, et al., McGraw-Hill, 2008.
- *The Carrot Principle: How the Best Managers Use Recognition to Engage Their Employees, Retain Talent, and Drive Performance*, by Adrian Gostick, et al., Free Press, 2007.
- *The Milkshake Moment: Overcoming Stupid Systems, Pointless Policies and Muddled Management to Realize Real Growth*, by Steven S. Little, Wiley, 2008.
- *Toy Box Leadership: Leadership Lessons from the Toys You Loved as a Child*, by Ron Hunter, et al., Thomas Nelson (Publisher), 2008.
- *Tuned In: Uncover the Extraordinary Opportunities That Lead to Business Breakthroughs*, by Craig Stull, et al., Wiley, 2008.
- *The Game-Changer: How You Can Drive Revenue and Profit Growth with Innovation*, by A. G. Lafley, et al., Crown Business, 2008.
- *Wikinomics: How Mass Collaboration Changes Everything*, by Don Tapscott, et al., Portfolio Hardcover, 2008.
- *Rivals: How the Paper Struggle Between China, India and Japan Will Shape Our Next Decade*, by Bill Emmott, Harcourt, 2008.
- *Innovation to the Core: A Blueprint for Transforming the Way Your Company Innovates*, by Peter Skarzynski, et al., Harvard Business School Press, 2008.
- *Harvard Business Review on Talent Management*, Various Authors, Harvard Business School Press, 2008.
- *Outsmart! How to Do What Your Competitors Can't*, by Jim Champy, FT Press, 2008.
- *How You Do…What You Do: Create Service Excellence That Wins Clients For Life*, by Bob Livingston, McGraw-Hill, 2008.

Source: CEL & Associates, Inc.

Industrial Gaining Strength in 2010

The outlook for the industrial real estate sector, which includes warehouse, manufacturing, flex and distribution facilities, will gain strength in future years.

The macroeconomic demand drivers for industrial space – including production and capacity utilization – remain stable, while expanding global trade will drive greater demand throughout the growing international supply chain.

The rising cost of fuel – which represents approximately 70 percent of total supply chain costs – appears to be a positive factor for industrial assets. It is prompting corporations to shorten the distance between their production facilities and their customers. Shorter supply chains will likely result in more build-to-suit opportunities; smaller, more dispersed facilities; and improved logistics management.

While the Institute for Supply Management (ISM) Index reflects a slowdown in the demand for various goods, industrial capacity is expected to remain steady, at 81 percent, through 2009.

There are five indicators that highlight why the industrial sector will likely be a solid performer through 2009.

- Global trade is expected to grow approximately 5.5 percent annually, which is 325 to 450 basis points higher than the expected Gross Domestic Product (GDP) growth rate.

- Air cargo is expected to grow 5.6 percent annually through 2011, and 6.1 percent over the next decade.

- Port volumes (measured in TEU volumes, or cargo capacity based on the volume of a shipping container) are expected to increase approximately 7.2 percent annually through 2011.

- Increasing investments to secure the primary points-of-entry for goods manufactured internationally will result in upgraded or value-added opportunities among warehouse and distribution facilities.

- A $5 billion widening of the Panama Canal will likely bring more imports directly to the East Coast, beginning in 2014.

It is important to note that in 2007, according to Real Capital Analytics, approximately $48.3 billion in flex/warehouse space was sold. Investor interest in industrial/warehouse properties will remain high due to their above-average performance. The real estate investment trust (REIT) funds from operation (FFO) growth rate of 9.4 percent for industrial properties is expected to outpace the overall REIT growth rate of 6.0 percent.

Did You Know?

According to Real Capital Analytics, over $48 billion in flex/warehouse properties were sold in 2007.

As exports continue to increase, with double-digit growth year-over-year as a result of the falling U.S. dollar, the overall U.S. trade volume, while down (9 percent) in 2007, is expected to gain strength in future years. Net absorption of industrial space is expected to average 90 million square feet to 118 million square feet annually over the next five years. Vacancy levels nationally are expected to hover slightly below 10 percent…lower in prime markets.

The long-term outlook between 2010 and 2015 for industrial remains strong. Key opportunities and trends in our long-term forecast include the following:

- Global trade is expected to accelerate as resource-reliant countries continue to import needed goods and commodities.

- An expected continuation of high energy and fuel prices will increase build-to-suit opportunities along traditional distribution channels, in and around airports, seaports and major highway arteries.

- The real-time delivery of goods is likely to increase the need for state-of-the-art warehouse and distribution facilities.

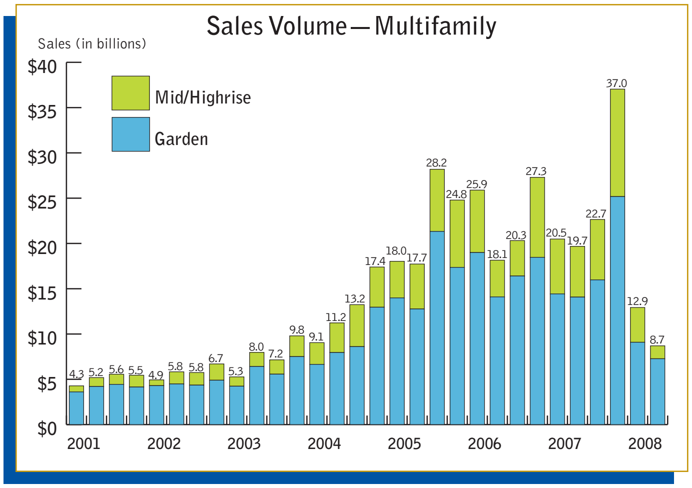
- Robotics will become more prevalent in the coming years as companies seek to maximize all available space.

- An expected increase in the "greening" of industrial space is also likely over the next decade, thus creating hundreds of millions of square feet of retrofit or conversion opportunities.

Over the next decade, bringing goods to markets in the most efficient and effective manner will highlight the valuable role and impact of industrial space. The linkage between manufacturer, shipper, distributor and consumer is becoming a blended relationship. The best opportunities will be for those who effectively take advantage of these trends.

(This document was prepared using proprietary research and data from Bank of America, Real Capital Analytics and other industry sources.)

KEY INDICATORS: *Market Snapshot*



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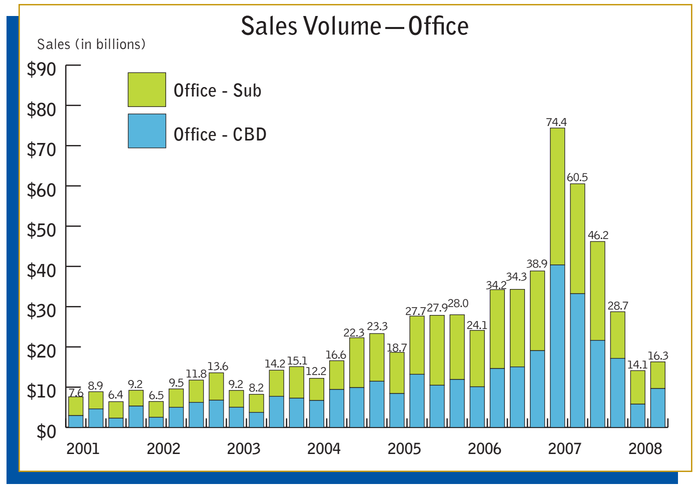

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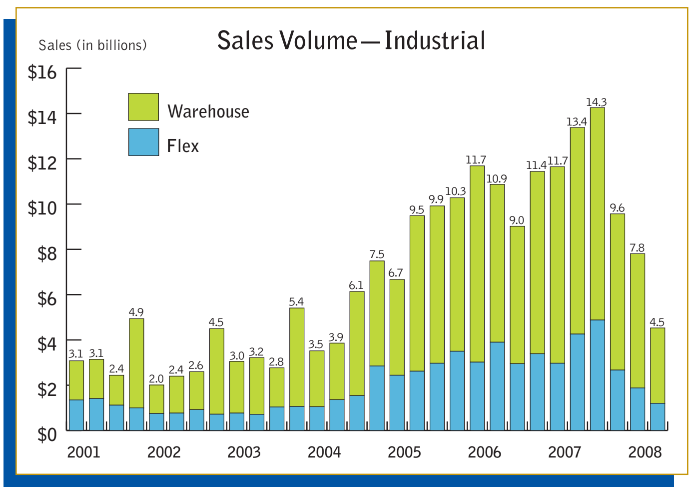

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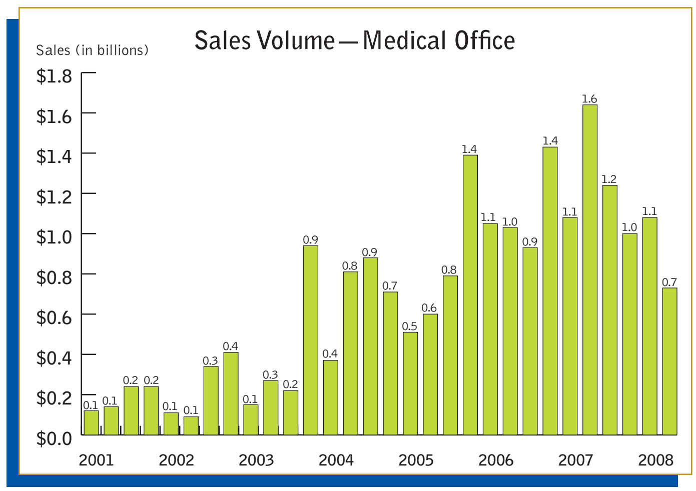

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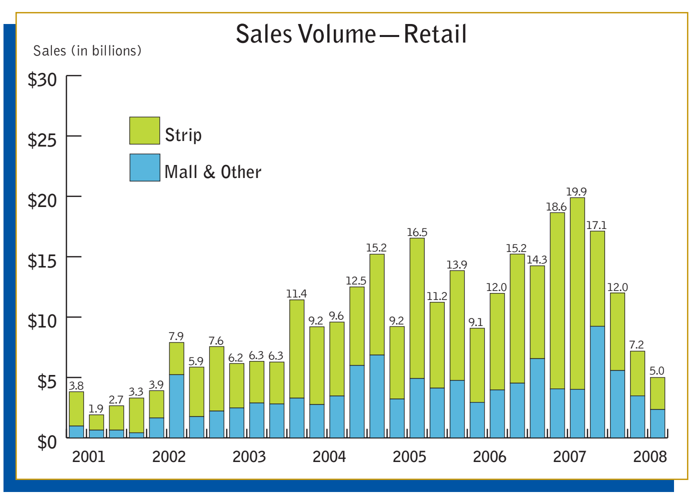

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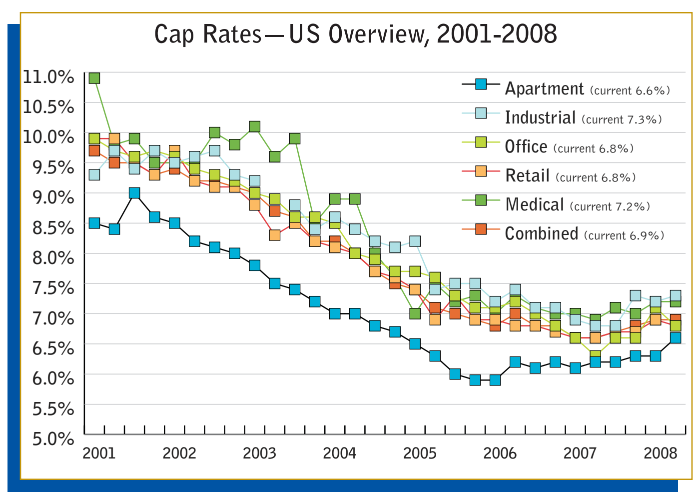

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COMPENSATION

Aligning Property Complexity With Incentive Compensation

No two multifamily properties are alike; any property manager can tell you that from experience. Yet, the differences in complexity among properties of the same size varies widely depending on occupancy, demographics, leasing challenges, re-positioning, capital program and expense control. Ironically, salary surveys, and company compensation policies often do not go beyond unit size in delineating compensation for property level professionals and Regional Managers. Many CEL Compensation Advisors, LLC clients have asked about how to better recognize the differences in property complexity, particularly those whose investment strategy is one of value added – buying lower graded assets and upgrading them through capital improvement and re-positioning.

The question of a better system to balance the challenges of asset complexity and convert them to incentive opportunity is really one of internal equity for property and regional management level personnel. Many companies raise this issue, and many make adjustments to compensation to recognize achievements in the face of more complex assets, but few have addressed it in a consistent or systematic manner. As a matter of compensation philosophy, companies generally take one of three approaches:

1. Property Managers move around and assets move in and out of Company portfolios, so it all balances out over time. Although this is surely one way to look at it…the reality is likely that this does not occur nearly as much as perceived and may not be fair regardless.

2. Such differences are accounted for by discretionary considerations in incentive compensation evaluation and award decisions. Again, the reality is that although these factors may be considered, the net result (impact) is often not fully recognized, and is not internally consistent or perhaps equitable.

3. Such differences are an important part of the distinctions among assets for property management professionals, and they should be accounted for explicitly in budgeting, planning, operations and in incentive compensation.

To address the third approach CEL has

Factors for Defining Challenging Multifamily Property Management Situations

Degree of Difficulty	*Management Challenge Categories* — Occupancy/Vacancy	Operating Economics	Demographic Re-Position	Capital Program
A	Under 15% Vacant	Relatively Stable Financial History and Expenses Mostly Under Control	Stable Market - Similar Target - Good Location	Normal Maintenance/ Investment
B	16% to 25% Vacant	Historic Inconsistent Operating Economics - Needs Stabilization	Reposition - with Average Challenge - Location is Marginal	Maintenance and Moderate New Capital Investment
C	Over 25% Vacant	Unknown or Poor Operating Economics - Significant Financial Challenge	Reposition - essentially an all new target Market - Location is Problematic	Significant Capital Improvement Program

Incentive Policy for Challenging Multifamily Property Management Situations

Management Challenge Categories	*Degree Of Difficulty Assessment* A	B	C	*Incentive Adjustment by Property Unit Range* Under 100	100-199	200-299	300-399	400-499	500+
Occupancy/ Vacancy	1.05	1.10	1.20	100%	105%	110%	115%	120%	125%
Operating Economics	1.10	1.15	1.20	100%	105%	110%	115%	120%	125%
Demographic Re-Positioning	1.20	1.25	1.30	100%	105%	110%	115%	120%	125%
Capital Program	1.10	1.15	1.20	100%	105%	110%	115%	120%	125%
Property "X" - 250 Units	**A**	**B**	**C**						
Occupancy/ Vacancy	1.05					110%			
Operating Economics		1.15				110%			
Demographic Re-Positioning		1.25				110%			
Capital Program			1.20			110%			
Total (Average)						**128%**			

created several incentive structures that call for a more explicit methodology for defining, communicating and with performance awarding incentive compensation. We offer one such model here, with the caveat that recognizing the breadth of differences in properties is extremely difficult, and the approach CEL has taken assumes that the senior operations executives in any multifamily real estate company have the ability to assess "degree of difficulty" in managing an asset. The example (below) can be adapted, sliced to re-fit, re-organized and fine-tuned for any particular company, or operating region.

The method applies a matrix approach to defining additional incentive using three (3) levels of difficulty "A, B, and C" and four (4) categories of property management "challenge" as a framework for assigning relative difficulty. The CEL example also stratifies by property size (units). Degree of difficulty is relative based on Company experience, and the application of degree of difficulty can be applied to any one, or more, or all of the four management challenge categories. Incentive factors for each degree of difficulty can be established for each situation, and the unit size can further adjust for project size. Factors across property size (units) do not have to be the same for each management challenge category (as shown). An example is shown (Page 12) where the property is assigned different degrees of difficulty in each challenge category. The net figure under the size category (at 250 units) is the average of the degree of difficulty factor times the unit factor.

Adjustment for management challenge in the example is clearly defined and the additional incentive opportunity factor can be applied to the Company's annual bonus evaluation calculations. For multifamily companies, regardless of their strategy for investment, adopting a model for asset complexity into their incentive plan will better align the interests of property manager and property complexity, offer higher motivation, accelerate performance, and achieve asset plan results with greater efficiency. In "value-add" multifamily situations, this would be an ideal way to distinguish asset situations and re-allocate resources for a stronger alignment of incentive. The challenges in 2008 and very likely in 2009 require new and innovative approaches to compensation. ●

For More Information

CEL Compensation Advisors, LLC would be pleased to discuss these concepts and methods, and can provide further information by contacting Jim Wright at (310) 571-3113 or via email jim@celassociates.com

Pay Raises in 2009

The lack of talent, persistent high turnover, rising healthcare costs, and uncertain economic times has not dampened likely pay raises for 2009. With inflation rising, real estate firms have typically increased salaries 100-300 bsp above the year-end overall rate of inflation. Preliminary surveys conducted by CEL Compensation Advisors, LLC indicated a likely range of 3.5% – 4.3% for 2009 pay increases, on par with inflation levels. What appears to be occurring as bonus realizations remain in the low 80% levels is that real estate companies are no longer "automatically" giving bonuses; and a stricter adherence to pre-established, weighted bonus criteria is now more commonplace. By moving to a pure pay-for-performance model real estate organizations are no longer "subjective" evaluators of performance. Further, CEL Compensation Advisors is observing some examples of pay rate freezes for those making over $100,000. In addition, long-term incentive plans are now being offered to many more in the organization as "locking up star performers at all levels" has become a priority for CEOs and organizations alike. Compensation is becoming a year-round process. ●

Severance Pay

According to a recent CEL & Associates, Inc. survey nearly 44% of real estate companies surveyed indicated a "likely" to "very likely" reduction in workforce over the next 12 months. While the difficult challenge is to determine who and when to let go of an employee not-for-cause, what remains very difficult is the amount to pay a to-be-released employee is often uncertain. Nearly 70% of real estate companies use "length of service" as the key determinant of the amount of severance pay. While the customary practice is to give one to two weeks of pay for each full year of service (some firms have a cap on the total amount to be paid), there is no law that requires an employer to pay severance. Unused/accrued vacation is paid but not unused sick days. Most real estate firms offer two weeks pay as the minimum amount of severance pay. All employees receiving severance pay must sign a "Release Of All Claims" before they receive their check. Terminated employees typically have approximately 21 days to sign the release and 7 days after signing to renege on the agreement (the actual number of days may vary by individual state). It is not uncommon to have different severance plans for different levels of individuals, but you should never have different plans for employees in the "same" labor group. Always use a labor attorney when determining and implementing your organization's severance policy. ●

healthcare; and by 2015 healthcare will be 20% of the U.S. GDP. This asset class is rapidly becoming the darling of Wall Street and investors.

• According to Private Equity Real Estate News, $65 billion was raised in 2007 for distressed real estate acquisitions (this was on top of $54 billion raised in 2006, and $34 billion raised in 2005). However, today the typical ask/bid spread is only 5% – 6%, and distressed deals are hard to find.

• Hotel profits within the hospitality sector were $26.9 billion in 2007, topping the record of $22.5 billion set in 2000, and nearly double the $12.8 billion in 2003, according to a recent study by PKF Hospitality Research. Smith Travel Research forecasts RevPar will rise 5.2% in 2008 (down from a 6.2% rise in 2007, and far below the 8.5% rise in 2005). Growth in ADRs is likely to slow to 5.0% in 2008 after rising 6.0% in 2007, and 7.2% in 2006. According to Smith Travel Research there were approximately 200,000 new rooms under construction in 2007, a 25% increase over 2006. It now takes 18.2 months to build a typical hotel versus 12.1 months in 2000; luxury hotels average 28.5 months to build. It appears that supply is exceeding demand and the recent downturn in occupancies attributed to rising fuel costs will weaken operating results in 2008 and 2009. Overall sales of hotels ($43.8 billion in 2007), could decline 35% – 40% in 2008 as investors seek quality assets. Overall hotel operating costs are expected to increase 4.0% or more in 2008 and 2009.

• While there were $68.7 billion in announced REIT mergers and acquisitions in 2007 (down 33% from $102.8 billion in 2006 according to SNL Financial), CEL & Associates, Inc. expects a 55% – 65% or more decline in such activity during 2008…primarily as a result of a lack of credit and rising borrowing costs.

• The May 2008 International Council of Shopping Centers (ICSC) annual conference in Las Vegas drew nearly 48,000 attendees. It appears from the feedback received that most retailers and retail real estate professions accept the fact that 2008 and 2009 will not be stellar years, therefore, plans for 2010 and 2011 is the focus of many. "Hunkering down" appears to be the theme. However, according to CoStar the retail market has added 450 new projects to date in 2008, bringing the total number of retail square feet to 6.8 billion in nearly 99,000 shopping centers. Lenders are asking for 80% pre-leasing on the anchor space and around 40% on the in-line space.

• Gross sales revenues from auctions of residential, commercial and industrial real estate properties grew 5.2% in 2007 to $32.6 billion. There are now approximately 22,000 U.S. auction companies.

• Overall net household wealth in the U.S. has declined $1.7 trillion in the 1Q of 2008. Total household wealth is now $55.97 trillion versus $57.67 trillion in the 1Q of 2007. ●

And Now For Some Good News . . .

With the softening economy, perhaps the only commodity in plentiful supply these days is bad news. Commercial real estate companies are implementing expense freezes and reductions along with layoffs and right-sizing, etc. But as headcount goes down, workload per employee goes up, and companies lose the flexibility required to win and perform business competently. Is this just one more piece of bad news? Not necessarily.

The silver lining for real estate companies is that if they find themselves shorthanded – especially when new business comes in the door – a growing pool of talented real estate professionals at all levels is now available to consult or fill positions on an "interim" or "temporary" basis.

• A Dallas-based real estate company with a portfolio valued around $3+ billion contracted with a 20-year asset/property management professional as a "temporary" employee over a six-month period to audit the operating expense reconciliations for 64 commercial assets. On average, each asset realized an additional $40,000 in recoveries.

Lack of readily available and experienced real estate talent doesn't have to mean lost business or missed opportunities. Real estate firms are able to access a growing source of talented real estate professionals via many mediums, including direct relationships or through the nation's largest real estate interim staffing provider…Real Estate Talent Solutions. Clients with these needs and many others can submit their requirements through the company's Website (www.retsusa.com). RETS' Directors work to connect the client and candidate, and most requirements can be filled successfully within 14 days.

Real Estate Talent Solutions, Inc. provides commercial real estate outsourcing, interim staffing and permanent placement solutions for owners, operators and third-party real estate services firms. The company is headquartered in Newport Beach, California, with regional offices in Los Angeles, the Bay Area and Dallas. For more information, visit the company's Website at www.retsusa.com, call 949.724.0800 or email to kent@retsusa.com.

Successful Brokerage Firms Require Focus And Specialization

The word "specialize" can mean "to concentrate one's efforts," or "to change adaptively." In today's tumultuous real estate environment, successful service providers must do both…specialize and adapt. According to recent CEL & Associates, Inc. surveys, real estate investors and tenants prefer relationships with professionals who "know their business…know the primary drivers of their business…and know their client/customer expectations." The demand for specialists is not confined to the real estate industry; it is a growing requirement for all industries. During times of turmoil and transition, the need for specialists and specialized services accelerates. When times are uncertain, as they are today, real estate investors and tenants increasingly turn to those "who they trust" and "who best understand our needs." However, to be a specialist or to specialize is not merely a declaration; it is a commitment to know more than everyone else about a particular area.

The need for specialization within the real estate industry has been magnified because of current economic and financial events. Real estate investors want investment sales brokers who understand intimately the asset they are potentially acquiring or selling.

The need for specialization within the real estate industry has been magnified because of current economic and financial events. Real estate investors want investment sales brokers who understand intimately the asset they are potentially acquiring or selling. For example in the apartment industry there is a big difference in how one underwrites a high-rise, conventional, student, affordable or a senior/retire product. In the office sector there is a big difference between multi-tenant, medical and single-tenant/corporate buildings. In the retail sector there are major differences in strip, neighborhood, big box and mall properties. For Tenant Rep Brokers knowing a "class of tenants" is critical. Law firms are different from government tenants, logistics companies are different from high-tech companies…and data management companies are very different from institutional tenants. The space configurations, tenant improvements and service requirements are very different. Even the way they look at space is different!

Today most Best In Class real estate service providers are developing designated specialists (client, industry and/or geographic). It is not uncommon to find a brokerage firm with specific "Industry Specialists." The role of an Industry or Client Specialist is to: (1) develop a thorough understanding of that industry or client segment; (2) subscribe to and become familiar with publications and research specific to that industry or client; (3) become a member of and take an active part in those one or two professional organizations germane to that industry or client; (4) develop specific marketing and business development materials; (5) provide regular briefings to the organization on emerging trends in that particular area; (6) develop strategic alliances with potential business referral sources connected to that sector; (7) facilitate the training of others to better serve that industry or client sector; (8) prepare proprietary research and data bases that enable one to develop a competitive edge; and (9) build brand equity that generates new transactional opportunities.

Both the biggest successes and failures in the real estate services industry have been in the areas of "Corporate Services," or "Corporate Solutions" where the term "Specialist" was not uniformly applied. When corporations began to outsource their real estate service needs, many Brokers "declared" their new Corporate Services specialization. Unfortunately for many, they had no clue what the term "Corporate Services" was, meant or what their corporate clients wanted, needed or expected. In addition, the skill set necessary to successfully serve the needs of corporate services clients is very different than, say, the skills of a Tenant Rep Broker. Those individuals and companies who recognized the differences and created/hired Specialists were very successful. Those who did not struggled and in some cases caused a decline in profitability and brand equity. Specialization requires Specialists!

Today, more than ever, specialists and specialization are needed. An inability or unwillingness to change adaptively to this clear trend will likely create far more challenges than are necessary. Now is the time to create a strategic advantage within a product or industry sector. Now is the time to take two steps ahead of your competitors…and now is the time to harness and harvest your talent expertise and valued client relationships. What are you waiting for?

CELASSOCIATES.COM

REAL ESTATE AWARD
FOR CUSTOMER SERVICE EXCELLENCE

The "A List" for Real Estate Excellence, part of the National Real Estate Customer Service Awards Program, honors "The Best In The Industry" for their ability to perform at a higher standard in providing quality customer service throughout their portfolio. CEL & Associates, Inc. is honoring those companies that have achieved the highest levels of service excellence based on our national survey of tenant and resident satisfaction.

2007 COMMERCIAL REAL ESTATE CUSTOMER SERVICE AWARD FOR EXCELLENCE

Category I Winner
CORPORATE OFFICE PROPERTIES TRUST

Category II Winner
HINES

Category III Winner
AKRIDGE

Category IV Winner
GRANITE PROPERTIES

Category V Winner
REDICO MANAGEMENT, INC.

2007 MULTIFAMILY REAL ESTATE CUSTOMER SERVICE AWARD FOR EXCELLENCE

Category I Winner
SIMPSON PROPERTY GROUP LP

Category II Winner (Tie)
CWS APARTMENT HOMES LLC

Category II Winner (Tie)
LEWIS APARTMENT COMMUNITIES

Category III Winner
CROSLAND, LLC

Category IV Winner
REGENCY MANAGEMENT SERVICE L.L.C.

Category V Winner
NEWTON COMMUNITY DEVELOPMENT FOUNDATION, INC.

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