CEL & Associates, Inc.

STRATEGIC ADVANTAGE

Straight Talk for Real Estate Owners and Executives

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Inside

THE DANGERS OF SUCCESS

Real estate companies throughout America regardless of size, type or product/service specialization are recording "best year ever" results. Profits are up dramatically over prior years and many real estate professionals are reporting extraordinary financial rewards. Walk into any real estate organization and the conversation inevitably turns to a discussion on "how well things are going". However, peel away the good results and you will find, in most real estate organizations, underperformers, underachievers and non-contributors -- who have covered their weaknesses with improved performance levels that had nothing to do with their actions.

"Most real estate leaders respond best during times of crisis and can be at their worst during times of prosperity."

Most real estate leaders respond best during times of crisis and can be at their worst when success and "best year ever" results prevail. Unfortunately, success breeds complacency. CEL & Associates, Inc.'s recent interviews with over 400 professionals from 100 of the nation's top real estate companies uncovered several startling findings.

One of the most surprising findings was that every real estate company surveyed knew of one or more leaders or managers in their organization that were not performing up to his/her potential and was inhibiting the performance of others -- and was still employed! Most leaders remarked, "...if we weren't doing so well, I would probably terminate that individual ...but business is good and he/she isn't really hurting our performance". How often have you heard that phrase? Or how frequently do you hear the statement, "...they've been here so long, everyone just works around this individual". For many real estate leaders, making difficult decisions during times of record earnings is typically avoided.

Another interesting finding was that, in times of crisis, developing long-range business plans and action strategies are regular practices. "What to do" is replaced by "what must be done". Real estate leaders, in times of crisis, spend hours figuring out a strategy on how to restructure a loan or how to downsize. Today, many real estate leaders are content to enjoy the successes of a robust economy while relegating strategic planning to a "why should we do it..." or "...why fix something if it isn't broken" fate. Success does breed complacency.

A third remarkable finding was the discovery that many leaders think of the future in next week, next month or next year terms. Few leaders have taken the time to address many of the critical challenges and trends that will dramatically impact the nature of the real estate profession. For example, the single biggest competitive threat to the real estate company in the next millennium will come from accounting, legal and investment banking firms. Yet every day, real estate leaders consult with and ask for advice from accounting firms, who in the past 24 months have dramatically increased the number of accountants/advisors in trans-

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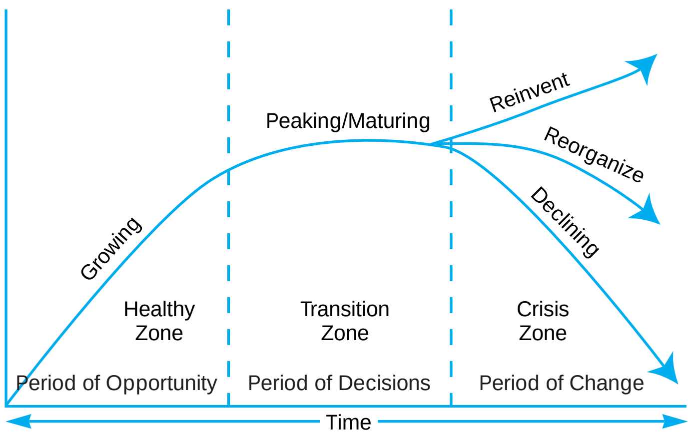
Real Estate Business Cycles



1970-1977	Growth From Geographic Expansion
1977-1980	Transition Period
1980-1987	Growth From The Abundance of Capital
1987-1990	Transition Period
1990-1997	Growth From Mergers, Acquisition & Securitization
1997-2000	Transition Period
2000-2007	Growth From Exits, Diversifications & Internationalization
2007-2010	Transition Period

Source: CEL & Associates Inc.

The Dangers of Success
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actional and corporate services. During times of record profits, competitors become strategic partners.

However, there are a growing number of real estate organizations that have adopted a contrary point of view. In addition to posting dramatically improved performance results, these real estate leaders have transformed their organizations into dynamic companies capable of capturing today's business while building a platform for securing tomorrow's opportunities. The keys to their success include: (1) leadership's focus and unrelenting commitment to continuous improvement; (2) the company's willingness to embrace change and achieve an alignment of interest within the ownership and/or leadership group; (3) the organization's determination to address/remedy barriers to performance, productivity and individual achievement; (4) the presence of a well-conceived strategic and long-range business plan; and (5) the entire organization's belief that success tomorrow will not come from practicing today's wisdom.

The principals of CEL & Associates, Inc. have had the privilege of working with many real estate organizations over the past two decades and have uncovered valuable insights on why some companies succeed and prosper, while others just get by (i.e., some good years and some bad). When providing strategic planning, compensation and/or performance improvement advice and guidance to these firms, the principals of CEL & Associates, Inc. have acquired a unique perspective on what it takes to be a successful company. The following is a brief description of five attributes for success.

First...there must be a clearly understood vision on what the company needs to achieve or aspires to be. Without a powerful, measurable vision, the entire organization (top to bottom) cannot make personal commitments and would have no reason to justify extraordinary efforts. Without a vision the purpose, mission, goals and strategies cannot be conceived or packaged to create a bold, exciting and focused organization. Furthermore, a long-term vision cannot be built on wishful thinking or a short-term financial plan. CEL & Associates, Inc.'s approach to developing a compelling vision begins with an articulation of strategic intent and a projection of business results. A well crafted vision statement defines what needs to be transformed.

Second...there must be a sense of passion within an organization. From the President/CEO to the receptionist, from the corporate offices to a property and from the accounting staff to on-site personnel, everyone must share an unyielding commitment to performance excellence. A sense of passion or urgency within an organization is manifest in the extraordinary performances of employees — who complete tasks because they know it needs to be done, not that they have been told to do it.

Third...there must be an ongoing, year-round commitment to continuous improvement. Training, coaching, career planning, open communications, teambuilding and in-depth/regular performance evaluations must be active components in the next millennium real estate organizations. Next millennium real estate firms will enrich the lives of their employees.

Fourth...there must be a performance-based compensation system in place that has measurable criteria to evaluate accomplishments and provide meaningful rewards. Employees at all levels must believe that the reward system is not only fair and works, but they have an opportunity to control their own destiny. Successful compensation programs are linked to the vision and long-range business plan — they build for the future.

Fifth...there must be a commitment to attracting, retaining and motivating the best talent available. Fielding a team of achievers and performers will consistently outperform a team of doers and task-based employees. Talent attracts capital and opportunities...capital and opportunities do not create talent.

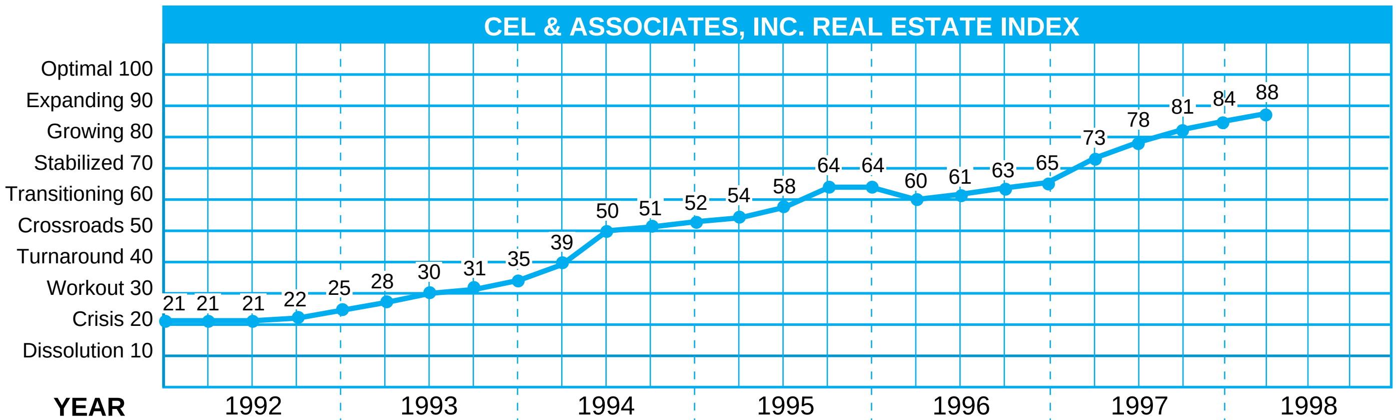
If your organization is enjoying improved earnings and performance, now is the time to establish the foundations/platform for success in the next millennium. Tomorrow's leaders do not bask in today's successes. They are planning for tomorrow's opportunities. Tomorrow's leaders do not shy away from addressing the complex challenges facing their organization. What is your company doing to assure and insure its future success? ■

FOR MORE INFORMATION

For more information on how CEL & Associates, Inc. can assist your company in planning and preparing for the next millennium, and in the development of an implementable strategic plan, please call us at (310) 571-3113.

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 Index is based on the premise that at any point in time, a snapshot of the real estate industry can be made. This index is divided into 10 levels as illustrated below.



The CEL & Associate, Inc. Real Estate Index is based on extensive interviews with industry leaders, review of published reports and documents, analysis of regulatory, governmental and financial trends, assessment of market data, and review of other institutional sources.

Accordingly, the scale has increased from 73 in the first quarter of 1997 to 88 in the first quarter of 1998, a 21 percent increase. There is both optimism and uncertainty projected for 1998. The underlying reasons for the increase are principally due to the following:

- The U.S. unemployment rate has fallen to 4.6 percent — the lowest point in 27 years. The job market for employers continues to be very tight, as the proportion of people with jobs is at an all time high.
- Economic growth continues to hover around 3.5 - 3.75 percent, while inflation remains around 2.2 percent. Consumer confidence is at an all-time high. However, CEL & Associates, Inc.'s forecast for economic growth in 1998 is likely to decline to 2.5 - 2.8 percent.
- The CMBS market is beginning to show signs of peaking. Now approaching $40 billion in size, CMBSs do not, as yet, have a fully developed rating process. Underwriting standards are easing, the retail sector is bottoming out, and the office sector is slowing down.
- The recent S&P drop (on October 27 - 28) has exposed the fact that while REITs typically do not decline as fast as the S&P 500, they do not recover as quickly either. Until REITs get larger, investors will continue to flock to bonds as a safe haven during periods of market correction.
- The sales of existing homes will top 4.1 million units in 1997 and will remain strong (in the 3.5 - 4.0 million range) in 1998. While the pool of native-born first time buyers is declining, the move-up buyers who are purchasing their last home will increase.
- Consumer confidence is high, yet consumer installment debt is still high by historical standards and individual bankruptcy filings are at an all-time high.
- Long-term mortgage interest rates could fall by as much as 50 basis points in 1998.
- Moody's Investor Services has recently confirmed that in 1998 most rating actions involving REITs will be confirmations of existing rates rather than upgrades.
- Few REITs truly know their cost of capital. As a result some acquisitions have been "above market". While spurring growth, the uncertainty on the continued aggressive buying patterns of REITs will likely slow the acquisitions marketplace somewhat in 1998.
- The value of real estate that is currently owned publicly is approaching $400 billion.
- The retail sector continues to be vulnerable to overbuilding, industry consolidation and dramatic increases in non-store sales.
- Overall occupancy levels for office space in the CBDs and suburbs is up to 93 and 98 percent, respectively.
- The number of housing starts will continue to remain strong in 1998 at the 1.40 - 1.50 million level. Profit margins for homebuilders will remain in the 9 - 12 percent range.
- Between 110,000 and 120,000 new hotel rooms were added to the overall inventory of available hotel rooms. Up 16 percent over 1996 levels, new hotel construction (approximately $30 million) is having an impact on occupancy levels. Overall hotel occupancy rates are expected to decline slightly to 63.1 percent. ADRs are expected to climb to $86.52 by the year 2000. RevPAR increases will likely range between 9 - 11 percent. With hotel room demand expected to rise 2.2 percent in 1998, hoteliers are likely to experience another robust year with record revenues and profits. CEL & Associates, Inc. expects room supply growth to exceed 120,000 rooms in 1998.
- CEL & Associates, Inc.'s analysis of valuation trends for 1998 reveals that in

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SHAPING A WINNING STRATEGY

Literally every indicator from job growth, interest rates, vacancy levels, rental rates, valuation, unemployment, inflation to availability of capital is pointing in a positive direction. Consumer confidence is at its highest level and Corporate America is posting good earnings. Even the stock market is at an all time high. So why is there so much stress and uncertainty within the real estate industry? The answer is clear...few leaders know how to formulate strategy during times of uncertainty.

Some firms such as Equity Residential Properties Trust, Insignia Financial Group, Inc., Crescent Real Estate Equities and Grubb & Ellis are on an "accelerated growth" strategy. While other existing REITs are aggressively pursuing a "growth for survival" strategy. Some firms, such as CB Commercial Real Estate Services Group, Inc. and Cushman & Wakefield, have adopted the "diversity growth" strategy. Others have adopted niche, liquidating and custodial strategies. Clearly, one or all of these strategies may be successful or fail. Growth strategies always work in times of prosperity...it is during times of crisis that the wisdom of the strategy truly gets a report card.

CEL & Associates, Inc.'s comprehensive study of 100 mergers/acquisitions in 1997 revealed that the vast majority were consummated as a result of one or more of the following factors: (1) a desire of the acquiree to exit the business; (2) a belief by the acquiree that he/she couldn't compete, or be as successful, in the future; (3) issues of successorship (or lack thereof); (4) pressure (real or perceived) from Wall Street to grow via mergers/acquisitions; and (5) liquidity, removing personal guarantees and/or pending capital/refinancing requirements. For the acquirees, the merger/acquisition was an exit strategy... for the acquirers, the merger/acquisition was an opportunity to grow.

In today's uncertain market, how can/should real estate executives decide whether to grow, wait and see or prepare for future opportunities? It is apparent that many real estate organizations are not prepared, or trained, to lay out a vision and strategy precise enough to assure maximum probability of success. Traditional, in-house strategic planning processes tend to modify or reshape historical precedents. Frequently, real estate firms focus on the "most likely scenario" and fail to acknowledge that the future is not a precise science and that future events are completely unpredictable. Risk adverse leaders suffer from decision paralysis. "I never fail" leaders frequently succumb to entrepreneurial blindness, and "start, then immediately change their mind" leaders are often left wondering why employee turnover is so high.

In order to respond to this prevailing uncertainty regarding what strategies to adopt, CEL & Associates, Inc. has perfected an analytical model developed for Corporate America by Messrs. Courtney, Kirkland and Viguerie. This model addresses four types of strategies.

A Clear Direction: Strategies contained in this option are frequently single actions or narrowly defined. For example, "operating a West Coast office" or "adding a brokerage capability" are easily defined. Often clear direction strategies are adopted to assure tomorrow's competitiveness or to take advantage of existing opportunities. Frequently, clear direction strategies are implementable in a fairly short period of time. Real estate leaders who feel that they have no clear successor or no exit strategy generally embrace a clear direction strategy — to sell. However, clear direction strategies can be limiting because the perceived clear direction was not compared to other possible strategies.

Multiple Directions: Strategies formulated in this option are generally based on the outcome of events unknown at the time of shaping the strategy. For example, in a secondary market a real estate firm may adopt a national affiliation (i.e., ONCOR, Colliers, Core, New America, etc.) only, and if, a national firm moved in. Multifamily REITs may adopt a "first right of refusal" purchase relationship with select strategic alliance development partners in order to control, with greater certainty, new product acquisitions in growth markets. Or a privately-held, national real estate organization would engage in a multiple merger strategy for growth knowing that the uncertainty of consummating each deal is quite low.

A Range Of Futures: Strategies formulated in this option seek to keep all strategies open until the future becomes clearer. To formulate and adopt strategies under this option requires an ongoing research capability. Real estate firms, to be successful under this option, must be good interpreters of data, willing to maintain an ongoing strategic planning component and be capable of thinking out-of-the-box. For example, a real estate organization might decide to develop a new product or enter an emerging market. The outcome of this strategy can go many directions, so constant analysis and refinement is necessary to ultimately shape the proper strategy and make the right investment decisions. Traditional leaders need

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Events That Could, And Will, Dramatically Reshape The Real Estate Industry

- 2 - 3 REITs filing for bankruptcy.
- Loss of mortgage deductions for second homes.
- Continued increase in consumer debt.
- Inability of the real estate industry to shape public policy.
- Shift from the entrepreneur to the MBA leader.
- Turmoil in Russia or China.
- Retirement of the Boomers.
- Major accounting/consulting firm acquiring a national real estate organization.
- Deregulation of public utility companies.
- Acceleration of paperless office technology.
- Implementation of a common currency for Europe.

Management Report

The following items highlight several recent events that have had an impact, or will be affecting the human resource and operating systems within real estate organizations. Further information can be obtained by contacting CEL & Associates, Inc. at (310) 571-3113.

- It is estimated that 90 percent of medium- to large-size firms have a formal review process. However, there continues to be a significant level of dissatisfaction surrounding the performance appraisal process. The gap between how the appraisal system should operate and how they actually operate is large. CEL & Associates, Inc. identified the five major problems within real estate organizations regarding the performance review process. These are: (1) lack of clearly understood expectations; (2) perceived lack of fairness; (3) lack of ideas on how to improve performance; (4) use of subjective versus measurable evaluative criteria; and (5) inconsistent timing of the formal review (i.e., "always late"). Real estate companies must properly train the evaluators and the message must go out that "the company takes the evaluative process seriously".
- Did you know that according to a recent study, stress accounted for 12 percent of all unscheduled absences in 1997, twice as much as in 1995. When increased insurance costs and direct medical costs associated with stress are totaled, stress costs businesses $200 billion annually. In real estate, stress brought about by downsizing, higher productivity expectations, difficulty in balancing work and family demands, uncertainty and constant change is having an effect. Nearly 6 in 10 workers feel more pressure today than they did five years ago. Unfortunately until real estate companies stop rewarding behavior that is inconsistent with reducing stress, this dilemma will continue.
- How does your health care plan stack up? Each year 50,000 to 70,000 adults die from vaccine-preventable disease or its complications. Direct and indirect medical costs attributable to influenza have risen to $4.6 billion annually.
- Nine of 10 firms in a recent study have permanent part-time employees. In the real estate industry, outsourcing, telecommuting and job-sharing are becoming more commonplace.
- According to a recent survey, 8 out of 10 workers with job-based health insurance are in managed care — up from just 3 in 10, ten years ago.
- This year employee contributions for individual health care coverage average $31 per month, while family contributions averaged $116 per month.
- CEL & Associates, Inc.'s national Employee Opinion Survey called **Feedback**© utilized by many real estate organizations has uncovered some interesting trends. First, the majority of employees in real estate companies understand their firm's goals and their own job responsibilities. However, less than 50 percent feel that they are given the skills or information needed to achieve those goals. It appears that most employees want to succeed, but don't know how to, and the company is not providing the tools to improve their performances.
- Two interesting trends are emerging in real estate companies. Workers between the ages of 33 and 51 (the Boomers) are the largest group of employees within the real estate industry. However, at least 50 percent of real estate companies expect those Boomers to retire at age 65. Succession planning will increasingly become an important part of the human resource activities within real estate companies by the year 2010.
- Tattoos, nose rings, body piercing, and colored hair styles are becoming more commonplace and employers should beware. Employment law is increasingly favoring employee freedom over employer mandates. An example of this shift is occurring in the area of dress. If a dress code is not safety-related, job-related or if it has the appearance of discrimination, it is likely opening the employer up to a potential lawsuit.
- When was the last time the employees in your organization received a personal note from the CEO, Division Leader or Department Head saying "thank you" for a job well done? Too often, employers give gifts or other awards but fail to add a personal touch of gratitude. It is not what you give your employees, but how you give it to them that makes all the difference.
- Real estate firms across the country are increasingly adopting a casual day dress policy. In a recent survey 83 percent of 814 U.S. companies have some form of a casual dress policy. Friday appears to be the most common/preferred casual dress day.
- As the U.S. population continues to age, taking care of older relatives and parents is costing businesses billions of dollars in absentee costs and workday interruptions. It is estimated that the costs for replacing workers who leave to care for elderly relatives or parents is 5.0 billion annually, while the cost of workday interruptions (e.g., arrive late, leave early, make/receive telephone calls at work related to caregiving, etc.) costs U.S. businesses $3.8 billion annually.
- Call it a generational shift, or whatever, but high performers are more satisfied with pay hikes than promotions or new titles. In the past, "moving up the ladder" meant more than pay hikes.
- Nearly 50 percent of your employees lie, cheat or steal according to a recent study. Declining profit margins, aggressive competitors, longer work weeks, increasing pressure to produce more, the impact of downsizing, and a breakdown of the trust relationship between employees and employers is creating unethical behavior. The evidence of this phenomena is everywhere. An April, 1997 study revealed that 48 percent of workers admitted that they had engaged in one or more

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As We See It
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most asset categories, property values will outpace rents. With an abundance of capital closing fewer and fewer deals, property values will dramatically increase. The lack of speculative office building will enable rents to rise up 6.1% over the past four quarters. In general, the office sector will attract institutional investors throughout 1998.

- Multifamily construction will likely stabilize around 300,000 to 310,000 units in 1998. Rental increases, for the first time in a decade, exceeded the rate of inflation. CEL & Associates, Inc. expects that rents will rise 2.5 to 2.8 percent in 1998.
- The overall, national occupancy level for industrial space has stabilized between 90 - 92 percent, while values have increased 6 - 9 percent and rents are rising. A long-time favorite of institutional and private investors, CEL & Associates, Inc. anticipates a robust year for industrial development, but a decline in occupancy levels and select overbuilding.
- The average REIT price rose approximately 13 percent in 1997, while the Standard & Poor 500-stock index rose 31 percent. As development activity continues to increase in core markets, many REITs are finding it difficult to raise rents rapidly. ■

Shaping A Winning Strategy
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not attempt this strategy option.

Total Uncertainty: Strategies formulated under this option assume that the future is very uncertain and that events from which to plan the future are equally unpredictable. For example, some real estate firms have opened offices in China and Russia. Will they be successful? The fact that political events can change perfectly logical strategies overnight, places this strategy in this category. One thing is clear in total uncertainty strategies, conventional wisdom cannot be applied. Total uncertainty strategies are for the true risk takers.

Over the past two decades, the principals of CEL & Associates, Inc. have formulated, shaped and assisted in the implementation of strategies that define the future successes of real estate companies. Our experience shows that the most productive strategic planning sessions are those that include an outside facilitator or resource. Unencumbered by internal agendas, biases, historical traditions, the Strategic Planning Advisor can ask the questions others might be reluctant to ask, can challenge underlying assumptions, and provide a global context for discussing possible strategies.

Formulating strategies during times of uncertainty can be difficult without the proper analytical models and perspectives. Shaping the future, adapting to the future and assuring a role in the future are the foundations for good strategy formulation.

The challenges facing the real estate industry now and in the future are complex and to some extent unpredictable. How your firm responds today will determine your role in the next millennium. ■

FOR MORE INFORMATION

For more information on how CEL & Associates, Inc. can assist your organization shape the appropriate strategies for the future, please contact us at (310) 571-3113.

Management Report
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unethical and/or illegal actions during the past year. CEL & Associates, Inc.'s recent survey of nearly 400 real estate professionals found out that over a third of respondents "don't tell their Supervisor of Company Leader everything" or "tell the Company Leader only what they want to hear".

- Are you an HR Director or an Internal Consultant? Clearly there is a move afoot within the real estate industry to shift from the performance of administrative tasks (now 65 - 85 percent of a HR Director's time) to 50 percent or more on helping the organization create a better management team, improve teamwork/communications, improve productivity, etc. Where does your HR Director spend the majority of their time?
- Repetitive motion injuries, such as carpal tunnel syndrome cost U.S. businesses more than $20 billion in medical expenses and lost work time. In 1995, 71 percent of the reported carpal tunnel syndrome cases were reported by women.
- How bad is information overload? According to a study by the Institute for the Future, the average Fortune 1000 worker is sending and receiving approximately 178 messages and documents each day. Seventy-one percent of workers use at last 2 - 3 communications tools (voicemail, computer, e-mail, telephone, facsimile, mail, telephone) regularly.
- CEL & Associates, Inc.'s recent survey on "Human Resource Functions In The Next Millennium" identified the following eight functions that will preoccupy most HR Directors' time. These are: (1) training and continuous improvement; (2) recruitment screening, retaining and motivating employees; (3) flexible work scheduling; (4) performance-based compensation programs; (5) retirement planning; (6) successorship; (7) workforce diversity; and (8) impact of technology on workforce skills.
- Did you know that it is lawful for an employee to send e-mail messages to co-workers criticizing an employer's working conditions? One way to prevent this is to have an e-mail policy. Does your company have such a policy?
- Recent case law regarding employee handbooks has concluded: (1) that an employer may not unilaterally modify or rescind an employee handbook without giving something in consideration; and (2) that unclear disclaimers and typographical errors in an employee handbook prevent an employer from relying on contract disclaimers.
- Real estate firms can save as much as 90 percent of their current costs on travel and entertainment by improving and automating the entire process. ■

What Your Tenants And Residents Told Us May Surprise You

In 1997, CEL & Associates, Inc. conducted nearly 750,000 surveys of tenants and residents, and what they told us may surprise you. When given the opportunity to express their opinions, attitudes and perceptions to an objective third party, tenants and residents alike responded in a similar manner. Based upon the tabulated results from tenants and residents throughout the country, there were eight principle findings.

First, tenants and residents have significantly higher standards and expectations than the majority of Property and Community Managers. Respondents throughout the country consistently rated the overall level and quality of services received from their Manager 10 to 15 percentage points below the Manager's rating of their performance. Respondents tended to view their lease as the beginning of a relationship, while many on-site Managers viewed them as either numerical entries on an operating statement or as "the cause of all my problems". *Conclusion:* Those real estate firms who are able to personalize service and give each tenant/resident the feeling that "they too" seek to make their stay enjoyable and problem free, will be very successful in retaining tenants/residents.

Second, tenants and residents alike rate appearance and condition, safety, security and the follow-through of the Manger as four of the most important conditions of their tenancy. *Conclusion:* Taking pride in the way the property looks, applying a Disney-like attention to cleanliness, and creating an environment where walking to one's car or to one's office/apartment can be done without fear are very important to tenants and residents.

Third, tenants and residents desire and expect communications from the Manager on a regular basis; assume that a timely response and follow-through is standard operating procedure when a problem has been reported; and tend to be dissatisfied to very dissatisfied when they are not kept informed of matters that do/could affect them. *Conclusion:* Keeping tenants and residents informed before, during and after an activity or problem resolution creates an impression that "we care" about your well-being.

Fourth, tenants and residents consistently ranked the leasing experience as cumbersome, difficult, too long and frequently an unpleasant beginning to a long-term relationship. Nearly 90 percent of the respondents indicated that "they never see or talk to the leasing agent" after the lease has been signed. *Conclusion:* Periodic communications and conversations (i.e., once a year) between the tenant/resident and the leasing team can often create opportunities as well as good will.

Fifth, in those properties where tenant/resident satisfaction is the highest, the renewal intention is correspondingly high. Furthermore, responses to a question "would you recommend this property to others" are the highest when tenant/residents record the highest levels of satisfaction. *Conclusion:* Programs that seek to improve tenant/resident renewal must first start with the development of a relationship. Social events can frequently become a crutch for those managers who are afraid to say hello (on a one-to-one basis) and develop a relationship with the tenant/resident.

Sixth, tenants and residents frequently have a (better) relationship with the security guard, maintenance engineer, or gardener who they tend to see on a more frequent basis. Respondents often knew the name of the security guard who greets them each morning (or upon leaving) or the maintenance engineer who may repair something in the suite or unit. Conclusion: The secondary points of contact can dramatically impact the tenant/resident experience.

Seventh, the myth that only unhappy people respond to tenant/resident satisfaction surveys is false. CEL & Associates, Inc. provided survey data from a random pool of 100,000 surveys to the California State University professors to attest to the quality of our survey instrument and the array of responses. Their report (a copy of which can be obtained from CEL & Associates, Inc. upon request) stated that **REACT**©, our satisfaction survey tool, is an "accurate, reliable and valid survey instrument". Their analysis indicates that satisfied and dissatisfied people respond in statistically valid numbers. *Conclusion:* Don't buy into the excuse/comment that only unhappy tenants/residents complete surveys — it isn't true.

Eighth, hundreds of thousands of tenants and residents have rated the major owners/managers of commercial, industrial, retail and multifamily properties — and their ratings indicate that there is a difference! As a result of CEL & Associates, Inc.'s **REACT**© survey results, many process improvements, training and procedural changes have, and are, being made. Comparative benchmarks have been set and a commitment to improving service quality is underway. Tying compensation to survey results is very common today. *Conclusion:* Excellence in service starts with listening to one's customers, and responding to their concerns.

Getting Started

CEL & Associates, Inc.'s **REACT**© tenant and resident satisfaction survey instrument is the most popular and widely used measurement tool within the real estate industry. In addition to providing property-specific results, **REACT**© compares each property's scores to Best In The Industry scores. Furthermore, the survey scores of the tenants/residents are compared to the survey responses from the Property Manager and Building Owner/Asset Manager. Because CEL & Associates, Inc. provides a complete turnkey process (surveys, return postage, processing, tabulation, color report preparation, Best In The Industry comparisons, etc.) for around $300 to $400 per property (depending on size), there is no reason not to take advantage of this extraordinary database.

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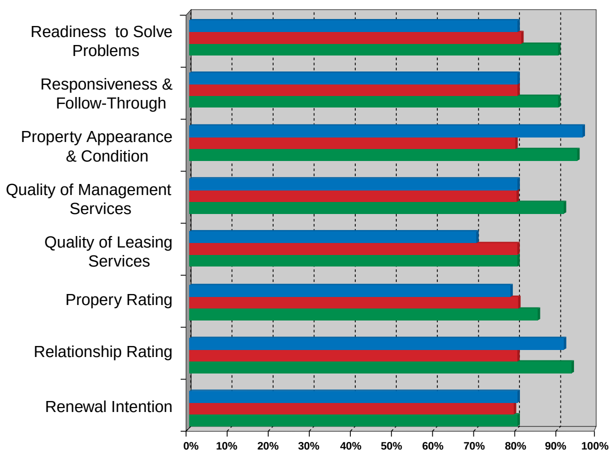
Sample Graphics From REACT© Report

Consolidated Results - By Business Success Factor

Independence Drive

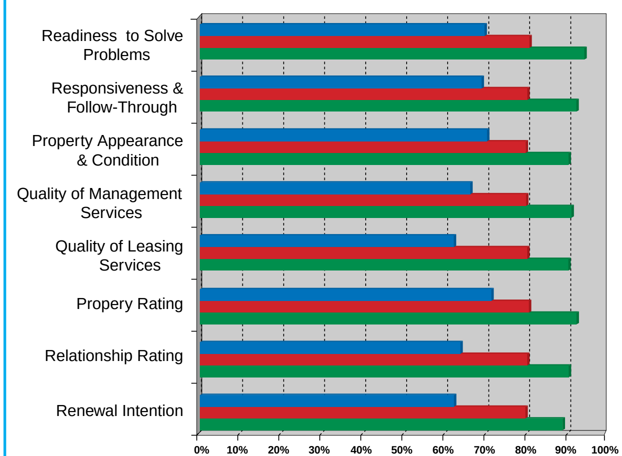


Business Success Factors	Building Owner	Tenants	Property Manager
Readiness to Solve Problems	80.0%	80.9%	90.0%
Responsiveness & Follow-Through	80.0%	80.0%	90.0%
Property Appearance & Condition	96.0%	79.5%	94.7%
Quality of Management Services	80.0%	79.8%	91.4%
Quality of Leasing Services	70.0%	80.0%	80.0%
Property Rating	78.3%	80.2%	85.0%
Relationship Rating	91.4%	80.0%	93.3%
Renewal Intention	80.0%	79.1%	80.0%

Sample Graphics From REACT© Report

Tenant Results - By Success Factor

Independence Drive



Business Success Factors	Prior Score	Current Score	Best Practices
Readiness to Solve Problems	69.5%	80.9%	94.0%
Responsiveness & Follow-Through	68.0%	80.0%	92.0%
Property Appearance & Condition	70.0%	79.5%	90.0%
Quality of Management Services	66.0%	79.8%	91.0%
Quality of Leasing Services	62.0%	80.0%	90.0%
Property Rating	72.0%	80.2%	93.0%
Relationship Rating	64.0%	80.0%	90.0%
Renewal Intention	62.0%	79.1%	88.0%

What Your Tenants
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Listening to the opinions and perceptions of your tenants, residents and Building Owners is an integral part of leading real estate organizations' continuous improvement process. Losing one tenant or resident that could have been saved is far more costly than completing a survey. What is stopping you from getting started? ■

FOR MORE INFORMATION

For more information on CEL & Associates, Inc.'s tenant, resident and client surveys, please contact us at (310) 571-3113.

Worth Reading

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

- *Rethinking The Future* edited by Rowan Gibson, Nicholas Brealey Publishing Ltd., 1997.
- *Leading Corporate Transformation* by Robert Miles, Jossey-Bass Publishers, 1997.
- "The Forces Changing The Real Estate Industry Forever" by Dr. Peter Linneman, *The Wharton Real Estate Center,* January, 1997.
- "Megashifts 1997" by Geoffrey Dohrmann, *The Institutional Real Estate Letter*, December 1997.
- "REITs Are King" by Eric Avidon, *National Mortgage News,* October 13, 1997.
- *From the Guard Up* by Edmund Lawler, III, Jossey-Bass Publishers, 1996.
- "An Interview With Gary Hamel" by Joel Kurtzman, *Strategy & Business,* Booz-Allen & Hamilton, Inc., Fourth Quarter, 1997.
- "REITs Push Envelope With Paper-Clipped Format" by Keith Pomrey, *The SNL REIT Weekly,* December 16, 1997.

A Bull Market In Compensation

For the first time in more than a decade, base salary increases exceeded the rate of inflation, annual bonuses averaged 90 percent or greater of their target levels and long-term incentives became a valued reward for performance excellence. Employees in real estate firms throughout the country received dramatic increases in their total cash compensation. The six digit bonus became commonplace for many professionals as real estate organizations posted record earnings. These were just a few of the findings and trends emerging from CEL & Associates, Inc.'s recently completed **1998 National Real Estate Compensation Survey.**

The 1998 survey of over 350 real estate organizations nationwide revealed the dramatic impact a robust economy, shrinking pool of talented professionals, and securitization has had on an industry accustomed to subjective performance reviews. The combination of rising rents, an abundance of capital, low interest rates and a favorable environment for investments in real estate have created significant increases (over the prior year) in cash flow, profits and distributions. Property values have risen in all building types. As one CEO remarked, "...when times are as good as these, we have no problem sharing our financial success with those who helped to create it". This sentiment was shared by many real estate leaders who, in 1997, distributed and were the recipients of meaningful bonus and incentive awards.

The CEL & Associates, Inc. compensation study also identified an emerging pattern among leading real estate firms. It appears that in 1998 there will be more focus on using compensation to retain star performers and rising stars. In the past titles, promotions, new responsibilities, and a "potential" share of the future were enough to retain many Executives. However, the 1998 survey revealed that cash compensation — the amount you take home — has become the peer measure of success. Real estate companies, regardless of size, or type are using "take home" compensation as one of a multitude of retention incentives.

Compensation within the real estate industry was given an added boost by the unprecedented growth of the REIT industry. Acting like a Fortune 500 company, many REITs in 1997 began to increase the number of employees eligible to receive stock options/grants. Some REITs deployed restricted stock programs (TARSAPs) while others considered stock appreciation rights. The recent wave of consolidation within the REIT industry via mergers and acquisitions, created five, six and seven digit increases in the value of the stock options held for many fortunate professionals. However, these increases were somewhat tempered by the moderate increases in stock value for many REITs.

Today, real estate CEOs are struggling to find the proper balance between meaningful rewards that are directly connected to extraordinary efforts and "right place, right time" rewards for those who have benefited from a robust economy. The 1998 National Real Estate Compensation Survey revealed that many real estate firms intend to "raise the bar" in 1998 for those eligible to receive bonuses and "benchmark performance against one or more peer group indices" to discern truly extraordinary efforts.

Base salary increases in 1998 for real estate Executives averaged 4.5 percent, while salary increases for exempt, non-Executives averaged 4.1 percent. While there were some geographic variations, most regions of the country (except the San Francisco Bay Area) were fairly uniform in their level of base salary increases. In the San Francisco Bay area, however, base salary increases for Executives rose 7 - 10 percent, while exempt non-Executive increases rose 5 - 7 percent.

The average bonus realization rose to approximately 90 percent (versus 74 percent in the prior year). It was not uncommon to see bonus awards exceed 100 percent of their target levels. CEOs of real estate companies appear to have concluded that paying more is a cheaper alternative to replacing that individual. Many real estate companies have or are moving to a measured scorecard performance evaluation system. Using quantifiable measures, most organizations agree, is not only easier to administer but enables the bonus participant to receive rewards that accurately reflect his/her performance. These rewards can be significant.

The **1998 National Real Estate Compensation Survey** also revealed a continuation of a trend, which first emerged in 1995, of small and mid-size firms' inability to compete for the best talent. Not large enough to attract or retain star performers, these organizations have become "second tier" employment options to rising stars and proven performers. Short of reducing already shrinking profit margins, there are only a few options left to the small real estate entrepreneur for retaining talent. The next result in 1998 will be more turnover within the small to mid-size firm.

In a time of accelerated growth and prosperity occurring so soon after a recession, real estate professionals "remember" the sacrifices made, equity (real or phantom) lost and small or non-existent bonuses distributed. Thus a "never again" compensation mindset is fairly commonplace today. In addition, compensation for Brokers is rapidly changing. A shift from a 100 percent commission-based system to a salary and performance incentive structure is occurring throughout the United States.

The **1998 National Real Estate Compensation Survey** results highlighted a shift from "compensation for doing one's job" to compensation for achieving/exceeding performance benchmarks. Many real estate organizations use criteria, such as: satisfaction surveys, peer group comparisons, productivity indices; external benchmarks; and value-added contributions, to measure performance. Collecting customers for some real estate organizations has become as (or more)

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CEL & Associates, Inc.
1998 Real Estate Compensation Survey
All Companies – Consolidated Results

Position	Base Salary Range (1) High	Base Salary Range (1) Median	Base Salary Range (1) Low	Potential Bonus as a % of Salary Average	Actual Bonus as a % of Salary Average	Actual Bonus as a % of Salary Highest
Executive						
President/CEO	$316,700	$230,700	$144,800	75.9%	71.6%	700.0%
Chief Operating Officer/COO	$261,800	$193,300	$124,700	69.5%	66.6%	300.0%
Top Division Executive	$192,700	$153,000	$113,300	64.8%	58.9%	255.3%
Top Regional Executive	$196,600	$145,000	$93,400	54.8%	47.7%	180.0%
Corporate						
Top Business Development Exec.	$169,200	$127,500	$85,800	57.0%	43.8%	131.4%
Top Human Resources Executive	$98,300	$74,100	$50,000	24.5%	22.1%	175.0%
General Counsel	$180,700	$146,800	$113,000	41.7%	36.0%	100.0%
Top MIS Executive/IT Director	$99,000	$77,000	$55,000	21.2%	17.6%	65.6%
Top Corp. Communications Exec.	$86,900	$65,000	$43,100	25.2%	22.5%	117.6%
Director of Research	$111,200	$78,900	$46,500	25.0%	21.7%	94.1%
Portfolio Executive	$158,200	$125,000	$91,800	40.8%	37.8%	100.0%
Financial						
Top Financial Executive/CFO	$192,200	$150,000	$107,800	49.5%	46.5%	283.3%
Finance Director	$142,600	$110,000	$77,400	36.8%	38.6%	227.6%
Controller	$97,200	$76,000	$54,800	24.2%	21.1%	100.0%
Property Accountant	$46,500	$38,500	$30,400	11.8%	9.8%	51.3%
Financial Analyst	$57,300	$48,500	$39,800	14.4%	12.3%	41.7%
Asset Management						
Top Asset Mgmt. Executive	$142,200	$113,500	$84,800	43.6%	38.9%	200.0%
Asset or Portfolio Mgr. – Multi-Family	$91,600	$73,200	$54,800	25.6%	22.5%	100.0%
Asset or Portfolio Mgr. – Office	$99,000	$83,300	$67,700	26.1%	24.4%	66.7%
Asset or Portfolio Mgr. – Retail	$95,900	$77,500	$59,100	25.9%	22.9%	66.7%
Asset or Portfolio Mgr. – Industrial	$94,500	$80,000	$65,500	27.1%	21.9%	62.5%
Property Management						
Top Property Mgmt. Executive	$133,100	$101,600	$70,000	36.1%	30.3%	225.0%
Multifamily – District Manager	$75,100	$63,000	$50,900	19.0%	18.0%	100.0%
Multifamily – On Site Prop. Mgr. (<300 units)	$37,600	$32,000	$26,400	11.9%	10.3%	33.8%
Multifamily – On Site Prop. Mgr. (>300 units)	$45,100	$38,000	$30,900	13.0%	11.5%	41.2%
Office – Property Mgr. (<500k sq. ft.)	$55,900	$48,200	$40,400	14.5%	12.6%	75.1%
Office – Property Mgr. (500k sq. ft. - 1M sq. ft.)	$72,400	$62,500	$52,600	19.1%	14.0%	75.0%
Office – Property Mgr. (>1M sq. ft.)	$86,500	$72,500	$58,500	18.9%	16.6%	125.0%
Office – Operations Manager	$55,700	$46,800	$37,900	14.1%	12.2%	75.0%
Retail – Property Mgr. (<150k sq. ft.)	$53,600	$46,300	$38,900	10.4%	9.2%	16.7%
Retail – Property Mgr. (150k - 300k sq. ft.)	$60,900	$54,100	$47,300	10.2%	8.7%	15.0%
Retail – Property Mgr. (> 300k sq. ft.)	$67,700	$58,200	$48,700	14.5%	13.1%	27.0%
Retail – Marketing Mgr.	$65,000	$50,000	$35,000	10.4%	10.0%	25.0%
Industrial – Property Mgr.	$59,900	$50,000	$40,100	20.9%	24.2%	163.8%
Project Management						
Development Executive	$157,800	$125,000	$92,200	61.2%	48.2%	258.8%
Project Manager	$86,700	$72,000	$57,300	28.3%	24.7%	176.3%
Construction Executive	$120,500	$97,500	$74,500	39.5%	34.9%	478.3%
Leasing						
Leasing Executive	$144,300	$100,000	$55,700	72.5%	75.6%	700.0%
Leasing Representative	$62,100	$43,300	$24,500	89.9%	87.6%	1946.8%
Acquisitions						
Top Acquisitions Executive	$176,000	$126,700	$77,400	48.9%	44.1%	174.4%
Acquisitions Associate	$89,100	$71,000	$52,900	28.9%	25.2%	100.0%

(1) Quartiles: High = 75th percentile, Median = 50th percentile, Low = 25th percentile.
(2) CEL & Associates, Inc. has intentionally excluded extraordinary annual bonus awards from this table in order to not distort the results.

Source: CEL & Associates, Inc. Survey completed December, 1997.

A Look To The Future - Part II

Predicting the future is an art and a science. From Copernicus to Bill Gates, from Babe Ruth to Michael Jordan, predicting the eventual outcome of events has captivated and entertained millions. However, if you are a careful observer of trends, you can be prepared for what is likely to happen. Preparing for the future is what CEL & Associates, Inc. has accurately been able to do for years. Why...because we specialize in emerging trends analysis, we consult with leaders and practitioners within and outside of the real estate industry. We're not economists, accountants or historians who draw their conclusions from restricted data sources. We are forecasters who utilize information and evidence to "see the big picture". CEL & Associates, Inc.'s trends research models have correctly predicted several events within the real estate industry. Needless to say, we do not get it right every time. But on a consistent, long-term basis, our methodology does allow us to spot and isolate emerging trends that do add value to our clients. The next millennium is rapidly approaching. We thought we would share with you a few, of our nearly 100, emerging trends and predictions likely to occur over the next ten years. (The first 25 predictions appeared in our last issue of *Strategic Advantage*.) Will you be prepared before they happen?

Prediction 26: Space designers, furniture manufacturers and architects will increasingly rely on cognitive ergonomics to improve employee productivity in office settings. It is not what you recall, but how you recall it that will shape office space layouts in the future.

Prediction 27: Wheels, rollers and more wheels and rollers characterize the commercial and residential interior design patterns in the next millennium. Dividing space on a daily or as needed basis will become commonplace. Function and utility will dictate design rather than tradition.

Prediction 28: Property management fees will shift from flat fee to base plans incentive format in order to create a win-win situation with a building owner. Linking rewards to the achievement of specific goals not only will improve the level and quality of services being rendered but align the interests of the Property Manager with the owner.

Prediction 29: Remember all that money you spent on computers...you won't need them as the industry will shift to utilizing servers supported and maintained by AT&T, IBM, MCI, Unisys, etc. Oh...there will still be a use for the desk top computer, it just won't be for the purpose you purchased it for in the late 90s.

Prediction 30: Mortgages-at-your-fingertips will become commonplace throughout the residential sector as the Internet will replace the traditional mortgage broker and process.

Prediction 31: The mega real estate firm will downsize by 20 - 30 percent (some may even reduce the number of employees by as much as 50 percent) as outsourcing, teaming, strategic alliances, and performance networks will likely dominate the workplace. It's not who you are, but who's on your team, in the next millennium.

Prediction 32: At least one major apartment owner will be packaging and selling renters disability, health care, automotive, fire and theft, and life insurance. Income from insurance products alone could equal 2 - 5 percent of rental income.

Prediction 33: By the turn of the century expect to see the first of many longevity centers located in residential communities. As Boomers age and a health conscience society strives to stay healthy, longevity centers will become the premium attributed years ago to the addition of golf or tennis amenities.

Prediction 34: Farms and agricultural land will become the valued commercial property of the 21st century. Farm REITs, Opportunity Funds for Farms and utility/energy companies will be aggressively buying farm land for the water rights and the significant demand for U.S. grown products.

Prediction 35: Retailers will add/feature healthmarts to attract shoppers. Interactive (home, office and shopping center linked) resource centers on health, fitness, diet and education will take as much space as a major retailer.

Prediction 36: A minimum of 35 percent of all real estate departments in colleges will either disappear or be assimilated in the business or entrepreneur departments. Can you name one employer today who requires a real estate degree before getting hired?

Prediction 37: Starbucks Coffee is the first of a long line of microbakeries, microbreweries, micro vegetables, microbeverages, microsnacks, microfruits, etc. to occupy an increasing percentage of retail space in the next millennium.

Prediction 38: Zoning laws will change to accommodate a growing demand for granny flats or ECHO housing.

Prediction 39: Within 10 years, all apartment buildings will have a "materials rating" that is predominantly posted and provided to prospective renters. Each rating will identify and rate each potential health care risk from the materials used to build the facility. Aging properties will experience significant value losses.

Prediction 40: Malls will re-tenant and be converted into social, entertainment, education and information venues. Next millennium malls will become surrogate communities...the indoor alternative to Main Street. Linkages to Internet shopping will prosper, while the neighborhood retail center will turn into a food court or perishable goods outlet.

Prediction 41: The demand for shared housing will rise dramatically. Watch for the merger of a major hotel chain with a major multifamily company. Serving the guest (resident) housing needs whether for one night or one year will be the priority. Imagine checking into a hotel room and finding the temperature, lighting, even the painting identical to your apartment. It will happen.

Prediction 42: Fees from property management services will rise significantly as the national cartel of providers begins to capitalize on the real reasons behind all the M&A activity. Fewer, not bigger, competitors translate into record profits in this sector.

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A Bull Market
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important than collecting rents.

In addition to the comprehensive salary and bonus information contained in the **1998 National Real Estate Compensation Survey**, CEL & Associates, Inc. also obtained several interesting facts and uncovered a number of emerging compensation trends.

Emerging Trends

- The use of temporary or contract workers is becoming an appealing option for many real estate companies. Not only do these workers cost less (no benefits, etc.) but they can complete important tasks in a timely manner. Employee leasing through a professional employer organization ("PEO") has become an emerging trend within the real estate industry. PEOs remove the employees from your payroll and, for a fee of 5 to 7 percent of payroll costs, assume all responsibility for all administrative, legal and benefits oversight.
- Although severance packages are not required by law, most real estate organizations offer them to downsized employees. The typical severance formula is one week per year of service. However, the higher the level of the employee the more generous severance they generally receive. Most firms give a lump sum at termination, yet a growing number of firms keep the departing employees on the payroll throughout the severance period.
- After several years of frozen merit increases for senior level positions, real estate firms in 1998 are raising salaries across the board. From CEOs to Market Analysts, base salaries are going up. Based upon the 1998 survey results, over 90 percent of U.S. real estate organizations are giving raises. While employers are still committed to a long-term philosophy of shifting annual merit increases to increases in bonus potential, 1998 will be a year of base salary and bonus increases.
- To remove the problems associated with discretionary and subjective performance evaluations, real estate firms are adopting the measured scorecard. Employees — particularly senior-level professionals — do not like or embrace discretionary bonuses. Implementing quantifiable performance measures for leading real estate organizations is proving to be, for many, the path to improved productivity and performance.
- The fastest rising star in the real estate industry is the Director of Management Information Services (or Systems). Cash compensation for this position can range from $110,000 to $160,000 in most major firms and $70,000 to $90,000 in mid-size organizations. The problem, according to survey respondents, is not the level of pay, it is the availability of real estate experienced MIS personnel.
- Training and continuous improvement programs are becoming the number one priority of HR Directors and senior-level Executives. Most real estate firms believe that it is quicker, less expensive and more productive to upgrade existing underperforming personnel than to replace them. However, some real estate CEOs are beginning to question that approach to improvement by asking the question, "...what type of professional would we get if we increased the total compensation package for that position by 10 - 15 percent".
- Human Resource Directors and Compensation Administrators are discovering that the REIT industry, through its stock option programs, has created an ownership expectation within privately-held firms. CEOs of these companies have, and are, responding by adding profit sharing elements to their compensation programs. Some companies distribute profits after a specific threshold has been achieved, while other split profits at year end, regardless of the amount.
- REITs in general tend to pay more than non-REITs and real estate professionals employed within the commercial sector of the real estate industry pay on average 10 - 20 percent more than their multifamily counterparts.
- Homebuilders did not receive the same percentage cash compensation increases as the commercial or multifamily sectors. With some exceptions, most homebuilders had a good but not a great year.
- Several real estate companies are now attempting to classify their employees as either: (a) "on a career track"; or (b) "on a position track". Not everyone can, or will, be promoted, most CEOs told CEL & Associates, Inc. And as a result, "let's spend more time with those who plan on making this company their career". It is clear from the survey data that career positions receive higher levels of cash compensation versus those jobs deemed to be position tracks.
- The 24/7 (i.e., 24 hours a day, seven days a week) is becoming a popular feature/attribute of several leading real estate firms. Some firms mandate that all their leaders carry pagers, be linked to an e-mail and on-line service, and be immediately accessible by telephone or via facsimile. Despite the added hours and responsibilities, the 24/7 employee will not receive a compensation premium for that access.

Conclusion

Compensation in 1998 will take on a new meaning for many real estate professionals. For some, the robust economy will present new opportunities to duplicate or exceed prior years' performance. For others, "how do I top this", will occupy the focus of their work efforts. And for those who have become dependent on a consistent monthly or bi-monthly payroll check, maintaining status quo will be a priority.

However, many real estate companies have no other choice but to grow and will continue to deploy a compensation structure that is fair and motivating. Nearly all of the economic indicators for 1998 indicate a good year for the real estate industry (albeit slower than 1997). As a result, having a good compensation plan in place will not only focus attention on growth but will recognize each truly outstanding employee's performance.

1998 will be a year of opportunity and growth for most real estate firms. Real estate CEOs will need to get their arms around compensation (i.e., "am I paying too much or too little"), annual bonus plans

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PREDICTIONS

REIT Consolidation Will Pose Major Management Challenge For CEOs

The strategies for REIT growth in 1998 include: consolidation; higher leverage; use of more complex financing vehicles and capital structures (i.e., paired-share and paper-clip); increased development activity; geographic expansion; and product diversification. Any one of these strategies can be a difficult challenge for Management. However, many REITs will employ more than one of these strategies and it will be a very difficult year for REIT CEOs and Executives. REITs must "prove" they can successfully manage growth, increase cash flow and improve market penetration. To prevent a growth paralysis, REITs will need to utilize experienced organizational and operational advisors to guide them throughout the various "what is needed" stages of efficient growth. Those REITs who attempt to go it alone or deny that problems can, and will, occur as a result of growth are doomed for at best, average performance, despite their extraordinarily successful implementation of their growth strategies.

Office Sector To Remain Hot

The best outcome (some would say the only positive outcome) of the late 80s/early 90s recession was the lack of speculative office building. Today with national class A occupancy levels in the low to mid 90s, rising rental rates and increased investor interest, the office sector will remain hot. Net absorption is exceeding the pace of new construction and suburban locations are exceeding all predictions. The only concern of this recovery is the long-term viability of many CBDs. Crime, traffic congestion, parking costs, quality of the labor pool, higher occupancy costs, taxes, and proximity to growth centers will likely inhibit a rapid recovery in several markets. CEL & Associates, Inc. recommends that CBDs be viewed as one of many submarkets within a MSA. However, over the next 18 - 36 months, the combination of limited space and a robust economy will create optimal conditions for the office sector.

Multifamily Owners Find A Bottomless Pit In Rehab

Trying to retrofit, rehab, revitalize, reposition, remarket and re-lease a formerly distressed or "tired" apartment complex can be trying for even the most patient investors and CEOs. Often, the hidden, or unforeseen problems (electrical, plumbing, structural) emerge as major cost centers. Most multifamily companies agree that preventive maintenance is better than "fixing someone else's problem" and "there is a reason why this property is being sold so far below market". Only the experienced apartment owner will attempt a rehab. While significant returns can be realized for the successful rehab, single digit returns are more common in order to "finish the job correctly". Most experts agree that a significant portion of the increase in value for a rehab is made at the purchase, not during the renovation.

Internet Commerce Will Reshape The Retail Sector

By the year 2007, retail shopping using the World Wide Web could approach $125 - 150 billion. When combined with catalogue sales, televised shopping networks and other forms of electronic commerce, the outlook for many retailers appears uncertain at best. As the price of computers continues to drop, access to Internet providers becomes easier and the fear of electronic theft of credit card numbers declines, consumers will increasingly rely on the computer for many of their shopping needs. Taking a virtual trip through a music store, for example, listening to brief sound bytes by your favorite artist, ordering that recording and reading it on a CD in your computer via modem is becoming a reality today. Bookstores, consumer electronics, appliances, and thousands of other products do not require a trip to the store. CEL & Associates, Inc. predicts that by the year 2000, rents for retailers will be declining, vacancies will rise and the fastest growing segment of the retail industry will be the delivery service providers...bringing the goods to your door. The retail industry isn't dead. It will dramatically reinvent itself and become more of a "reassembler" or "repackager" of electronically ordered goods.

Home Buyers Turn Green

Recent studies have revealed that home buyers prefer to purchase a home in developments that have parks, open space, walking and hiking trails and natural areas. These environmental qualities are twice as popular as golf courses and tennis courts. As the health conscious Boomers near retirement, home builders must question the wisdom of incorporating capital-intensive amenities within a community seeking a more park-like atmosphere. Proximity to clustered retail stores also ranks as another highly preferred amenity.

Multifamily Sector Moves From A Sprint To A Jog

After 36 months of nonstop rapid growth and change, the multifamily sector is likely to slow down over the next 24 months. Rents are peaking in several markets, development activity is creating an overbuilt situation in many areas of the country, and value increases are beginning to show signs of slowing down. REIT multifamily returns lagged the S&P 500 and the returns from all REITs. Vacancy rates are in the 7 - 9 percent range and several institutional investors have placed a hold or wait and see label on a number of REITs. In addition, the prime renting age cohert is declining and interest rates continue to make home purchases attractive. However, despite this peaking phenomena, the multifamily sector is expected to remain fairly strong over the next year and into 1999. Caution is the buzz word among multifamily CEOs. CEL & Associates, Inc. predicts that rents will grow 2.5 - 2.8 percent over the next 24 months and a slow down in new construction activity (to around 300,000 units) will lower the vacancy level to 6.75 - 7.25 percent by the year 2000.

The Luxury Renter Is Really A Want-To-Be Homeowner

Recent surveys have revealed that the upscale or luxury renter may be the ulti-

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A Bull Market
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(i.e., how easily are they administered), and ways to engage each employee in the formation of realistic performance benchmarks.

How to Access the Survey Data

Have you ever desired to compare your salary and bonus data to a true peer group? Have you wanted to contrast your compensation program with a comparable group of real estate organizations? If you have, then the salary and bonus comparison or assessment program called **COMPare** is for you. **COMPare** takes your salary and bonus data from 1 - 40 positions within your organization and compares it to the national statistics for all firms and to a composite of comparable firms (i.e. same region, same size, same type, etc.).

Since all compensation data in the **1998 National Real Estate Compen-sation Survey** is confidential, we will not disclose the names of firms used in the comparative database. However, with more than 350 firms located throughout the U.S. in the database there is a likely profile for literally all real estate organizations.

For REITs or real estate organizations seeking to (re)develop their compensation programs, for those seeking to compare and contrast compensation data, or for those that need validation when hiring or promoting a professional, you are encouraged to call CEL & Associates, Inc. at (310) 571-3113. ■

FOR MORE INFORMATION

For more information on the 1998 National Real Estate Compensation Survey; CEL & Associates, Inc.'s compensation program assessment, design and validation; or how to **COMPare** your salary and bonus information to an anonymous group or peers, please call (310) 571-3113.

A Look To The Future
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Prediction 43: By the year 2008, timeshare will have replaced the second or vacation home for soon-to-be retirees. Boomers will discover that the equity in their home will not only be difficult to access, but not enough to retire on. Faced with a desire to enjoy their retirement but lacking the financial resources to do so (as owners of a second home), Boomers will turn to timeshare as the only viable alternative to year round ownership.

Prediction 44: Automatic rent withdrawals from bank accounts will become commonplace in commercial and residential properties. There will be no need to prepare and deliver rent statements. Collections activities can be significantly reduced. Some renters may even opt for automatic posting of rent on credit cards.

Prediction 45: The floating staff concept will become a reality as the number of on-site personnel will be reduced. Problem-solving/support personnel with the best-skills-needed will be assigned on an hourly, daily and weekly basis. The balance between on-site and floating personnel may reach 60:40 by the year 2008.

Prediction 46: The title Property Manager (for commercial properties) or Community Manager (for residential properties) will disappear. The new title will be Business Manager. In the next millennium, real estate companies will recognize that properties are not assets, they are businesses — and should be allowed to run as a business.

Prediction 47: Real estate CEOs and CFOs will acknowledge that computers and other information processing equipment have not dramatically improved productivity. Computer technology, they will discover, is an annual cost that has a number of redeeming qualities — increased profitability is just not one of these qualities.

Prediction 48: Standardization will finally come to the real estate investment business industry. Encouraged by CALPERS and TIAA (and others), the real estate industry will open its transaction and operating databases.

Prediction 49: As much as 25 percent of the workforce in real estate companies will not have a designated work area. Instead, they will become "plug in and go" employees who locate and work in those areas in need of their skills or from their home or field location.

Prediction 50: Over 50 percent of the brokers within the real estate industry (employees or independent contractors) will be replaced. Technological advances, standardization, need to be a team player, Internet databases, new client requirements, and specialization (by industry, not product type) will force many brokers out. ■

Predictions
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mate want-to-be homeowner. High end renters expect (some might say demand) amenities, design features and other attributes that are more typically found in a single family residence. Garages, gardens, private entrances, built-in appliances, storage areas and upgraded finishes are just some of the expectations of the luxury renter. CEL & Associates, Inc.'s analysis of this market indicates that this renter segment will grow over the next five years. Apartments (like condominiums) offer mobility, freedom to enjoy time away from work and flexibility. The "no hassles rental" is the upscale renters' dream. Multifamily owners and developers should listen. What they hear can mean increased profits in years to come.

Simon Brand Ventures Is A Step In The Right Direction

Statistically the Simon DeBartolo Group Inc. is the optimal test case to evaluate the "access" value to users of, visitors to, and tenants within real estate properties. Simon DeBartolo Group Inc. has 17,000 retailers in 130 million square feet of retail space. Over 100 million shoppers visit 187 Simon DeBartolo owned or managed centers each year. To tap into this resource, Simon DeBartolo formed Simon Brand Ventures. This new wholly-owned subsidiary intends to create one-to-one marketing relationships with mall consumers. Simon Brand Ventures has already formed alliances with: Microsoft; Visa; and HFS. CEL & Associates, Inc. predicts that not only will this new venture succeed, but it will become the benchmark for others. ■

FOR MORE INFORMATION

Would you like more information on the various performance improvement or profit enhancement programs described in *Strategic Advantage*? Copy this page and fax or mail it to us to receive more information on the following programs:

Check Here For More Information	Program	Description
☐	**REACT©**	**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.
☐	**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**.
☐	**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.
☐	**Feedback©**	Knowing the opinions, attitudes and perceptions of your organization's employees is critical for improving morale, communications and performance.
☐	**360 Review**	If you want to improve profitability and productivity, identify areas for self improvement within your leadership/management team, then you need to complete a full-circle assessment of the performance of your executives.
☐	**COMPare**	For human resources directors, administrators, CEOs and owners, **COMPare** takes salary and bonus information and compares it to the national industry standards and to a composite profile of comparable organizations. Nearly 40 positions are available for comparative purposes from **COMPare**.
☐	**REIT Trends**	For more information on the REIT industry, *REIT Weekly*, *REIT Securities Monthly*, or the other data services of SNL Securities.
☐	**Move-In/Move-Out**	**Move-In/Move-Out** is a performance measurement tool that lets a company know the decision-making, experience, opinions and perceptions of tenants or residents as the move into or out of a property.
☐	**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.

FAX OR MAIL REQUEST TO:

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TRENDS TO WATCH

Trends to Monitor Closely	Likely Impact
• The stock market appears to impute more value to intellectual capital than physical capital.	• Raising additional debt or equity will become increasingly difficult and costly for REITs. Watch for an acceleration of REIT mergers as bigger becomes better in the eye of Wall Street.
• The recent acquisition of the O'Connor Group by J.P. Morgan Investment Management, Inc. reflects an increasing desire by Wall Street to become a more significant player in separate accounts and in retail real estate.	• Watch for other mergers over the next 12 - 18 months as investment advisors seek real estate expertise to diversify their investment strategies.
• Paired-share, UPREITs, DOWNREITs, paper-clipped structures and other novel designs are drawing Congressional attention.	• Leave it to the Accountants to, again, goof up a good thing. The recent Stanwood/Hilton merger may cause Congress to redefine the REIT designation. Watch for investors to take a cautious approach to REITs who have paper-clipped structures.
• Vornado Realty Trust and Crescent Real Estate Equities recently agreed to purchase two cold storage companies.	• Corporate America continues to be the large untapped bucket of gold at the end of the rainbow for those creative, risk-taking aggressive and well-capitalized real estate organizations. In many way, Corporate America could become the real estate industry's RTC of the next millennium.
• REITs purchased $35 billion in real estate in 1997, topping the $20 billion mark set in 1996.	• Many analysts are raising questions on the availability of product in 1998 and beyond. Watch for REITs to expand internationally, diversify their holdings and consolidate.
• Captec Net Lease Realty, Entertainment Properties Trust, U.S. Restaurant Properties, and Aegis Realty are recent IPOs that focus on product/geographic niches typically not pursued by the commercial REITs.	• Watch for more niche REITs in 1998 and beyond as bundling of property types, regardless of the location, creates a perceived expertise on Wall Street. Don't expect these REITs to succeed significantly beyond their original offering.
• Real estate investing is becoming a global business.	• There are at least eight REITs, 24 opportunistic funds and 7 new international vehicles already in place. Insignia Financial Group, LaSalle Advisors, Tishman Speyer, Koll and many others who have an international presence, are putting into place the global network needed to serve investors. Watch for more real estate entities to seek oversees opportunities as some of the U.S. Markets overheat.

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