CEL & Associates, Inc.

STRATEGIC ADVANTAGE

Straight Talk for Real Estate Owners and Executives

Issue No.: K9698
Editor: Christopher Lee

Inside

THIS CYCLE HAS ENDED!

How many times have you heard the expression, "...real estate is a cyclical business"? How often have you heard the comment, "...this market is in its growth cycle"? How many management meetings or long-range planning sessions have you attended where someone remarked, "...the real estate industry has always gone through cycles"? The fact that the real estate industry, real estate markets and real estate companies go through cycles is very clear. The problem is that most real estate organizations do not know when one cycle ends and another begins or, more importantly, how to successfully transition from one real estate cycle to the next. The real estate industry prosperity cycle is ending and we have now entered into a period of transition. Now is the time to shift from prosperity to transition profits.

> *"Now is the time to shift from prosperity to transition profits."*

The best indicator of the confusion and uncertainty caused by the transition from one real estate cycle to the next are the number of directional or crossroads questions under debate in most real estate companies nationwide. Where do we go from here? When will this cycle end? What happens to the industry if the conduit market slows down? Should we add new services, expand our geographic coverage or open new offices? Should we merge with, sell to, or acquire our competitors? Should we go public or sell to a REIT? Should we join a network, if so which one? How can we keep our star performers from leaving? Is it time for the company's founders/owners to step aside and allow the next generation leaders to assume leadership control? What services will our clients, tenants and/or residents expect from us tomorrow? What should we do?

Today, the real estate industry is changing at warp speed. Mergers, IPOs, asset sales and the capital markets are reshaping and redefining the character and structure of the real estate industry. Real estate companies are turning into conglomerates, real estate properties have become commodities and fierce competitors are becoming alliance partners. The last three-year real estate transition period was from 1987 - 1990. During this period, the RTC, consolidations in Corporate America, declining market demand and international investors were shaping/impacting the real estate industry. And the transition periods from 1977 - 1980 and 1967 - 1970 were not very different.

In a rapidly changing real estate environment, many real estate companies, uncertain about what to do, wait for time or events to make decisions for them. Some real estate organizations postpone decisions, avoid conflicts and delay taking the strategic steps necessary to propel them into the next real estate growth cycle. Some real estate companies wait for an event (i.e., a decline in rents or occupancy levels) to make decisions for the organization. Some real estate organizations attempt to "ride the wave of opportunity" until it, or they, crash. However, a few firms — those that have mastered the seven keys to an orderly transition from one cycle to the next are able to make decisions that assure future profitability and performance. Master these seven keys and the future becomes very clear.

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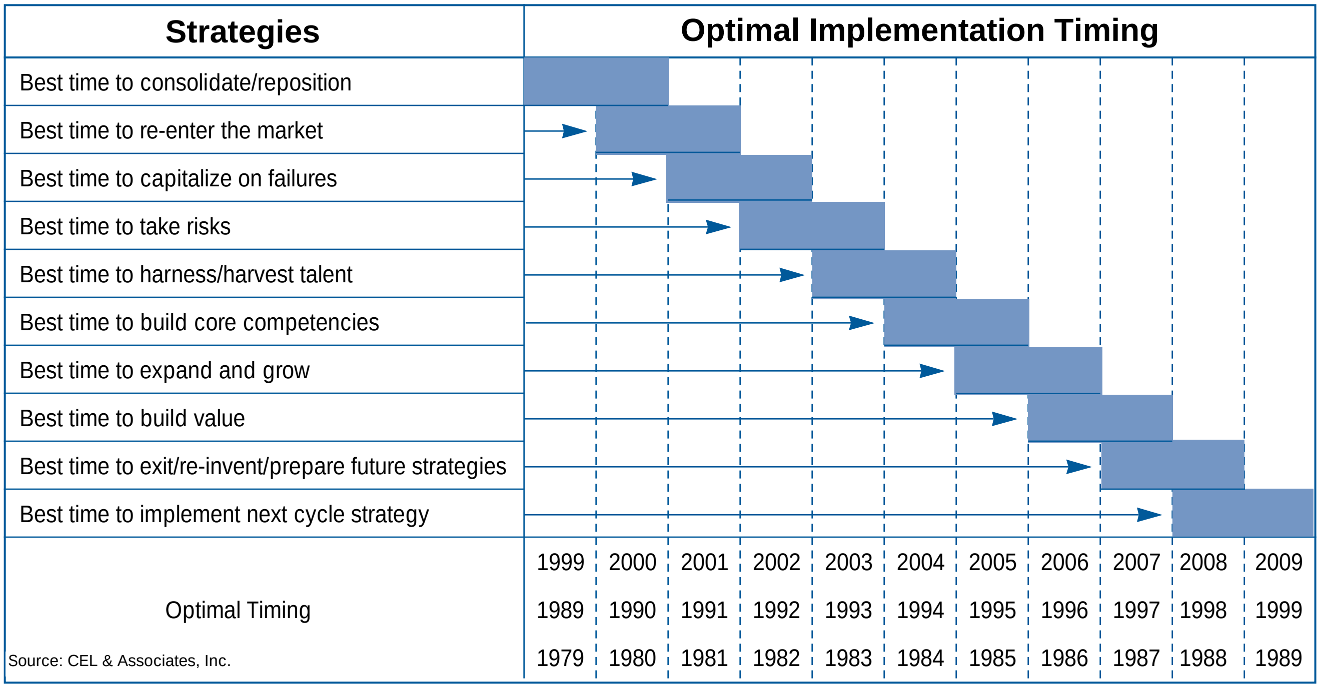
REAL ESTATE CYCLE STRATEGIES



This Cycle Has Ended
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Develop A Vision And A Plan: While this first key seems obvious on the surface, many real estate companies lack a clearly stated, measurable, and understood statement of what the organization seeks to achieve or aspires to be over the next 3 - 5 years. Many firms confuse a vision with a mission statement. For some firms, the vision is very clear to the principal owner(s) or CEO but beyond them, no one else in the Company has a clue as to where the organization is headed. Frequently, an annual operating budget is called "our business plan" but contains no long-term goals and strategies. To see where your company stands on this key to success, ask everyone (surprise them) at your next executive or staff meeting to write down the organization's vision. Give them a maximum of 60 seconds to complete this task — no exceptions. Collect the slips of paper. My guess is that no two responses (except those who had no idea and turned in a blank sheet) will be the same!

Get In Sync With Your Customers: Listen to your customers, clients, tenants, residents, vendors and alliance partners. Solicit their perceptions, encourage their feedback and quantify their opinions. Find out what they perceive to be the biggest challenges facing them today and in the future. Measure their level of satisfaction with the quality and level of services you are providing. Identify what you will need to do in order to keep their business in the years to come. Find out how your customers rate your performance as compared to their experience(s) with one or more of your competitors. Get outside advice and counsel on how to best design a system of "connecting with customers" that provides the answer you need in a timely and cost efficient manner.

Develop Or Perfect New Products/Services: Transitioning from one real estate cycle to the next requires an organization to do different things — not do things differently. Establish a Futures Task Force that examines current, emerging and likely future trends, customer and organizational needs. Involve outsiders on the Task Force to stimulate new ideas, provide different perspectives and encourage out-of-the-box thinking. Consider forming strategic alliances with other suppliers to, and vendors of, your customers (i.e., a space planner or office furniture manufacturer if you are in the commercial sector of real estate; an advertising executive if you are in the retail sector; a home furnishings company or Internet provider if you are in the multifamily sector; or a shipping company if you are in the industrial sector). Develop and test the new ideas.

Develop Technology-Based Service: The technological changes that are occurring within the real estate industry are transforming a back-of-the-envelope, feels-good-to-me, I-like-the-deal mindset into leaders and operators who are increasingly relying on technology to provide information, answers and resource opportunities. During a transition period, real estate companies must embrace and adopt technology as a service-providing partner. Technology is just another form of talent — use it...don't rely on it.

Establish Performance Metrics: Many real estate companies use performance measures based on accounting criteria (i.e., profit/loss, occupancy level, square feet managed/leased, etc.). However, during a transition period the more appropriate performance measures

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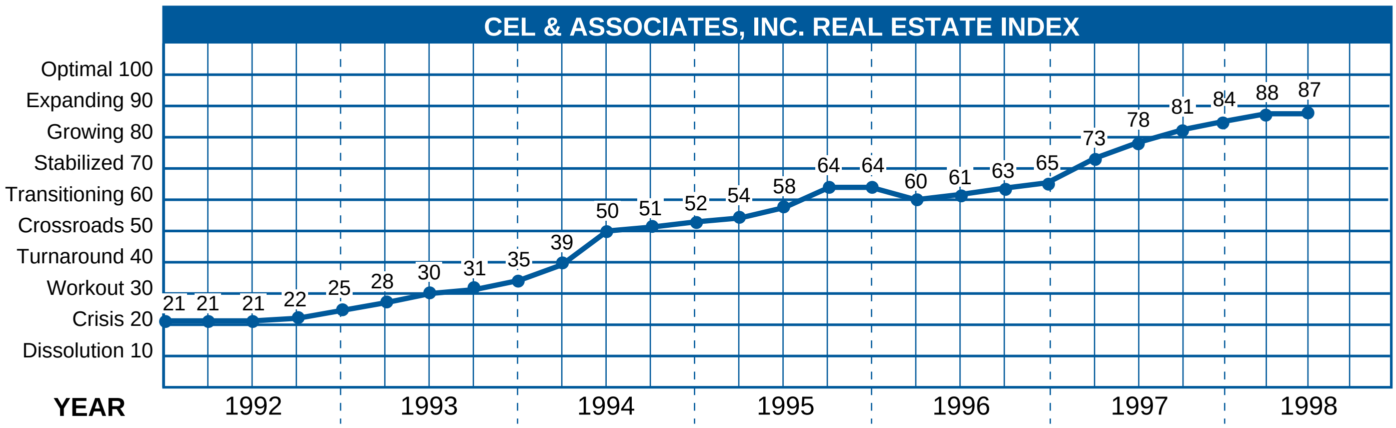
As We See It

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 78 in the second quarter of 1997 to 87 in the second quarter of 1998. There is both optimism and uncertainty projected for the balance of calendar 1998. CEL & Associates, Inc. believes that the market has peaked and will begn to slow down. The underlying reasons for this are principally due to the following:

- The inflation rate continues to hover around 2.9 percent, while the gross domestic product in the U.S. has risen to over $7.6 trillion, compared with only $4.9 trillion in 1991.
- The jobless rate is now at 4.3 percent — a 28-year low. The tight labor market may signal a possible interest rate hike.
- Despite softer March figures, U.S. consumers made record retail purchases in the 1Q of 98 — the largest jump in retail buying in 11 years. Warmer weather contributed to the acceleration of consumer purchases normally made in the 2Q of a calendar year.
- Real consumer spending on goods and services in the 1Q rose at an annual rate of approximately 6 percent — the best quarter in six years, and the strongest three-quarter run of consumer spending since 1986.
- Rates for 30-year fixed-rate mortgages continue to hover around 7.1 - 7.2 percent. This low interest rate continues to contribute to a robust housing market. However, CEL & Associates, Inc. believes the Fed will increase interest rates slightly within the next 180 days.
- During the 1Q of 98 there were $32.2 billion of merger and acquisition activity in the country's hotel industry — more than three times the $8.9 billion that took place during all of 1997. There were 18 transactions in the 1Q of 1998 versus a total of 21 for all of 1997.
- The resale rate for single family homes is expected to hit 4.56 million units in 1998 — up over 3.2 percent over the prior record setting year. Single-family starts, according to a recent CEL & Associates, Inc. analysis, are expected to increase nearly 8 percent in 1998 to 1.24 - 1.28 million units. The hot market — the West. The declining market — the Northwest. Half of all homes sell for more than the median price, while housing activity among homes $200,000 and above grew to nearly 21 percent of home sales in 1997.
- Despite a robust economy, more than 1.3 million bankruptcy petitions were filed in 1997 — an all-time high.
- Residential mortgage originations are expected to hit a record $1.1 trillion in the U.S. in 1998. The share of U.S. residential mortgages financed by the secondary market will rise to 35 percent this year.
- Atlanta, Phoenix and Dallas were ranked 1, 2 and 3 respectively for the number of residential permits issued in 1997. A combination of strong job growth (Phoenix led the nation with 91,100 new jobs created in 1997), the booming economy and an abundance of capital created this development indice. However, CEL & Associates, Inc.'s analysis of these markets reveals that in some submarkets overbuilding is occurring. Interestingly, not one California market was among the top 10 markets in 1997.
- There is now $343 billion of multifamily debt and a threat of overbuilding in select markets.
- Life insurer mortgage investment portfolio delinquencies are at their lowest level in 18 years. The size of the portfolio has grown to over $174.2 billion, yet the delinquency rate is now less than one percent.
- The employment cost index — the broadest gauge of U.S. wages and benefits — rose at an annual rate of 3.6 percent in the 1Q. This would be the biggest increase in four years and will likely put pressure on employers to raise prices.

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This Cycle Has Ended
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focus on time. For example, the time it takes to: (re)lease a vacant unit or space; respond to a customer request; complete a lease negotiation; hire, train and give a new employee the authority to make decisions; prepare, assemble and distribute a marketing or sales package; or the time it takes to make investment or management decisions. One of the biggest contributors to profit loss or gain is not the decisions that are made but how long it takes to make those decisions. Develop internal best practices.

Select A Manageable Pace Of Change: Too often real estate companies get caught in situations that control them. How many times has your company made decisions based on a perceived lack of options? How often have you participated in meetings where the statement, "...we need to do something quickly...all our competitors are doing it" was echoed by one or more attendees? Real estate companies can only time-pace change as fast as their internal systems, processes, capabilities and talent will allow them to move. CEOs who typically want "results now" must learn to cope with employees who wonder "why now". Organizations who are able to select a manageable pace of change are often the ones who are able to maximize profitability during the transition from one real estate cycle to the next.

Focus Attention On Perfecting The Talent Base: Every real estate organization has employees — not every real estate organization has talent. Recruiting, hiring, training, motivating, and rewarding talent is one of the keys to future success. When transitioning from one real estate cycle to the next, what talent in the organization will be able to successfully make the transition? Which employees have the talent to create and add value in a new real estate cycle? In the future, real estate employees will have careers not jobs — talent will become aligned with opportunity. Talent will replace capital as the determinant of success in the future. How will your company fare in a marketplace based on harnessing and harvesting talent?

Conclusion: The real estate industry has predictable seven year cycles with a three year transition between cycles. Everyone can make money during a cycle's growth period — many can lose money during its down period. The opportunity to avoid a real estate down cycle is available to everyone. But to do so requires successfully mastering the seven keys to transition success. Real estate companies that step out-of-the-box, that challenge the "old ways" of conducting business and that are open to new ideas will reap the benefits entering into, during and coming out of the transition period from one real estate cycle to the next. The opportunity is there...is your company prepared to lead rather than follow? ■

FOR MORE INFORMATION

For more information on how CEL & Associates, Inc. can help your company successfully transition from this real estate cycle to the next, please call us at (310) 571-3113.

As We See It
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- Overall REIT earnings growth in excess of 15 percent in 1Q will likely boost flat stock prices into the summer months. External acquisition activity which typically accounts for two-thirds of a REIT's growth was a critical factor in the higher than expected earnings level.
- Consumer prices have risen at a 1.4 percent annual rate so far this year and wholesale prices are falling. Prices of crude oil are down.
- The economy has expanded at an annual rate of 4.2 percent in the 1Q — the sixth quarter of growth over 3 percent. This was fueled by a rise in consumer spending and business investments.
- Financial engineering is back in vogue. Banks are taking on increasing corporate lending risk. Junk bond borrowers could run out of cash.
- The soaring stock market has revitalized the luxury goods market. The high end, collectibles market is often an indicator of excess and boom-bust existence.
- The U.S. stock market has risen more than 30 percent in the past 12 months. The S&P 500 stock index has seen a cumulative real return of 825 percent since 1982 — higher than the 730 percent real gain during the 1920s boom period.
- There were approximately $957 billion (equivalent to 12 percent of the GDP) worth of mergers and acquisitions in the U.S. in 1997. By April 13th of this year, $441 billion worth of mergers had been announced. The last time mergers were at their highest levels were in the 1900s, 1920s, 1960s and 1980s — all four periods ended in a crash.
- The average income for all U.S. citizens was up 4.8 percent in 1997, per capita income was up slightly more than 4.6 percent and, when adjusted for inflation, per capita income in the U.S. was up 2.8 percent.
- The U.S. dollar must keep appreciating in order to hold down inflation — and that is not likely to be an ongoing feature of this economy. Furthermore, the impact of productivity growth is beginning to slow as investments in computer hardware and other high tech resources begins to slow.
- Federally insured credit unions originated $17 billion in single-family residential mortgages in 1997 — a 13 percent increase in 1996.
- Office vacancies have fallen to below 10 percent nationally.
- Overall inflation has risen only 0.9 percent over the first quarter after rising 1.4 percent in the fourth quarter of 1997. This is the slowest rise of inflation in 35 years.
- There is still some concern that the Asian financial crisis could slow the growth of the U.S. economy to below 3 percent.
- The home ownership rate has risen to 66.0 percent — up two percent since 1994. Every one percent increase means approximately 1,000,000 fewer renters. ■

FINDING YOUR PROFIT ZONE

Ask any CEO of a real estate company where his/her profits come from and they will tell you, "...improved marketshare, reduced costs, more productive employees/contractors, higher fees or improved internal growth". Ask any onsite Manager where his/her profits come from and they will tell you, "lowered expenses, higher occupancy, increased rent or better billing of CAM changes". While these answers are correct, they unfortunately don't work anymore. In today's rapidly changing economy and consumer/customer preferences and expectations, the real estate industry is experiencing a value migration from products to services.

Many, if not most, real estate companies are running unprofitable product-centered businesses or, at a minimum, underperforming profit centers. Performance measures in the real estate industry are often derived or driven by accountants and analysts who tend to focus on traditional or historical evaluative criteria — oblivious to the multiple lost profit opportunities. For many organizations, exceeding prior year or quarter results is a benchmark of success. How wrong they are! "Ahead of our projections" is one of the early warning signals of a real estate company who hasn't found its Profit Zone.

Perhaps the best indicator of this condition — a failure to drop unprofitable clients — can be found in most real estate firms. When was the last time you fired a client? Does your company conduct annual profitability analyses on each client or customer you served? Does your company measure success "on the numbers" versus the quality of the client/customer base? CEL & Associates, Inc. has discovered, during its process of providing profitability assessments for real estate companies, that 15 to 20 percent of an organization's clients or customers are creating a drain on profitability and performance. Furthermore, another 10 to 15 percent of a company's employees are underperforming their potential and/or the profitability required for the level of resources dedicated to that employee.

For example, a traditional real estate brokerage firm attempts to recapture its "desk costs" through its splits. Theoretically, if the typical desk cost was say $65,000, the company does not break-even until all Brokers have produced a minimum of $130,000 in gross production (assuming a 50/50 split). Unfortunately, nearly all brokerage firms have as many as 20 to 25 percent of their Brokers who fail to reach break-even status. That is operating out of the Profit Zone.

Other examples of not operating in the Profit Zone are multifamily companies who derive less than 10 percent of their income from non-rental sources; or the mortgage brokerage firm who measures success on the number of transactions versus the number of reoccurring transactions; or managers of commercial properties who fail to achieve an 80 percent or greater level of tenant satisfaction; or REITs who are unable or unwilling to reinvest in customer-based services. The fact that many real estate companies, regardless of size or ownership structure, focus their business planning activities on perfecting their core competencies versus connecting with customers reveals one reason why the real estate industry is no longer an economic arbiter of things to come.

The first questions a real estate company must ask and answer if it is to find its Profit Zone are: (1) who are our customers; (2) what do they want and need today to remain our customers; (3) what do they want and need tomorrow from their service provider; and (4) what does our company need to do in order to stay relevant with our customers, profitable for our Shareholders, and a step ahead of our competitors?

CEL & Associates, Inc.'s professionals have discovered from completing thou-

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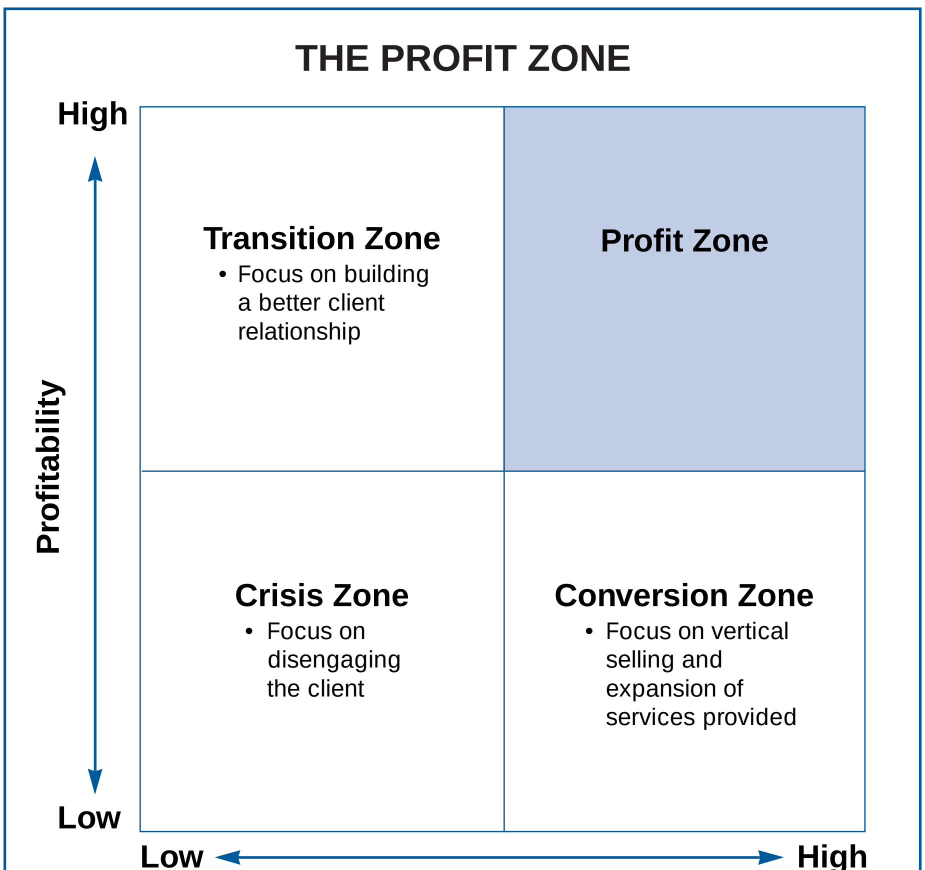

Source: CEL & Associates, Inc.

Internet Commerce Is Reshaping The Retail Industry

What regional mall can provide its shoppers with direct access to hundreds of thousands of retailers, 24 hours a day, seven days a week without the hassle of parking or the inconvenience of inclement weather? What shopping center can provide regional, national and international comparative shopping without leaving the comfortable surroundings of one's home? Or, what retail center can change its image, appeal and access to shoppers on an hourly, daily or weekly basis? The answer — the Internet...and the retail industry is bracing for a major restructuring.

CEL & Associates, Inc. recently completed a study on the current and potential impact Internet commerce is having and will likely have on the retail industry, and the results could be alarming to some. For example, Internet use has grown from an estimated 9 million users in 1995 to over 50 million users today. Internet commerce has skyrocketed from approximately $600 million in 1996 to over $2 billion in 1997. Some studies project Internet commerce to rise to $35 billion by the year 2000.

According to an industry survey, approximately 50 percent of all Americans are not fully satisfied with their current retail shopping experience. Nearly 55 percent of Americans under the age of 35 years (one of the prime retail markets) are not pleased with their shopping experience today. According to a study by ICSC, 60 percent of consumers complain that their activities conflict with store hours. Shoppers want to buy quality goods free of hassle, at their convenience and at lower prices.

Non-store retail sales (i.e., catalogue sales, television shopping, telephone and on-line sales) now account for nearly 20 percent of total retail sales. Some analysts believe that this percentage could exceed 50 percent within 15 years. What will happen to all the regional malls? That is a question mall owners are very concerned about. According to some analysts in the recent CEL & Associates, Inc. study, over 100 million square feet could become obsolete.

While restaurant, grocery, and select retailers of discretionary items (i.e., jewelry, luxury items, etc.) will be immune to the Internet wave, many retailers will find it difficult to survive over the next 10 - 15 years. Some retailers are attempting to attract shoppers by using entertainment or thematic settings — but these initiatives will only delay the difficult choice for many owners of large retail properties.

Will the retail industry survive? Absolutely...but it will not look anything like it appears today. Now may be the time to exit select retail product categories. ■

The Next Millenneum Leader

In the 1980s most employees of real estate organizations were managed. Few were led. Real estate companies were run by entrepreneurs who pursued their dream and believed that most employees "needed to be told what to do". As a result, the real estate industry became over-managed and under-led. By the mid 1990s, the functional manager became a popular fixture within real estate organizations as "managing by results" became the operating mantra for many companies. Today, successful real estate organizations and employees are looking for leaders who lead.

The first condition or precept of leading into the next millennium is that the organization must have empowered employees who have the authority and responsibility to make decisions. Leaders need to plan, organize, provide a clear vision and motivate outstanding performance. Leaders establish a clear vision and transmit that vision to others. Leaders identify and acquire resources that support their company's vision. Leaders emphasize the intangibles such as values, commitment, motivation and corporate culture. Leaders infuse day-to-day work with a larger sense of purpose. Leaders interpret trends, explain the future and build trust. Leaders back up their words with actions. Leaders set the tone, serve as models and exude confidence.

Leaders focus on people, while managers focus on systems and structure. Leaders inspire outstanding performance, managers rely on control to achieve results. Leaders have their eye on the horizon, managers have their eye on the bottom line. Leaders challenge the status quo, managers accept current conditions. Leaders set direction and inspire others to follow. Leaders have a vision, managers have a manual. Leaders are catalysts for change, managers prefer things the way "they've always been". Leaders are the first to embrace new technology and processes. Next millennium organizations seek leaders who are a "step ahead", not always "catching up". These new leaders lead by trust, by example and by vision.

People want to be around leaders. By making a personal commitment, a leader demonstrates his/her commitment to the organization's goals and ideals. Leaders view excellence as a necessity, not an option. Leaders lavish praise on employees and reward performance. Leaders coach and mentor. Leaders create situations for success and accomplishment. And above all, leaders know how to have fun and laugh at themselves.

How many leaders are there in your organization? ■

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.

- Many real estate companies have, are, and plan to dedicate a significant amount of time and resources to developing and providing training programs for their employees. However, a recent CEL & Associates, Inc. survey discovered that less than 50 percent of the companies providing and/or encouraging training for their employees attempt to measure the success or value of the training provided. An even smaller number of Human Resource directors apply financial measures to assess the success (or lack of) of the training being provided. In addition, CEL & Associates, Inc. discovered that a majority of CEOs are "tired of receiving entertainment-based training" where "everyone leaves the training seminar feeling good but there is little or no change to employee behavior".
- Are you an "employer of choice"? The answer to that question requires real estate companies to monitor and measure the opinions, perceptions and attitudes of their employees on a regular and re-occurring basis. Real estate CEOs and Human Resource Directors have discovered that quantifiable measures and employee opinion surveys provide a statistical benchmark that can identify individuals, departments and/or policies/procedures that are inhibiting performance and productivity. The rapidly changing workplace environment and increasingly difficult ability to retain star performers who perceive "better opportunities across the street" mandate measuring employee opinions. Without validation, how will you know if you are, have been, or are becoming an "employer of choice".
- Hiring within the real estate industry is at its highest level since 1986. Seven out of ten real estate firms in a recent CEL & Associates, Inc. survey indicated that they intended to increase the number of employees within their organization in 1998.
- CFOs pay attention! One of the quickest ways for a CFO to gain the applause of employees is to set up flexible spending accounts ("FSA"). A flexible spending account is a type of cafeteria plan but typically does not have to include as many options as a full blown cafeteria plan. With a FSA, employees can be reimbursed for eligible medical and dependent care expenses on a tax-free basis. Eligible dependent care expenses can include: child care centers that care for six or more children and meet the IRS definition of a qualified day care center; babysitters; and nursery schools. In order for employees to be reimbursed on a tax-free basis, they must sign a salary/wage reduction agreement at the beginning of the calendar year. The only drawback to a FSA is that the employee forfeits any unused portion of the monies withheld for the FSA. If administered properly, FSAs can be a valued benefit for employees and the CFO will receive all the credit!
- Why use an executive recruiter when the Internet can post your employee needs? The answer is clear — the Internet cannot provide personal contact, reference or background checks, advice or guidance on the appropriate compensation level or counsel on how to structure the offer. Despite rapid technological advances, real estate industry HR Directors have discovered that the Internet does not hold the key to employee recruitment.
- In today's extremely tight job market current and future employees are increasingly placing as much value on the benefits package as they do on the compensation package. Within the real estate industry there is a wide range of benefits plans — some good...some not so good. How does your organization differentiate itself from other real estate companies when it comes to benefits? In most markets, real estate compensation is an identifiable number for most positions. However, the key to attracting and retaining employees is now focused on the benefits and intangibles. If your company hasn't surveyed the competitive marketplace regarding benefits, now is the time.
- More than 25 million meetings take place every day in the world of business and many are unproductive and involve the wrong people. Stop for a moment and list the last five meetings you attended. Was each meeting productive? Was it essential that the attendees at each meeting needed to be there? Was there an agenda for the meeting? Was the agenda followed? Did each meeting start on time? Could the meeting time be reduced? Were there individuals who were not at the meeting and should have been? Were you bored? CEL & Associates, Inc. recommends that every real estate company attempt to reduce the number of meetings by 25 percent in 1998. Productivity in the workplace comes from employees who feel that their time at work is being spent in a productive manner.
- Growth in total health plan costs for active and retired workers of private- and public-sector employers with 10 or more employees rose only 0.2 percent in 1997. The average health-benefit cost for all employees was $3,924 in 1997. This trend reflects a move by employers to spend less on retiree medical benefits.
- Fifty percent or more of training programs for real estate professionals will be technology-based by the year 2000 according to CEL & Associates, Inc. Concepts such as distance learning, interactive or linear video and computer-assisted programs will become the preferred training vehicle for many companies. The need to provide "just-

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National Customer Satisfaction Awards Program Announced

CEL & Associates, Inc. recently announced the establishment of a National Real Estate Customer Satisfaction Awards Program. This Awards Program is the first of its kind in the real estate industry, and has been designed to recognize those properties and companies which achieve the highest level of customer satisfaction — as rated by their customers. All properties and companies who are recipients of the Awards will receive national recognition for service excellence, and obtain the privilege of utilizing the Award in advertising, marketing and promotional purposes.

Similar to the J. D. Power Awards Program for the automotive industry, the National Real Estate Customer Satisfaction Awards Program will provide the customer, tenant, resident or client with an independent verification of satisfaction excellence. All real estate companies are eligible to participate. Utilizing the national, comparative benchmarking data on customer satisfaction provided by CEL & Associates, Inc.'s national satisfaction survey, called **REACT**©, every real estate organization and property or transactional service will be automatically enrolled in this exciting program.

In addition to awards given by entity classification and size of firm, all properties (or in the case of brokerage, all offices) which receive an overall **REACT**© customer satisfaction score of 80 or higher will receive an award.

According to CEL & Associates, Inc. the **National Real Estate Customer Satisfaction Awards Program** will: (1) give recognition to those employees providing the best customer service; (2) give other employees and organizations "something to shoot for"; (3) provide a marketing edge derived from the display of the award(s) in lobbies, marketing materials and communications to potential customers; (4) give each recipient the privilege of using the awards logo in advertisements, on letterhead and business cards; and (5) demonstrate to your customers, Shareholders, employees, Wall Street analysts, and alliance partners that the organization cares about the overall quality and level of services being provided to customers.

The **National Real Estate Customer Satisfaction Awards** will be presented in January (1999 for 1998 results, 2000 for 1999 results, etc.).

To be eligible, a real estate organization must complete its customer satisfaction surveys, using the real estate industry's most popular and widely used customer satisfaction survey instrument **REACT**©, by the end of each calendar year. In 1997, CEL & Associates, Inc. processed approximately 750,000 **REACT**© surveys. Based on current and anticipated commitments, CEL & Associates, Inc. expects to process 1.0 - 1.2 million **REACT**© surveys in1998.

Within the real estate industry, there are very few indices that differentiate one company from the next. Everyone declares that they have the best people, the best service, a commitment to excellence and a customer focus. Now there is a vehicle to recognize and acknowledge all those employees and companies who truly "walk the talk". ■

FOR MORE INFORMATION

For more information on how your firm can become eligible to participate in the **National Real Estate Customer Satisfaction Awards Program**, please contact the Manging Director, National Awards Programs at (310) 571-3113.

NATIONAL CUSTOMER SATISFACTION AWARDS

Award	Sector	Criteria	Category
President's Award	All	Most Properties With Satisfaction Scores 80 And Above	Level 1
Governor's Award	All	Most Properties With Satisfaction Scores 80 And Above	Level 2
Mayor's Award	All	Most Properties With Satisfaction Scores 80 And Above	Level 3
National Service Award	All	Highest Overall Portfolio Satisfaction Score	Level 1
Director's Award	All	Highest Overall Portfolio Satisfaction Score	Level 2
Regional Service Award	All	Highest Overall Portfolio Satisfaction Score	Level 3
Service Excellence Award	All	All Properties Receiving A Satisfaction Score 80 And Above Plus A 35% Or Greater (Multifamily) Or 50% Or Greater (Commercial/Retail) Response Rate	No size limitation

What Makes Your Company Unique?

What makes your company unique? What product, service or attribute sets your organization apart from the rest? Why should a client select you and not your competitor? Why should a new employee candidate join your organization? Fairly easy questions to ask...very difficult questions to answer. One of the challenges facing real estate organizations today is how to distinguish oneself from the others. What is your competitive advantage?

UNIQUE CHARACTERISTICS THAT CREATE LITTLE OR NO VALUE FOR THE ORGANIZATION

Characteristic	Customer Perception/Feedback
Size	"Size means nothing...who is going to work on my job?"
Longevity	"What happened 50 years ago has no value for my needs today."
Number of Offices	"Does this mean I will pay more or get less attention?"
Tenure of Employees	"The number of years of service is no indicator of future performance."
Computer System	"I want interpretation of data, not colorful printouts."
Founder Identity	"If he/she isn't working on my job, why should I care?"
Presentation	"Everyone has one...I want to meet the person assigned to my account."
Affiliation	"Nice to know...but that is <u>your</u> resource to earn <u>your</u> fee."

Source: CEL & Associates, Inc.

The first response to these questions, in 99 out of 100 real estate organizations, is —"our people...we have the best people". If this answer was true, than where are the underperfomers? If this answer was true, every real estate company would look and perform in an identical manner. Assuming that the real estate industry defies all employment case studies and research and contains the best talent — then outstanding talent is common to all firms —- so, then, what makes your company unique?

If your answer is "technology", you're only one Microsoft announcement away from being outdated. If your answer is "we're a privately or publicly held company", how does this make you unique in a marketplace of constant change? If your answer is "our clients", do you have an exclusive relationship, and what happens if your client contact is no longer there? Or, if your answer is "our results", how have those results been created and can they be replicated year-in and year-out?

Many real estate companies have a difficult time marketing and selling their services or products when "they look like the other top 3 - 5 competitors". Obviously some firms can say that they have been in business longer, have more offices, or employ more people — so what? Potential customers want to know "why should I select you"? "What distinguishes you and your firm from the others"?

CEL & Associates, Inc. has assisted many real estate firms over the past several years in identifying and/or developing products or services that make a real estate firm unique. Based upon hundreds of interviews, CEL & Associates, Inc. discovered that most real estate companies attempt to define the unique qualities from an organizational or operational perspective (i.e., "we manage more square feet"; "we've been in business more than 50 years"; "our national platform gives us access to customers and talent"; or "our people have been with our firm for many years"). This approach to defining an organization's unique qualities doesn't work. Clients couldn't care less that the company was founded 10, 20, 50 or 100 years ago or that you manage X million square feet.

Clients want to "perceive quality" and desire their service providers to share in the same perceptions of quality and what it means to their organization. Clients want the "personality" of their service provider to mirror the attributes of their company. And finally clients want to know that their service provider is unique and "one-of-a-kind".

The qualities that make a company unique are those factors that: (1) cannot be purchased, recreated or accessed by others; (2) are based on serving customer needs and expectations; (3) have an element of secrecy or confidentiality; (4) are recognized by one's competitors as being unique; and (5) transcend talent.

Developing a unique, one-of-a-kind story that distinguishes your firm from your competitors can be a challenging exercise. However, the absence of a differentiating story can be an even more challenging experience. In today's rapidly consolidating real estate environment, those organizations who can describe their uniqueness will develop stronger and long-term customer relationships. ■

FOR MORE INFORMATION

For more information on how CEL & Associates, Inc. can evaluate and determine/identify what makes your company unique and how to improve business development practices, please call (310) 571-3113.

Rising Stars Want and Deserve More

One of the side effects of a booming economy is the sudden urge by organizational stars, top producers and outstanding performers to want, and expect, more rewards for their efforts. In good times, everyone is hiring, "going it alone" becomes an attractive option and growing firms feel that they can "pay whatever it takes" to recruit a new hire. For the superstar performer who is not an owner or feels that their ownership percentage does not reflect their contribution, asking for more can often lead to *demanding* more. Many CEOs are uncertain as to what to do. Should I increase their salary, improve their splits, up their bonus potential, sell/grant them stock or increase their benefits? Will I be overpaying for the position? What should I be paying for this position? How much will it cost me if he/she leaves?

Wanting and deserving more compensation is a natural phenomena within the real estate industry. However, this time around, phantom equity programs are not as attractive and "pay me more now" has taken a higher priority than "pay me more later". CEL & Associates, Inc.'s 1998 National Real Estate Compensation Survey, which includes data from 375 real estate firms nationwide, revealed that rising stars deserve, and are increasingly receiving, a higher level of compensation. However, while many real estate CEOs are willing to increase compensation and rewards, they are reluctant to overpay for the position. As one Southeast CEO stated,"...if I paid everyone what they thought they were worth, I'd be broke".

SALARY DIFFERENTIALS AT $50,000 IN SELECT U.S. CITIES

San Jose	$59,900
New York	$57,950
San Francisco	$57,750
Los Angeles	$56,700
Boston	$53,800
Washington, D.C.	$53,350
Detroit	$52,900
Chicago	$52,700
Atlanta	$52,650
Denver	$51,300
Seattle	$51,300
Houston	$50,600
Dallas	$50,450
Charlotte	$50,005
Phoenix	$49,450
New Orleans	$48,800
Tampa	$48,700

Source: IOMA's Report on Salary Surveys, April 1998.

Finding the proper balance of annual base salary, bonus and long-term incentive awards for outstanding performers can be a challenge. However, validating what to pay should be done. Paying too much or structuring an out-of-balance compensation structure can be a lasting problem for most real estate organizations. Rising stars want, and deserve, more — just don't let the fear of losing a high producer cloud your decision on what is best for the organization, now and in the future. ■

FOR MORE INFORMATION

For more information on how to access CEL & Associates, Inc. National Real Estate Compensation database, please call (310) 571-3113.

Over 1,000,000 Surveys Tells You Something!

Since CEL & Associates, Inc.'s introduction of its customer, tenant, resident and client satisfaction survey tool and process called REACT©, over 1,000,000 surveys have been distributed. By the year end, this number will have increased to nearly 2,000,000. REACT© satisfaction and benchmark scores have become the standard for the real estate industry.

The enormous comparative database, industry's best scores, satisfaction indexes and year-to-year trends analysis give users of REACT© valuable insights on how customers, tenants, residents and/or clients perceive the overall quality and level of services being provided. In addition, REACT© provides owners and operators of real estate assets and companies with quantitative data to prioritize future performance improvement initiatives, evaluate employees, measure the impact of current or new services, and identify best practices.

REACT© surveys consistently receive a high rate of response. Tested by the California State University, the standard REACT© survey is a proven "valid, reliable and accurate" survey instrument. To respond to client and respondent requests, CEL & Associates, Inc. now has a private Web Page for each client. This enables clients to request surveys via the Internet.

Completely turnkey, REACT© saves time and money, creates revenue-enhancement opportunities and monitors the service elements of a company's business plan.

CEL & Associates, Inc. has designed specific REACT© surveys for office, industrial, retail and multifamily properties. In addition, there are REACT© surveys for: brokerage companies; tenant move-in and move-out assessments; facilities management; and residential communities. ■

FOR MORE INFORMATION

For more information on how to survey your customers, clients, tenants and/or residents, please call Lee Papa, National Survey Director, at (310) 571-3113.

EFFECTIVE BUSINESS STRATEGIES START WITH LISTENING TO CUSTOMERS

The real estate industry is in a race for customers and long-term customer relationships. Whether the customer is a tenant, a resident, an institution, a client, or a user, competing for the attention of, and business from, customers is reaching an all-time high. Attend any bidder's conference or scan the multi-page list of companies in receipt of a RFP and you will discover that the competition is severe, the rules of the game have changed and the playing field is not level. Like it or not, many real estate organizations are unlikely to survive the next 5 - 7 years as a result of the success (or lack thereof) in securing customers.

In the 1980s, the competition between real estate firms was for capital. In the 1990s, the battle between real estate firms is for customers. Over the last few years, a handful of companies have begun the essential transition from a product- or market-driven company to a customer-driven company. Recent research conducted by CEL & Associates, Inc. into what constitutes world class customer service identified several clear reasons for their success. The most differentiating factor between successful and unsuccessful real estate firms pertains to how an organization defines quality. World class organizations provide products and services according to definitions provided by customers, not by management. World class organizations solicit and obtain feedback from their customers.

Interestingly, many real estate organizations adopt growth strategies based on econometric models, historical supply and demand curves, demographic analysis and other statistical assessments. However, an increasing number of ahead-of-the-curve real estate organizations have recognized that "you don't get business from a market...you get business from a relationship with customers within that market". CEL & Associates, Inc.'s national customer satisfaction survey program has uncovered one amazing fact. Nearly 75 percent of the quantifiable reasons why customers leave a real estate company have nothing to do with the product — it was over the quality and level of services rendered. Real estate companies are often very good at providing a quality product — they are far less successful in providing both a high quality product and high quality service.

Will a high quality of product and service guarantee success? No...but it will assure a competitive advantage. The most important factor that must be in place to develop and net the results of a successful business strategy is — listen and respond to the opinions and perceptions of your customers.

> *"Listening to your clients begins with a customer-based vision."*

Listening to your clients (prior, current and potential) begins with creating a customer-based vision. Visions that state "to be #1", "to be the preeminent" or "to be America's best" are not customer-based visions. These "old style" visions focus on the company not the customers it seeks to serve. Visions that state "to be rated the best customer service company" or "to provide customer-based solutions", or "to achieve reoccurring business from each of our customers" come closer to a customer-oriented vision.

The next action step is to solicit from, and measure, the opinions of your customers. Many real estate organizations use CEL & Associates, Inc.'s national customer (i.e., tenant, resident or client) satisfaction survey program called REACT©. Leading real estate companies not only quantify and analyze the feedback from their customers, but compare their performance to their competitive peers and the best in the industry. Using CEL & Associates, Inc.'s national benchmark database, many leading real estate firms also survey their employees and correlate the results between the internal and external customers.

Following the survey of your customers (which should be conducted annually) you must develop and implement an ongoing program of "listening to customers" to capture their opinions as events occur. For example: surveying your tenants or residents after they have just moved-in; soliciting the opinions of your clients after the completion of a lease transaction; or measuring the attitudes of your senior management team monthly to assess the "moving forward" or "moving backward" perceptions of those expected to lead, are examples of ongoing feedback processes.

Getting connected and staying connected to customers does not start with "what we think they want". It starts with soliciting, quantifying and benchmarking the opinions, attitudes and perceptions of your customers. Effective current and long-term business strategies start with the customer. What has or, more importantly, is your company doing to understand the needs, expectations and concerns of your customers? How can you provide the highest level and quality of service and finest product without quantifying and listening to your customers? If you are not truly listening to your customers, now is the time to begin.

The race for customers and long-term customer relationships is a combination of a sprint and a marathon. Securing customers requires an aggressive, 24-hour day focus (the sprint). Keeping customers requires listening to their needs and expectations year-in and year-out (the marathon). What race are you in? ■

FOR MORE INFORMATION

For more information on CEL & Associates, Inc.'s national tenant, resident and client satisfaction surveys and customer-based business strategies, please call (310) 571-3113.

Finding Your Profit Zone
(continued from page 5)

sands of interviews with CEOs, CFOs, Division Presidents, senior-level Managers and Shareholders, completing many profitability assessments, and facilitating hundreds of strategic and long-range business planning retreats within the real estate industry, that there are four steps to finding your Profit Zone.

First, find out who your customers are. This is more than declaring, for example, "our customers are retailers, or corporations, or apartment renters". Dissect each customer or client relationship — identify similar characteristics between customers. Survey your customers to determine their level of satisfaction with the services provided or being provided by your firm. Profile the typical customer.

Second, find out what your customers will want, or need, in the months and years to come. Solicit their opinions on what your company will need to do in order to retain their business in the years ahead. Obtain feedback on what measures your customers use to judge your performance.

Third, create a Profit Zone Task Force that is empowered to: take a critical look at the true profitability of each customer relationship; develop a recommended action plan on how the organization can (re)capture profit opportunities from existing customers; and identify the steps necessary to secure new and long-term customer relationships.

Fourth, develop and implement an internal measurement program to monitor the company's progress toward achieving its true Profit Zone.

One thing you can count on today and in the months ahead is that if your company doesn't create a better deal for your customer and a reason for that customer to stay, someone else will. Real estate CEOs will need to cast off old ways of measuring success if they intend to survive into the next millennium. Real estate organizations will need to seek and receive independent and objective advice and guidance if they intend to maximize their performance potential. Knowing which customers to drop, grow and enhance the relationship must be the priority of every company. And the senior management team within all real estate companies will need to embrace the fact that services to customers and clients, not products, will become the new operating platform of firms that will be deemed the Industry's Best. ■

FOR MORE INFORMATION

For more information on how CEL & Associates, Inc. can assist your firm in finding its Profit Zone, please call (310) 571-3113.

Predictions
(continued from page 13)

NARIET, now totals $3.2 billion, or 12 percent of the real estate market. Some experts project over 438 million square feet of free standing retail properties will be developed between 1997 and 2001. While other retail asset categories struggle for direction and redefinition, the free standing retail sector stands alone.

When To Go Smart

Multifamily owners and operators often struggle with the question, "when should I convert an apartment into a smart building"? Today, many apartment owners are embracing the concept of integrating technology and resident services (i.e., high speed Internet access, on-site ATM machines, computerized climate control, security and energy saving technology). The timing of the conversion to a smart building is when a community's demographics are: highly skewed to the 22 to 35 year old age group; and/or there is a disproportionate (over 20%) number of dedicated corporate furnished units. Going smart responds to real time needs of residents for electronic commerce and communication. Eventually all apartment communities will go smart — the question is when to bite the bullet and take advantage of the market opportunities. ■

Worth Reading

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

- *What Box? Entrepreneurs Step Outside The Confines Of Traditional Real Estate* by Michael Connell Lester, Institutional Real Estate Securities, February 1998.
- *Managing The Future* by Robert B. Tucker, Berkley Books, 1991.
- *Edge City* by Joel Garreau, Doubleday, 1991.
- "REITs: What Are They?" by William McIntosh and Youguo Liang, *The Institutional Real Estate Letter,* March 1998.
- *Real Time Preparing For The Age Of The Never Satisfied Customer* by Regis McKenna, Harvard Business School Press. 1997.
- "The Buzz About Brands" by Megan Rowe, *Lodging Hospitality*, April 1998.
- "Best Practices Made Perfect" by Paul Tarricone, *Facilities Design & Management,* March 1998.
- *Creating Excellence* by Craig R. Hickman and Michael A. Silva, Penguin Group, 1984.
- *Strategies For Fast-Changing Times* by Nate Booth, Prima Publishing, 1997.
- "Luring Renters With Exotic Amenities" by Nancy Holt, *Wall Street Journal,* February 25, 1998.

PREDICTIONS

Is Dallas Poised To Tumble?

Commercial rents in Dallas have increased to $18 - $22 per square foot — a dramatic step above the $10 - $13 per square foot range in 1997. Some premium space is approaching the high 20s. More than 8 million square feet is under construction in Dallas today, with more space to be announced in the next few months. Today, only 40 percent of this new commercial space is rented. REITs have been actively pursuing and purchasing commercial assets in Dallas at prices reminiscent of the 1980s. CEL & Associates, Inc.'s assessment of the current and likely future commercial space environment in Dallas reveals a market that is clearly becoming overheated. When you add a dramatic increase in homeowner loans being made by the Texas banks in their effort to secure borrowers, it appears that Dallas may be nearing a period of correction. The key indicators to watch are: a decline in oil prices; a slowdown in the high tech industry; and an increase in the loan delinquency rate.

Las Vegas Boom May Become A Bust For Some

Over the next two years, the number of hotel rooms in Las Vegas could increase by 15 percent, bringing the total number of rooms to approximately 105,000. While the number of visitors continues to increase (now 30 million), there are some early warning signs that Las Vegas may become a victim of the odds it has created. Earnings for some of the larger casino companies are not "what Wall Street expected". The number of flights to Las Vegas are declining, the economic problems in Asia have reduced the number of high rollers and the glut of new rooms will likely result in cost cutting moves by operators to capture a smaller number of gamblers. While great news to the consumer, the amount of invested capital in southern Nevada will rise over the next two years or so by 70 percent to $18 billion. CEL & Associates, Inc. projects a decline in casino cash flows that could approach 10 percent. Marketing (or the lack thereof) will determine the winners and losers over the next few years. While Steve Wynn's world-class, must-see Bellagio Casino will provide a temporary fix when it opens later this year, the build-it-and-they-will-come philosophy of the past will be put on hold.

Is Brand Equity Overrated?

Security Capital Pacific Trust (AKA Archstone Communities) is the latest multifamily owner/operator to attempt to create a national apartment brand. While branding has worked well in the hotel industry (i.e., Hyatt, Marriott, and Embassy Suites' property design and room furniture/fixtures are the same throughout the U.S.), CEL & Associates, Inc. believes branding will only work if: (1) there is enough critical mass in a market area to leverage a brand name; and (2) if the owner/operator is committed to a multi-year marketing program to create brand identity. The problem most apartment owners/operators encounter is that they attempt to brand the product versus the services offered to residents. Most hotels are for limited stay guests. Apartments are life-style communities for an extended period of time. Despite the attempts by corporate image consultants, the multifamily industry is a people, not a product, business. Until branding initiatives focus on the resident, the concept of brand equity will become a big disappointment for many.

So Why The Big Fuss Over REITs?

The REIT industry is cooling off. Possessing a stock-market value of approximately $140 billion, moving toward $200 billion, the REITs have been a haven for those investors seeking stabilized yields of 5 - 6 percent, and more, with high dividends. However, some Wall Street analysts have begun to downgrade the industry. REIT funds from operators are expected to rise only 9 - 11 percent in 1999, after a 12 - 14 percent projected increase in 1998. Congress is threatening to enact tighter regulations and the number of potential mega portfolio sales (excluding REIT mergers) is literally gone. While REITs have been attractive to investors over the past five years, the current earnings growth rate is not sustainable. The net result is that REITs will need to focus on internal growth strategies, international opportunities, and consolidation, while the frenzied acquisitions market will begin to slow down. The public market penetration into the office, warehouse and apartment sectors was only 2.6, 3.7 and 7.4 percent respectively (versus 21.9 percent of the regional malls). Bottomline, real estate fundamentals will enable REITs to grow, not wishful thinking by analysts.

Great Teams Don't Always Mean Good Performance

Real estate firms from coast to coast have enthusiastically embraced teaming as a means for improved productivity, performance and profitability. However, some of these well intended real estate organizations are questioning the wisdom of teams. It seems that when team incentive pay is based on unique team results, the results are not "as expected". The problem most real estate organizations have when implementing a teaming concept is that they reward behaviors that support teamwork (i.e., cooperation, communications, participatory decision-making, etc.) and not team results. In order for teams to be successful, CEL & Associates, Inc. has identified the four keys to success: (1) different teams may require different types of measures; (2) teams require both enterprise and group goals; (3) teams require goals that they can control the outcome; and (4) team goals must be quantifiable and directly related to the organization's vision.

Free Standing Retail Stands Alone

The retail industry is rapidly consolidating and the nature of retailing patterns is dramatically changing. Those retailers who have been able to shift to free standing stores (unencumbered by the baggage of "adjacent" or poorly tenanted space) are posting improved results. According to F. W. Dodge, 2,981 free standing stores began construction in 1996, while 3,331 stores came out of the ground in 1997. The market capitalized value of free standing stores, according to

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Management Report
(continued from page 7)

in-time" training will force many real estate firms to switch from trainers to facilitators and mentors.

- The value gap between the permanent employee and the temporary worker or contract employee is narrowing rapidly. Real estate companies are recognizing that temporary workers are not confined to administrative staff. Highly technical positions, jobs requiring certifications and other manpower needs can be filled by temporary workers. Within ten years, real estate companies will find it fairly common to retain a CFO, Controller, Property Manager or Engineer on a temporary or contract basis. Value is increasingly being measured by the service to the customer not by the employee's classification.
- According to a recent survey, severance payments for recently terminated employees have declined by as much as 60 percent over the past five years. The maximum severance payment for senior-level executives has declined from 104 weeks in 1992 to 42 weeks in 1997. The maximum severance payment for Managers declined from 52 weeks in 1992 to 33 weeks in 1997. The average severance calculation formula for senior-level executives has declined from four weeks severance pay per year of service in 1992 to two weeks per year of service in 1997. The severance calculation for Managers also declined from four weeks severance pay per year of service to 1.6 weeks per year of service in 1997. Most firms allow employees to retain their severance pay even if they land a job during the payout period.
- Nearly 50 percent of a recent survey of HR Directors thought the term "human resources" was outdated for the challenges of the 21st century.
- The average number of investment choices in 401(k) programs increased from 7.7 in 1996 to 8.2 in 1997. According to a recent survey, 90 percent of highly compensated employees participate in 401(k) plans, while only 75 percent of non-highly compensated employees participate in 401(k) programs.
- In the most recent year for which statistics are available (ending September, 1996), there were more than 23,000 employment discrimination claims filed against Corporate America — a 100 percent increase in the number of such claims in just five years. Another 78,000 employment discrimination claims were filed with the United States Equal Employment Commission. The median employment-related damages award that employees walked away with was $205,000, with a median punitive damages award of about $200,000. Approximately 58 percent of cases that settled before trial were settled for less than $50,000. Best advice for real estate companies — document, investigate and get help as soon as possible from experts who know how to diffuse a situation before it becomes "ugly". CEL & Associates, Inc. recommends consulting a labor attorney.
- A CEL & Associates, Inc. recent compensation assessment of brokerage firms revealed the following emerging trends: (1) commission splits were declining as companies moved to a more profit-center orientation; (2) teaming was becoming the most popular way of serving clients and holding Brokers accountable for their "collective performance"; (3) several firms indicated that they were soon going to put in place the mandatory requirement that every Broker or Broker team hire their own administrative assistant; and (4) Brokers would soon be sharing in the overall profitability of their team. In other words, the tenure of the lone ranger, eat-what-you-kill Broker is ending.
- Do you have a mentoring program? Many real estate firms do, however, what they don't have is a mentor program for the top 5 - 10 senior leaders of the organization. Who mentors your CEO, CFO, Division President, Managing Director or Executive Vice President? If your company is like most — no one mentors these individuals/ positions. CEL & Associates, Inc. recently recommended the formation of a Leadership Council within a national real estate organization that provides monthly feedback to the company's senior leaders. Perhaps your company could use some form of a Leadership Council to provide the feedback and mentoring needed by all professionals.
- Personal development plans are on the rise within the real estate industry. Many real estate organizations are taking the time to talk to each employee and find out where they perceive they are in their career and personal development and where they would like to be. Personal development plans lead to succession planning which leads to talent-based performance evaluations, which lead to improved productivity and profitability. If your company has not enacted a personal development planning process...now is the time to begin.
- A recent poll of employees within the real estate industry found that the vast majority (over 75 percent) had good ideas on how their companies could run more successfully. Yet approximately 25 percent of those same employees indicated that a lack of a forum to express those ideas or a lack of interest/concern by senior leaders prevented them from sharing their ideas.
- A recent CEL & Associates, Inc. survey of Human Resource Directors within the real estate industry discovered that the best way to achieve outstanding results is to give bonuses, awards, long-term incentives and other forms of recognition to those employees whose performance is directly related to the achievement of the company's vision, goals and values. When was the last time an employee in your organization received an award for "representing the firm's key values in the most exemplary manner"?
- A good rule of thumb for most full-service real estate organizations is that 90+ percent of the total number of employees or commissioned contractors should be offsite. In the future, most real estate employees will see their FedEx Driver more than their supervisor. ■

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**.
☐	**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.
☐	**1998 National Real Estate Compensation Survey**	Nearly 375 firms nationwide participated in this study — the largest of its kind in the U.S. Copies are available for $795.

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Please Complete

Name: ____________________ Title ____________________

Company Name: ____________________

Address: ____________________ Suite #: ____________________

City: ____________________ State: __________ Zip Code: __________

Telephone: ____________________ Fax: ____________________

TRENDS TO WATCH

Trends to Monitor Closely	Likely Impact
• Bank United of Houston is in the advanced stages of forming a conduit for commercial mortgage loans.	• There are now 30 active commercial mortgage conduits. The move by this Lewis Ranieri-controlled thrift is significant and could represent the beginning of a doubling of the conduit market.
• Stapled REITs have gained notoriety and the attention of Congress as a result of aggressive acquisitions that give them a distinct advantage over other potential acquirers.	• Highlighted by CEL & Associates, Inc. in a prior issue of *Strategic Advantage*, watch for Congress to rein in the stapled REIT and apply the tax standards/rules contained in the 1984 Deficit Reduction Act.
• The international markets beckon well-capitalized real estate firms.	• CEL & Associates, Inc. expects up to 15 U.S. real estate firms, mostly REITs, to create and sustain an international presence. Peter Linneman's recent hire by Sam Zell and CALPERS' investment in Security Capital Global Realty are indicators of similar events to come. The first initiatives will be the purchase of real estate firms, not assets.
• AIMCO's acquisition of Insignia's multifamily portfolio raises the stake for Equity Residential Properties and others in the battle for multifamily supremacy.	• Watch for more mega-mergers as the REIT multifamily industry consolidates. However, there will be more than one winner. The battle for second and third will intensify.
• Goldman Sachs raised $412.5 million for Vornado Realty Trust in just two hours.	• While the 10 million-share offering was sold at a discount, there was no need for a roadshow. Watch for other REITs to adopt a similar strategy — except they will need a "personality" to assure immediate success.
• Merrill Lynch and Cohen & Steers Capital Management are putting together a $1.0 billion UIT. Merrill's UIT will include some 30 REITs.	• Watch to see if Merrill will be successful in finding $1.0 billion in product to invest. If so, watch for other UIT formations to follow.
• Recent stock awards and stock recruitment/signing bonuses have given REITs a comperitive edge in seeking the best talent.	• Watch for more private companies to give equity (phantom and real) in the company or in projects to level the playing field.

CEL & Associates, Inc.

STRATEGIC ADVANTAGE

ALERT
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