

It Is Time To Get Rid Of Oldco!

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Friends & Colleagues:

In a time of political gridlock, ineffective leadership, endogenous risk and economic uncertainty, real estate strategies based on historical not trending data and legacy precedents are prescriptions for failure. Company goals based on the probability of future events, reasonable versus accurate assumptions and a belief that risks can be conveniently mitigated may be good in theory but in reality can be very deficient strategies. Too many real estate companies – regardless of size, ownership, product or service specialization or geography – and their **leaders have become victims of entrepreneurial blindness, sound-bite junkies and followers of the herd mentality.** Now is not the time to lament what could have, should have or would have been. Now is the time to connect the dots between the perfect storm of economic uncertainty, unprecedented emerging market and product opportunities and an industry in accelerated transition and transformation. **Now is the time to rethink the obvious,** and not the time to flee from the future.

The challenge facing many real estate firms and leaders today is a deep-seated belief in Efficient Market Theory (“EMT”). EMT assumes that all risks can be overcome, that markets are stable and predictable, and there is complete information that is available to all. When combined with **well-intended yet misguided incentive structures, excessive leverage and reactive business models, the path to success is nearly impossible to achieve.** Followers of EMT are among the first to blame uncontrollable events, competitors, team members and others when the bottom-line results are far below expectations. EMT disciples do not understand uncertainty, cannot visualize existing opportunities and often wander aimlessly in the desert of possibilities.

Today is the time to innovate, collaborate, re-engineer and reinvigorate tired and out-of-date business models and plans. Over the past 24 months, I have been exposed to several exciting new real estate services, products and ventures. I have been able to interact with many dynamic, motivated and smart young men and women who will be tomorrow’s real estate leaders. We are witnessing the passing of the baton from one generation to the next. Unfortunately **far too many real estate companies allow the ideas, solutions and strategies of the past to shape and govern today’s investment, management, operating and strategic decisions.** The real estate industry is no longer an entrepreneur’s game...it is becoming a coalition of the best and brightest entrepreneurs...with an aligned, shared vision...fully dedicated to a common purpose and governed by core values. The successful real estate firms of tomorrow are borderless, visionary, dynamic, motivated by the outcome, knowledge-based and customer-centric. **Tomorrow’s real estate firms are start-ups, not legacy re-dos.** Now is absolutely the best time to “Get Rid Of Oldco!” Ideas are today’s capital that becomes realized in the hands of insightful leaders and motivated talent.

Luck Is Not A Strategy

In the real estate industry, competitive strategies tend to focus on ways to perfect imperfect markets, products and/or services. Words and phrases such as “quicker, faster, better,” “build it and they will come,” and “we’re different from our competitors” exemplify expectations, simultaneously highlighting strategic insanity. Roman philosopher and statesman Seneca said, **“Luck is what happens when preparation meets opportunity.”** Unfortunately in the real estate industry, **the volume of missed opportunities is an ongoing reflection of a company’s inability and/or**



unwillingness to deviate from historical precedents, comfort-zone strategies, fear of the unknown and generational blindness. Strategic opportunism becomes limited or nonexistent, competitive edge strategies become difficult to formulate and blue oceans of uncontested market space become unreachable when change does not occur. While there is no such thing as a “riskless” strategy...and there are no guarantees or assurances that each opportunity will be successful, **there is an undeniable fact...luck is not a strategy.**

Remember, “You don’t perfect the future, you create it.” **In the real estate industry, the future is far more uncertain when there is no vision or plan on how to thrive in the unknown.** Readers of *Strategic Advantage* know that the economic, financial, market and competitive environment is uncertain at best and certainly unstable over the next few years. Consequently in the period in which real estate firms operate today and tomorrow, **the power of contrasting business models, differentiating stories and transformational leadership can be the fulcrum between success and failure.**

Real estate firms that accept their fate, view opportunities through the lens of the past and look to their peers for ideas are on an accelerating path to irrelevance. Many examples of these characteristics can be seen in the similar manner each real estate industry organization focuses on the same clients, deploys traditional hiring practices, replicates similar organizational structures and defines the boundaries of opportunities as their competitors do. However, this is not the 1980s, 1990s or 2000s...**it is 2012, and the game’s rules and players have changed dramatically.**

An effective real estate strategy is a long-term plan of action designed to achieve a specific goal and results in a sustainable competitive advantage. I have found there tend to be four core and 12 different categories of strategy, as highlighted below.

Core Strategies	Strategic Categories			
<input type="checkbox"/> Corporate	<input type="checkbox"/> Growth	<input type="checkbox"/> Capital	<input type="checkbox"/> Market	
<input type="checkbox"/> Business	<input type="checkbox"/> Talent	<input type="checkbox"/> Product	<input type="checkbox"/> Financial	
<input type="checkbox"/> Operating	<input type="checkbox"/> Branding	<input type="checkbox"/> Service	<input type="checkbox"/> Leadership	
<input type="checkbox"/> Financial	<input type="checkbox"/> Process	<input type="checkbox"/> Technology	<input type="checkbox"/> Customer	

To create a viable strategy, an organization must have a clear and aligned vision, a unifying mission, specific measurable goals and an embraced set of core values.

Strategy is not luck. Markets are constantly changing. Demographics are not destiny...and results are not predictable. With proper strategic planning, insightful trend spotting, reconstructed competitive boundaries, focus on customers and conclusions reached through knowledge and "logical conclusion" analytics (a contemporary version of Socratic

Ignorance), real estate companies in 2012 can prosper, grow and achieve a competitive advantage. Remember...**"do not think you know what you don't know."**

Focus On The Future

For many real estate companies and leaders, staring at a blank canvas of future possibilities can be very intimidating. It is far easier to look at a finished product from the past. However, yesterday's realities are not today's realities...and clearly are not a harbinger of tomorrow's realities. To be successful in 2012 and beyond, **real estate leaders and companies must venture far beyond their**

comfort zone, visualize what *could be* rather than *what is*, and build a strategic plan around an accepted foundation in which status quo is not an option. A focus on the future, not a retrospective fondness for the past, must become the priority to successfully compete and exceed expectations in the years ahead.

Think Newco Not Oldco

In his book *The Dharma Bums*, Jack Kerouac said, "One day I will find the right words, and they will be simple." Often the realm of possibility is before us, but we are blinded by the light from a time long gone. These words mirror the challenge and opportunity before every real estate

company, Board of Directors, CEO and leadership team. "How do we get from here to there?" The best way to get from Oldco to Newco is to determine first whether now is the right time.

Growing Industry Sectors

- Industries Serving Seniors
- Software Development
- Healthcare
- Life Sciences/Biotech
- Technology
- Government/Government Related
- Defense/Security
- Communications
- Trade/Logistics
- Data Centers
- Research & Development
- Full Service Grocery
- Personnel Management
- Consulting
- Electronic Media
- Wireless Technology
- Nanotechnology
- Food Distribution Logistics
- Waste Management
- Emerging Technologies
- Colleges/Universities/Education
- Legal/Accounting
- Science
- Green Industries/Clean Tech
- Pharmaceutical
- F.I.R.E.
- Entertainment
- Energy & Alternative Energy
- Internet-Based Entities
- Food Service/Agricultural
- Computer Programming
- Nonprofits
- Medical Devices
- Network Security

Source: CEL & Associates, Inc.

Marketing Challenges & Opportunities Facing Real Estate Service Providers

Companies Need To:

- ❑ Focus on the "strategic" opportunities.
- ❑ Create a differentiating story...focus on "steroid branding" activities.
- ❑ Understand and appeal to prospective clients that value your service delivery system.
- ❑ Overcome/answer your weaknesses before they are questioned.
- ❑ Create product/service "identifiers" that are unique to your firm and belong to no other company.
- ❑ Create and implement a more robust marketing program.
- ❑ Compete in sectors where you have the greatest opportunities to win.
- ❑ Diversify your lines of business...do not become a commodity.
- ❑ Create greater links to capital providers, capital allocators and owners.
- ❑ Form multiple strategic partnerships.

Source: CEL & Associates, Inc.

Take a look at the questions below, and if your answer is “I don’t know,” “over a year ago,” “no,” or “too long” to any of them, now is probably the time to think Newco.

Strategic Questions

1. Has your company developed a 2012 – 2015 strategic and long-range business plan that has been embraced by, and is in alignment with, the organization’s leadership team?
2. Without looking, can you articulate your company’s three- to five-year vision, goals and top five core strategies?
3. When was the last time your company rewarded creativity, innovation and celebrated the implementation of those ideas?
4. Does your company have a competitive advantage and differentiating story?
5. Do you truly know what business your company really is in?
6. How effective and efficient is your company in deploying all its assets?
7. Would 100% of your employees say that your company has a contemporary and motivating talent management plan?
8. Is your company great at generating ideas that are immediately and effectively implemented?
9. What scorecard would your customers give you?
10. Do you believe your organization has the tools, resources, processes, technology and strategies necessary to be competitive now and in the future?
11. Is your company relevant?
12. Are you comfortable in how conflict, differences of opinion and poor performance are handled?
13. What can your company provide and/or do that your competitors cannot?
14. If asked, would your customers, executives and staff describe your brand in the same way?
15. Do you know the last time perceptive and insightful questions were asked of your leadership team?
16. Can you describe what you did in 2011 to give your company a strategic advantage in 2012?

Source: CEL & Associates, Inc.

Over the past few years I have been actively involved in various stages of several entity transactions. When one thinks “Newco” and not “Oldco,” the element of enterprise capitalization, access to growth capital and an enhanced balance sheet are often the drivers of such a transaction. New leadership, improved governance, a dynamic Board, succession and “taking money off the table” are often the primary concerns of Founders and Shareholders. This economic environment is tough enough...why not have a powerful Newco that is capable of exceeding the expectations of Shareholders, able to have a competitive edge, poised for today’s and tomorrow’s opportunities, and attractive to outstanding talent?

An ability to move from strategic planning to strategic thinking is the key to uncovering tomorrow’s opportunities. Real estate firms must avoid the pitfalls of “defining” opportunities and shift toward asking the “right” questions. It is hard to think and visualize the future if one is attempting to follow a rigid process or precedents. Best-in-class real estate firms also align rewards based on the desired future behaviors. **Remember that you cannot create a future by fiat.**

There Are No Guarantees

I recently asked 50 or so CEOs of leading real estate firms throughout the country, “Is your business growing?” Their answer was a resounding “Yes.” **It was very clear that if your firm is not growing today, it is dying.** A company that isn’t growing or can’t grow is a failure-in-waiting. Everyone who survived the recent recession can attest that waiting for recovery is not a viable strategy. There is no such thing as a mature industry, a mature market or mature prospects. Success can be found in submarkets, client segmentation and new service/product delivery platforms. **Look from the outside in and not from the inside out.** Broaden your thinking. Capitalize on growing market segments. Think adjacency and recognize the value in products, service and customer specialization. Define opportunities based on need. Seek opportunities created by convergence/confluence. Capitalize on change and *dubitare*. Look for inconsistencies.

Success Today Will Require...

- ✓ Passion
- ✓ Knowledge
- ✓ Standards of Excellence
- ✓ Valued Relationships
- ✓ Integrity, Trust and Principles
- ✓ Talent
- ✓ Transformational Leadership
- ✓ Service Value and Quality
- ✓ A Differentiating Story...A Competitive Advantage
- ✓ Innovation
- ✓ Capital for Growth
- ✓ And...A Plan...

Real estate firms and leaders in 2012 must not wait for the tide to come in and raise all boats. When real estate enterprises build valued, recurring customer relationships, the risk of failure declines dramatically. Because there are no guarantees, a focus on dominance, priorities and potential is a must. The real estate industry is far too dependent on historical versus prospective performance metrics. **Leaders should worry more about how to capitalize, and not how to guarantee current and future success.**

Innovation Matters

In today’s New Normal, business models that are designed to be innovative, creative and unpredictable will contribute to a strategic advantage. Status quo, business-as-usual, process-driven strategies attract and retain those who are comfortable with finishing second...every time! From capital structures, design, operations, leasing, management and support services, **new ways of conducting business are emerging.**

For example, organizational structures that reflect various stages of the value chain are becoming popular. Incentive structures based on new performance metrics are emerging. Technological advances are making real-time reporting and communications a reality. Hours of operation are being revised to enable a more robust and interactive relationship with customers. Leases are viewed as tenant/landlord partnerships. **Even the lexicon of titles, labels and descriptions are changing. Innovation does matter.**

Role Models

Real Estate Segment	Role Models
☐ Apartments	→ Marriott; Four Seasons; Starwood; Celebrity Cruises
☐ Industrial	→ FedEx; UPS; Southwest Airlines
☐ Office	→ eBay; Facebook; Google; Dreamworks
☐ Retail	→ Amazon; Starbucks; Apple; Wegmans
☐ Advisory	→ McKinsey; Boston Consulting Group (BCG); Booz Allen Hamilton

In 2012 real estate firms will succeed when a workplace environment built around ideas and innovation is present. **Companies must become a magnet for those who commit to making a difference.**

To determine if your firm is ready to move from Oldco to Newco, I invite you to take this easy test and compare the totals of each column to see how you fared.

Take The Test

Oldco	Newco
<input type="checkbox"/> Unclear vision	<input type="checkbox"/> Embraced, clear vision
<input type="checkbox"/> Legacy business processes	<input type="checkbox"/> Contemporary business practices
<input type="checkbox"/> Organizational fiefdoms	<input type="checkbox"/> Entrepreneurial teams
<input type="checkbox"/> Learn-as-you-go	<input type="checkbox"/> Continuous learning
<input type="checkbox"/> Product-centric	<input type="checkbox"/> Customer-centric
<input type="checkbox"/> Looking for a competitive edge	<input type="checkbox"/> An acknowledged strategic advantage
<input type="checkbox"/> Information-driven decisions	<input type="checkbox"/> Knowledge-driven decisions
<input type="checkbox"/> Limited personal/professional growth	<input type="checkbox"/> Unlimited personal/professional growth
<input type="checkbox"/> Quality/service policies	<input type="checkbox"/> Quality/service behavior
<input type="checkbox"/> Secretive	<input type="checkbox"/> Transparent
<input type="checkbox"/> Unknown strategic priorities	<input type="checkbox"/> Understood strategic priorities
<input type="checkbox"/> Outdated technology	<input type="checkbox"/> Robust technology
<input type="checkbox"/> Discourage ideas	<input type="checkbox"/> Encourage innovation
<input type="checkbox"/> Struggle for relevance	<input type="checkbox"/> Best-in-class leader
<input type="checkbox"/> Declining brand equity	<input type="checkbox"/> Growing brand equity
<input type="checkbox"/> Top-down decisions	<input type="checkbox"/> Collaborative decisions
<input type="checkbox"/> No succession plan	<input type="checkbox"/> Clear plan of succession
<input type="checkbox"/> Always looking for capital	<input type="checkbox"/> Secured/stable capital base
<input type="checkbox"/> Aging leadership	<input type="checkbox"/> Next-generation leaders
<input type="checkbox"/> Managing for the moment	<input type="checkbox"/> Managing for the future
<input type="checkbox"/> Personal gain	<input type="checkbox"/> Enterprise gain

Source: CEL & Associates, Inc.

Closing Comments

It is time to leave Oldco behind and begin Newco. The marketplace has changed and continues to do so dramatically. The economy is bottoming out but is still on life support. Do not expect solutions to come from Washington, DC, or many state governments. Assume that the unexpected will continue. Thus, amid all of this global and national chaos, turmoil and transition are incredible real estate opportunities. Winston Churchill said, "Difficulties mastered are opportunities won." Now more than ever is the time to leave Oldco behind and begin a brighter future with Newco.

To share your comments, insights or ideas, please email them to newsletter@celassociates.com.

Regards,



Christopher Lee

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2012...A Year of Dubitare

<http://www.celassociates.com/onlinenewsletter/2012...AYearOfDubitare-SA-K011712.pdf>

Growth Is An Art As Well As A Science

<http://www.celassociates.com/onlinenewsletter/GrowthIsAnArtAsWellAsAScience-SA-K112911-CEL.pdf>

A Contrarian Perspective

<http://www.celassociates.com/onlinenewsletter/AContrarianPerspective-SA-K110211.pdf>

The Role Of Real Estate In Society

<http://www.celassociates.com/onlinenewsletter/TheRoleOfRealEstateInSociety-SA-K091411.pdf>

Prospects For A Real Estate Recovery Could Wait Until 2013

<http://www.celassociates.com/onlinenewsletter/ProspectsForRealEstateRecovery-SA-K082211.pdf>

Tomorrow Has Already Arrived

<http://www.celassociates.com/onlinenewsletter/TomorrowHasAlreadyArrived-SA-K062711.pdf>

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<http://www.celassociates.com/onlinenewsletter/AgeOfConsequence-SA-K050611.pdf>

Take Control Of Your Destiny

<http://www.celassociates.com/onlinenewsletter/TakeControlOfYourDestiny-SA-K032911.pdf>

Real Estate Outlook 2010-2020 Part II

<http://www.celassociates.com/onlinenewsletter/RealEstateOutlook.2010-2020-PartII.SA-K060110.pdf>

Real Estate Outlook 2010-2020 Part I

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Real Estate Cycles – They Exist...And Are Predictable

<http://www.celassociates.com/onlinenewsletter/Cycles-2010-SA-K040110.pdf>

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