Strategic Advantage
Real Estate Insights, Forecasts & Strategies
Editor: Christopher Lee

Issue K012822

Don't Be A Spectator As The Parade Of Opportunities Pass By

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Friends & Colleagues:

Great things can happen during times of chaos, disruption, transformation, and change. Lao Tzu, the legendary 6th century BC contemporary of Confucius said, "*If you do not change direction, you may end up where you are heading."* The poem by Robert Frost, "The Road Not Taken" ended with the lines, *"Two roads diverged in a wood, and I took the one less traveled by, and that has made all the difference."* **Today we are at the apex of choices, options, and decisions that, if properly made, will determine incredible success and address perpetual challenges for years to come**. The real estate industry, regardless of the asset class, service offering, or market location, is now in a **"Pivot to Sustainable Profitability"** period. Investments in digital and analytics capital in parallel with human and valued relationship capital are synergistic and profitable. Thinking strategically not operationally and considering options rather than just taking a path of least resistance, must be the primary drivers for continuous prosperity. **Strategic resilience to future business disruptions mandates pivoting business priorities and long-range strategies…today**. One cannot sit back and be a spectator as the parade of opportunities pass by.

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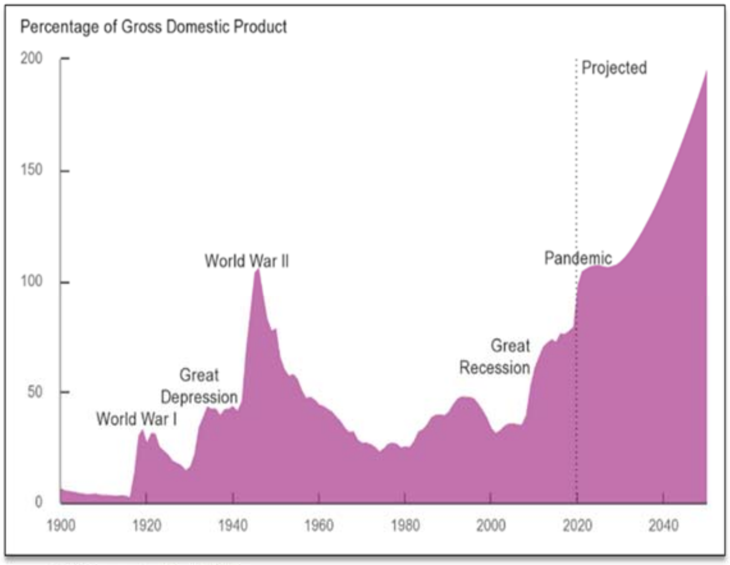
Indicators That Mandate Strategic Pivots

Federal Debt Held By The Public 1900 – 2050



Source: U.S Congressional Budget Office.

Looming Debt Crisis Will Impact CRE Growth

Origin Of Debt	Amount [$ Trillion]	Origin Of Debt	Amount [$ Trillion]
Auto Loans [44% of U.S. adults]	$ 1.2	State and Local Debt	$ 3.3
Credit Card Debt	$ 1.0	Medicare Liability	$33.9
Student Loan	$ 1.8	Social Security Liability	$21.7
Home Equity Loan	$ 0.5	Unfunded State / Local Pensions	$ 6.0
Total Household Debt	$13.5	Fiscal Year 2021 U.S. Gov. Deficit	$ 3.1
Mortgage Debt	$16.0	U.S. Corporate Debt	$ 6.3
Federal Debt	$29.7	Commercial / Multifamily Debt	$ 4.0

U.S. unfunded liabilities are over $163.7 trillion!

Total U.S. GDP Is around $23 trillion!

U.S. Debt to GDP Ratio
1960 – 52% / 1980 – 35% / 2000 – 56% / 2022 – 127%

Total public debt could reach $50 trillion by 2030… not sustainable!

Source: U.S. Debt Clock, Multiple Sources. Some numbers are estimates and/or rounded.

Rapid Shifts In The U.S. Economy Create Disruptive Investment Opportunities

Year	Economic Drivers
2017	The Digital Economy
2018	The Internet of Everything Economy
2019	The New Normal Economy
2020	The COVID-19 Repricing Economy
2021	The Figure-It-Out Economy
2022	The Transformational Economy
2023	The Generational & Demographic Economy

Source: CEL & Associates, Inc.

"Change and Uncertainty Create Unique Opportunities"

Real Estate Operational Shifts Post COVID-19

Service / Function	Required To Provide In-Person	Ability To Provide Remotely	Ability To Automate
Accounting	Low	Medium	High
Acquisitions	High	Low	Medium
Appraisal	Low	Medium	High
Asset Management	Medium	High	Medium
Construction - CM	Medium	Medium	Low
Construction - Onsite	High	Low	Low
Development Management	High	Medium	Low
Finance	Low	High	High
Human Resources	Medium	Medium	Medium
Investment Sales – Brokerage	Medium	Medium	Medium
IT / Technology	Low	High	Medium
Leasing	Medium	Medium	Medium
Legal	Low	High	Medium
Maintenance	High	Medium	Medium
Marketing	Medium	High	Medium
Project Management	High	Medium	Low
Property Management - Commercial	High	Medium	Low
Property Management - Residential	High	Medium	Low
Security	High	High	Medium

Source: CEL & Associates, Inc.

One major lesson learned from COVID-19 is that when the unexpected happens…controlling outcomes can be very challenging. It is clear from the past 24 months that business model pivots and innovation are essential to navigate successfully through today's and tomorrow's challenges and unexpected events. Investing in intangible assets is rising at an unprecedented rate.

New and inspiring vision statements, insightful strategic and long-range business plans, contemporary compensation programs, exciting investment platforms, and robust talent and brand management plans contribute to and are the drivers surrounding successful outcomes. However, **it**

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begins with an acceptance that tomorrow will not be a repeat of today…that there is no return to "the way it used to be"…and that change must be embraced, not avoided.

The real estate industry is in a unique place…a fork-in-the-road moment with a decade of outcomes ahead. Who will take the road less traveled? The intersection of six factors [financial, operational, demographic, market, capital, and leadership] enables the creation of great strategies and results that often exceed all Stakeholder expectations. Knowing how and what it takes to win is more crucial than ever. **Reactive and status quo strategies do not work**. Annual budgeting processes must become strategic, because "more of the same" avoids debating what is next and the alternatives. **From lineal to flywheel options, every real estate firm must make shifts**. The marketplace, demographics, competitive landscape, capital markets, and occupier/user patterns are locked in a rapid change mode.

In this issue of *Strategic Advantage*, we will explore some of the "Strategic Pivots" every real estate company must embrace and implement to be competitive today, vibrant tomorrow, and relevant for years to come. These 10 strategic pivots are not presented in order of importance, priority, or value. Writer and activist James Baldwin said, ***"Not everything that is faced can be changed. But nothing can be changed until it is faced."*** So, too, in real estate, where valued changes/pivots often are preceded by disruption and uncertainty. These strategic pivots begin with…

Create A Winning Strategy

One of the more challenging aspects of pivoting is to put the "old" vision and strategy aside, rejecting historical or legacy "givens," and removing the self-imposed barriers to success. A winning strategy begins Socratically by asking these eight "What" questions: [1] what are the tenets of our company's existence; [2] what is our purpose and value proposition; [3] what are the current barriers to success; [4] what are our competitors doing better; [5] what are our customers telling us; [6] what market changes are likely to create the most opportunity; [7] what technological or market-based elements are becoming critical factors in our customers' success; and [8] what is needed to achieve/maintain a competitive advantage? .

According to a recent CEL & Associates, Inc. review, **strategic plans tend to fail or fall short of the initial expectations because the planning process depended upon "traditional" ideas, moment-in-time data, approaching the process from the present to the future versus envisioning the future and working back to the present**.

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Dramatic Shifts Reshaping The Real Estate Industry

- Amazon to launch first in-store apparel shop in Los Angeles.
- The year 2022 will likely be the “hottest on record” for BTR.
- Fifty percent of Freddie and Fannie loans must be for “mission-driven” affordable housing.
- Contactless shopping experiences will continue to accelerate.
- Bankruptcy filings are at the lowest rate since 1980.
- U.S. digital grocery sales grew 12.3% in 2021 [$122 billion].
- Vacant retail space is being converted to fulfillment centers.
- Virtual and hybrid work will accelerate.
- Online shopping for the 2021 holiday season grew 8.6% to $204.5 billion.
- Forty-three percent of online holiday sales were made via smartphones.
- The region from Texas through Florida to Virginia will outperform.
- Liquidity in real estate is being measured in shorter and shorter timeframes.
- Watch for AI based systems to optimize building control systems.
- Life sciences real estate will flourish.
- Ghost kitchens could become a $1.0 trillion global market by 2030.
- The U.S. is entering a period of generational upheaval.
- Real estate M&A activity will grow dramatically in 2022.
- Lifestyle renting is on the rise with Millennials.
- The digitization of real estate across all sectors is rapidly increasing.
- Watch for “digital” space as a new real estate frontier.
- The median age of a SFR is 42 vs. the median age of a homeowner of 57.
- Supply chain disruption will continue throughout 2022.
- Only 13% of Gen Z believe owning a home is “extremely important.”
- The Great Resignation will continue to create staffing challenges.
- Between 30% - 35% of real estate workers will work remotely [1 – 5 days per week].
- The U.S. is now 5.24 million homes short…multifamily/SF development will accelerate.
- Live anywhere, work any time, and shop when you want will dominate demand factors.
- Flexibility, accessibility, convenience, and adjacency will drive growth decisions.
- The office sector will continue to pivot and reset its function and role in work.
- Housing affordability will continue to be on the political forefront.
- Climate change will accelerate sustainability initiatives across all sectors.
- ESG factors will begin to appear in earnest among lenders and investors.

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In The Future Real Estate Firms Will…

- ❑ Be valued for their shared knowledge base; number of recurring, valued client relationships; and connectivity [the network effect].
- ❑ Focus on the customer and the customer's customer, not solely on the competition.
- ❑ Focus on strategic solutions, relationships, and creating value, not services and pipeline.
- ❑ Encourage collaboration, not competition, among departments, divisions, regions and teams.
- ❑ Measure success by the rate of change, innovation, employee retention, customer satisfaction, productivity growth, and valued touchpoints.
- ❑ Invest in talent and technology to connect all Stakeholders more closely to the firm and outcomes.
- ❑ Own the future by investing in the products and value-creating services their clients' desire.
- ❑ Develop their own differentiating story and follow it into the future.
- ❑ Make entrepreneurial decisions that ensure long-term success.
- ❑ Create value through teamwork, open communication, collaboration, shared values, and tenacity.
- ❑ Always look forward, remembering the past but eager to see what is coming around the corner.

Source: CEL & Associates, Inc.

Winning strategies begin with an aspirational vision of what the enterprise is seeking to accomplish or achieve, i.e., a measurable, memorable, and motivating vision statement that, in a few short words, inspires everyone in the organization. Remember that **vision statements are not mission or purpose statements**. Vision statements are internal, not website fodder, and should have a five- to 10-year lifespan. "Landing humans on the moon," is much clearer than "exploring outer space." "Assembling an AUM portfolio of $1 billion," is far clearer than "acquiring a portfolio of assets." "Engaging in 1,000 client/customer touchpoints," is clearer than "serving our clients' sales needs." You get the picture.

Once a vision statement is developed and embraced, a listing of the core quantitative and qualitative eight to 12 vision proof points or performance metrics must be identified. Vision proof points are metrics that, if achieved/exceeded, would show that the vision statement was successfully accomplished.

To create winning strategies, begin by developing the overarching strategy, then formulate the specific strategic actions and strategic performance metrics for each strategy. Strategies can include geographic growth; talent management; capital formation; brand management; client or customer engagement; investment focus/priorities; cost containment; technology and innovation; operations; individual product or service line growth; governance; organizational architecture; strategic partnerships and/or acquisitions; tax protection/prevention; economic, social, and governance ["ESG"]; and diversity, equity, and inclusion ["DEI"].

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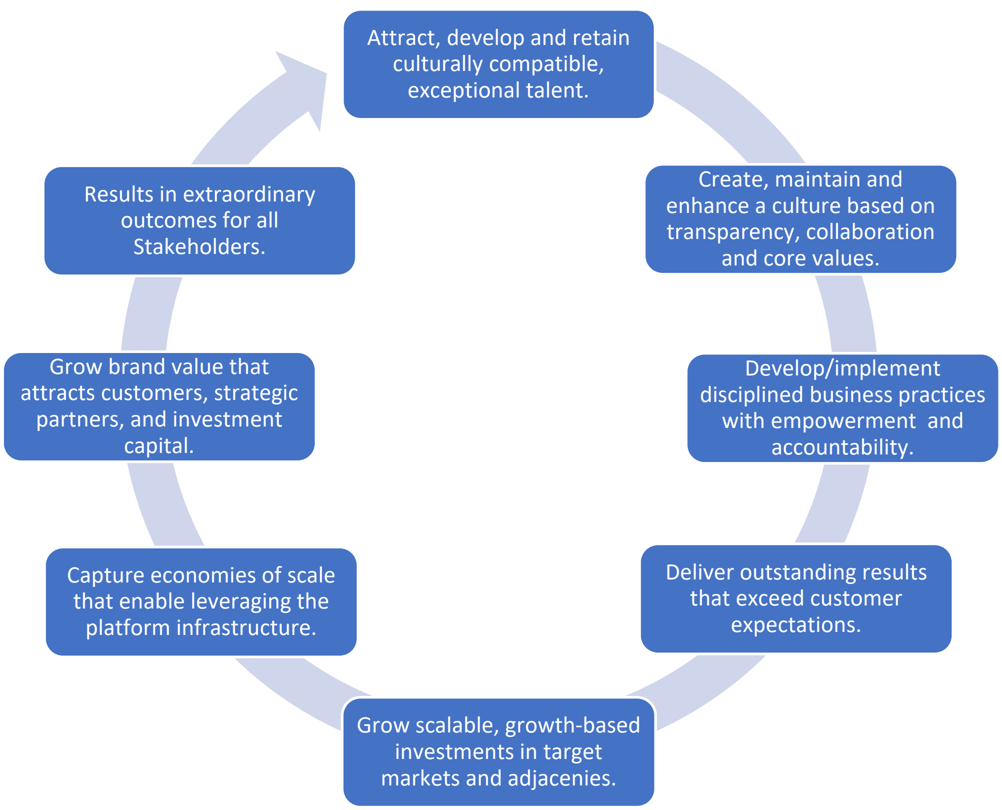
Every real estate firm has only four quadrants of opportunity: [1] Same services/products to same markets and/or customer segments; [2] same services/products to new markets and/or customer segments; [3] new services/products to the same markets and/or customer segments; and [4] new services/products to new markets and/or customer segments. Very often, providing the same services/products to the same markets and/or customer segments is the most limiting option. **Selecting the proper balance among all four is the key to a needle-moving vision and key strategies.**

The strength of any best-in-class real estate firm is the quality, experience, capabilities, and knowledge of their talent base. A winning strategy leverages the talent base in a more holistic/interactive manner. Focusing on purpose, external customer engagement, and creating scalability enables any and all "calls to action" to have the greatest opportunity for success. Real estate companies go through many stages, both planned and unplanned. However, those who can work around the corner and envision what is beyond the horizon will continually outperform those who cannot. Creating a winning strategy that inspires great performance, attracts exceptional talent, appeals to all customer segments, and focuses on the vision…will enable a successful outcome.

Real Estate Flywheel



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Top Strategic Priorities In 2022 – How Many Boxes Can You Check?

- ☐ Secure one or more sources of growth capital.
- ☐ Manage the balance sheet.
- ☐ Lock in HIPOs.
- ☐ Make compensation a core competency.
- ☐ Create a succession plan for all mission critical positions.
- ☐ Add financial incentives to accelerate transformative change.
- ☐ Create, implement, and address DEI and ESG matters.
- ☐ Accelerate a robust research function.
- ☐ Gather proprietary data and leverage it for a strategic advantage.
- ☐ Develop a sustained governance structure.
- ☐ Create a formal or advisory Board of Directors with Independent members.
- ☐ Create a comprehensive brand management plan.
- ☐ Perfect an employee wellbeing initiative and collaborative/transparent workplace environment.
- ☐ Optimize client/customer service and service offerings…seek quantitative feedback.
- ☐ Create sufficient recurring income to cover 100% of corporate overhead.
- ☐ Identify and perfect new and/or adjacency revenue verticals.
- ☐ Seek complementary strategic growth partners.
- ☐ Reduce non-labor overhead costs…and fully develop an integrated technology plan.
- ☐ Seek a growing pipeline of M&A opportunities to grow existing and/or new verticals.
- ☐ Increase efforts to attract "new" customers and expand existing customer relationships.
- ☐ Place increased emphasis on workplace culture and standards of excellence.
- ☐ Monitor and circumvent possible workplace polarization.
- ☐ Create/implement talent solutions to address the "great resignation" trend.
- ☐ Put in place a very robust cyber protection system.
- ☐ Consider changing the organizational structure to become more collaborative.
- ☐ Create Advisory Boards for specific product specializations.
- ☐ Create plans to harness and harvest growth opportunities.
- ☐ Diversify product, revenue, market, and service risks.
- ☐ Take advantage of today's low interest rates.
- ☐ Implement a plan to avoid generational conflicts.
- ☐ Create valued and trusted relationships with all Stakeholders.
- ☐ Create a plan for workforce optimization amid hybrid work patterns.
- ☐ Spend as much time creating new opportunities as you spend improving the platform.
- ☐ Create and communicate the Company's purpose, vision, values, and goals.
- ☐ Implement those initiatives that will "jump start" growth.

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Making your bold, winning strategic moves across the entire organization in one or two significant pivots will have far greater success than a "drip-drip" series of little moves over a prolonged period of time. Often the challenge in real estate firms is getting the Founder/CEO to move quickly and dramatically. The best way to overcome this self-imposed barrier to success is to ask, "what would an outside CEO do?" Think boldly, act decisively, and communicate passionately to move the needle.

Understand What Is Required To Create Value

Creating true enterprise value is often overlooked, because the traditional approach historically has been to "make money by doing whatever it takes." **The ability to create value is measured in more than financial outcomes. Capitalizing on "Customer Touch Points," or "Leveraging the Network Effect" are just two of many examples on understanding what it takes to create value**. Within brand management, for example, there are three stages [brand awareness, brand identity, and brand loyalty] before real brand equity is created. **Today far too many real estate companies "play not to lose," vs. "play to win."** Strategic initiatives for those firms tend to be short-term or reactionary. Knowing where you are going and investing in the future result in sustainable, long-term value creation for all Stakeholders. To achieve these results, one must transcend the traditional and seek strategic solutions that deliver the desired results. To create value, everyone must be held accountable. **Far too many real estate service firms are comfortable with "effort not results."**

Market, client, and opportunity coverage are not achieved with a laissez-faire leadership approach. Did you know, for example, that around 65% of commercial real estate brokers rarely overachieve their "comfort zone" pattern of production? Understanding what is needed to create value for all Stakeholders is a critical element of pivoting. **"Staying the course" is not a winning option**. Knowing your customers, understanding the role technology can have in value creation, and utilizing contemporary and proprietary knowledge are manifest in exceeding desired outcomes. **Remember, there is a difference between business drivers and business metrics**. Some real estate firms are now mapping behavioral metrics into an assessment of selecting the right overall business drivers. Too often real estate analytics are repetitive exercises from years past. **Today the marketplace is far more dynamic, far more transformational, and far more segmented to draw conclusions from one analogous set of evaluative metrics**. Knowing what is required to create value is the perfect pivot from what was, to what is to become, and to what can be.

Determine Where You Will Be Most Active And Grow

Selecting which customer market segments, which geographic markets, and what product or service categories to pursue is a qualitative, quantitative, and structural decision-making process. Is your growth strategy going to be based on market penetration, market segmentation, adjacency, market expansion, diversification, or enhanced product/service development

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and/or offerings? When you assess the next decade of opportunities, will you rely on internal or external factors? Will your strategy be based on economies of scale, branding opportunities, observance of competition, or proprietary knowledge? **Real estate firms that achieve "above market" results generally pursue a diversified approach to growth**. It is critical to know your core businesses, the advantages and disadvantages of each customer service channel, and expansion opportunities.

Acquiring talent, teams of talent, or an entity is a vibrant way to grow. However, strategic acquisitions are created, not handed to you. **Developing integrated growth strategies, while carefully balancing organic vs. created growth, is a must in today's rapidly changing and digitally evolving marketplace**. Real estate can no longer be viewed as a linear game where growth is one continuous line from yesterday to today. Market factors, rapidly shifting demographic patterns, changing workforce characteristics, product and service innovation, capital market pivots, government policies, and the unexpected can alter growth strategies. However, careful and critical examination of "all the demand" factors is essential for success in the 2020s.

Moving forward, real estate firms must make significant investments in platform and intangible assets. In a June 2021 research paper, McKinsey Global Institute found there are four types of intangible assets: innovation capital; digital and analytical capital; human and relationship capital; and brand capital.

Recent CEL & Associates, Inc. studies have revealed that investments in intangible capital result in a strategic/competitive advantage. Real estate firms can easily scale intangible assets; however, too many real estate companies cut back on intangible assets during COVID and are playing catch-up today. Ideas, talent, brand, vision, and key strategies matter.

2022 Top Priorities	Rank
Reshaping The Business Model Post COVID-19	1
Growing Recurring Revenues To Cover Overhead	2
Finding Deals That Make Sense	3
Compensation & Locking In HIPOs And Next-Generation Stars	4
Improving Operational Efficiency & Worker Productivity	5
Creating A Sustainable Governance Structure	6
Growing Client Share & Market Share	7
Accumulating Dry Powder For Future Uncertainties	8
Shedding Non-Core Assets & Underperforming Verticals	9
Creating Succession Plans For All Mission Critical Positions	10
Creating A Compelling Brand Differential	11
Investing In And Deploying Technology & Predictive Analytics	12

Source: CEL & Associates, Inc.

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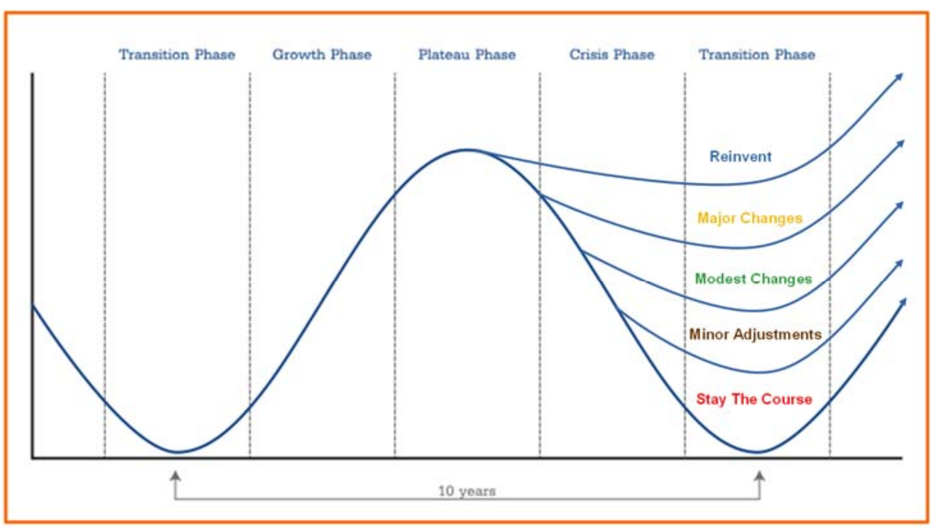
Build For Speed

For any real estate enterprise with intentions to be profitable, resilient, relevant, and competitive today and for the decade ahead, **the ability to pivot and respond quickly will be essential**. The avalanche of technological advancements, regulatory and governmental policies, and rapidly shifting demographic, consumer, capital, product, service, and occupier expectations, mandates a platform built for speed. Nothing is normal. There is no consistent recurring pattern to rely upon.

Real estate companies in the 2020s must accelerate the construct of organizational and operational structures, systems, plus processes that remove clutter, streamline execution, and build around dynamic teams. Real estate firms must be seamless, transparent, and enable interaction and engagement, regardless of where talent is located. Navigating the upcoming decade of disruption, transformation, and the unexpected will require firms to create a dynamic workplace capable of pivoting in a matter of days…not weeks or months. Real estate leaders must clearly articulate and communicate expectations and measures of success. As Michael Porter, an academic and professor at Harvard Business School, stated, **"The essence of strategy is choosing what not to do." Building for speed requires dismantling of old and creating new ways of conducting business, compensating performance, benchmarking success, and empowering others to achieve great results**.

Removing the barriers to strategic pivoting, getting rid of the roadblocks to immediate decision-making, and becoming more efficient in every aspect of the business must be top priorities today. Does your organization have operational or business unit silos? Does decision-making have multiple layers of review and debate that seem to go on forever? Does your organization lack clarity on vision, direction, and priorities? Does your organization still function as if it is the 1980s or even the 2010s? Obviously, many similar questions could be added to this list. However, **a top priority in 2022 must be a strategic review of *everything* and a passionate commitment to "build for speed."**

Real Estate Cycle Strategic Choices



Source: CEL & Associates, Inc.

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Define How You Want Your Team To Work…Not Where They Need To Work

COVID-19 shaped and continues to redefine jobs. Working remotely, coming into the office fulltime or parttime, measuring productivity, and creating team engagement/interacting remotely are ongoing challenges. Zoom, Microsoft Teams, GoToMeeting, and BlueJeans have reshaped communications, interactions, and connectivity. Working remotely and/or coming into the office parttime has added challenges to creating a more transparent, collaborative, and interactive operating platform. **Working remotely has exposed the inadequacy of Internet connections and office decorum**.

Working in the office at "my" desk defines personal space. Working from home in "shared" space is uncomfortable for some. The focus/priorities in the 2020s will be around a robust, fully integrated technology, CRM, remote work, and automating platform with exceptional user experience.

CEL & Associates, Inc.
2021 Real Estate Compensation Survey
Salary/Wage Increase Updates: Actual 2021 and Expected 2022

	Salary/Wage Increase	Top Executives*	Senior Mgmt.**	Exempt Employees	Non-Exempt Employees	Company Average
CEL Supplemental Survey Update 4Q 2021	**Actual Update 2021**					
	25th Percentile	0.0%	2.5%	3.0%	2.5%	2.9%
	Average	3.6%	3.5%	3.5%	3.1%	3.5%
	75th Percentile	3.7%	4.0%	4.0%	3.7%	4.0%
	Projection Update 2022					
	25th Percentile	3.0%	3.0%	3.0%	3.0%	3.0%
	Average	4.0%	4.2%	4.2%	4.0%	4.2%
	75th Percentile	5.0%	5.0%	5.0%	5.0%	5.0%

* **Top Executives**: All or most of top positions reporting to CEO - generally "C" Suite positions and senior officers.
** **Senior Management**: Other key executives - generally VP and above.

Source: CEL & Associates, Inc./CEL Compensation Advisors, LLC © 2021 National Real Estate Compensation Survey - All Rights Reserved. Not to be referenced without written permission.

Work now follows the worker. Work comes to the worker…workers no longer need to come to work…work can be performed anywhere at any time. Consequently, real estate firms must first define the culture they desire, then how those values can be aligned and strengthened within a dynamic, interactive, and far more mobile workforce. **CEL & Associates, Inc. estimates that up to 35% of today's real estate "office workers" will not return to work on a fulltime basis**. **There will be no returning to the Old Normal.** The combination of COVID-19 and technology has permanently redefined work and the workplace environment in every real estate firm.

It appears we are very likely to see a continued and significant rise in real estate professionals "changing jobs" through 2023 This "great attrition" is due to: a robust market for exceptional talent; desire to retain some, if not all, of the work/life balance experienced during COVID quarantine; success of hybrid working models; and a growing belief that "five days in the office" is not the most productive

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place to work. While there are many unanswered questions regarding culture; communications; compensation; collaboration; and commitment [the 5 Cs], the workplace environment has and will continue to evolve. There is no return to the Old Normal, and it will likely take two to three years to establish the semblance of a New Normal. Reworking and redefining "culture" will be a continuous work in progress. Perhaps the office of 2030 will become the new "offsite" meeting and collaboration place.

In addition to understanding and pivoting to the new definition of work**, real estate firms must carefully examine the implementation of DEI initiatives**. The U.S. workforce continues to become more diverse. According to Pew Research, the post millennial generation will be the most diversified in history. **Diversity** is generally defined as understanding and acceptance of others regardless of race, gender, age, religious beliefs, disabilities, sexual orientation, or political beliefs. Diversity should be viewed as getting the right people in the right places at the right time. **Equity** is about assuring fairness and impartiality in titles, training, compensation, and employee recognition. **Inclusion** is about creating a supportive and collaborative workplace environment. DEI is all about "getting it right" and unleashing the power of a best-in-class talent pool. Real estate firms of all sizes and types should be prepared to answer the following questions when asked by investors, lenders, tenants, capital partners, and communities: [1] do you have a DEI plan; [2] can you share successful examples of your DEI procedures; [3] who leads your DEI program; and [4] how would you describe your C-suite team? DEI, as well as ESG, are now woven into the fabric of today's workplace environment and organizational architecture. **Those who remain "as is" or "we have always done it this way," are likely to become far less relevant in the evolving New Normal**. Clearly capital will move away from those who cannot demonstrate a DEI commitment.

Revisit Your Culture In A Post-COVID World

Environments and values shape culture, and COVID-19 upended how and where people work, collaborate, and perform. When many worked remotely, when Zoom or Microsoft Teams meetings defined human interactions, and when the impromptu exchange of ideas and opinions became a scheduled event, the culture changed. **New technologies and streamlined business practices began creating their own culture of knowledge exchange**. Creativity, entrepreneurship, and transparency were redefined, and a different form of cultural engagement began to emerge. New rituals and operating plans have and continue to be created. Returning to the office doesn't re-establish the pre-pandemic culture…reinventing and redesigning what the term "office" means are often topics of strategic debate. **The office is no longer a place, but an active beehive of networks, collusions, transparent communications, and desired outcomes. Interactions today must be powerful and meaningful**. Being "there" does not mean "I am productive."

The new office environment will determine the culture. It can be a policy, decision or a catalyst for shaping the desired outcomes. **The organizational culture over the next decade must consist**

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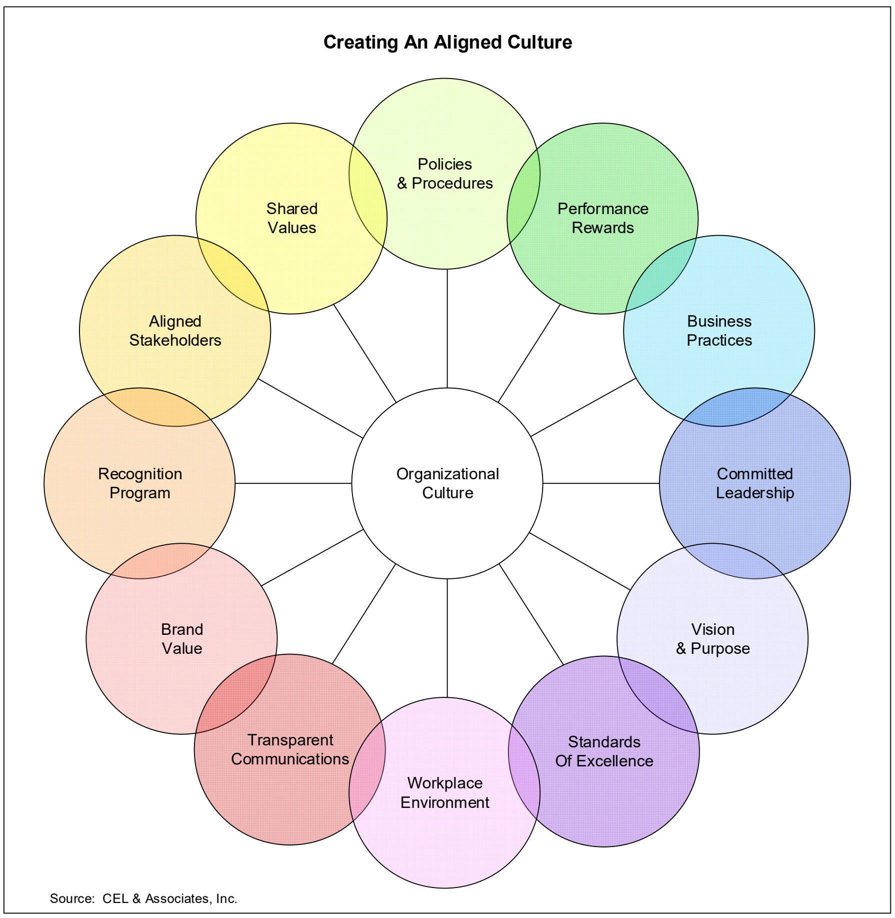
of aligned interests, shared values, and instinctive behaviors [e.g., "doing what is right the first time"]. A dynamic culture defines and shapes desired behaviors and links employee satisfaction and performance to extraordinary results. **While cultures change, values should never change. Culture, however, is an organization's personality**. It stimulates creativity; builds valued, lasting relationships; and creates brand value and equity. Leaders, not employees, create, promote, highlight, incentivize, and communicate the desired culture. **The 2020s is a decade in which a dynamic, not rigid, culture matters.** COVID-19, while disruptive, provided a unique opportunity to [re]define and re-establish one's culture. A culture that reflects stability and an attitude of "we're all in this together" will emerge as best-in-class over the next decade. **Cultures based on shared outcomes, robust value propositions, supportive workplace environments, innovations, and aligned values will achieve a competitive edge over the next several years.** If you haven't recently, now is the time to [re]establish your culture. The following graphic highlights how to create an aligned culture.

Embrace Innovation And New Ways Of Conducting Business

Countless studies have shown companies that encourage, support, and reward creativity and innovation outperform those that don't. According to a recent McKinsey study, companies who reinvented themselves through a crisis [like COVID-19] outperformed their peers by 30%. Having a well-conceived innovation strategy will propel a company from "like everyone else" to "leading everyone else." **Innovation strategies begin at the top…from dynamic board members, aspirational C-suite leaders, and an organizational culture and business practices that encourage creativity**. The four basic types of innovation are: [1] **the disruptive innovations**…those ideas that dramatically change the business model; [2] **sustaining innovation**…incremental and fine tuning of current business practices; [3] **breakthrough**



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innovation…or ideas that move the needle; and [4] **capitalizing upon the innovation of others**. **However, new ideas should face no inhibitors or barriers**. New processes, new technology, new operational designs, and new organizational architecture all contribute to a company that embraces innovation and new ideas. Innovation comes from those who have needs [customers, employees, investors, strategic partners, etc.], those who "read the market" and gather market intelligence, and those who utilize existing or create new technologies to drive breakthrough performance.

Understanding the needs of all of your Stakeholders mandates the deployment of a robust feedback and survey process. Knowing what isn't working or could be improved often stimulates innovative solutions. Innovation has been the catalyst for the rapid rise in PropTech firms [now an $18 billion industry worldwide]. Outsourcing, use of independent contractors and strategic partners, automation, utilization of predictive analytics, and integration of new technologies in building designs, construction, leasing and management are revolutionizing the way real estate is acquired, financed, developed, constructed, leased, managed, and sold.

Creating a Futures Committee or Innovation Committee is an excellent first step to a Socratic review of how and why your organization conducts business and facilitates the identification of creative solutions to streamline business practices while removing operational clutter and barriers to performance. Look outside the real estate industry for ideas and perspectives on what other best-in-class firms are doing to innovate and stay ahead of the curve. Playing catch-up can be frustrating, expensive, and time consuming. **Challenge the conventional and embrace the dynamic new world in the 2020s where creativity, innovation, service, and performance are highly valued**. The future belongs to companies who place technology at the epicenter of their overall business strategy. Speed of execution, timely repositioning of talent and resources, rapid business analytics, and embedded digital technologies within each operating unit, will be the keys for success over the next decade. However, one cannot wait for 2030 then play catch up…these transformative new business models must be developed and actualized today. There isn't one sector within the real estate sector that is immune from digital disruption. During the pandemic, investments in and utilization of technology [Zoom, Microsoft Teams, etc.] increased, as belt-tightening layoffs, compensation adjustments, and downsizing impacted the day-to-day operating platform.

New Models For Community Shareholding

The real estate industry can play vital transformative roles in encouraging communities to inspire and enable the aspirational dreamers in society. The bottom 50% of U.S. families, according to the Urban Institute, have only 1% of our nation's total wealth, while the top 10% hold 77%. Watch for an acceleration over the next decade of "neighborhood real estate investment trusts and real estate investment cooperatives." These models enable residents to purchase shares in new developments. Check out Urban Institute's "New Models for Community Shareholding" by Brett Theodos and Leiha Edmonds.

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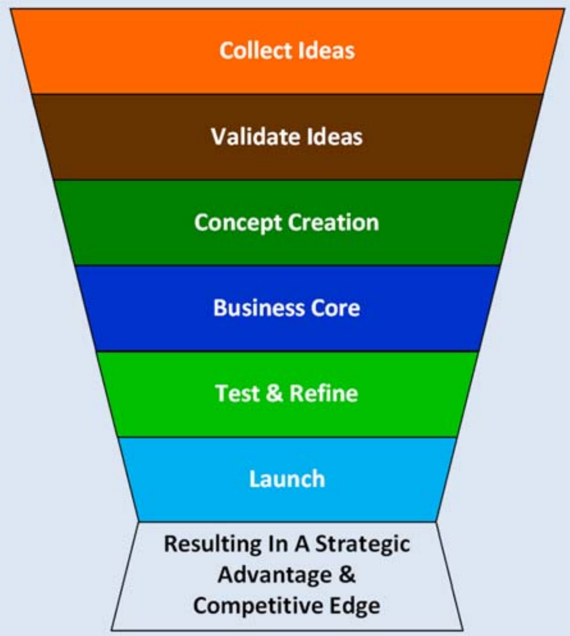
Technology should not be thought of as an efficiency driver but as a strategic asset to achieve a competitive edge. When prospective technology is combined with exceptional talent, your company will become the business model others want to emulate. The graphic below highlights the Innovation Committee mandate.

Become Future-Ready

Motivational speakers/authors often begin with the statement, "Tomorrow starts today." Your future is created by what you do today. Too often real estate firms react rather than anticipate, believing tomorrow will be a repeat of yesterday, and relying on "what we've always done" in a marketplace undergoing tremendous transformation. **To become future-ready, a real estate company must acknowledge that rising interconnectivity, the role of big data, scalability, increased automation, and new business practices are here to stay.** To become future-ready, your organization must clearly establish who you are, what you stand for, your value proposition, and what you seek to accomplish [the vision]. What is external data telling you? Are you stalled because of entrepreneurial blindness? Do you have an aligned culture? Have you defined your company's standards of excellence? Is your organization's ecosystem an inhibitor or catalyst for growth? Is decision-making centralized, or are leaders empowered to capitalize on opportunities immediately?

Innovations Committee Process



Source: CEL & Associates, Inc.

Do you value talent as highly as capital? Have you restructured your organizational architecture and embraced the new/emerging trends in compensation and incentives? Clearly, many questions must be answered to become future-ready. However, **one of the foundational elements of being future-ready is having a contemporary succession plan for Shareholders, Partners, C-Suite leaders, and all mission critical positions**. Future-ready real estate firms have a clear brand identity and brand equity and can highlight their differentiating qualities and accomplishments as well as their valued/lasting customer relationships. **Being aspirational and service-quality focused are cornerstones of future-ready real estate organizations. Remember that future-ready real estate firms are not anchored in the past but are fully committed and engaged in what is around the corner. Keys to a successful future include speed of execution, elimination of redundance and bureaucracy, strengthening transparency, and reducing/eliminating decision-making**

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bottlenecks. COVID-19 didn't just place businesses on hold, it became the reason for revisiting everything and every operating/investment process.

Whether a CEO, division/department leader, onsite manager, or anyone who is in a leadership position, you must recognize that "one leadership approach for all" does not work. To be future-ready, leaders in the real estate industry must be agile, transparent, willing to pivot, and able to respond quickly to the unexpected. Future-ready leaders must be able to work with multiple generations. Future-ready real estate leaders must be collaborative, nimble, authentic, communicative, and possess a growth-oriented mindset. Successfully navigating increasingly complex, challenging and often unpredictable internal and external eco-systems of clients, strategic partners, investors, lenders, tenants, residents, and vendors is a required skill set. Future-ready leaders must be socially responsible, and able to strike a balance between profit, people, and purpose. As the real estate industry moves toward 2030, future-ready leaders must shed the command-and-control leadership style and embrace a purpose- and vision-based intuitive and empowering leadership approach.

According to a recent McKinsey survey, those companies who are active developers of strategy have higher profitability than those who don't. COVID-19 fundamentally changed the pace, structure, and priorities of real estate firms. Those firms that have embraced technology and have set in motion a more robust digital platform, will remain viable, competitive, and relevant. In 2020 real estate firms increased funding of various technology-based initiatives and reduced expenditures on fixed costs and their physical footprint. Today, everyone in the industry is well-aware of competition for great talent, and the lack of qualified candidates. However, top quartile real estate firms are taking, or have taken, steps to increase their "appeal" to current and prospective employees. Those have been strategic not tactical decisions, and those actions are paying dividends today. It is clear that best-in-class real estate firms are strategically betting on technology as a true differentiator and enhanced profit generator.

During the pandemic, real estate firms were required to pivot, reset, and disregard the Old Normal for an emerging new marketplace of opportunities and ideas. If your firm did not create a Future-Ready strategic plan in 2021, it's time to get started. Pablo Picasso said, ***"Only put off until tomorrow what you are willing to die having left undone."*** Walt Disney also made an observation about not procrastinating, ***"The way to get started is to quit talking and begin doing."*** Perhaps now is the time for your company to become future-ready.

Embrace An Operating Structure That Covers G&A

Too often real estate firms relegate property management, construction management, asset management, fund management, [all departments with the moniker "management"] and other "supportive verticals" to a "need-to-have" status. Profit margins and the scale of services rendered are

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viewed as "break even" or "not important" operating business…and subordinate to acquisitions, development, and capital raising.

CEL & Associates, Inc.'s **review found that more than 70% of companies were unable to cover overhead or G&A expenses from the profitability of recurring revenue sources**. The fulcrum for "covering overhead" is very often the profitability of a property management platform. Property management fees are recurring, generally predictable, and the operating structure is scalable. To weather any economic, financial, or future disruptions, real estate firms must have recurring sources of income that are not transactional dependent. It is very realistic for a real estate firm to reach a level of ongoing sustainability within three to four years [i.e., 100% of corporate overhead covered by the profits from recurring income]. Growing recurring income from providing those services to others is becoming a priority for those who want to retain great talent, remain competitive, successfully navigate disruptions, and invest in the future. **Operating on "must-do-a-deal" and/or "the real profit is in the promote so our other services are loss leaders" approach is not the secure financial platform one needs to compete in today's marketplace**.

Additional Key Strategies

- Create a 3- to 5-year vision/strategic plan and a 5- to 10-year outlook plan.
- Build the balance sheet with adequate rainy-day funds.
- Streamline business practices and reduce/eliminate redundancies.
- Upgrade and integrate technology throughout the organization and within all business practices.
- Identify and lock-in next generation [High Potential] stars.
- Eliminate all non-core, non-essential services, products and/or assets.
- Create a sense of urgency with accountability throughout the organization.
- Instill and govern by a set of key values and principles.
- Create a more contemporary/engaging organizational structure.
- Remove those who do not embrace your key values or culture.
- Assess and eliminate risk.
- Create sustainable governance and have designated No. 2s ["Successors"] for all mission-critical positions.
- Celebrate success…collaborate…listen…and never tolerate "exceptions."
- Do different things…not the same things differently.
- Simplify decision-making and make employees a part of the business strategy.
- Build an "Internet of Workplace."
- Create a "Workplace For Me" operating system.
- Embrace a culture of transparency, collaboration, and co-working mentality.
- Acknowledge and take steps to avoid generational conflict.
- Assess the "sustainability" and "wellness" rating of your buildings.

Source: CEL & Associates, Inc.

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Begin Succession Planning & Sustained Governance…Now!

Planning for the inevitable and preparing for the unexpected are the two primary reasons every real estate firm must embrace succession planning and sustained governance. During the past 24 months, the external environment for real estate firms has become increasingly competitive, complex, unpredictable, and operationally challenging. Client, employee, and capital relationships revolve around the interaction of key leaders and managers. An unexpected loss or departure of a valued leader can have immediate and often lasting financial, profitability, and operational impacts. **Succession planning is essential for all mission-critical positions**. However, designating successors isn't about continuing what or how it always has been done. Effective succession planning is 100% about having the experience and expertise needed to compete for the next 10 or more years...not the next one to two years. Successors must look ahead…not in the rear-view mirror. This pivoting strategy is not an optional or "we'll get around to it" task. It is an immediate, must-do priority.

In addition, assisting and complementing an effective succession planning process is the creation of a sustainable governance structure. **Creating a dynamic [Advisory] Board of Directors composed of 40% - 60% Independent members** will go a long way to assuring all Stakeholders the organization will continue to succeed despite the sudden/unexpected loss of one or more key leaders. Have a Board [formal or advisory] instills a quarterly mindset for financial reporting and goal achievement; solicits opinions and perspectives from others outside the company; and provides a valued level of security to investors, venture partners, employees, lenders, strategic partners, and key client relationships that there will be little, if any, business interruption as a result of an unexpected leadership vacancy. Independent Board members can assist in matters pertaining to compensation, adjudication of internal disagreements, strategic advice in facing unexpected challenges, and a valuable resource of knowledgeable feedback to Management. **Succession planning and sustained governance must become a top priority for all real estate firms who want to achieve a strategic advantage in today's highly competitive marketplace**.

Closing Comments

Seldom has there been a more opportune time to pivot and "lock-in" future prosperity and growth. Now is not the time to sit on the sidelines and let the parade of opportunities pass you by. These 10 strategic pivots are merely invitations to an emerging decade of the unexpected. To prosper in the experience and digital economy mandates a pivot. I encourage each of you to take the road less traveled. It clearly will make a difference.

Regards,

Christopher Lee
Editor

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