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commercial market update

RREEF on the Shoals **pg. 10**

Not Bankable **pg. 14**

The Page Mill Grind **pg. 20**

Less Grand Plan **pg. 22**

By the Numbers:
Tracking Shadows
pg. 36

Building an Emerald City:
We Feel Green **pg. 26**
Making a New Mint **pg. 28**

Saint Sighting in San Carlos
pg. 12

Final Offer with BCCI's Bill Groth
pg. 40

Contributors



Steve Atkinson

Fee Abatement to Stimulate Development, pg. 19

Steve Atkinson specializes in land use and development law, including the California Environmental Quality Act and local, state and federal development entitlements. His primary focus is San Francisco. He has successfully represented developers of residential, office, hotel and retail projects. Major accomplishments include Myers Development's 101 Second Street, The Pacific Center renovation, The Infinity and Crescent Height's 10th and Market project. His practice includes advising San Francisco clients on affordable housing requirements, historic preservation and transferable development rights. Earlier in his career, he was an attorney for seven years with the Environmental Protection Agency in Washington, D.C., specializing in toxic substances, hazardous substances remediation and waste incineration. He helped to develop the EPA's new chemical review project under the Toxic Substances Control Act and the EPA's Superfund program.



Charles Edwin Chase, AIA

Piering Into the Future, pg. 32

Charles Edwin Chase, AIA, is an architect with more than 30 years' experience in architecture and historic preservation. He currently is director of planning for Architectural Resources Group Inc., in San Francisco. Prior to joining ARG, he was executive director for San Francisco Architectural Heritage for nine years. Chase served on the Port of San Francisco's Central Waterfront Advisory Committee for eight years and was an advisor to the port on the nomination of three miles of historic waterfront resources to the National Register of Historic Places in 2006. He currently serves on the Executive Board of the California Preservation Foundation, the AIA California Council and is president of San Francisco's Historic Preservation Commission. He holds master's and bachelor's degrees from the University of Florida.



Rob La Eace

Where's the Uptick?, pg. 32

Responding to emergencies as a firefighter in a variety of uncertain situations and diverse neighborhoods taught Rob La Eace a lot about how people should be treated, not only during a crisis, but also in everyday problems. Today, these same skills are an asset to those who work with this San Francisco native in his career as a broker associate with McGuire Real Estate. The tools he puts to work as a firefighter are what makes the difference to the clients Rob works with as an agent. While it may help that Rob is the type of guy with a warm smile and a friendly attitude, his professionalism, organization and drive to succeed are what make him stand out in his career. Working in his fifth year in the industry, Rob is in touch with his clients' needs and with the city—putting a local's perspective to work.



Joe Lewis

The Coming Storm, pg. 21

Joe Lewis entered the commercial real estate business in 1980 as a broker with Cornish & Carey Commercial in Palo Alto following service as a U.S. Navy pilot. He was voted Silicon Valley investment broker of the year in 1988 and named president of Orchard Properties in 1996. He founded Orchard Commercial in 2000 and is responsible for all operations including property management, construction, leasing and maintenance. The company has 45 team members and services a commercial portfolio measuring eight million square feet with 500 tenants.



Matt Slepín

Power to the People, pg. 24

Matt Slepín is managing partner of Terra Search Partners, a San Francisco executive search and human capital consultancy focused on the real estate industry. Slepín has over 20 years experience in leadership, management and functional roles within real estate. His extensive career in executive search has given Slepín a unique and rich perspective on the ever-changing landscape of commercial real estate. ■



Power to the People

Three real estate chiefs focus on their teams to achieve corporate success.

By **Matt Slep**

Clockwise:
Hamid Moghadam
Christopher Peatross
Connie Moore

While the larger economy is turning the corner, commercial real estate has significant time left in the doldrums. Our conversations have changed from how to weather the storm to hunkering down for a long one. Three chief executives running some of the region's most noteworthy companies are plotting their course forward and refining their strategies. AMB's Hamid Moghadam, Equity Office's Christopher Peatross and BRE's Connie Moore are preparing their businesses now for the inevitable recovery, including a heavy focus on the human-capital side of their businesses.

Although none of the three were willing to promise no additional layoffs, it appears each company has pared as far as it need go. AMB Property Corp. lost about 30 percent of its workforce over the last twelve months. In the first three quarters of 2008, the company added some 250 employees, reaching 850 at its peak; the count is now back to what it was when the ramp-up began. In contrast, BRE Properties Inc. cut only about 4 percent of its workforce. But, 40 percent of those let go were in the company's development and construction groups.

Equity Office Properties is the roll-up of three major office companies acquired during the property boom by The Blackstone Group: CarrAmerica Realty Corp., Equity Office Properties Trust and Trizec Properties Inc. Carr and Equity Office both brought Bay Area portfolios. Blackstone attained operating efficiencies in the merger through job cuts as it combined the companies and kept "the best person in each market and in each role," Peatross said. They also had a round of recession-related layoffs in September 2008. Moving from public- to private-company status enabled EOP to eliminate expensive financial-reporting requirements and the associated overhead.

While each company occupies a different sector of the commercial market, their leaders' thinking is remarkably harmonious on the prudent path forward. Headline number one is all about employee communication. "You cannot over communicate, particularly during difficult times," says Moore, whose

company owns and manages more than 20,000 apartments, mostly in California. Under her Connecting with Connie initiative, she meets with all officers in the company individually to understand the challenges they face, opportunities they see and to find ways to achieve their goals. Moore also stresses their annual Associate Engagement Survey, which is aimed in part at reducing staff turnover, a perennial and costly problem in the apartment industry. This year, participation in the survey increased dramatically, and staff turnover has reduced as well. Moore understands that the recession is a factor in the lower turnover but is focused on what will perpetuate the trend and maintain goodwill going forward.

Because AMB is a global industrial real estate company with interests in 14 countries, management has had to develop innovative ways to keep in touch with each other and with workers. Moghadam has visited the vast majority of the company's offices worldwide in the past twelve months and, since the beginning of the crisis, has updated their global workforce on company developments with a series of videos, initially released roughly every other week. He also participates in one-on-one lunches with every officer in the firm at least once a year. Moghadam stresses the importance of having a clear message worthy of repetition. His three goals to get through the downturn are to develop a strong balance sheet, to get the industry's most competitive cost structure and to preserve energy in the team to launch a strong offensive as the market recovers.

Headline number two is an absolute focus on blocking and tackling. Everyone knows that money will be made during the downturn not through financial engineering, cap-rate compression or development, but through operations. Apart from getting the balance sheet in order, it will be about execution at the corporate and property level. Two of these companies, AMB and Equity Office, reorganized several years ago, moving from functional, silo-shaped operating models to regional models. For AMB, decentralization became a necessity given the scope of its world-wide portfolio.

For Equity Office, the reasons behind the change were more nuanced. The approach differs dramatically from that of company founder Sam Zell. Under Zell, Equity Office embraced a centralized business model, where major (and sometimes not so major) decisions were made in the corporate headquarters then delivered to local market operators.

Peatross decentralized the company, empowering a strong executive in each region to run all aspects of the portfolio from leasing to property management to capital expenditures. He would vote for this business model (which is much closer to CarrAmerica's, Peatross' prior firm) in any case, but in particular sees it as a much better business model today. It allows "absolute accountability," he says, and a better focus on what matters in the business now: tenants, occupancy and cutting costs. He believes it allows everyone to align behind the mission, giving people buy-in and a business model they can trust.

BRE also is focused on operations, but in the apartment business Moore believes the focus should be on wringing out efficiencies by leveraging size, scale and technology. BRE has centralized many functions to allow site staff to focus exclu-

sively on property-specific tasks key to the company's health: leasing, customer service and maintenance. There is no longer an administrative function at the site level. Instead, BRE is trying to create a new property management paradigm using information-technology advances. "We knew that the Web was going to change the way we did business; it continues to provide efficiencies, so we can focus on our core competencies on-site," Moore says. She sees a major competitive advantage from investment in the company's operating platform, including a sharp focus on technology. Headline number three is that business practices and compensation models are now clearly based on long-term performance. There is an understanding that short-term flips allowed by cap-rate compression and the merchant-build model are dead, at least through this cycle. With this in mind, each of the three companies made job cuts but then rallied around the remaining team with fair pay and benefits. AMB considered shrinking its benefit package but decided that the marginal savings were not worth the cost to morale. The executive team and several members of senior management did voluntarily reduce their salaries. Moghadam spoke about the "importance of keeping offensive players happy and engaged." Moore asked the question, "How much institutional knowledge are you willing to lose and willing to keep?" The CEOs are clearly pursuing cost savings and repositioning their workforce with the knowledge that they are in it for the long haul and that they want to be in a strong position when

the cycle turns.

REITs, which lost out to private equity during the last cycle on the sex appeal of its compensation, also seem to be back on top. The REIT model of stock-incentive compensation re-prices quickly, while people at private-equity funds have their compensation tied up through the life cycle of their fund. A senior executive whose interests are linked to a fund that made the lion's share of its investments from 2005 through 2008 might be underwater for the life of that fund. Since REITs' stock options are re-priced each year when granted, some years are underwater, but this year and last (as well as the years during the upturn) still should look pretty good.

None of the headlines is a surprise. But we were impressed in talking to all three CEOs with the breadth of the issues they are addressing, their holistic approach to business success and the consistency among all three on where they need to focus now: communication, blocking and tackling and long-term perspectives. These mantras are not new because they are all smart business practices.

Our industry has matured considerably since the last major downturn. Now we have major operating platforms that are here for the long haul and that will survive and thrive through this Great Recession. ■

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The tenets of today's market are: communication, blocking and tackling and long-term perspective.

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