

JAMES A. GRAASKAMP COLLECTION OF TEACHING MATERIALS

V. INDUSTRY SEMINARS AND SPEECHES - SHORT TERM

G. Miscellaneous Company Lectures

17. "Conceptualizing Commercial Real Estate's Future", Roundtable Discussion for Frederick Ross Company, May 28-29, 1986; Contact Person was Cyrus A. "Rus" Hackstaff

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July 16, 1986

Dr. James Graaskamp
LANDMARK RESEARCH
4610 University Avenue, #105
Madison, Wisconsin 53705

RE: SYNOPSIS OF ROUNDTABLE DISCUSSION

Dear Chief:

Enclosed is the Executive Summary of the Roundtable Discussion "Conceptualizing Commercial Real Estate's Future." The Ross Company is actively planning its future in high-level strategy sessions, taking much of the discussion with you into account.

It was a pleasure and an honor to get you out here to Denver, and I am sure there will be future interaction between the Ross Company, you, and the program.

Sincerely,

A handwritten signature in dark ink, appearing to be 'Cg' or 'Cg.' with a long, sweeping horizontal stroke extending to the right.

Cyrus A. "Rus" Hackstaff, III

CAH:emd

Enclosure

Conceptualizing Commercial Real Estate's Future

Executive Summary

Dr. James Graaskamp

A Roundtable Discussion by



Frederick Ross Company

and

Dr. James Graaskamp

University of Wisconsin – Graduate School of
Real Estate and Urban Economics.

CONCEPTUALIZING
COMMERCIAL REAL ESTATE'S
FUTURE

EXECUTIVE SUMMARY

A Roundtable Discussion By
THE FREDERICK ROSS COMPANY
AND
DR. JAMES GRAASKAMP

May 28th & 29th, 1986

INTRODUCTION

The Frederick Ross Company invited Dr. James Graaskamp to participate in a 20 person roundtable discussion of issues affecting the future of commercial real estate. The goal of the session, held May 28th and 29th, 1986, was to outline, discuss, and reach conclusions on opportunities available to, and responsibilities required of commercial real estate firms in the future.

This report summarizes the findings of the two-day roundtable discussion on the following topics:

- The Economy - Global
- Packwood - Tax
- Social Changes
- Capital
- Inflation
- Imperfect VS. Perfect Markets
- Government Regulations & Intervention
- Corporate Services
- Brokerage
- Consulting
- Market Knowledge & Information
- Development
- Asset Enhancement
- National Expansion
- Joint Ventures - Alliances
- Portfolio Management
- Fund Management
- Out-House Services
- Corporate Marketing
- Opportunities

INVITEES

The following executives were invited to attend the Ross/Graaskamp Session:

<u>Name</u>	<u>Company</u>
Robert P. Hackstaff	Frederick Ross Company
Richard G. McClintock	Frederick Ross Company
John P. Box	Frederick Ross Company
Robert N. Inman	Frederick Ross Company
R. Keith Gainer	Frederick Ross Company
William B. Pauls	E F International Inc.
Rick A. Pederson	Frederick Ross Company
Ronald J. Hoelscher	The Horne Company
John McWilliams	Western Skies
William M. Butler	Columbine Homes
Stephen N. Montgomery	Montgomery-Conine Advisers, Ltd.
R. Dennis Conine	Montgomery-Conine Advisers, Ltd.
Larry Helmich	Helmich Investments
Michael B. Hubley	Frederick Ross Company
David Syverson	Frederick Ross Company
Carlton Allderdice	Allderdice, Baroch & Company
Steven K. Taniguchi	Frederick Ross Company
Cyrus A. "Rus" Hackstaff, III	Frederick Ross Company
Dr. James Graaskamp	University Of Wisconsin

EXECUTIVE SUMMARY

The following are the major summary points for each subject. These points and others are expanded upon in the body of this report.

<u>Category</u>	<u>Comments</u>
The Economy - Global	The next 10 - 15 years will be volatile. There are numerous monetary, fiscal, political and social issues that will be out of hand. Either inflation or deflation is expected by the end of the decade. There will be disintermediation of funds due to real estate loan problems. The markets for the next 40 years are here now.
Packwood - Tax	The Packwood Bill will encourage long-term ownership, it will eliminate marginal real estate product, and transactions for transactions sake will be reduced.
Social Changes	Social stress, due to many of the known future facts, will affect investment value. Business stability will require proactive involvement in social issues .
Capital	The future major sources of capital will be the non-bank banks, such as GE Acceptance Corporation. There will be a trend toward culpability and responsibility in the banking system as fiduciary requirements will increase.
Inflation	Inflation is expected to re-occur, however, the major overbuilt urban markets will not be able to pass through their increases in operating expenses and rent due to inflation.
Imperfect VS. Perfect Markets	Real estate is becoming more perfect, however, that does not preclude the opportunity for the middle-man service company.
Government Regulations & Intervention	Regulation will get tighter, and intervention will happen more often as cities and citizens attempt to control land use decisions. Creative negotiation in the public and private sector will be required for success in the future. Entrepreneurs creatively implement public policy.

Land Use

The land use concept of the future is "most fitting use". This allows for the consumer, producer and public interest groups to reach decisions based on their solvency.

Corporate Services

The amount of services Ross can provide will be limited only by business protocol. A fully integrated firm is the way Ross should go, controlling as many profit centers as possible. Access to capital, the ability to arrange financing, do appraisals, etc., all are parts of the pot. Ross needs to project itself as an imagineering, problem solving firm, that happens to be in the real estate business. Brokerage must be perceived as only a part of all of the services provided.

Brokerage

Brokers will have to be in a problem solving mode rather than a transaction mode. Fees will be restructured, with a noncontingent fee at the front, and a graduated contingent fee at the rear. The user side of real estate will become more sophisticated, but will maintain much of the traditional appearance for brokerage companies. The investment side of brokerage is subject to invasion by other organizations.

Consulting

Ross should consider utilizing Consulting as the lead, funneling clients to specific services of the Ross Company. Consultants will become brokers more than brokers will become consultants. Ross must expand into business problem solving, while providing real estate problem solving.

Market Knowledge & Information

Information is risk management. Ross has a substantial amount of information that is currently not cultivated and used to its best advantage.

Development

There will be consolidation and restructuring of development companies, the effort will be to reduce break even of all product to 70% - 75%.

Asset Enhancement

Real estate is the one investment area where you can create significant elements of wealth by direct intervention in the management, or enhancement of the asset. Asset enhancement is a natural for the Ross Company, as a strong team can be put in place immediately.

National Expansion

Expansion should occur in money center cities, in areas where states have a statewide business planning effort, and through the joint venture route only. Ross is a goliath in Colorado, and moving out of the Ross turf may cost a great deal of efficiency.

Joint Ventures - Alliances

Ross should utilize the joint venture avenue for providing services for real estate clients. Ventures with lenders, CPA firms, investment banking groups, are all advised in order to control more profit centers.

Portfolio Management

Ross should concentrate on real estate portfolio management, rather than venturing into stocks, bonds, etc. A joint venture with a portfolio management company that does not have real estate services will be a good extension of Ross services.

Fund Management

Ross could pursue this profit center, raising the funds nationally, but concentrating on property in Denver or in Colorado. There are several opportunities for new types of funds, including unit funds at trust departments of banks.

Out-House Services

Major institutional and corporate real estate owners will continue to use Ross and its services, as they cannot provide the entrepreneurial instinct, nor the local knowledge.

Corporate Marketing

It is important to continue the Ross market research publications, while including Ross PR pieces to discuss Ross's abilities.

Opportunities

There are numerous opportunities for Ross expanded upon in this section of the report. For example, the purchase of a title company for access to their powerful land database; an appraisal clinic, including engineers, CPA's, lawyers, etc.

EXECUTIVE SUMMARY

The Economy - Global

The problems of tomorrow, known as future facts, are already in place. And to dramatize that, 55% of the children born to the minorities in this country, are born out of wedlock to mothers who are disfunctional as a parent. In 15 years those children will be on the street, mad, utilizing terrorism as an accepted political tool.

An additional future fact is that we are going to run out of oil. A society based on the use of the automobile has got to do some very serious rethinking, because your cash flow is based on operations of a building. The buildings outside the door are going to last 350 years, the oil isn't. You come to the end of the practical individual use of the automobile, well before you come to the end of the practical use of buildings downtown.

We are in for some really rocky times. You cannot go from \$1 trillion in debt to \$2 trillion in debt in 6 years and rise to a \$3 trillion in debt in two more. That's a future fact, the interest is the fastest growing element on the national debt.

The current deficits of our government are being financed by Japan and Germany more than any other source. The federal reserve is no longer in control. As Japan and Germany find other places to invest in the world, the United States will be forced to print money, forcing double digit inflation again by 1990.

The first signs of the Europeans and Japanese withdrawing their capital would be a creep upwards in the treasury rate. The Federal Reserve will hold their attention for a while, but they will ultimately withdraw and the U.S. will have to monetize the debt, thus creating inflation.

The next 10 to 15 years are going to be much more volatile than the last 10 to 15 years. Real estate should, however, maintain its investment perception. Real estate is strong as long as you meet a general need and a niche.

There will be disintermediation of bank funds. The banks reserve capacities will be adversely effected as their bad real estate loans come home to roost, and as the feds change the rules on what an admissible asset is relative to their reserve ratios.

Real estate has to adapt to the social facts that are present today. The successful real estate entrepreneurs in the future are the ones who will be able to effectively implement public policies or government priorities.

The government's role is to create the incentives which cause the entrepreneur to charge in the right direction. As well, the more independent we become the more government we are going to have.

The markets for the next 40 years are here. We know how many people there are, what their education status is going to be, their income status, etc., and so forth. Thus it is critical to measure and interpret demographics for its effect on our business.

Packwood - Tax

The Packwood Bill will encourage long term ownership as opposed to short term ownership. It will move us away from a high leveraged operation to lower break even points.

We are going to be looking at more assets being passed through from the asset maker to his heirs. Stepped up basis and starting over again with the heirs is going to be a much better deal than paying either capital gains tax, or recapture tax, or whatever else may be involved.

The tax bill will eliminate the marginal product which sailed initially on the tax shelter.

Transactions for transactions sake are going to be significantly reduced. All properties will be held longer.

The transaction level is going to decline because the buildings that are well placed and well built are going to be held for a very long time. There will be two classes of property - holding property, and trading property. The holding property will be an institutional grade, and the other will be a marginal supply of mediocre buildings for trading. Exchanges will return as a major tool for shifting real estate assets.

Packwood will have major short term effects on real estate, however, in the long term it should clean the industry up.

Once the decks are cleared and the blood spilled in the nation due to Packwood, the federal government will start moving the tax rate up to begin covering the deficit.

If the Grahm-Rudman bill is constitutional, and goes forward, virtually all the critical social functions of the federal government will be taken over and financed by the state and municipalities, causing the doubling of real estate taxes by 1990.

Social Changes

The distribution of jobs in this country is going to be the No. 1 political fight of the future. The decision to locate plants of major corporations will not be the decisions of the corporations alone. Federal and State governments will require some types of regional controls on where the capital facilities are allowed.

Business stability in the private sector will depend on providing the catalyst for defusing major social issues. Business will need to take a pro-active role. Social stress will affect investment value.

There is an opportunity for companies that understand the demographic situations of the future as well as the public-private processing effort, to go into the more difficult areas of a city, establish communication and implement redevelopment opportunities. If the Ross Company is going to look after its own interests in Denver, it is going to have to establish these contacts and work at it.

Capital

A nonrecourse mortgage is nothing more than a commodity. It is a call on the upside if the project works, its a put to the lender if the project fails, and you can sell out in the middle for whatever the margin may be.

Our banking system is irresponsible because it doesn't bear the consequences of the loans it makes. For example, a Savings & Loan Association is perfectly willing to make a put, if in the short run they can survive by booking the income. This may change, as current White Paper Rule 18 says you have to book the income on accrual basis, rather than cash basis.

The future sources of capital primarily will be the non-bank banks, the GE Acceptance Corporations, etc. These groups are not held back by fiduciary constraints. The sector of the non-bank bank is growing rapidly. It is a nifty way for them to leverage off their assets in a field where leverage works effectively without truly jeopardizing underlying capital. GE is not really secured by GE. GE Acceptance is secured by the fact that there is an affiliation. There is no guarantee at all.

The life insurance companies are finding the nature of their product changing so the nature of their funding commitments has to shorten. Pension funds do not see themselves in real estate as lenders, therefore if they are in real estate it is for the equity hedge against unanticipated inflation.

Inflation

Inflation is not going to be as broad spread as it was before. The major overbuilt urban markets are not going to be able to pass through increases due to inflation.

Sam Zell says that the ten major urban markets in the U.S. will see no appreciation in their downtown real estate for the next 10 years. Inflation will not be a haven in certain markets.

During the next inflationary cycle multifamily housing will be most responsive as inflation kills the single family home market because of the interest rate rise.

We currently have a drop in inflation due to the over capacity of the U.S. At the moment we have the great ability and adequacy to produce the basic goods and services.

The need for the Federal Reserve to monetize the deficit in the wake of a withdrawal by the Europeans and Japanese will lead to double digit inflation by 1990.

**Imperfect VS.
Perfect Markets**

Ross is looking at a more perfect market locally due to our capability with information.

The transaction level of \$8 million and below will remain imperfect due to the massive number of properties.

The perfect market does not diminish the brokers involvement. As the markets become more perfect, they become more separate. With separate markets, certain of those markets are more sophisticated, requiring more sophisticated services and analysis. A good example is the fairly perfect stock market where middlemen/brokers are still required .

Government Regulations & Intervention

We have gone through a quiet revolution in terms of citizen participation in land use decisions. The developers that will succeed in the future, are those that are sensitive to citizen and social needs.

As regulation gets tighter and tighter over the next few years, the reproducibility of major assets, office space, industrial space, etc., will be more difficult. Thus the ability to create real estate will be lessened, increasing the competitive advantage of existing real estate in highly regulated markets.

Cities will attempt to control the supply of real estate by strict zoning laws, etc. because of their dependency on the real estate tax. The cities real estate taxes are dependent on high values, which are dependent upon high occupancy, thus the city has a vested interest in seeing the values increase so that their tax incomes increase. Therefore cities may restrict development to keep competition down and values up.

There will be much more creative negotiation between the developer and the community in the future. An example, Holiday Inn wanted to put a new motel in the suburbs of Madison, Wisconsin. The city said they would not rezone that site for a Holiday Inn, unless they first put a Holiday Inn downtown because the city's concern right now is building downtown, rather than building suburban sprawl.

Obstructionism by the public, is a feasible method of regulation. Citizens groups will be very sophisticated in what they can block and frustrate at the state level.

A tax rebellion should occur by the end of the decade due to the shift of responsibilities from the federal to the local level. The real estate tax will become a much more significant element of city budgets, and the real estate tax on commercial property will go up significantly as will user's fees, exactions of other types, etc. New projects will have a higher break even point than old projects, due partially to the real estate tax.

An entrepreneur is a person who can effectively implement public policy, obtaining closure in the public arena.

The new terminology for land use is no longer "highest and best use", but rather "most fitting use". "Highest and best use" was a concept that maximized the wealth of the property owner. "Most fitting use" maximizes the wealth of all groups , including the consumer group, the producer group and the public interest group. Most fitting use land use decisions are based on a concept of solvency of these three parties. You have to find land use decisions which allow all participants to remain solvent. That's the first step in creative entrepreneurialism, or the implementation of public policy.

The government's role is to provide incentives to push the private sector in a specific direction.

Corporate Services

Real estate is nothing more than a tremendous sink for services. The amount of services Ross can provide will be limited only by business protocol.

A fully integrated firm is the way Ross should go. The object is to control as many profit centers as possible.

Graaskamp believes Ross will make their profit centers on operations in the future, as opposed to transactions. The big three on Wall Street, Solomon Brothers, First Boston and Goldman Sachs received 40% of their profits last year from the real estate business. Most of it came from a problem solving/consulting role of one form or another, rather than brokerage.

The Ross Company needs to be a business problem solving group that is not restricted as far as their perception of the approach to solve business or real estate problems.

Largest will not dictate. Diversity of service will dictate.

Major institutions will not do their own in-house real estate leasing and management, because as the numbers of properties of institutional quality dwindle, they have to pay a premium to the local, knowledgeable real estate firm to get the correct buttons pushed to finish a transaction. The institutions are going to have to pay for that access, because by the very nature of the depersonalization of real estate it means they have also removed themselves from face to face contact with the owners of the projects they want.

The brokerage market will be broken into two types of market - the \$8 million and above market, where the institutions primarily play, and the \$8 million and below market, where smaller institutions and individuals play. Ross's niche will be in the lower group, with transactions accomplished every once and awhile in the higher group.

Ross should refocus and provide the majority of its services to users or occupants of space, rather than to the owners of the space. Merchandise your service to the users from the standpoint that you can help them to be more efficient in their use of the real estate they own or lease. As less and less real estate is owned by the occupant, the broader market will be those who occupy space.

Ross needs to have access to capital as one of its services. This can be accomplished either by cooperating with an investment banking house, or by bringing it in-house by a mortgage broker.

The Ross Company should build its own appropriate mix of services for the future, within the company on a local basis rather than national. If national expansion were to occur, the money center strategy should be given the consideration and only through joint ventures should expansion be tackled.

Brokerage

Transactions will not be as obvious as they have been in the past. Brokers will much more have to be in a problem solving mode, rather than a transaction mode. The real estate service industry is definitely moving from a brokerage industry to a consulting/brokerage industry.

The brokerage game is highly vulnerable to the restructuring of their fees. There needs to be some sort of hard dollar noncontingent fee at the bottom for setting it up and making the effort on it initially. Then, tiering the balance of the fees around a central, most profitable price and a range above and below that. It will be important to move the Ross Company away from the contingent fee only to the certain, or consulting fee up front with contingent fees at the back. It requires education on the part of the client, but the marketing specialists of the future will charge by the hour against a performance percentage.

Fees need to be restructured to allow for a problem solving focus. Graaskamp says the following: Why not say, all right there is a listing fee of \$5,000 to put it in our book, have us make a work up on it, and prepare whatever we need to for the marketing of it. And then, the goal is to receive no less than X dollars for the property in which case our fee is 4½%. If we make the most probable price we can sell it for, we make 5½%, and if we get the highest price within the range we get 6½%. At that point, there is an incentive factor for you to get the best possible price. At the same time, you don't have to take the entire risk of no transaction at all, you did get at least a listing fee. The listing fee will pay you to be a consultant up to that particular point in time, helping the client to frame his marketing problem better. As many people suggest, he may discover that he does not want to sell at all, but rather re-finance, repackage, buy another property, or shelter cash flows from one to the other, etc.

Brokerage, as the Ross Company knows it, will continue in the \$8 million and below real estate market. There is a great deal of marketing inefficiency due to the number of properties, and that the time spent on the deal is longer. The standard of due diligence increases as you get to the smaller, less sophisticated investors, so you are justified in charging a higher fee. However, the fee needs to be graduated in the future.

The user side of real estate will become more sophisticated, but will maintain much of its traditional appearance for the brokerage companies. The investment side of the brokerage operation is subject to attack by outside organizations, as the investment side now is being handled by other organizations who provide broader services.

In the book In Search For Excellence they point out that the companies that really survive in the marketing business were the ones that paid their salesmen to circulate, creating feedback loops coming back into the organization constantly. It may be that the commercial broker will have to do the same thing. This would require cutting down the number of brokers, giving those remaining a stronger draw, and when things aren't happening, they are circulating, they are maintaining presence, contact, feedback, and establishing credibility. It means you are investing in your high side across the low side so that you are in position for the next high side.

Consulting

Consulting is the information center at the front door. The Consulting Division should feed the Brokerage Division. The Consulting Division should be the entree for numerous clients who are then passed through to others in the firm that would be the implementors of the Ross service. Consulting can provide the expertise that will allow Ross to provide the most cost benefit to the client. It gives the client the global services of the real estate company, and several of these services are then targeted for carrying out the assignment. The consulting front door approach allows the consultant to simply define the question well, then funnel the client to others to create the answer.

Consulting is entirely a process of defining questions for the client. If a client calls the Broker directly, the Broker should challenge the presumption that the client wanted to sell or buy anything. At that point, the broker is in the consulting game if he has helped him move from a problem that is perceived to a problem that is understood.

It is important to try force feeding the consulting role at the lead position with clients. If you get lucky the first couple of times you do that, a good pay off will occur for the sales person, and they will become a convert.

The consulting and brokerage divisions should not be merged. The broker by his very nature is going to tend to put his time where he sees the highest bang for the buck. Therefore, he is going to tend to short change the customer on the front end, where he is being paid by the hour, in order to get to the point at the back end, where he is paid on a percentage.

It is very important to continue to sell the macroinformation on the market. The Ross market reports are effective, but add P.R. to them.

Ross Consulting should be hoarding, evaluating and using the microinformation that is available within the Ross Company. Ross's research is primarily viewed by the brokers as advertisement, not as information to be used as a primary source. This will be changed if the data is to have any value at all.

Consulting needs to provide social understanding in addition to all of their other information in their reports, in order to allow for risk management of future facts.

A great opportunity in consulting is to have people on staff that can look at profit and loss statements and balance sheets and determine the ramifications that real estate has on the business, thus providing a very specialized consulting role. This is an effective way to entree into the CPA firms.

Market Knowledge & Information

Those who have the largest data and knowledge base will have the most reliable information on which to make real estate transactions. However, it must be completely available on an interdepartmental basis for its use to be worthwhile.

Utilize the Ross market reports not only to state macro-information, but to state public relations information as it relates to Ross managed or leased buildings. Use it for publicity purposes where you sell the fact and sell the company as well.

It is critical to understand, measure and interpret demographics and its effect on our business, as it will be the cap on whatever we do. It is important for the Consulting Division to have a complete understanding of and be able to disseminate the facts of future demographics and social interaction problems for appropriate risk management.

Information is risk management.

Development

There will be consolidation and restructuring of development companies. The developer will become more entrepreneurial in one sense, more of a merchant builder in another sense, and provider of more services as well.

The marginal real estate development firms will be absorbed by the institutions, if they stay in real estate at all.

The cash break even point on the total span of development properties should be in the 70% - 75% range.

The successful developer will be an entrepreneur, effectively implementing public policy.

Developers of the future will be sensitive to social needs, and the overall need for solvency by the user, producer, and public.

Ross must get extremely good at public-private negotiations. If Ross is successful with these negotiations, you can create your own monopoly for projects, as others will have difficulty getting their projects through the public arena.

Asset Enhancement

Survival of the real estate entity depends on solvency, and solvency depends on a lower cash break even point. Asset enhancement is the ability to lower the cash break even point. Anything which enhances cash break even point is asset enhancement.

Asset enhancement is ultimately the creation of wealth.

Real estate today is the one investment area where you can create significant elements of wealth by direct intervention in the management of the asset. Real estate provides the economic availability for direct intervention, stocks and bonds do not.

The stock market is subject to the float on any given day. If panic sets in the whole market will drop. In real estate each building is an enterprise, thus panic will not be able to influence it to a great degree. The higher level of instability in the investment market favors real estate because real estate does not report its value daily.

The structure of the asset enhancement team would be a group of skills in different people. A team effort. It is important to include financial advisors, attorneys, property managers, developers, political liaisons, etc.

Real estate is management intensive, thus adept asset enhancement is critical.

Asset enhancement blends brokerage and property knowledge with financial conditions and performance.

National Expansion

With the Ross corporate and knowledge data base, and the sense of networking within the Denver environment, stay in Colorado, be a goliath in Colorado.

If you look at all the real estate enterprises who were really good at what they did in their local market, moving out of their own turf cost them their efficiency.

Real estate has so many people skills to it, and so much networking within the local community, so if you move out of your home base you are out of your territorial knowledge. Real estate is a local product, thus the case is made for a strong local real estate firm.

There are no down times in a local market. If you are positioned properly with the correct profit centers, including insurance, property management, redecorating, construction management, financing, etc., you are going to have a steady cash flow which from time to time will also generate a handsome brokerage commission.

Expansion, if desired, needs to concentrate in states where governments are business oriented, and have a state-wide business planning effort. Also, money center cities where joint partners abound should be focused upon.

Joint Ventures - Alliances

Solomon Brothers major thrust for the next 10 years is financing corporate America by buying and leasing back their facilities thus providing working capital in effect at mortgage rates. It means the break even point on the firm who sells their real estate takes off, and the traditional resiliency of low debt to equity ratio of American manufacturing is lost. Wall Street liquifies the asset and converts it into a working capital resource.

In order to best utilize the market information and knowledge of the Ross Company, Ross should become partners with the lenders in the community, as they are the ones who have the least amount of data on the inside. The lenders are not capable of producing the information themselves, and for a lender information is risk management. The information could be utilized in the construction loan department, mortgage department, trust and pension department, etc. The way to be paid is through a percentage of the variance produced by the information provided. Don't get paid for the data on a service basis, but on an agreement of variance control.

CPA firms are also ones you want to cultivate, even more than the banks. They want to identify with the Ross Company. You are going to be able to generate people for them, and they could generate people for you. They are on the inside when decisions are made concerning a company's real estate.

There exists numerous opportunities for Ross Company's asset management group to joint venture with large fund managers that have no real estate product, and are primarily in stocks, bonds, and so forth. Example: Critendon.

It would be advisable to affiliate with one of the large money center investment banking groups, Goldman Sachs, Solomon Brothers, First Boston, etc. It will be important to have an understanding about and control of new financial areas, mechanisms and techniques.

The joint venture is the recommended way to proceed in the performances of services for real estate clients on a local as well as a national basis.

Portfolio Management

It is important for the Ross Company to stay away from anything other than real estate portfolio management. Stocks, bonds, all assets, etc. should only be handled by a joint venture partner if a portfolio management group is to be created.

Fund Management

The Real Estate Investment Trusts that have succeeded are the ones that have stayed primarily in their own home town.

Funds that will succeed in the future, will need to be entrepreneurial rather than fiduciary, utilizing asset enhancement expertise.

The Ross Company's ability to raise money is national and it's acquisitions should be local. With an entrepreneurial risk type of fund, Ross should be able to buy properties in the local market below the median or mean price for the asset. With marketing, management, and asset enhancement capabilities, Ross should be able to enhance the properties beyond the average property growth, creating the required spread.

If the Ross Company has singular market knowledge, and unique management ability, they should be able to capitalize on it in the fund area.

Ross should consider creating a unit fund in the trust department of banks in which the officers could invest. This avoids the SEC. The only people who would be eligible to invest in the unit fund are those who have a trust established in the bank. You have effectively tapped a capital element that needs real estate, and you simply become the asset manager or trust department fund manager.

Ross could create an administrative trust at First Interstate Bank of Denver, where the investment would be in common fund real estate shares, investing in it as a unit fund, again bypassing SEC regulation.

Outhouse Services

The major corporations cannot get the entrepreneurial talent to provide individual leasing, management, and brokerage services for their real estate, thus leaving the opportunities available for services provided by Ross. They don't have the capability to know the territory, or the local knowledge, and there are too many details influenced by local factors.

Institutional demand for outhouse service will remain in place.

Corporate Marketing

The Ross Company has extraordinary relationships within this marketplace, and they should be targeted and worked utilizing a team problem solving approach.

Do not give up on the public publications. It is important to continue the Ross publication in the times of soft markets. However, add PR pieces to it discussing Ross's abilities.

Arthur Anderson has been an appraiser for 8 years and has gone from zero to third largest in the world. They spend 20% of their receipts on marketing. Ross has marketed the Property Management Division well, but has not marketed well corporately .

In order to get to the CPA firms, and the lenders, in this city, it is important to use personal ambassadors from the Ross Company. Top people.

Don't advertise the Ross Company as a brokerage firm anymore. Advertise it as an imagineering/problem solving firm in the real estate business.

Ross needs to, from a marketing standpoint, project itself as a real estate service company, of which brokerage happens to be a part.

Opportunities

Sam Zell, has just taken a call on Allis - Chalmers stock, and he wants to take control of the Allis - Chalmers Company by June 30th of this year. Sam Zell sees that corporate unused tax carry-forwards can be used as a real estate tax shelter following the Packwood Tax Bill. He can roll up all his individual partnerships into the Allis-Chalmers shell, and use up the shelter.

Solomon Brothers will, on any deal that they broker, give the client a three-year "put" back to Solomon's at the same price. What we are seeing are guarantees for real estate deals.

An interesting article by Drucker on survival in volatility points out that you should be careful not to confuse profit with cash flow. In an inflationary and unstable time, much of the so called profit is the working capital with which you have to survive the next low. Therefore, Ross may be paying the salesmen too much on the high side, and not funding enough of the low side. There needs to be a balancing out of compensation with a salary draw on the low side.

Dr. Graaskamp suggests that LaSalle Partners is a very well organized, service oriented company. They have engineers, architects, property managers, etc., where they can make the most out of their expertise by providing real estate services to corporations that don't have real estate departments. Graaskamp feels they are sophisticated, and well oriented with an engineering basis. Most other fund managers such as Balcro, etc. are oriented towards marketing. They can buy well, but they are terrible at management.

The method to avoid the effect of disintermediation would be to sell a project with substantial equity and put the funds in short term treasuries, keeping that as the equity reserve to protect other assets.

There is a change in the wind that needs Ross's attention from the top down if Ross is going to adequately and profitably represent work for the client.

The group that has done the best job of putting demographics into perspective is Claude and Nina Gruen of Gruen and Gruen in California.

The delineation, recognition and analysis of niches will become damned important.

There may be enough momentum, due to the tax law regulation, etc., that could bring property exchanges back.

It may be important to send some of the top adaptable brokers and others in the firm to the financial management certification program, to provide them with further capabilities in servicing future clients.

There is an opportunity for the Ross Company to market upper end housing and let some of the brokers work the residential end. . This would create influence points for business people who need brokerage services for their business as well. Numerous full floor office deals have been brought to the Ross Company by residential brokers, portraying an opportunity.

A good example of an opportunist is Larry Melody of L. J. Melody. As a mortgage broker Larry is doing a tremendous amount of business because people are refinancing at this point, and he has a relationship with all the lenders. He is focused to provide capital services as well as brokerage and consulting, if needed.

Institutions should not be looked upon as large institutions only, numerous institutions such as hospitals, state, etc., are all available in the \$8 million and below range and are all making real estate shifts. Ross Company services are not portrayed well to this group.

If \$10 million were available, the target would be the purchase of a title company, which creates a professional information base immediately. Title companies are not aware of the power of their information. Consulting could utilize this data well.

Create an appraisal clinic in which there would be a civil engineer, a CPA, a lawyer, as well as the appraiser, all focused on the appraisal product. The fiduciary sponsors will have to get appraisals done with stricter regulation, and the appraisal shop would be designed for the fiduciary. When the report was signed off on, an engineer would stamp it, the appraiser would value it, the CPA would opine to structure, etc. This group would be able to address the critical questions as to the inherent value of the property for the long term hold.