

# Insurance, the Economy, and Mergers & Acquisitions Top NAC, ROC Agenda

On October 12-13, members of BOMA International's National Advisory Council (NAC) and Regional Owners Council (ROC) held a joint conference in Dallas to discuss timely issues of importance to the real estate industry, including the economy, insurance concerns, and the recent merger and acquisition frenzy. Members also enjoyed golf, a tour of Victory Park, and ample time for relaxing and networking with peers in the industry.

## Myriad of Challenges Face CRE Industry

Asked what their company's biggest challenges are, NAC members responded, almost unanimously, that the recruitment and retention of key staff members tops the list. Other issues cited as major concerns included rapidly rising insurance costs; ongoing disaster recovery in Gulf Coast region; influx of capital and how to structure portfolios to best take advantage of it; improving the industry's use of technology; and uniting the CRE industry in relation to green buildings and sustainability issues.

## Private Equity vs. Public REITs

In a NAC member panel discussion moderated by Richard Greninger, formerly a managing director with CarrAmerica and now the president of operations for the newly formed Carr Realty Company, panelists discussed the recent buyout and merger frenzy that has marked 2006. Panelists included Stan Roualdes, Executive Vice President of Shorenstein Realty Services (representing the private equity side of the discussion); Scott Meadows, Managing Director of Wells Real Estate Funds (a non-traded REIT); and Michael Steele, Executive Vice President of Glenborough Realty Trust (a public REIT in the process of going private following their acquisition by Morgan Stanley).

Panelists agreed that REITs have become less attractive due in part to Sarbanes Oxley (SOX) compliance and the costs associated with it and noted that quarterly analyst calls

are driving decisions in the public arena. When asked to discuss the issue of value disparity and how one company could pay \$10 per share more than the acquired company had thought it was worth, Steele observed that "it's cheaper to buy the whole than the parts." Meadows remarked that his company is often accused of over-buying, yet he points out that in every transaction, thirty other companies have competed against them.

## Federal Government Portfolio Performance

To discuss public buildings issues, NAC was honored to host David Winstead, Commissioner, Public Buildings Service, General Service Administration (GSA), and Tim McGrath, Assistant Deputy Minister of the Real Property Branch of Public Works and Government Services Canada (PWGSC). Both the GSA and PWGSC remarked that one of their biggest goals is to rightsize the government's portfolio by reinvesting in performing assets, disposing assets that are expensive to operate and maintain, produce little or no net income, require significant capital repairs and do not adequately serve customer agencies, and adding new assets as needed through their capital construction program.

## Economic Outlook

Just when attendees were beginning to relax and enjoy the conference, Don Reynolds of 21<sup>st</sup> Century Forecasting came along to burst the bubble. "We're at the top of the cycle. 2007 won't be as good, and 2008 will be worse...2006 is as good as it gets," Reynolds predicted. According to Reynolds, the U.S. economy has enjoyed record growth during the past five years, but is now headed for a slow-down. He predicts that during the next five years economic growth in emerging markets will outpace established markets, and that Japan will replace the U.S. as the #1 economic market within 15 years.

Reynolds' session was followed by a local, regional, and national market overview, led by Jon Altschuler, President and Partner, Stream Realty Partners, L.P. and Mychele Lord, Executive Managing Director Client Services, Transwestern Commercial Services. Altschuler provided attendees with a closer look at the Dallas real estate market, while Lord addressed national trends, such as cap rate compression, foreign dispositions, and energy challenges. Lord also predicted that 2007 would be the "Year of the Property Manager" as property managers meet the challenges of the shift from value through appreciation to cash flow; face increasing pressure to meet proformas; confront rising operating costs including energy, insurance, taxes, and payroll; deal with the impact of record churn; and struggle to recruit and retain seasoned professionals.

### **New Era of Risk**

In the September issue of the *BOMA Magazine*, Joe Plumeri, Chairman and CEO of Willis, refers to our nation's growing insurance challenge as the "New Era of Risk" as we as citizens and the insurance and real estate industries struggle to prepare for the possibility of multiple occurring events. Brian Ruane, Senior Vice President and Director of the Real Estate & Hotel Practice Group for Willis, joined NAC and ROC members to share Willis' views on rising insurance costs and the future uncertainties of terrorism coverage once the federal backstop expires. (TRIEA – the Terrorism Risk Insurance Extension Act of 2005 – is set to expire on 12/31/07 absent Congressional action.)

Steve Cataldo, a principal with the Trammell Crow Company, also joined the group to share his insights on the challenges that he faces as a risk manager in providing ample coverage for TCC's portfolio. He notes the dramatic rise in rates per square foot and for windstorm coverage is driving some companies to consider self-insuring, or at least self-insuring the wind damage component of their insurance. Cataldo noted that deductibles have gotten so high that tenants may not be able to pay their deductible in the event of a catastrophic event. Cataldo also predicted that rates will

not go back down anytime soon, even if this hurricane season passes without any major damage.

### **The Leadership Legacy**

Robert Galford, Managing Partner with the Center for Executive Development and an instructor at Harvard University's Graduate School of Design, Advanced Management Development Program, led members through a case study to test their leadership skills. This hand-on, interactive exercise led to thoughtful discussion on how to lead a company through some difficult issues including international expansion and leadership succession plans. Galford is co-author of the recently released book *Your Leadership Legacy: Why Looking Toward the Future will Make You a Better Leader Today*.

### **Victory Park**

Following the conclusion of the formal program, ROC and NAC members were hosted to a tour of Victory Park. Developed by Hillwood and Hicks Holdings, this 75-acre site – formerly a brownfield site -- in the heart of Dallas is considered one of the most significant master planned urban developments in the history of the southwest region. Victory Park brings together retail, dining, office space, residential, hotel and entertainment and sporting event venues, including the state-of-the-art American Airlines Center.

*The National Advisory Council is made up of senior executives from the nation's largest companies that own and manage commercial office space. The Council meets twice a year to discuss key industry, legislative and regulatory concerns, as well as to consider significant industry trends.*

*The Regional Owners Council is composed solely of regional or single market commercial real estate professionals who either own a company or building(s), or hold an equity position in such a business. Senior real estate professionals with similar interests are able to network, exchange ideas, detect new trends, listen to market strategists, and potentially develop coordinated approaches.*