Building and leading high performance real estate companies

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Abstract

There is plenty of literature published on conceiving, designing, building, financing, and acquiring real estate, yet not much has been written on how to build high performing real estate organizations. To be an enduring company that can effectively construct, acquire, finance, and manage the hard assets of the built environment, the organization responsible for making it happen must be hired, trained, motivated, and appropriately led. In fact, it can be argued that the true assets of an enterprise are the ones that “go down the elevator” each night. It can also be said that the job of high-quality leadership is to inspire these employees to return day after day and continue to perform great work for their companies. This paper examines many of the critical factors that are essential for developing high performing real estate organizations. The chapter addresses how to bring together four factors that form the competitive fabric of superior real estate companies: strategy, talent, culture, and capital. The chapter explores how to construct a real estate industry value chain and position the core competencies of a company on the value chain so it can successfully compete. It then examines how executives can build their own personal leadership skills necessary to oversee high performing companies. The important steps for hiring and training employees, and amalgamating talent into a productive company culture are then discussed. Finally, the chapter examines how strategy, talent, and culture can be effectively utilized to attract desirable, low-cost capital for future investment and development activities.

Introduction

Real estate companies, by virtue of the industry in which they compete, are predominantly developed and managed by their founding entrepreneurs. A few ultimately grow to become institutional “category killers”; others survive to successfully compete in a crowded and competitive landscape. Many, however, eventually close down. In fact, according to a report by McKinsey and Company, “less than 30% of family businesses survive into the third generation of family ownership” (Caspar et al., 2010). Other references have separately documented the increase in delistings and privatizations of public REITS that were not able to maintain their public competitiveness (Chapman, 2005; Filisko, 2007; Jacobius, 2015).
Sometimes companies cease to exist due to material economic events that stop them from being competitive, sometimes due to poorly executed strategies, and other times due to the founder neglecting to institutionalize a lasting organization to succeed him or her.

This chapter identifies and discusses some of the critical ingredients required to start, grow and lead high performing, sustainable real estate enterprises. It is comprised of four sections:

1. Identifying and acquiring the necessary personal skills to effectively lead
2. Building a competitive strategy that can access capital
3. Hiring, developing, and managing talent
4. Creating a sustainable, high performing culture.

In each section the critical items that drive success are noted and the techniques for developing these are highlighted.

There are an abundant number of real estate companies in existence today, but only a select few are considered “the highest performing” enterprises. Some noteworthy US-founded examples include Avalon Bay Communities, Boston Properties, Taubman, the Blackstone Group, CBRE, Morgan Stanley, and Marriott International. What attributes do these “high performing” real estate companies have in common? First, they execute their investment, development, or other services in a consistent, high-quality manner; they also have sustained their superior quality over multiple real estate cycles. Second, these companies have refined their competitive strategy to provide customers with significant perceived value. They have done this by either outperforming their competition or by perfecting a business model that is both unique and in high demand. Third, these elite enterprises continuously access low-cost capital to fund their business requirements. They do this by raising money around superior strategies, and then proactively managing investors’ expectations to maintain their long-term loyalty. Finally, these companies build organizations that are talented, passionate, and able to thrive through leadership transitions from the founder or former executives to new corporate chiefs. They accomplish this, in part, by conscientiously developing younger talent into future leaders so long-term prosperity can be maintained. So how does one begin the process of building a high performing real estate company? It starts with identifying the key qualities required to be a successful company leader.

**Identifying and acquiring the necessary personal skills to successfully lead**

This process begins with assessing the leadership qualifications of the founder or highest managing executive and identifying those skills that may be underdeveloped yet are necessary to build and lead the entire enterprise. What a managing executive may lack inherently, he/she can either develop or access by partnering with other senior managers in the organization who are strong in those areas where the executive may not be. Most of the greatest organizations are actually led by “executive teams” that have individual members with complementary skills, and yet as a collective group exhibit the full gamut of managerial and leadership capabilities that are essential to drive the company forward. Being able to utilize a full range of such leadership skills is necessary for building long-lasting, competitive, sustainable enterprises.

What are the fundamental skills that are required to manage vibrant real estate companies? Seven skills, which progressively build on each other and help form the basis of high-functioning corporate leadership, are listed below. As with many normal progressions, less tenured employees tend to start at the top of the list perfecting the first two sets of skills initially,
while qualified executives, as a collective group, have had to master all seven (Armstrong, 2011; Collins, 2001).

1 Technical skills: These are the foundational skills good practitioners develop early in their careers. They include financial and quantitative analysis, underwriting, project management, written and oral communication, transaction sourcing, legal document review, and fundamentals of negotiations.

2 People skills: These include the ability to get along with a broad constituency of professionals, as well as the ability to create and communicate win–win opportunities with important established relationships.

3 Managerial skills: These encompass the ability to effectively delegate and still ensure that progress of key initiatives is accomplished. These also include the ability to train and mentor employees, build effective teams with complementary skills, and establish high-functioning controls that enable the teams to successfully focus and execute. Great managers are great motivators and organizers of people.

4 Industry knowledge and vital industry relationships: These incorporate a deep understanding of the industry and its trends, insightful knowledge of the competitors and what strategic initiatives they are developing, and sound relationships with those who influence the dynamics of the industry.

5 Financial stewardship: Financial stewardship involves the ability to understand the vital financial metrics that must be implemented to compete and then thrive. It also incorporates the ability to direct company activities that take advantage of financially beneficial opportunities and avoid initiatives that will create undue risk. Finally, financial stewardship includes the ability to develop and successfully execute a financial plan.

6 Strategy and marketing expertise. These require a very sophisticated level of skill because they are the most nuanced, yet are key to driving a company’s competitive superiority. Strategy development is the ability to comprehend where the company can best compete in its industry segment and then put in place the necessary items to enable the company to effectively execute the strategy. Marketing deals with the communication of the company’s vision in a way that inspires its stakeholders (employees, investors, customers, agents) to engage and help achieve its potential. When the dynamics of an industry or its competitive forces change, these skills must also be employed to alter the company’s strategic direction.

7 Strongly Grounded Ethics. The best corporate leaders understand that maintaining a long-lasting, prestigious industry position requires business behaviors that all stakeholders can be proud of. Being able to personally embrace and then permeate strong ethical competency through the organization is essential for maintaining effective corporate values.

As one progresses from mastering technical skills to having strong strategic marketing and ethical stewardship capabilities, emotional intelligence overrides analytical intelligence. Since the real estate industry requires a high amount of human interaction, it is essential that executive leaders are adept at interpersonal interactions. Assessing one’s skills before taking on the challenge of building and leading a real estate company is critical. A good assessment may lead one to work on developing personal skills that are not yet mastered, partner with others who have complementary skills, or hire key managers into the organization who can bolster any underdeveloped leadership capabilities needed to run and govern a robust enterprise.
Building a competitive strategy that can access capital

The first part of constructing a successful competitive strategy is to truly understand the company’s unique core competencies and then to translate these into service offerings that customers and capital providers truly desire. It is important to determine early on if there is a large enough demand for the company’s service offerings in the markets where it plans to compete. To help gauge this, one should ascertain if the company’s customers will pay enough for the services purchased in order for the company to thrive. This becomes more probable if the company can provide its customers with something that the competition cannot, or alternatively, if it can do something significantly better than the competitors.

The second part of this process involves “mapping out the value chain” for the industry segment in which the company will compete, and then analyzing what part of that “value chain” the company plans to focus on. The “value chain” describes the necessary activities that firms competing in a particular real estate industry segment must perform for their customers. These activities are the key items that customers desire and will pay to have produced (Porter, 1985).

An example value chain for the real estate investment/development market segment is highlighted in Figure 10.1. It is important to note that industry segment value chains can be developed for all parts of the consolidated real estate industry. In addition, more detailed subsidiary value chains can be developed for each activity listed in a segment value chain. Figure 10.2 portrays an example of subsidiary value chains. Subsidiary value chains of a particular real estate market segment may highlight opportunities where very small, ultra-focused firms can successfully compete.

Exhibit 1: Value Chain for RE Investment/Development Market Segment

Figure 10.1 Value chain for real estate investment/development market segment

Source: Apeseche, 2012
In Figure 10.1 the top row portrays the essential activities associated with raising and managing capital necessary for making investments. The bottom row represents the critical activities associated with executing the purchase, development, rehabilitation, management, and disposition of land and constructed assets. Very large, well-established firms have the luxury of pursuing all of the activities portrayed in this value chain. However, smaller firms that do not have the means or capability to engage in all activities can also succeed by focusing on a single activity or subset of activities. These firms may service other companies operating in the industry segment, partner with such firms, and even outsource activities not part of their own core mission to additional external service providers. By selecting where to enter an industry segment’s value chain, younger companies can concentrate on their strengths and build necessary experience to gain increased market penetration and a healthy track record. These firms, when successful, will ultimately have the option to grow in a variety of ways. They may elect to continue to focus and partner with others or they may, with increased experience, choose to absorb other activities of the industry segment’s value chain into their own business model. This approach of initially concentrating on one’s core competencies and partnering with other market participants provides younger firms an opportunity to evolve and thrive in a disciplined and systematic way.

But how do these young “sharp shooter” firms access capital? The most experienced competitors in the industry have already mastered the activities associated with the top row of the value chain. They can repeatedly raise low-cost capital from well-endowed institutions and/or the public marketplace. Younger firms, however, can still participate in this industry
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segment by partnering with established experts who actively raise and manage low-cost capital. Many large capital managers frequently like to partner or “allocate” their capital to outstanding operating “sharp shooters.” The large capital management companies such as Apollo, Blackstone, Carlyle, etc., have chosen to specialize on what they do best. They develop robust real estate investment strategies and successfully market these to national and international capital sources. Then they proactively manage investor return and risk expectations to achieve long-lasting relationships. “Allocators,” such as these, choose to optimize their investment flexibility by focusing on the top row of Figure 10.1. They then partner with local developers or value-add acquirers who can successfully outperform the activities on the bottom row. Many times the local operating partners, in turn, outsource their non-core competencies to other providers. For example, property management companies (those who specialize in providing superior leasing and building services per Figure 10.2) are frequently hired by local development and acquisition operating partners.

As such, one can see how successful, focused companies can compete by concentrating on specific activities of a real estate segment’s value chain and then accessing capital by tapping into the balance sheets of expert fund managers. Most practitioners who grow real estate companies from start-up first begin by partnering with firms who have already perfected their institutional capital accumulation and investor management capability. Once these younger firms gain meaningful experience and expertise, they too can consider pursuing lower cost, direct institutional funding relationships. Generally “capital allocator” firms (those who provide investment funds to younger, less mature sharp shooters) will require strict project underwriting standards and significant project oversight. They will also demand control and discretion over material events and charge a higher cost of capital on their investment. However, the lessons and experience learned from working with these expert allocators can be very powerful for companies who want to eventually raise low cost institutional capital on their own.

When deciding where on the value chain to initially concentrate, some important strategic questions should be addressed:

1. Are you planning to absorb a piece of the value chain that is large enough for you to continue to grow and scale?
2. Are you absorbing a part of the value chain that is profitable enough?
3. Do your perceived “core competencies” truly match your focus?
4. Are you going to be competitive? Or are there a number of direct competitors that are so large and powerful in the places you want to concentrate that they will drive you out of business, not let you grow, or not let you generate appropriate profits?

In summary, thinking through a differentiated, implementable, and scalable competitive strategy and aligning it with the desired demand of industry investors and customers is a critical first step to establishing a sustainable profitable position. Starting with a focused concentration that plays to one’s core competencies is a pragmatic and viable way to begin a company’s successful evolution.

Hiring, developing, and managing talent

Many young real estate entrepreneurs believe their most important assets are the projects with which they are currently engaged. In actuality, when one oversees a real estate company, the most important assets are the employees who go down the elevator each night. And the job of a true leader is to ensure the same employees are motivated to take the elevator back up the
following morning and continue to do great things for their company. How does one begin to think through the process of building a talented and effective organization?

First, the company’s leadership must determine the skills and resources that are needed to accomplish mission-critical activities, those that are part of its own “personal value chain.” The personal value chain is that part of the industry segment’s value chain where the company will compete. Non-critical items can potentially be outsourced to other service providers. Once the skills required to address these activities are identified, compensation structures need to be developed before beginning the employee recruitment process.

Compensation initially tends to be above market rates to attract the most talented professionals. Compensation comes in three components: base salary, bonus incentives, and long-term equity compensation. To some degree, leaders can trade one of these components for another. For instance, a firm with a great strategic vision but limited current cash flow may be able to offer a lower base salary in exchange for an attractive long-term equity plan. Of the three components, the equity piece is by far the most complex and potentially costly to the company. It is, however, the piece that will most likely attract and retain top talent. Although there is no single formula that defines when, how, or how much equity to grant, there are a number of important items to consider. When giving equity to employees, make sure to address the following:

1. Will the employee contribute to the overall success of the firm over the long term? If not, then incentives should be structured as shorter-term bonus awards.
2. What type of equity units will be issued? Many companies grant stock options or carried interest to employees. These instruments are linked to the future appreciation of assets. Others provide employees with loans so they can directly purchase common stock, restricted stock, or limited partnership interests. By doing so, these employees participate in the company’s value that has been previously created as well.
3. What entity will equity interest be given in? Will equity be granted in a particular project (something the employee might be directly responsible for), a portfolio of projects or the entire company? The most senior executives usually receive equity in the entire company. Additionally, most executives of publicly traded companies receive stock options tied to the appreciation of the entire enterprise. Many private development firms, however, grant employees equity only in the specific projects for which they are responsible.
4. What percentage of equity should an employee receive, given that the entire equity available only adds up to 100%? A desirable approach for most companies is to grant allotments of equity to an employee over time, rather than bestow everything up front (prior to knowing if the employee can perform successfully over the longer term).
5. What type of vesting schedule should employees receive? Vesting is how a specific tranche of equity is earned. Employers can structure both performance-based and time-based vesting schedules. Time-based schedules tend to be 3–6 years in length, while performance-based vesting is usually tied to the completion of a meaningful project or event.
6. How much equity should be held back in reserve for future hires?

Hiring the first round of employees smartly can reduce future compensation expenses. This works well when early senior hires are prescreened to have both the requisite technical skills as well as high-quality interpersonal and managerial skills that will be needed to build future teams and train employees. For example, a long-term veteran executive with special talent in land development and asset construction should be able to help build a future team of
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subordinates who can be trained internally and therefore reduce the need to continue overpaying for pre-established experience down the road.

Organizational reporting also needs to be thought through up front. Individual and department reporting hierarchies should directly link to clear accountability for the key activities in a company’s personal value chain. These activities are the imperative items that investors and customers desire and will pay for. Efficient and effective organizational reporting will establish clear lines of responsibility, minimize department overlaps, and alleviate future expense burdens by avoiding redundancy (Bossidy et al., 2011).

After compensation models are established and the organizational structure is developed, candidates can be screened for skills that are important to the company. The employee hiring process should be fully vetted throughout the organization, because hiring those who can truly make a contribution to the enterprise is paramount to the development of high functioning firms. After new hires are on board, they must be trained, mentored, and later evaluated based on their actual performance. Training, mentoring, and evaluating employees are probably the most important building blocks to developing lasting talent in a company, but too frequently are partially or entirely ignored. Making the workforce as effective as possible requires constant training, timely and consistent reinforcement, and a transparent road map, with active mentorship, that enables employees to see their own career advancement opportunities.

Ironically the most frequent cause of voluntary employee resignation is when a direct boss does not honor his or her commitment to accomplish these items. High performing organizations, on the other hand, hire candidates that offer the potential for significant future company contribution, and then train and motivate these individuals to succeed. These organizations proactively establish formal career advancement and succession structures in their policies and practices creating effective advancement and succession at all company levels. There are numerous techniques for training and motivating employees. Some of the most important elements to consider are:

1. Insure a consistent and rigorous individual performance system is in place. Key skills for superior job performance should be mapped out with each skill given a measure of importance relative to the overall goals of the company. Specific observations of individual performance against plan should be clearly delineated and then discussed in detail with the employee. Finally, a personal growth plan should be developed and reviewed with every employee at least once per year.

2. Emphasize honesty, integrity and transparency when discussing an employee’s compensation, performance review, or career trajectory status.

3. Since most employees change jobs because they believe their boss does not treat them fairly, the direct boss-to-employee relationship is pivotal to long-term talent development and employee retention. Therefore, the highest priority should be given to routine, high frequency, informal employer/employee contact points, along with consistent, proactive, and balanced formal reviews. To be effective this activity must be endorsed and absolutely required by the most senior leaders of the company.

4. Acknowledging an employee at the moment when he or she produces extraordinary results is the most impactful way a boss can reinforce future desired behavior.

5. Bosses who are disappointed by employee behavior often disengage when just the opposite needs to happen. The employees who falter should be called out quickly and without emotion. The expected behavior should be discussed, without making it a personal attack, and the impact of poor behavior on both the organization and the employee should be clearly explained. No employee should be surprised during a formal
review, and no employee should be unaware of how his or her individual performance links to compensation and ultimate career advancement.

6 On the other hand, when bosses see that an underperforming employee truly lacks the capacity or desire to improve his or her future contribution, they should move swiftly to counsel this person out of the company. This is because allowing underperformers to “hang on” sends a clear and demotivating message to the rest of the contributing organization.

7 For exceptional employees who show the potential for future executive leadership, a formal mentoring leadership program should be established. Many companies do an adequate job supporting employees through the first three personal leadership skills mentioned earlier in this chapter (technical, interpersonal, and managerial), but most fall short on the later four (industry influence, financial stewardship, strategy and marketing, and ethics). If new leaders are to be successfully cultivated, the infrastructure for supporting these individuals should be established well in advance.

8 Chief executives or founders must set a clear example for the company by adhering to these practices with their own direct reports. If leaders are allowed to underperform or exhibit poor supervisory behaviors with their employees, the rest of the organization will inevitably suffer.

In summary, hiring and managing talent starts with identifying the important skills needed to accomplish mission-critical tasks within a company’s personal value chain. Compensation models and organizational reporting must be clearly established before the hiring process begins. After new employees are hired, they need to be actively trained, mentored, and evaluated for performance. Their personal performance and contribution should directly tie to their own compensation and career advancement opportunities.

Creating a sustainable, high performing culture

Superior performing real estate companies have high performing corporate cultures. These companies are able to garner market information, see changing trends before others do, and most importantly, take calculated decisive action to adjust current plans, make new plans, or conscientiously abort and avoid others. High performing companies optimize their individual departments’ technical and managerial talents by working collaboratively across functions to effectuate impactful change. How do leaders move beyond developing individual employee and departmental contributions to building a high functioning corporate culture? Work begins at the top with the chief executive or founder. These leaders must set the expectation of high performance for their companies and consistently model these behaviors themselves for others to see. Then the various departments and divisions of a company must be trained to behave the same way.

Just as employees have to be motivated and managed to over-perform, so do departments and divisions that execute critical company activities. Linking the organizational elements of a company to corporate goals that inspire department collaboration is a first step in developing a high functioning culture. Multifaceted organizations that perform a variety of critical business activities need to proactively connect the expertise of their departments in order to advance their most sophisticated initiatives. This becomes even more important when a real estate company operates simultaneously in several disparate geographical locations (a distributed organization). Here decisions have to be made efficiently and at all organizational levels in order to react nimbly to changing market conditions. Information in high performance companies
flows rapidly and efficiently throughout the organization. Resources that need to be quickly assembled or deployed, due to “an event,” are capable and willing to help in a manner that is both actionable and impactful. It is not a coincidence that such high-quality teamwork tends to abound in high-functioning organizations.

Motivating departments to cross-collaborate on critical activities with a bias for action begins by visually showing the impact of how each department contributes to the other’s success as well as to the overall major goals of the company. To exemplify, Figure 10.3 describes a technique for linking the contributions of various departments to the consolidated investment goals of a multifaceted real estate investment company.

1 Here the company’s goal is to achieve a 15.5% levered return on its investment portfolios. Assume each portfolio is comprised of a high volume of individual projects.
2 The driving components of a particular project’s total return have been disaggregated, so each department that participates in the value creation process can see how it specifically contributes to the overall return. If multiple projects consolidate to the company’s corporate return objective, then the same graphic can be used to show how critical departments must come together to generate the company’s consolidated investment goal.
3 Examining the property management division in this example, one can clearly see that if it increases rents, maximizes occupancy, and holds down expense growth, its contribution to the company’s overall return goal can be achieved. Alternatively, one can surmise how the acquisition division can help the company achieve its total return goal by negotiating the acquisition price of a new investment very well, identifying projects that have the

**Exhibit 3. Linking the Organization to a Deal’s Total Return Goals**

![Diagram](image)

**Figure 10.3** Linking the organization to a deal’s total return goals

*Source: Apeseche, 2012*
potential to generate greater future rent growth, or projects that will likely receive the greatest interest from buyers at their time of disposition. The other departments such as rehabilitation/ redevelopment, finance, etc., can apply the same principals to analyze their contribution as well. If one department cannot achieve its return objectives, it becomes evident how other departments can cross-collaborate to make up the difference, and ultimately still accomplish the corporate objective.

4 Because everyone has an important and understandable role in achieving the company’s overall investment goal, it is easy to see why the culture of this company is one that consists of superior cross-collaboration between various departments and, equally, great respect for fellow workers.

It is important for the chief executive or founder to take a proactive role in establishing the connectivity that links each department and division to an overall collaborative corporate agenda.

Teaching the organization to act as an owner is the next challenge. Savvy business owner/entrepreneurs have a unique ability to quickly garner critical industry and competitor information, analyze what it means, and take swift, impactful action. These leaders are calculated risk takers; they understand that acting is about taking risks, and are constantly weighing, adjusting, and trying to reduce these risks as progress is made. They tend to always favor action over no action. In other words “execution” trumps “analysis.” So how can a leader teach the organization and all of its divisions to act the same way?

This begins by developing a high-quality information infrastructure and then showing the organization how to translate good information into actionable decisions. Defining what is the most imperative actionable information that a company needs to have is difficult to do. This requires that senior leadership have a stake in defining it, as well as in building an environment that will promote sharp analysis and decisive execution. Because market cycle timing (and speed of implementation when one sees market changes occurring) is so important to achieving success in real estate, companies that build this type of structure successfully are likely to outperform less able competitors.

The first step in this process is to define what competitive and operational information is critical for the company to focus on. This job needs to have the engagement of the owner or chief executive officer. Without this leadership, companies tend to collect too much data, neglect to analyze it appropriately, and are lackluster in proactively collaborating internally to effectuate good results. They also are unable to leverage this information in a way to strategically catapult themselves forward (see Armstrong, 2011; Collins, 2001). Actionable information can be broken into two major categories: strategic information, with a focus on the competitive environment; and operational information, with a focus on the customers. Strategic information highlights shifts in the industry, what local and national competitors are up to and ongoing changes to supply and demand factors in markets where a company competes. Operational information illuminates how well the firm is serving current and new customers, and what it can specifically do to enhance this in a profitable way. It also highlights how effectively and efficiently it delivers its products and services to customers, as well as what key initiatives it should undertake to improve productivity. There are a few important factors to consider when developing the company’s strategic and operational information infrastructure:

1 The specific data to capture for strategic and operational decision making must directly link to the strategic goals of the company, those that drive critical activities associated with the company’s personal market segment value chain.
2 Informational metrics that are most beneficial help to determine what to focus on, and then measure how effective the initiatives taken have been.
3 When trying to distinguish between good data and vital company information consider the following: If the information being obtained and analyzed cannot lead to “actionable decisions,” then it probably is not essential.
4 Valuable information today may be irrelevant in the future. Therefore it is imperative to consistently reassess and update what is most important at any given point in time.

Training the organization how to analyze and act upon information is equally, if not more, critical than the information itself. Here “less is more.” In other words, companies that outperform tend to generate fewer reports but with meaningful actionable insights. They then utilize the information to successfully diagnose impacts from key trends and collaborate on execution. Executives can model their own personal behavior of good analysis, collaboration, and decision making publicly during monthly, quarterly, and annual meetings. They can ensure that a smaller number of very insightful reports are understood by all departments and actively utilized. In a group setting the executives can highlight issues, raise probing questions, and brainstorm opportunities. While the executives do not have to solve problems directly, they should emphasize to others how important it is that these issues are resolved well by the group. These behaviors, once understood by other senior leaders, can cascade through the organization with the complete endorsement and support of senior management. For a particular multifamily company, Figures 10.4 and 10.5 highlight how seven key reports are utilized throughout its organization during project site visits as well as for monthly, quarterly, and annual meetings. This company diagnoses problems and changes to market conditions quickly, because its employees are well acquainted with embracing valuable information, analyzing its impact, and cross-collaborating immediately to make impactful decisions faster than its competitors.

Exhibit 4. Organizational Utilization of Seven Key Reports

<table>
<thead>
<tr>
<th>Report Name</th>
<th>Purpose</th>
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<tbody>
<tr>
<td>1. Property Matrix</td>
<td>Property Behavior</td>
</tr>
<tr>
<td>2. Resident Survey</td>
<td>Property Behavior</td>
</tr>
<tr>
<td>3. History &amp; Rolling Forecasts</td>
<td>Property Financials</td>
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<tr>
<td>4. Trend Metrics</td>
<td>Portfolio Insight</td>
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<td>• Occupancy</td>
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<td>• Net Rental Income</td>
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<tr>
<td>5. Yield Analysis</td>
<td>Portfolio Insight</td>
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<tr>
<td>6. Key Initiatives</td>
<td>Strategic Priorities</td>
</tr>
<tr>
<td>7. Market Reporting System</td>
<td>Market and Competitor Analysis</td>
</tr>
</tbody>
</table>

Figure 10.4 Organizational utilization of seven key reports

Source: Apeseche, 2012
When the organization is trained to diagnose and execute well, the information that flows through the enterprise is fast, efficient, and with purpose. As managers begin to diagnose problems as well as think and act as owners do, important strategic actions can be taken without the need to be bogged down by slow corporate approvals. Instead managers are free to execute. Because poor behaviors, such as blaming others for disappointing results, are replaced with good analytical and action-oriented behaviors, it becomes easy to debrief on executed initiatives with the goal of making even better decisions in the future. This is critical for decentralized real estate companies, working at multiple sites and in multiple markets. Figures 10.6 and 10.7 highlight the result of applying these concepts by comparing the information flow of a low performing real estate investment manager to a high performer.

High-performing companies reinforce high-quality “execution oriented” behavior by also linking it back to their compensation systems. Bonuses can be devised so part of an employee’s incentive is tied to a subjective review of how he or she communicates, collaborates, and reinforces good team dynamics. Long-term equity grants in the consolidated enterprise will reinforce the concept of making decisions that maximize the strategic competitiveness of the overall company, rather than just individual departments.

Indeed, high performing cultures allow companies to become smarter, develop better strategies, operate tactically, and most important, execute with greater impact than their competitors. It is no wonder that companies with high performing cultures can accomplish much more. In summary:

**Exhibit 5. Organizational Utilization of Seven Key Reports**

<table>
<thead>
<tr>
<th>Key Meetings</th>
<th>Reports Used</th>
<th>Attendees</th>
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<tbody>
<tr>
<td>Monthly Property Manager Call</td>
<td>- Market Reporting System</td>
<td>- All Property Managers</td>
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<td></td>
<td>- History &amp; Rolling Forecasts</td>
<td>- Property Management Executives</td>
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<td></td>
<td>- Property Matrix</td>
<td>- Asset Management</td>
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<td>“Spot” Property Site Visits</td>
<td>- Market Reporting System</td>
<td>- Asset Management</td>
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<td></td>
<td>- History &amp; Rolling Forecasts</td>
<td>- Executives</td>
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<td></td>
<td>- Property Matrix</td>
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<td>- Resident Surveys</td>
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<td>- History &amp; Rolling Forecasts</td>
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<td>- Key Initiatives</td>
<td>- Human Resource SVP</td>
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<td>- CFO &amp; Senior Controllers</td>
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<td>Budget and Planning</td>
<td>- Market Reporting System</td>
<td>- Same as Quarterly Portfolio Review</td>
</tr>
<tr>
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<td>- History/Rolling Forecasts</td>
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<td>- Market Reporting System</td>
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**Figure 10.5 Organizational utilization of seven key reports extended**

Source: Apeseche, 2012
Exhibit 6. Communication Flow of a Low Performer

Figure 10.6 Communication flow of a low performer
Source: Apeseche, 2014

Exhibit 7. Communications Flow of a High Performer

Proactive Cross Collaboration and Communication are Critical to High Functioning Companies

Figure 10.7 Communication flow of a high performer
Source: Apeseche, 2014
Companies with high performing cultures see opportunities and changes in market conditions faster than their competitors do.

This allows the high performers to take advantage of first-move arbitrage opportunities that may present themselves.

These companies have the option to actively engage offensively to enhance returns and financial results, or alternatively, defend against oncoming threats and economic downturns faster than the competition.

A company can optimize opportunities by using high-quality information that converts to actionable decisions, backed by an organization that can rapidly diagnose and implement.

These desired behaviors can be reinforced by ensuring that a company’s compensation system rewards those that exhibit meaningful team collaboration followed by impactful execution.

Conclusion

Every real estate company has characteristics that make it unique. And as a result, it is difficult to define a single set of parameters that will optimize the performance of all companies participating in the consolidated industry. However, great companies do seem to have an ample supply of the following ingredients that help propel them to the head of the pack: STRATEGY, TALENT, CULTURE, and CAPITAL. Founders and chief executives who successfully build these items into their companies will develop firms that become superior competitors. In this chapter, some of the important considerations for creating high performing real estate companies, those with the best strategies, talent, culture, and capital, have been discussed. Once initially established, the goal of enriching an enterprise’s performance should never cease, and it is one of the most vital roles an executive leader can perform for his or her company. Chief executives who also embrace the principal of “succession planning” will have even greater impact on bringing their firms to these highest levels of performance. And the best performing companies that continuously work on improving their capabilities will ultimately outdistance their competitors at an accelerated rate. These enterprises, as a result, will have the capacity to dominate the most competitive positions in their industry segments. As the markets and environment continue to change, it is these companies that will learn fast and be the first movers to readapt. And it is these firms that will reap the highest rewards from the future profitable and unimagined opportunities that inevitably will emerge.

References


Chapman, P. (2005), Why public REITS are going private, National Real Estate Investor, November 2.

