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Keepers of the Castle highlights leadership lessons

On June 15th Bill Ferguson, CEO of Ferguson Partners, a leading consultancy and executive search firm, chaired a panel presentation at the Sofitel London St. James Hotel. The event sold out at over 100 attendees and focused on what Mr Ferguson saw as the biggest issue behind the downturn: poor leadership. Mr Ferguson interviewed over 100 industry leaders during four of the most volatile years (2005-2009), noting mistakes and analysing the factors behind successful crisis management. His findings became the foundation of a book, *Keepers of the Castle: Leadership Lessons from the 2008 Meltdown*.

Mr Ferguson concluded that the prime differentiator between success and mediocrity during the downturn was strong, balanced, and values-based leadership. He outlined nine negative traits that if corrected could benefit firms across cycles:

Letting your ego get the best of you. Managers with high profile public personas can be counter-productive, distracting from the mission.

We paid people to generate volume, not to underwrite risk! Create incentives for employees to collaborate, not compete. Focus on and reward company performance over individual performance.

Forgetting the proper risk balance. Unfettered risk kept the bubble inflated. Successful CEOs take measured risks and create environments where people grow from their successes and failures.

Pretending to have all the answers. "Know-it-all" CEOs drive organizational opposition underground. Never claim to have all the answers.

Allowing lax management to become a business strategy. Successful CEOs retain their entrepreneurial instincts and yet appreciate the importance of a strong

management team, a well-conceived strategy, and corporate infrastructure.

Avoiding change. The playing field constantly changes under any circumstances. Be prepared. Complacency can kill any business.

Going global the wrong way. Risk is magnified exponentially with global expansion and expansion strategies are often flawed. Well-managed companies recognize that local management needs to be given discretion, but with the appropriate corporate risk management oversights.

Hiring prima donnas. Winning management teams discourage "rock star" hires – the company and clients need to take precedence.

Avoiding responsibility. Successful leaders take responsibility for mistakes. Underscore the importance of accountability and establish a strong value system.

The event also brought together a panel of senior figures who helped navigate their firms through the crisis:

- Ian Coull, Chairman of Galliford Try, formerly CEO of Segro
- Jeff Dishner, Senior Managing Director at Starwood Capital
- Gerard Groener, Chief Executive Officer of Corio N.V.
- Dennis Lopez, Global Chief Investment Officer at AXA Real Estate Investment Managers
- Ed Siskind, formerly Head of the Real Estate Principal Investment Area at Goldman Sachs

The panel discussed issues including the strategic landscape and operating implications facing the industry, the biggest unknowns going forward and how to manage against them, and how one positions an organization to take advantage of the situation in Europe.



The event was sponsored by Ferguson Partners and the book is available through ULI's website.

Among the insights, panellists pointed out that the crisis was not caused by the commercial real estate sector (through overbuilding or other practices), but rather by the creators and distributors of financial products. However, problematic developments in the industry, like the erosion of alignment and incentivisation, have not helped.

Panellists had many words of advice, including that successful investors in today's environment should manage on a cash flow basis, not on vague long-term notions of value accretion. From a human resources point of view, panellists recommended cycling people through acquisitions and asset management to help motivate and educate.

Solvency II and Real Estate

Guest Column by John Forbes

John Forbes is a Partner at PwC and serves on the UK National Council's Executive Committee as chair of Budget and Finance.



Solvency II is the largest ever change to European insurance solvency regulations, now likely to be effective from 1st January 2014. It covers all aspects of insurers businesses.

From the perspective of the real estate industry, the key concern is that the introduction of Solvency II and equivalent for pension schemes will have a major impact on the way in which European life insurance companies and defined benefit pension schemes consider real estate as an asset class. Key to this is how they will be required to model the capital that they will need to hold in respect of potential future falls in value of their investments. Insurers will either use a "standard formula" set down by the EU regulator (which assumes a market fall in real estate values of 25% across the board) or seek approval from their national regulator to use their own internally generated risk model.

A concern for the real estate industry is the treatment of real estate lending by insurers. With the pressure on banks causing them to retreat from real estate lending, many in the industry had hoped that the at-

tractive risk-adjusted returns for property senior lending would attract insurers into the market. The current proposals for the regulations are anomalous and for commercial property lending generally appear to take no account of the presence of collateral. There are also other areas of concern so it is important that the real estate industry continues to make its voice heard in lobbying.

The most immediate effect will be in 2013 as insurance companies prepare themselves to be regulated by Solvency II from 1st January 2014. Beyond that, the impact will be broadened as Solvency II type regulation is planned to be introduced for pension schemes. Looking further out, the effect is likely to be even more far-reaching. The regulation may help accelerate the demise of traditional retirement products. Unit-linked life products, defined contribution pension schemes and other new products where the investment risk is borne by policy holders and there is therefore no capital charge will increase their dominance as more primitive species face extinction. The real estate industry is not yet well adapted to the new environment.

Getting Stratford off the starting blocks

The development of Stratford City rapidly became a partnership between what was then Chelsfield plc, for whom Nigel Hugill was Chief Executive and Stanhope Plc, with Stuart Lipton as Managing Director.

"No one wanted to go to Stratford when we first looked at it, it was a sleepy suburb which had hardly changed, but with some of the best subway and rail-road facilities in the whole of London", said Sir Stuart Lipton, now Deputy Chairman at Chelsfield Partners and a ULI Life Trustee, recalling his first impressions of the Olympics site at the recent ULI Trends Conference. "We assumed shoppers would be heading for the nearby regional malls of Lakeside or Bluewater, but when we analysed their movements more closely we realised they were staying in London and going to the West End."

Nigel Hugill has gone on to found his own brownfield development business, Urban and Civic. Describing the initial

sense of pioneering at Stratford, he explained the alteration in attitude that was central to the whole approach: "Keep in mind that this was well ahead of the 2012 Olympic bid. We set about, quite literally, changing London's urban map. The tendency is for UK developers to understate proposed scale and impact. We determined on the direct opposite and aimed ambitiously high from the outset. We were clear early that the former Rail lands afforded the opportunity to create a new piece of city that would provide both form and function to a host of new transport movements across the capital."

No one wanted to go to Stratford when we first looked at it...

SIR STUART LIPTON

The approach culminated in the largest single planning application ever made in London – seeking consent for a metropolitan retail centre to rival those in West London, office buildings, residential apartments, hotels, leisure and civic facilities, fully integrated within parks and new public spaces.

The pair were in agreement that the success of the project also rested squarely on unequivocal support from Sir Robin Wales, Mayor of the Borough of Newham, whose enthusiasm and commitment remains undiminished. He co-ordinated a

dialogue by which the partners, together with then Mayor of London, Ken Livingstone, met quarterly with the Deputy Prime Minister John Prescott and Ministers from the Environment Department. These meetings ensured that this complex project respected all the community requirements and motivated the numerous organisations involved to work together to allow this complex project to go for zoning approval without resort to formal Central Government intervention.

Stratford City went on to become a cornerstone of the London 2012 bid. The application was consented in September 2004, the evening before the UK Government announced approval and funding for proposed Olympic sporting facilities on adjoining sites. The Games were awarded the following year – after what was perhaps the most hotly ever contested selection process. It seemed no coincidence that the commitment to quality urban regeneration, the supportive political environment, the benefits of proactive planning, demonstrably integrated high speed transport links and a development site that was prepared and ready, were all initiatives that convinced the IOC as to the absolute seriousness of London's intent.

Young Leaders host “Property Entrepreneurs Shaping the Future”

On June 12th, CBRE hosted and sponsored a panel for curious and aspiring property entrepreneurs, which was followed by the ULI UK Young Leaders summer drinks reception. While the promise of beverages under the shadow of St Paul’s dome may have provided some draw for the nearly 100 attendees, the quality of discussion that the four entrepreneurs provided was rich content for the subsequent reception that ran well into the evening.

Moderated by Bill Kistler—past Chairman of ULI Europe, current member of the ULI UK Executive Committee, and successful entrepreneur in his own right—the speakers each went through their respective business concepts, the trials and tribulations of start-up funding, forging partnerships and ‘getting comfortable with being lonely’. Attendees were left with no illusion of the challenges that come with chasing the dream, but were equally inspired to see that taking the leap into the abyss of entrepreneurship can offer incalculable rewards. The speakers included:

Gary McNamara, Indirex
www.indirex.com

An online community for the global unlisted real estate fund world.

“Indirex will offer a breadth of resources from important data about funds and fund managers’ own secure data rooms, as well as listings of primary capital raisings and secondary market opportunities. Supporting this will be a bank of research that users can access and industry events and jobs.”



Roger Wade, Boxpark
www.boxpark.co.uk

The world’s first pop-up mall based in the heart of East London.

“BOXPARK strips and refits shipping containers to create unique, low cost, low risk, ‘box shops’. Put them together with a unique mix of international fashion and lifestyle brands, galleries and cafés and you’ve got the world’s first ‘pop-up’ mall – so named because its basic building blocks are inherently movable: they can, and will, literally pop up anywhere in the world!”



Alan Grant, Apartment 58
www.apartment58.com

A space to help creatives day to day.

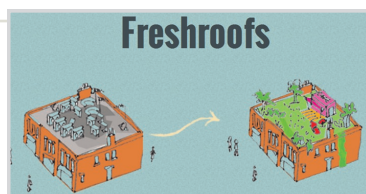
“Available for members from 8am to 12am, 7 days a week to work, host events or simply socialise, have dinner or drinks. Every apartment will have the latest Apple gadgets including iPads, iPhones, Mac Book Pros, Apple TVs and iPod touches for our Members to use. Three Apartments will open in London in 2012, located in the creative hubs of Soho, Notting Hill and Shoreditch. Further apartments are scheduled to open in Paris, Milan, Berlin, New York and Mumbai by 2015 creating a global network.”



Nicholas Tréguer, Freshroofs
www.freshroofs.com

Promoting the use of the most beautiful but under-utilized spaces in existing buildings.

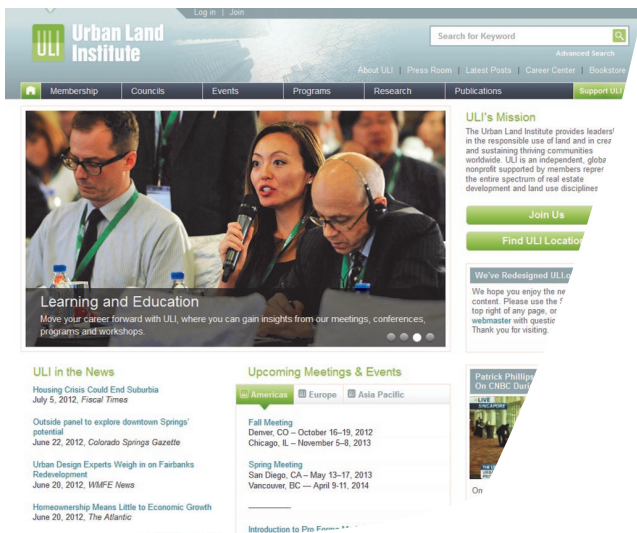
“Transform unused flat roofs into urban rooftop farms & kitchens growing the freshest fruits, vegetables, herbs and flowers in the city for the city.”



Alisa Zotimova, UK Executive Committee member and Young Leaders chair, introducing the event and panel.



Event organisers and Young Leaders committee members (left to right) Abigail Shapiro (Oxford Properties), Alisa Zotimova (C&W), Julia Levitt (LSE), and Adam Challis (Hamptons)



ULI launches new website, online bookstore, and points programme

The Urban Land Institute is updating its online presence, and this summer brings the launch of a new bookstore, a redesigned global website (www.uli.org) and a new membership points programme.

The refurbished bookstore (uli.bookstore.ipgbook.com) is powered by IPG and allows enthusiasts to purchase dozens of titles, including a number of textbooks and major research endeavours from ULI and its partners. Both the global ULI

website and ULI Europe's website still offer online knowledge banks with a wealth of free reports and articles.

In addition, this month ULI is rolling out a new global website (*left*). With a fresh new design and simpler organisation of content, information is more accessible and up-to-date. Moreover, the new layout will be mobile- and tablet-friendly and features improved search functions.

Perhaps most exciting, ULI has launched a new recruitment programme, enabling members to invite friends and get rewarded for it. The programme, called "Membership Pays", is accessible online via www.uli.org/MembershipPays and allows members to send invitations to colleagues. When they join, the referring member receives points for each dollar in membership dues, which in turn can be spent on things like book purchases and conference registrations. A personalized dashboard is activated in participants' online accounts allowing them to track their points total and their invitees' membership status.

Symposium examines fund performance

On June 18th a team from Property Funds Research, including Jane Fear, Nick Colley, and ULI Europe's academic fellow Andrew Baum, gave a lunch presentation at AREA Partners on fund performance over the past decade. The research project was sponsored by AREA, GIC, APG, and CPP with data provided by IPD, and it largely followed their 2010 report, also sponsored by AREA. The 2012 report featured an expanded data set with 169 largely diversified, UK/European-focused funds and an improved analytical approach.

The project's aim was to analyse the performance of unlisted property funds across the core, value-added, and opportunity styles, relative to the direct property market. Their basic hypothesis was that fund managers cannot get away from the market – that the market will always be a dominant driver of return. The work sought to isolate the impact of skill, property risk, and leverage on fund returns.

As they set out, alpha (a technical ratio that measures a fund's performance on a risk-adjusted basis by comparison to a benchmark index) suggests outperformance, such as when a talented investor achieves consistently higher returns without taking on more risk. Another ratio, beta, measures

risk relative to the market, meaning a fund with high beta might be making its rewards simply by taking on more risk.

As one may expect, in their analysis closed-ended funds and single sector funds proved riskier. The economic downturn in 2008-9 was also found to have a major impact on results (especially on opportunity funds), and this was shown in vintage year performances (the best vintage year was 2008, the worst was 2006). The ability of funds to track the index also grew worse during periods of poor market returns. On average, core out-performed during the downswing, opportunity during the upswing, and value-added over the full period. On a risk-adjusted basis, opportunity funds ranked last during all three periods, but there was still evidence that some managers added value.

The main cause of under-performance seemed to be gearing. For every 10% of leverage, average annual returns fell 1.2% in core funds, 1.8% in value-added, and 2.2% in opportunity funds. But even after gearing, there was evidence of positive alpha in value-added funds.

To find out more, check out the full report which will be published early this summer.

Upcoming Events



18 July

Young Leaders: Canning Town—Regeneration in East London
AECOM, London

26 July

What the Wealthy Want: The 2012 World Wealth Report
Strutt and Parker, London

11-12 September

ULI Breakout Session at RESI 2012 Conference
Newport, Wales

18 September

40 Years in the Making: The History and Implementation of Crossrail
Crossrail Visitor Centre, St. Giles High Street, London

20-23 September

ULI Europe Leaders' Retreat (by invitation)
Naples, Italy

Also in Autumn...

Roundtable with John Mulcahy from NAMA

Issues for cities in the future with Herbert Giradet



Register for events online at
www.uli-europe.org