# LANDWRI

## How Is It Going?

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**Most professionals—certainly those involved in land use and the built environment—have been working for the past year in an environment of uncertainty.**

There are a lot of data available on the downturn, and some on predictions about the future. But little has been written about how people are experiencing it as leaders in their organizations. So we talked with 27 executives from various aspects of the ULI community—from lenders to landscape architects—throughout the country to learn about the qualitative side of the recession. Knowing how others are coping might stimulate those in the land use community to be inspired to deal with the downturn in a positive way. Interviews confirmed that many in the land use community are actively using this time to position themselves as improved businesses.

### The Biggest Challenges

*Curtailed supply of working capital.* Everyone interviewed acknowledged the lack of investment capital (developers and investors) or revenue (fee-for-service firms) as their biggest challenge. From the point of view of working capital, not surprisingly, this economy has affected everyone negatively, in every segment of the land use community.

Opportunities exist in assets, talent, and new initiatives, but frustration also abounds in not being able to take advantage of what is in plain sight. Investment capital for these opportunities is not within reach of even the most seasoned developers. With property values dropping, loans maturing, and lenders wanting out of deals they have already committed to and unwilling to invest in existing assets, let alone make any new investments, the supply of new projects is dramatically curtailed for all of those associated with development activity: from developers to economists, designers, general contractors, engineers, and others. Cash flow for those in the professional services segment is extremely challenging while fixed costs remain.

Generally speaking, private sector projects slowed to a stop last year. Now the public sector is following suit. Two developers interviewed found activity in the not-for-profit and government sectors where they have product in locations that have qualities that appeal to investors, and stimulus funding that has made up gaps—at present. But, says ULI trustee Jonathan Rose, founder and president of New York–based Jonathan Rose Companies (whose main development product is affordable housing, with a substantial business assisting cities and not-for-profit organizations in developing civic, cultural, and educational infrastructure): "I sense that the way affordable housing gets funded is in transition, and until a new system is established and stabilized, we will be facing a chaotic funding system, and the financing of these kinds of projects will be dramatically reduced."

The abrupt decline in the number of opportunities surprised everyone. Michael Covarrubias, chairman and CEO of TMG Partners, a 25-year-old Bay Area developer with a $3 billion portfolio focused on urban infill projects of all types of real estate, believes that "real estate development is a lemming industry—but the cliff is behind us now." He notes that "where you are financially now is a function of what you have [or have not] been doing for the past two years, not just the economy." The implication is that the economy is what it is; it is the responsibility of all leaders to make it work for them.

*Greatly increased competition*. Attempts to increase revenue have created an environment in which professional services firms claim to offer a much broader range of services now—particularly in sustainability, where recently there seems to be a stampede of "experts." For this sector, more firms are pursuing each project (an increase of eight- to tenfold, according to some firms), coming from greater distances and ready to compete on price.

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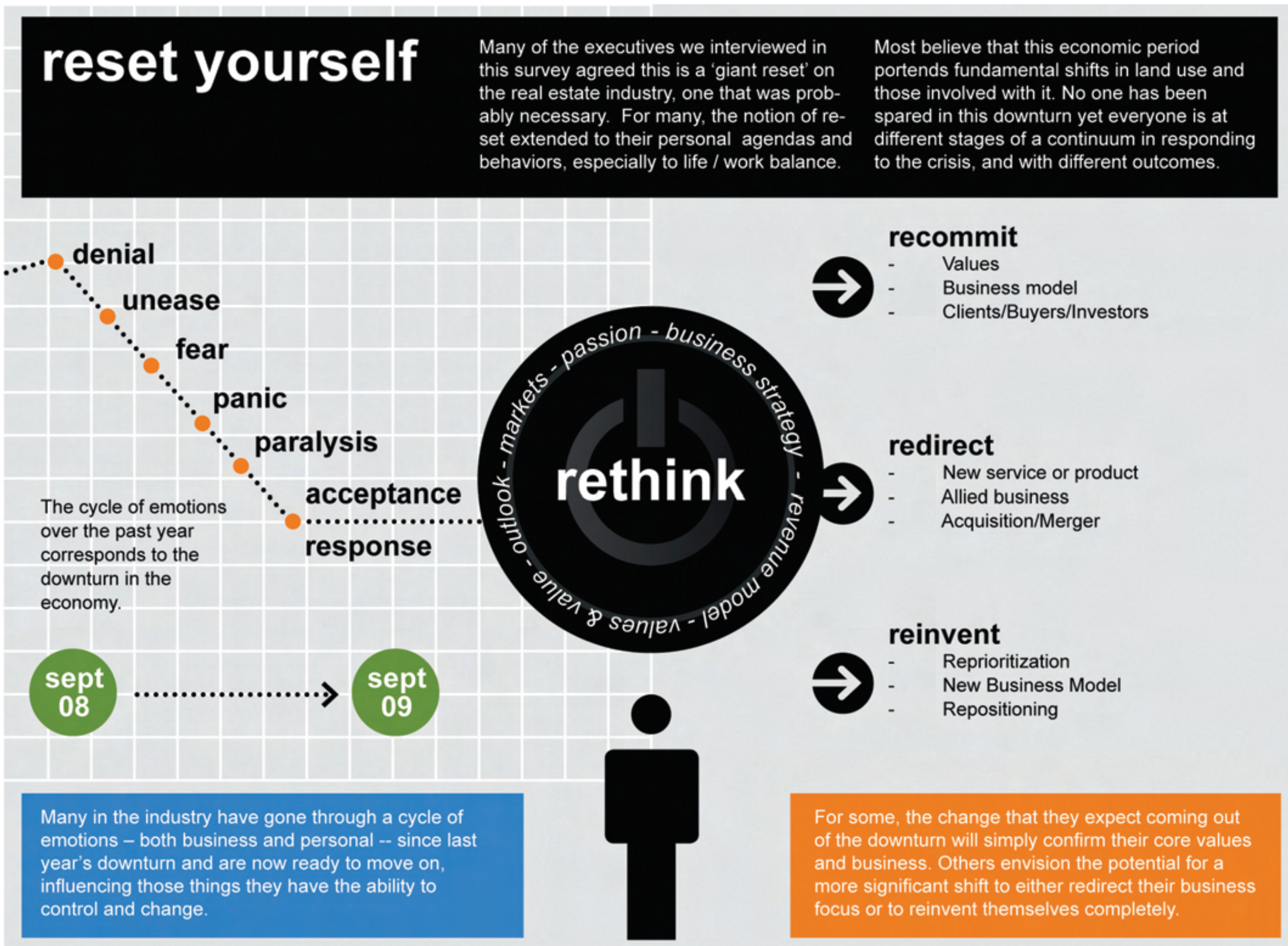


The abrupt shift has demanded a new marketing calculus for most fee-for-service firms. Over the past eight years, work used to come in the door for many. Today, professionals must seek work much more aggressively and imaginatively. This is not all bad, says Karen Alschuler, principal with Perkins + Will, an architecture firm with 18 offices in North America and a global practice: "We are working with younger staff, consciously mentoring them in the art of project acquisition. It's a whole new world in terms of marketing for new work."

Developers, who also are facing a shrinking supply of market demand, now need to be more creative when it comes to marketing, leasing, and sales. Brokers and property owners are chasing far fewer tenants, resulting in creative, if not unprecedented, incentives to those in the buyers' position.

*Change and uncertainty*. "All the rules have changed, and continue to change every day," says Jeff Kingsbury, managing principal of Greenstreet Ltd., an Indiana-based real estate development, brokerage, and consulting firm. One thing Greenstreet has learned in this environment of ambiguity, however, is "making time for what is important, not just urgent." For some, the game change has meant focusing on survival, and survival thinking inhibits creativity and the ability to think bigger picture and longer term. As Dave Howerton, chairman of Hart Howerton, a strategy, planning, architecture, and landscape architecture firm with offices in six cities globally, puts it, "It is hard to stay on track with your core business and operate strategically at the 40,000-foot level when you're putting fires out on the ground." One consistent theme was that uncertainty is harder to deal with than change.

Another behavioral byproduct of change and uncertainty is that everyone is challenged to think harder. A number of leaders implied that perhaps the industry got too complacent. To paraphrase several of the leaders interviewed: "We used to be on autopilot; no longer." WATG, a global hospitality design firm with offices in seven cities, is an example of a firm that has been challenged to rethink its business model because consumers are shifting their priorities and reevaluating how they spend money—particularly discretionary expenditures. The hospitality industry has felt this blow acutely: as Howard J. Wolff, a WATG senior vice president, says: "Luxury is now a four-letter word. Everyone is looking for a deal." WATG is examining what this means for its designs, which focus on providing elegant experiences for its clients' guests. WATG and, by extension, other firms have no choice but to realign their businesses according to changing demand.

*Cutting back.* Almost every organization interviewed has had to cut back operations. Layoffs, salary cuts, curtailed 401K matching payments, compulsory vacations, and furloughs are common. The word *unprecedented* came up a lot. As a result of this kind of retrenchment, new skills are required of leaders as they interact with those who remain: maintaining morale and finding meaningful work for valued staff in a business environment of diminished demand for their services. "We are working hard to keep the core team together," says Po-Sun Chen, managing director of ValleyCrest Design Group, a Los Angeles–based integrated landscape company that designs, builds, and maintains landscapes throughout the world.

Only one of the executives interviewed was "riding it out" by upping the intensity of business as usual; most were taking advantage of the current pause to retool. Few are willing to predict what will happen in the next year. Another surprise was the degree to which most executives have reflected on their businesses and their lives during this time.

## In Challenge Lies Opportunity

*Reflecting and repositioning*. "It is now time for reflection, to hold up the mirror to ourselves and our business," Howerton says. Many people were adamant about clarifying and recommitting to values, and assessing and redefining what they do, what they believe, and what makes them different. WATG, for example, has been forced into this mode by the dramatic falloff in hospitality spending.

Respondents were at different stages of a continuum, and with different outcomes. For some, the change they expect out of the downturn will simply confirm their core values and business; perhaps some had diverged in the face of unprecedented opportunity and experienced overly zealous growth. Others envision the potential for a more significant shift: Chip Conley, of San Francisco–based Joie de Vivre Hospitality, realizes his true calling might be in teaching high-level leadership through writing and speaking rather than operating his popular boutique hotel enterprise and managing its 3,000 employees. He is looking to elevate from CEO to being chairman of the company.

*Back to basics*. A strong—if obvious—theme among respondents was a focus on business fundamentals, operations, and expectations for return. Covarrubias felt that for many developers before the recession, deals were cemented because they could be, not because they were necessarily fundamentally sound. "Deals need to work at low and medium tide, not just at high tide. People forgot that," he says. "Ego and hubris are bad things in this business, and there was a lot of both." Many firms' modus operandi over the past decade was an escalating process of intense focus on projects that tended to obscure the basics of running a sound business. In many cases, there simply was not enough attention to due diligence, and pro formas were not always verified against market reality.

Traditional values of discipline and pragmatism, once simply assumed, are now emphasized. Several people pointed out that, in essence, "we have stopped taking things for granted." They went on to acknowledge that it is especially important for younger staff, who had never experienced a down cycle and were not fully aware of the fundamentals of developing business revenue streams, to examine the basics. Economic threats have appeared to make organizations less risk-oriented—at least temporarily. Andrew Ball, president of Webcor Builders, a 30-year-old Bay Area general contractor operating nationally with a ten-year growth trajectory, used the tree-pruning analogy: "This is a time to prune. While it is difficult to do, it is necessary in order to be productive in the future. We can use this time to get stronger by cutting back, particularly by eliminating the layers that compromise time and cost efficiencies." A few leaders spoke of the opportunity to "trade up" from the firms they have become when the market improves—especially with available new talent.

*New partnerships*. Many people were engaged in finding opportunities to merge talent and join forces that otherwise would not have presented themselves, or even been necessary. Kingsbury spoke of new urgencies in the public and not-for-profit sectors, where projects are driven by stimulus funding or are recession resistant. He felt that long planning processes were giving way to a kind of design-build version of development, providing opportunities for his organization to partner with others as a fee-based adviser and developer. ValleyCrest Companies believes that owners in this new economic environment will want to invest in a design-build approach to its services, internationally. Such cost and time efficiencies may be one positive outcome of this economic period. Companies are seeking capital partners they would not have sought even a year ago, and several design firms have announced acquisitions and mergers that may not have been feasible in other times. Ball of Webcor Builders is working with public sector entities, encouraging them to practice construction and building management techniques more closely associated with the private sector, i.e., selecting bids based on value, not price.

*Innovation*. If necessity is the mother of invention, Perkins + Will is an example of an early responder. Alschuler has led her team in the development of a new initiative called Healthy Cities. The firm is using this idea not only to distinguish its urban design and planning practice, but also to create demand in municipalities. For service providers, the notion of getting ahead of clients with ideas is not new, but was hard to implement when it was difficult to keep up with client demand. Now is a time for creative service organizations to find new ways to create value. New initiatives have the benefit of keeping staff engaged, giving them an opportunity to learn and expand their reach while training them to be better leaders.

*Learning and upgrading*. Many leaders find that they are now in a position to learn skills and techniques they did not have time to master before. Examples include exploring the role and value of social media for their organizations; establishing new systems, guidelines, and standards to improve productivity; and updating external communications, especially to reflect new positioning.

## Leadership Responds

We were especially interested in what this financial environment has demanded of its leaders. As Conley says, "As a leader, you are always under the microscope. But in crises, the action or inaction you take is magnified." The following are the qualities those interviewed believed are most important for leaders today:

▷ Be proactively transparent about organizational status and intent. (As Howerton says, "All the cards should be face up on the table.")

▷ Be more present, more visible, and more available to staff. Listen to their personal concerns and respond personally. (Conley wrote personalized thank-you notes to his entire staff after a recent event, for example.)

▷ Create visibility with clients and the community. Use increased visibility as an opportunity to learn and create alliances that a higher-pressure environment did not allow for.

▷ Dispel the fear factor by helping people focus on what they can control.

▷ Balance optimism and realism. (Thomas Friedman claims in his book *Hot, Flat, and Crowded* that he is "a sober optimist." He says, "If you are not sober about the scale of the challenge, then you are not paying attention. But if you are not an optimist, you have no chance of generating the kind of mass movement needed to achieve the needed scale.")

▷ Create small victories, breeding confidence and optimism.

▷ Be open to change. Organizations will be different coming out of this; they should be. If you do not create a culture that is open to change, the differences will appear to be negative.

▷ Focus on relationships: keep them intact, and forge new ones. (TMG says it is taking advantage of this time by creating a "world-class" board of advisers. WATG is establishing a system of client advocates who have the responsibility to be more proactive with understanding clients' needs. Paul Rookwood's Toronto-based Minto Communities, a developer-builder organization that experienced a slowdown in June 2008 but a "bounce-back" in March 2009, has recognized the significance of long-term trust relationships that can ride out bad times. It is working to sustain longitudinal relationships with four primary stakeholder groups: bankers/investors, trades/suppliers/consultants, customers, and employees.)

▷ Pay attention to the next generation; you should have been doing that all along. Proactively grow them into thought leaders, not transaction experts.

▷ Think like an entrepreneur. Assume a startup mentality. (As Howerton says, "We're all startups now.") Guard against the paralysis that can accompany uncertainty. Figure out what you want and make it happen.

▷ Act with authenticity. That appears to be the common denominator of everyone's thoughts about leadership.

## Another Cycle or Sea Change?

No one has been spared in this downturn. The crisis has created a common ground throughout the industry and a kind of new humility, however temporary. Many of the executives we spoke to have already gone through a cycle of emotions—both business and personal—and have come to accept that "business as usual" is not an option, or even desirable. It seems that people are ready to move on, influencing those things they have the ability to control and change, recognizing that they need to get past analysis and its sometimes twin, paralysis.

Many of the executives agreed that this is a "giant reset" of the real estate industry, one that was probably necessary. For many, the notion of reset extended to their personal agendas and behaviors, especially to striking a life/work balance. Most believe that this economic period portends fundamental shifts in land use and those involved with it.

▷ Covarrubias thinks that the financial difficulties experienced by the development community underscore the relevance of the regional development player and weaken the effectiveness of the large, national development organizations.

▷ Peter Calthorpe, the preeminent planner and laureate of the Urban Land Institute J.C. Nichols Prize for Visionaries in Urban Development in 2007, is hopeful that the kind of sprawl experienced since the 1950s has become obviously unsustainable. He predicts the death of sprawl.

▷ Conley is helping lead the way to a "conscious capitalism," joining a group of pioneering CEOs whose mission is to transform the old profit maximization model and imbue capitalism with a deeper meaning.

▷ Rose believes that "there are tremendous opportunities out there, but they will require thinking differently and acting differently, and I am very frustrated that I cannot yet see what they are."

Sustainability—in all senses of the word, from business practices to projects—is high on everyone's list. Yet sustainability will no longer differentiate or distinguish those active in land use. It will be the new norm.

Yet, some are not as hopeful; they suspect that once the money returns into the system, people will return to their bad habits.

John O'Neil, president of the Center for Leadership Renewal in San Francisco, looks to leaders who are not bound by an old paradigm, reaching back to British historian Arnold Joseph Toynbee from *Civilization on Trial*, a collection of essays published in 1948: "A civilization might or might not continue to thrive, depending on the challenges it faced and its responses to them."

We seem to be at an inflection point and we have a choice. Will we respond productively to this crisis? Or will we let it go to waste? **UL**

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