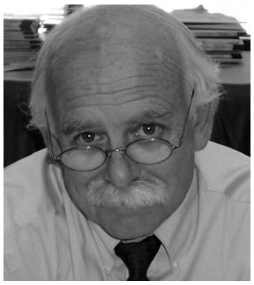
Editor's Note

BY PETER C. BURLEY, CRE



"Observe constantly that all things take place by change, and accustom thyself to consider that the nature of the Universe loves nothing so much as to change the things which are ..."

—Marcus Aurelius

Here Comes the Sun (...and Change...)

It was an unusually long, cold winter for this part of the country, and it seemed to take forever for the sun to warm the air, for the trees to bring forth their famous floral display, and for the tourists to arrive.

But, like all winters (and recessions), it eventually came to an end. The days grew warmer, the cherry trees finally blossomed, and the tourists arrived (I know this because I have noticed a statistically significant increase in the number of "duck boats" loading up at Union Station). There has been a marked, if seasonal, improvement in the emotional tenor of the town. It is nice to see smiles on at least a few faces and to sense that we have, indeed, survived yet another long, cold, dreary winter.

Much goes on in this town, a lot of it important. This is the place where ideas, advocacy, politics, and policy converge—sometimes in the light of day. It is the place where decisions, many of which have the potential to truly change our lives and livelihoods, are made. In recent months and years, much has come out of this town to engage us, change us and (often) enrage us. There is likely to be more in coming months—Washington is, after all, a place where many things are set in motion, largely for the good, though often with unintended consequences that must later be addressed.

We chose the cover photo for this issue for what it says about where I now reside, about the environment in which I work, and about the changes that we are experiencing or that we will experience as we continue our slow passage from the depths of recession to recovery and (one hopes) into renewed expansion. The photo is my everyday workplace view of the REALTOR® Building where I work (right foreground) as it stands on its wedge-shaped lot on New Jersey Avenue, a former Brownfield site, just three blocks from the Capitol. Our building was the first green building (LEED Silver) constructed in the District of Columbia, by the way, and it has a remarkable terrace on the roof that offers amazing views of the surrounding area, including the Capitol and many of the familiar monuments, offices and museums for which Washington is known.

At the end of the street is the Capitol itself where, as I write this, there is much a-clatter about budgets and deficits, raising the debt limit, entitlement reform, spending reductions, and a host of other issues, many of which directly affect the real estate industry, like the future of the GSEs and the how Dodd-Frank will affect banks, investors and homebuyers. For me, whether I agree or disagree with Congressional action (or inaction), it is a hallowed hall deserving of considerable pride and honor. I often wander the grounds contemplating the significance of this place that affects so much of the globe. As the budget and deficit battles wear on, discussions have turned to what can and cannot be done to get the nation's fiscal house in order. Much of that will, no doubt, either ease or add pressure on the real estate industry. Will the honorable members down the street make changes to real estate friendly policies affecting everything from housing to retail to office space? I have no idea. There are many ongoing discussions—not a few of which will affect each and every one of us as practitioners and counselors in this industry.

Our approach to the business we do will undoubtedly evolve as our environment evolves. The economy is, as most economists will testify, in recovery. Not particularly robust, but recovery nonetheless. And, depending on one's perspective, property markets are either in the early stages of their own recovery or languishing along a 'floppy bottom' awaiting a surge of demand to drive them forward. Alluding once again to the cover photo, it seems appropriate that the traffic lights on New Jersey Avenue are flashing yellow. Proceed with caution. Despite recovery, which most economists maintain is sustainable, there is still considerable cross traffic ahead, not to mention road construction, lane closures and more than a few potholes lying in wait to flatten our tires.

It is the recovery, or impending recovery, that prompted us to contact our distinguished Leadership team for its sense of the current and future state of the industry. We were curious how various members of this team of The Counselors of Real Estate® view the world, how they approach the issues of the day, and what they hear and think about with respect to the state of the real estate markets and about the industry in general. So, I asked CREs **John Leary**, **Art Pasquarella**, **Ken Riggs** and **Howie Gelbtuch** to offer their views for the journal. The upshot, I would conclude from our **Roundtable** discussion, is that we need to be well-grounded in the basics but more sophisticated in our approach. Clearly, even as we take tentative steps back toward a more active market, uncertainties remain—many of which challenge us to find innovative solutions to guide our businesses and our clients forward.

Innovative solutions should well include our approach to disputes, as **John Duncum**, **CRE**, and **Joe Cope** point out in **"Dispute Resolution for All Counselors? A New Way of Looking at Our Business."** As they point out: "Conflict and its manifestation—disputes—will happen at some point in most groups, whether business, political, charitable or religious in function." Settling disputes through mediation can be critical to the counseling practice and can represent an avenue to collaborative success. Duncum and Cope conclude: "The counselor, by employing the proven skills and processes of interest-based negotiation and mediation, can assist the parties in the discovery of underlying interests. The understanding that results is often the key to the creation of solutions previously unavailable." Looking down the street, I wonder if my neighbors on the Hill have ever considered such an approach to *their* "business."

Innovation in our industry grows out of creative, forward thinking with a dash of flexibility and resourcefulness to respond to changes and challenges in the landscape. Additionally, and importantly, we need to be able to pass what we have learned on to those who choose to follow us into this business so they can better respond to the challenges of the future. How best to pass our knowledge and experience along presents a whole new set of challenges which, according to **James D. Ray** in **"Information Overload: Emerging Academic Challenges and Their Implications,"** require new approaches to teaching in real estate and business schools. From focusing on real estate basics to information delivery to mentoring and building problem-solving skills, Ray discusses his experience and suggestions for improvement in the modern real estate curriculum.

Our approach to real estate evolves. We learn more through experience and by taking new approaches to the challenges we face. An example of how our understanding has changed in certain segments in the industry might be found in **"Demand for Warehouse and Distribution Center Space"** by **Joe Rabianski** and **Philip Seagraves**. The authors discuss the evolution of the measurement in demand for warehouse and distribution center space, describing the shift from strictly industrial employment-based models to those that encompass "a function of employment, investment and technology." Rabianski and Seagraves offer a comprehensive view of historic and modern approaches to measuring warehouse and distribution center demand, including a glimpse of changes that are likely to occur after the expansion of the Panama Canal (the coming Post-Panamax era).

I have noted considerable dialogue surrounding the long-term value of sustainability in commercial real estate in recent months, as the topic and the application of sustainability initiatives expands and evolves. **Linda Tresslar**, **CRE**, contributes to the dialogue with her piece, **"The Value Proposition of Sustainability: It's in the Eye of the Beholder."** As the adoption of sustainability initiatives evolves, she tells us: "The extent and rapidity of adoption depends upon what is mandated, what is voluntary and the perceived extent of positive impact on value." Exploring areas of potential value enhancement for stakeholders requires well-defined sustainability goals and measures of the benefits and performance, Tresslar tells us. Otherwise, an asset is "vulnerable to perpetual economic obsolescence."

In May 2010, **Karen Char**, **CRE**, of the John Child & Company, Inc. and **Christine Camp**, **CRE**, of Avalon Group, LLC, were awarded the 2010 James Felt Creative Counseling Award for their efforts in developing a long-term real estate strategy for the Hawaii Opera Theatre (HOT) in Honolulu. Their work enabled HOT to continue to produce outstanding opera performances and nationally recognized educational programs in Hawaii. HOT owned fee simple interest in two struggling properties approximately two blocks from the NBC Concert Hall in Honolulu, both of which were in need of substantial renovation. In her article, **"Creative Counseling: Preserving the Hawaii Opera Theatre,"** Char gives us a fascinating account of the process undertaken to upgrade HOT facilities by moving its administrative and box offices from dilapidated warehouse space in an industrial district to healthy and safe offices in a commercial office building, and to ensure the viability of the HOT program well into the future.

With an aging population, it is interesting to note that a substantial proportion of seniors—even those with very small incomes—have considerable equity in their homes, despite the recent contraction in home prices. Recent changes in reverse mortgage products and growing interest in reverse mortgage products on the part of lenders and Wall Street increases the likelihood that seniors will begin to draw on the equity in their homes. Going beyond Robert Wagner's late-night television advertisements and CD offers, **J. Douglas Timmons** and **Ausra Naujokaite** offer a detailed history and discussion of the reverse mortgage concept, including positive and negative aspects and areas of potential concern, in their article **"Reverse Mortgages: Should the Elderly and U.S. Taxpayers Beware?"**

"The surest way to individual wealth," says **Albert Brenner** in **"Monasteries, Mutuals and Investment Banks,"** "is to locate a store of accumulated wealth and find a way to expropriate it. Whether it be centuries of gifts, decades of retained earnings or inflated housing values, if we can just find a way to tap the wealth, we can get rich without really trying." Brenner, having just read an account of the dissolution of the monasteries of England by Henry VIII, describes an interesting parallel with the conversion of mutual savings institutions in New England to publicly owned stock institutions. The monasteries in the 16th century had accumulated considerable wealth, and by their dissolution, it should come as no surprise that wealth flowed to the Crown and its supporters. Brenner suggests that the conversion from mutual savings companies to stock companies "essentially cashed out the accumulated capital of the institutions." In addition, he points out: "so much capital flowed into the region, and banks were so eager to put the capital to work, that a boom in commercial real estate followed as project after project got funded without anyone asking how all of the projects could be supported." Another parallel, according to Brenner, is "the conversion of the investment banks from private partnerships to publicly owned stock institutions." An unorthodox view, to be sure, but thought-provoking and worthy of discussion.

Finally, **William P.J. McCarthy**, **CRE**, offers a review of last year's headliner (but still relevant and still oft-discussed) *The Big Short: Inside the Doomsday Machine* by Michael Lewis. As McCarthy says: "For those of us in the real estate and finance industries, you will read in amazement how widespread and deep the greed, corruption and incompetence of some of the supposedly best minds and most privileged leaders in business led to the loss of $1.75 trillion in wealth in the subprime mortgage markets, shamed capitalism and ruined thousands of lives in the process."

My hope is that the honorable members down the street from my office are able to navigate the future well and that they make wise decisions to minimize any hazards that remain along our road to recovery. I hope that all of the constituencies represented in my new hometown can work together (*please*) to smooth the pavement for future generations. Lastly, it is my own sincere hope that Ken Riggs is right—I think he is—when he says in our **Roundtable**: "the U.S. will be stronger for the lessons learned during this Great Recession." ■

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