

# Full Steam Ahead

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# What's the Right Stuff?

## Downturn Yields Lessons on Leadership in Tough Times

By Brad Berton

Beyond the question of mere survival, hard economic times throw a spotlight on a more basic question: what combination of professional skills and personal attributes is best suited to leading a company?

Lessons emerging from the recession are renewing a lively, industry-wide discussion on the subject. For example, when it comes to navigating through a major recession, realistic interaction with colleagues, creditors and other parties may well be an executive's most indispensable characteristic.

Effective leaders "do not linger in the denial stage, but rather step up and acknowledge that they have problems to solve," said real estate workout guru Stan Ross, chairman of the USC Lusk Center for Real Estate and a former vice chairman at Ernst & Young.

In addition to discussing issues openly with key colleagues in house, Ross suggested that CEOs personally contact critical vendors, clients and creditors. "They should become intimately involved in activities rather than just delegating to lawyers or other managers," he argued.

"It's all about credibility," added workout consultant Ian Ratner, principal at GlassRatner Advisory & Capital Group. While the tendency among notoriously optimistic real estate entrepreneurs "is to see the half-empty glass as three-fourths full," effective leaders in times of crisis realistically acknowledge asset devaluations and creditors' positions.

"They communicate a very frank view of their own challenges," Ratner stressed.

Industry analysts and workout specialists identified several CEOs and CFOs who have led financially challenged companies through the toughest of times, in part through their willingness to communicate openly and honestly with internal teams and outside stakeholders. Those singled out include leaders who have

graced CPE's cover in recent months, such as ProLogis's Walt Rakowich and AMB Property Corp.'s Hamid Moghadam. Also garnering kudos are senior officers at public companies Simon Property Group Inc. and Developers Diversified Realty Corp., private developers such as Don Chiofaro and John Wieland, and brokerage executive Mark Rose.

Of course, honesty is only one of many traits leaders call on as they strive to survive the recession, capitalize on down-cycle opportunities and position their companies for renewed prosperity as markets recover.

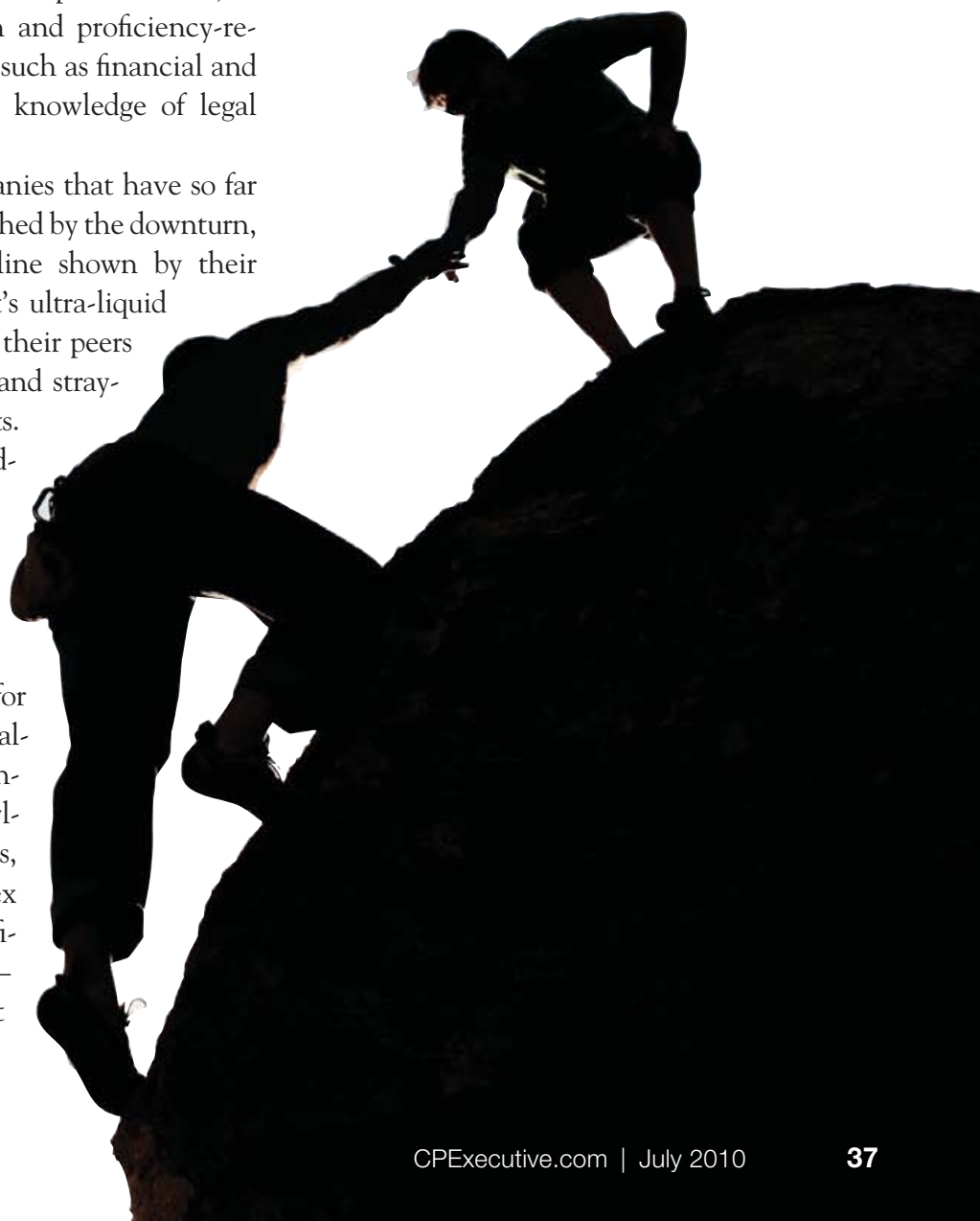
Experts also cite qualities such as integrity, decisiveness, pragmatism and perseverance, as well as experience-driven and proficiency-related leadership qualities, such as financial and operational acumen, and knowledge of legal frameworks and processes.

Pointing to large companies that have so far remained relatively unscathed by the downturn, experts praise the discipline shown by their leaders during the market's ultra-liquid peak years, when some of their peers were loading up on debt and straying into unfamiliar markets.

Veteran restructuring advisor Paul Griesmer, senior managing director at FTI Schonbraun McCann Group, offered a short list of what he considers indispensable qualities for effective leadership in challenging environments: integrity, competence, knowledge of workout processes, ability to assess complex issues, and prompt, confident decision-making—in addition to forthright communication.

Likewise, a combination of foresight, financial skills and operating acumen makes for a strong leader able to capitalize on opportunities in both tough markets and better times, adds Mike Myatt, managing director of N2growth.

As a case in point, Myatt offers Mark Rose, board chairman, chief executive and CFO of Canadian brokerage services firm Avison Young. The firm, which is targeting the U.S. for growth, recently an office in Houston—its fourth of the border. Rose, who was previously CEO of Grubb & Ellis Co., is an ideal leader for





# [Education]

Avison Young’s ambitious expansion because of his “innate ability to steward brand equity and drive corporate growth,” Myatt adds.

### Good Calls

While capital markets reeled and Wall Street worried about looming debt maturities, some REIT decision-makers took the bull by the horns in response, observed Alexander Goldfarb, associate director at Sandler O’Neill + Partners.

Early last year as Simon’s and other REITs’ stocks were tanking, CFO Steve Sterrett and CEO David Simon made a tough call: issuing some \$650 million in unsecured debt at a 10-plus coupon, along with nearly \$550 million in common stock at a deeply discounted price.

Such maneuvers eased concerns about maturities, and now Simon boasts exceptional cash flow and is poised to “naturally de-lever,” according to Goldfarb. “Sterrett, along with

David Simon, deserves a lot of credit for taking steps not only to ensure the company will survive, but to put it in great position for solid earnings growth going forward,” he added.

Likewise, finance chief David Oakes has played a key role in leading Developers Diversified back from the brink. As chief investment officer and then as CFO, Goldfarb explained, Oakes has helped the company get back on track after it had become caught up in excess leverage during the market’s mid-decade bubble years.

Oakes has demonstrated decisive leadership by taking prudent write-downs, even walking away from distressed assets when necessary, and helping “refocus the company and its culture on long-term value creation rather than short-term FFO gains,” Goldfarb concluded.

Indeed, effective leadership in tough times often demands knowing when to walk away from cherished assets, contended Southeast mixed-use and community developer John Wieland, a GlassRatner client. This entails “coldly calculated” decisions to cut losses in order to improve long-term survival prospects.

Wieland has walked that walk by shedding “necessity assets” at a discount, meanwhile protecting “opportunity assets” most likely to generate development profits when user demand recovers.

“If you get beat up selling necessity assets, that’s okay—it’s your opportunity assets that will help you rebuild,” Wieland advised. As for perseverance, Wieland has turned to a principle embodied by the legendary explorer Sir Ernest Shackleton, who led the crew of his Antarctic expedition to safety nearly a century ago after ice destroyed their ship: “Never give up; there’s always another move.”

Rather than giving back debt-laden development sites to lenders—along with potential profit—Wieland has taken the tack of selling the distressed property at a discount to cooperative investors. He then negotiates the best pay-off terms he can with debt-holders, and retain an option to re-purchase the sites at a tidy return to the temporary owners.

Effective leadership in the face of adversity requires unwavering integrity. The chance of agreeing to a mutually beneficial resolution

increases dramatically “if you have confidence that the management or turnaround team is dealing with you honestly,” Griesmer related.

“The other side needs to know you’re not playing favorites with information, that you’re dealing and communicating with them squarely—even if they don’t necessarily like what you’re telling them,” he elaborated.

Beyond such personal qualities, effective leadership in a distressed commercial real estate environment also necessitates deep expertise in the industry’s key professional disciplines. Such competence will demonstrate thorough understanding of all the issues a company faces, as well as the proficiency to devise and execute turn-around strategies.

Griesmer stressed that leaders need insightful proficiency in both finance and operations to lead a company in distress. “Some restructurings are more operationally driven, some are more financially driven—and some are really a combination of the two,” he explained.

Whatever the source of the issues, an effective leader must also take pains to understand the legal framework of corporate restructurings, along with the various processes involved that can lead to a resolution.

Effective leaders demonstrate keen understanding not only of the issues a company faces, but also all underlying assets within the prevailing context, added Ross. “They make presentations with an understanding of the numbers, as well as a sense of confidence that they can be achieved,” he elaborated.

Lastly, effective leaders realize they’re only human and aren’t experts at everything—and hence are willing to bring in experienced outside talent to help with a restructuring.

As developer Wieland said of Ratner and his GlassRatner teammates: “They help you develop a sense of what’s possible—and what’s not.”

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### 10 Leadership Lessons from Explorer Sir Ernest Shackleton

- ◆ Never lose sight of the ultimate goal and focus on the short-term objectives
- ◆ Set a personal example with visible, memorable symbols of behavior
- ◆ Instill optimism and self-confidence but remain grounded in reality
- ◆ Take care of yourself. Maintain your stamina and let go of guilt
- ◆ Reinforce the team message, ‘We are one; we live or die together’
- ◆ Minimize staff differences. Insist on courtesy and mutual respect
- ◆ Master conflicts, engage dissidents and avoid needless power struggles
- ◆ Find something to celebrate and something to laugh about
- ◆ Be willing to take the big risk
- ◆ Never give up; there’s always another move