Trammell Crow Company

Memorandum

To: DISTRIBUTION

Office:

From: GARY SHAFER

Office:

Date: 5/23/89

Subject: LESSONS LEARNED IN THE SOUTHWEST

Set

I asked several of our Southwest partners to reflect upon the environment which lead to the collapse of the Southwest real estate markets including: strategy, personnel, administration/overhead, individual projects, things we did right, influences that encouraged us to make mistakes, and any universals/axioms that could be applied to our business in good times and bad.

Hopefully none of us will ever experience anything like the Southwest disaster again but perhaps what we have learned will better prepare us for whatever might befall. Feel free to distribute this as you see fit.

Thank you.

GS:jl

DISTRIBUTION:

TCC REGIONAL PARTNERS (*):
- Hayden C. Eaves, III
- Robert Speicher
- Charles Brindell
- Jon Hammes
- Kirtland Woodhouse
- Asuka Nakahara
- Wolfram Vedder

cc

Joel Peterson	Tom Bailey
Bob Kresko	Tom Simmons
Don Williams	Trammell Crow
George Lippe*	Barry Henry*
Rob Farrell	Jim Hendricks
Marc Myers*	Steve Meyer
John Walsh	Sandy Gottesman*
Jim Buchanan	Richard Hill
Mark Palmer	Mike Birnbaum
Mike Jaffe	Paul Silverman
Robert Watson*	Bill Rothacker
Marty Farnsworth	Paul Barker
Mike Polachek	

Memorandum

To: DISTRIBUTION Office:

From: GARY SHAFER Office:

Date: 3/6/89

Subject:

Certainly living through the collapse of the Southwest real estate markets has been a true tragedy for us all. Likewise, it would also be a tragedy for us not to share our experiences in this unique environment with our fellow partners around the company. Hopefully they will not have to experience anything like the Southwest disaster but perhaps what we have learned will better prepare them. Please try to get to me by March 15th a brief memo outlining the mistakes you have made in the following categories:

1. Strategy
2. Personnel
3. Administration and overhead
4. Individual projects

Certainly, a good market tends to hide ones mistakes while a bad market overly dramatizes them. Still since memories are short, I believe it is a worthwhile exercise for all of us including me to perform this catharsis.

As soon as I receive all of your responses, I will organize them and disseminate them to the field in an anonymous fashion. Look forward to hearing from you.

GS:jl

cc Office of the Managing Partners
Don Williams
Trammell Crow

DISTRIBUTION

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MARC MYERS

1. Strategy
   - buying service center as "incubators" for deals.
   - building an office building in an industrial park.
   - building an office building 100 miles from city.
   - buying a single site in an industrial park.
   - buying a single site in a city 20 miles from a TCC park.
   - developing a freight consolidation system for tenants.
   - taking partial liability on long-term development JV's.
   - land positions in excess of near term requirements.

2. Personnel
   - hiring non-partner material for leasing.
   - under hiring for property management.

3. Administration and Overhead
   - not terminating marginal people earlier.
   - not instituting financial controls and overhead approvals earlier.
   - not taking net absorption vs. gross leasing.
   - not monitoring liability exposure vis-a-vis liquidity.

4. Individual Projects
   - doing or buying marginal deals because the money was available.
   - extrapolating spec space needs from last leasing.
   - taking liability unjustified by capital base.

JOHN WALSH

I. Strategy:

1. We lost an early deal or two because we quoted high, then expected to negotiate to a lower level. Our competition started low and gained credibility from our approach.

2. Our land debt was based on a five year build out, floating rates (below market), and interest funded from the investor. This works well when rents are growing, but in a decreasing rent market land values get too high to make sense from a development perspective.

3. Don't get caught in a market frenzy. If we had sold more product during the frenzy, we would not be selling for the prices we are today just to cover shorts.

4. Move to non-recourse as soon as practicable. High interest rate non-recourse loans have been better for us than lower interest rate recourse loans once times got bad.

5. Keep a conservative strategy as to bad times. Generally, we did not know we were in a bad market until it was very bad. Remember, it doesn't pay to say "it can't get worse or last much longer".

6. Don't rely on development fees to cover a major portion of overhead.

7. Make every deal at the best rate you can. The deals we made in the early months of the downturn now look like great deals in retrospect. At the time we did not feel good about most of them, but today they are our best deals.

8. We were too lenient on credit requirements, especially where we spent money on finish out or refit. Bankruptcies and business failures have hurt our cash flow and value significantly.

   When we had a problem tenant, we reacted too slowly and ended up with high attorney fees, little or no rent and substantial time periods before we regained control of the facilities.

   Banks will not be your friend when the tenant bellies up, but they will tell you how great they will be when they need a subordination of landlord's lien. Be tough on issuing lien subordinations - make the bank a contractual party in order to collect rent and recover damages if the bank becomes uncooperative.

9. Lease, Lease, Lease - keep your buildings leased. Occupancy helps cover taxes, insurance and other costs that we pay during vacancy.

10. Don't believe that just because rents have gone up at 5% per year for five years, that they can't or won't drop 25% in one year.

11. Control your inventory. Our hardest discipline has been to lease first, then build. Money has always been available. Don't build just because you can get a non-recourse loan. Too much inventory in a market drives all rents down, lower rents lead to lower value.

12. Don't be afraid to ask for price breaks early from suppliers, lenders or outside partners. Increase and maintain restricted cash in order to be more competitive. Very few of our partners were willing to put cash back into projects after distributions were made. However, most were willing to go along with increased reserve accounts if we properly explained our reasons for doing so.

13. Quality is important in a tough market. Tenants, lenders and buyers will give credit to quality. It is really tempting to cut corners when cash is not readily available.

14. Don't put too much faith in a single lender. Despite the myth, large banks do fail and the new guys are not necessarily fair to you just because you are their customer.

15. Don't buy too soon when things are going down. For example, we offered a contract for $22 per square foot in 1987 that we'll probably get for $17.50 per square foot this year.

II. Personnel

1. Stay lean even if you can afford to get fat. It is much easier to hire someone than it is to lay someone off. Postpone hiring someone until you absolutely must.

2. We hired people who were competent to do the job as described when we hired them. I think now I would pay a little more or accept a little less experience and hire people that could eventually do more than the job described. When times are tough fewer people are available and more is required of them.

   If you find yourself over staffed, don't wait too long to resolve. In a tough market it is fairly easy to up grade your mediocre employees with better qualified people at lower prices.

3. Let people know what is happening so that when raises don't meet their expectations they are not shocked. They all read the newspaper, but unless they are warned they rarely believe that a Trammell Crow Company is affected.

4. Work hard on morale. That begins at the partner level. Let people know you are working hard to solve the problems, and you're confident that you will. Remember to maintain your management skills, even when you don't feel like it.

III. Administration and Overhead

1. A strong office manager is critical. When times are tough a partner's available time is greatly diluted. More people call with tougher problems. If the office management is in place, your focus can be toward the outside without deteriorating the quality of your operation. Don't be afraid to delegate administrative responsibility.

2. Employees must understand overhead costs. Let your employees work together in groups or individually to create cost saving ideas. If they know its a real issue they will buy off on the idea better.

3. It is hard to take away benefits. (e.g. car phones, free cold drinks, assistant/interns, beepers, etc.) If you don't need it, don't provide it just because you have the dollars.

STEVE MEYER

1. STRATEGY:

- Not trading additional equity for release of personal liability; i.e. Principal would have accepted a 60/40 split with no liability vs. the 50/50 with full recourse to Crow.

- Investing too much cash and working capital in losing projects. Waited much too long to re-work with lenders and as a result, wasted a lot of valuable cash.

- Missed an opportunity to sell several high finish projects, as well as bulk projects when the spread between the cap rate and interest rates dictated to do so.

- Relied too much on the easy availability of capital and last weeks marketing report to determine new starts.

- Let the land price dictate the product.

- Should not have "pioneered" in unproven areas with recourse debt.

2. PERSONNEL:

- Major mistake was not developing bench strength in leasing personnel, recognizing that future "partner types" would recognize declining opportunity and leave.

3. ADMINISTRATION AND OVERHEAD:

- Realize that overhead cost control is more important as development fees shrink.

- Failed to realize that much more administrative costs and more effort is involved in workouts on losing projects, than in good projects.

4. INDIVIDUAL PROJECTS:

- Our major mistake on this project was that we based our buying decision on this single-story office building based on the fact that we had just sold a single-story office building at $12.00 psf rents and had made $800,000; and assumed we could lease this project at $10.00 psf rents and do likewise. The problem occurred that we did not have a tenant base in the area to draw from, the market turned bad, and even though we had the opportunity to sell at a breakeven, or small loss, we decided to hold the building until the market improved.

- We made the mistake of buying too much land based on past absorption; and the land could have been bought "smarter" with trading equity for reduced liability, etc.

MIKE BIRNBAUM, MIKE JAFFE, BRYCE MILLER

I. Strategy

A. Worst case projections from one quarter tend to become best case projections for next quarter.

B. First markdown is the smallest.

C. Do not follow market down - lead the market.

D. Cash is king.

E. As you lose the ability to do traditional manufacturing business look hard at other sources to generate fees, e.g. 3rd party management, construction management, brokerage.

F. Review joint venture and loan documents - make sure you understand - get fresh look at these documents.

G. Know and understand relationships with joint venturers and lenders - research and try to figure out what kind of accommodations can be reached.

H. Put together team of professional street fighters, e.g., lawyers, accountants.

I. Beware of tenants with good stories - be willing to listen hard but be skeptical - be careful.

J. Work renewals hard and early.

K. Cut overhead hard and early - but be thoughtful, e.g., if you are going to do construction management you need your people.

L. Trust your entrepreneurs - partner level talent needed to generate fees and solutions.

M. Must be able to have offense and defense - celebrate victories in both.

N. Have an ongoing sale program.

II. Personnel

A. Tougher the market better the person needed.

B. Partners need to guard against screwing operation down too tight - if no money - then more than ever need to have fun.

C. Run lean operation - but do not cut muscle.

D. Keep interviewing, look to upgrade - stay in business.

E. Keep nucleus in place.

III. Administration and Overhead

A. Top notch controller essential because accurate, timely information is essential.

B. Monitor all payments - especially those on automatic schedule - may want to stop payment or hold payment.

C. Understand what it costs to run each aspect of your business.

IV. Individual Projects

A. Do not let competitor's actions influence your decision on whether to do a project.

B. Do not do a project just to do something - maintain careful underwriting standards.

C. Partners have to be hands-on and involved in all aspects of business.

D. Easy to overpay for projects if you only figure the upside - do not think the world can only go up.

E. Be careful in picking experts to investigate projects - with shrinking margins, partners cannot afford surprises, e.g., environmental, structural, civil.

F. Don't speculate on demographic growth, especially where infrastructure is not in place.

G. Be careful on taking 100% of obligation but TCC having only 50% of ownership.

H. Do not assume what outside partners in a project want you to do - meet with them and get them signed off on what it is we are going to do - otherwise we will find ourselves funding and the outside partners will say that it is our problem.

I. Take more aggressive position with banks and other lenders sooner as opposed to later.

J. In looking for value in down market be sure and look to replacement cost compared to purchase price. Use conservative estimates based upon today's rents, without increases.

Trammell Crow Company

Memorandum

To: Gary

Office:

From: Sandy

Office:

Date: April 12, 1989

Subject:

Sandy

The following is in response to your request to provide you with a separate list of mistakes. The list is short and not representative of the mistakes made, as I have tried to exclude those items that were covered on the list generated earlier, a copy of which is attached:

1. Chances are you won't get the rates on spec space that you anticipate.

2. Historic restorations cost twice as much, and usually take twice as long.

3. Make sure you have full disclosure in your leases. Don't over-promise. Litigation is extremely expensive and time consuming.

4. Take your personal guaranty seriously. Know which of your assets are excluded. Monitor your lists carefully. Over a period of several years, you can end up with all of your assets encumbered to one loan or another.

5. It is better to go slower.

6. Do not assume that job growth will grow expotentially. Look at the ten-year average, rather than the last year or two. Construction workers come to town and leave quickly.

7. Senior partners should not be afraid to say "no."

LESSONS WE HAVE LEARNED
FROM MISTAKES
WE HAVE MADE

GENERAL OBSERVATION:

External Forces:

General

- Don't rely on inflation to make a project work.

- Mistreating the brokerage community - you may win the battle but you can lose the war.

Absorption (market)

- Believing that your competition will not develop their project if you can begin construction first.

- Reviewing the absorption figures without taking into consideration the supply side.

- Believing that the quality of your people and project can overcome the market. Our occupancy is 30% above the market and rates are 25-50% higher and we are still 75% below pro-forma.

- Watch inventories: Don't believe you must have the largest inventory in town "just in case some 150,000 square foot user comes along".

Financing

- Be careful of verbal assurances from lenders - personal liability is personal liability. There is a significant difference between recourse and non-recourse debt.

  Lenders have a "herd" mentality. When your market is "in", it is powerful; when your market is "out", the reverse is true.

Internal Forces:

General

- Be willing to make the tough decisions on projects and personnel. The first markdown is the least expensive.
- Don't be tempted by thin deals just to keep everyone busy.
- One bad project can make up for five good ones.

Personnel

- Hire the best people - mediocre people are easy to hire and hard to fire. Easy to staff up - it is hard to cut back.
- It is better to have one extra leasing person than one too few.

Cost of doing business

- Focus on the costs of doing business (overhead).
- Not placing enough priority on cash-in-hand (spending tenant finish $'s for high rent but tenant not having the credit to weather the valleys)

LAND:

General

- You can't "fence" the competitors out - limit land holdings to 2-year inventory during normal market.

- Obtain long term land loans (3 year minimum) without calls.

Time and costs to develop

- Development actually takes longer and costs more than you budget.

- Road construction usually takes longer to get to or through your project.

Values

- When the office, retail and industrial absorption softens and rental rates decline, the land values decline at an even greater rate.

<u>OFFICE</u>:

Timing

- You can't fine tune the start of the next office building based on the last lease you made. You have to look at the macro-market since your product won't be deliverable for 15-24 months.
- It is better to start your next office building a few months late and miss a deal than start too early and have two office buildings facing a shrinking market.
- Keep a lean inventory of land and/or have a joint venture partner or land loan that you can walk away from without personal liability.

General

- When the market is hot, sell some of your interest along the way up; when its starts heading down, there are <u>no</u> buyers.
- A small % of a large number is a large number.

RETAIL:

Site selection

- Developing a corner, buying a site because we are concerned that our competition will develop it if we don't - you cannot control the market.

- Secondary retail locations can sit empty no matter how low the rates.

Design

- Building second story retail in order to get more coverage and make the numbers work.

- Doing asphalt parking lots vs. concrete - short term savings offset by long term maintenance - sale vs. long term ownership.

Anchors

- Selling anchor pads rather than leasing them and incorporating them into overall financing package.

- Starting construction on a retail center without the anchor tenant. Inevitably they take twice as long as originally planned.

Tenant mix and leasing

- Not staggering lease terms in order to diversify market risks.

- Taking high rent "mom and pop" deals vs. lower rent national credit deals - a healthy balance is needed.

- Using a relationship with a retailer to force him into a location in which he will not be successful.

- Litigation is expensive and time consuming. Do not overstate the facts. Juries are sympathetic to tenants.

INDUSTRIAL:

- Sell high finish R&D space; the loss to lease up and refit costs takes longer and costs more than your project.
- A soft office market impacts rates on R&D market.
- Don't cap CAM or tax charges, stay with triple net
- No credit, no deal
- Limit free rent to 10-15% or less
- Two-story R&D doesn't work.
- Don't overborrow based on high rents.
- On JV deals, watch the ODL clauses, loss should be prorata, don't cover % partners losses.

MARK PALMER

Strategy

- Failing to sell enough product (treating every good project as a long-term hold)
- Failing to retain significant cash to truly capitalize on excellent buying opportunities now that the market is bad
- Retaining a "pure" development-orientation as opposed to fee-business especially with respect to development.
- Confusing quality with image; and focusing on high-end projects when the market demand had shifted to middle-income or price-sensitive centers, e.g., with discount anchors.
- Failure to stagger lease terms so as to avoid all leases coming up for renewal at one time.
- Leasing to high-risk locals vs. national-credit tenants despite lower free rents.
- Failing to convert recourse shift early enough.
- Being too slow to drop rates in a declining market.

Personnel

- Mediocre hires which take forever to get rid of.
- Inadequate leasing bench strength (as strong agents leave for good markets, production is severely impacted).
- Bringing construction and architectural personnel in-house makes it difficult to "ratchet down" staff levels as development falls off.

Administration and Overhead

- Long-term lease for current staffing levels signed at the top of the market. Felt justified because it was 100% TCC-owned building at the time.
- Inadequate controls over overhead-expenditure decisions.
- Failure to consolidate for efficiencies where possible across divisions, e.g., pool-typists, data processing input-person, shared computer network.

Individual Projects

- Banking on future population growth for a retail center rather than existing rooftops.
- Selling the anchor pad, thereby losing control over the space if they go out (can be overcome by a right of re-purchase).
- Two-story retail.
- Closing on land on the basis of an anchor commitment which is not ironclad.
- Asphalt parking lots.

JIM BUCHANAN

I. STRATEGY

Observation: Office buildings, in relation to retail and industrial projects, have a very long product life cycle. The delivery time of an office building is realistically 15 to 24 months from construction start and the midpoint of an optimistic spec lease-up is 24 to 40 months from construction start, depending on the size of the project. A lot can change in this time period. This dramatically exacerbates the unpredictability of two of the most volatile components of profitability: the loss-to-lease-up costs and yields (triple net rents).

A. Don't Be Too Greedy

1. Avoid personal liability like the plague, particularly on land deals.

2. Do not inventory land at retail prices for future office buildings (a 20% increase in land prices is only a 2-3% increase in total project costs).

3. When buying large pieces of land, even at wholesale prices, get an equity JV partner, or structure a deal with the landowner to minimize carry and/or be able to walk away without writing a large check.

4. With existing office space to lease, it is better to miss that illusory lease deal than to launch an irretrievable office building prematurely.

5. Do not start construction on a major high-rise without preleasing. Consider giving up some ownership to large tenants who take less desirable space early in the leasing program to build momentum and reduce risk.

6. Do not lag a market decline in rental rates for signing leases. If rents are falling, address it quickly. The longer you wait, the more expensive it gets.

7. Have an ongoing program of selective disposition of projects in strong markets. When the market is soft, there are no buyers.

B. Focus Your Business

1. Do fewer deals and do them better.

2. You can make each project more profitable by having

more time to focus on it, as well as limiting growth of overhead (staff) by not going in too many directions at one time.

C. Credit Counts

1. Attach a real premium to credit deals. Don't get caught up in the euphoria over high rent deals and lose sight of the tenant's long term ability to meet its obligations.

2. Be more sensitive to the timing and control of cash in deal structures.

   a. Some pertinent questions to ask are:
      - Whose money is at risk and for how long?
      - How long does the tenant have to be in business before you break even?
      - What is your opportunity cost for other deals, given that time frame?

   b. You can have a great deal on paper that assures you a superior return, or even a reimbursement, but is worthless if the other party doesn't have the ability to pay.

D. Protect Yourself

1. Be cautious about representations and warranties. The Deceptive Trade and Practices Act in the State of Texas gives buyers (tenants) a lot of ammunition when they are backed in a corner.

2. Document any important discussions, requests, or understandings in writing. When a deal goes sour, memories become short and verbal conversations and meetings are forgotten.

II. PERSONNEL

A. Make cuts quickly once performance is determined not to be up to par.

B. A "superstar" leasing agent is of greater value than an unlimited number of mediocre performers.

C. Getting the best people in the top positions helps identify, attract and retain quality people throughout.

D. Do not make new hires without considering how existing personnel may be more effectively utilized to achieve the desired result.

E. Contract out as much work as is reasonably possible, especially during a growth period. It is easier to fine tune the hiring and firing of contract people and usually involves substantially less management time while they are employed.

F. If you have multiple office projects under construction simultaneously, with complicated on-going negotiations, it would be very beneficial to have a top-flight financial manager available to prepare reports and monitor performance.

III. <u>ADMINISTRATION AND OVERHEAD</u>

A. The need for timely, accurate and informative financial reports is significant, but, unfortunately, difficult to obtain.

B. Watch expenditures. Ask ourself, "Do I really need it?" Once you spend it, the cash is gone.

C. Adding staff adds costs and takes more time away from the projects at hand. It almost feeds on itself, creating more and more inefficiencies.

IV. <u>INDIVIDUAL PROJECTS</u>

A. Control the tendency to continue adding finishes/ amenities to a project. A well located, functional and effectively marketed project doesn't need every bell and whistle.

B. Make sure you provide adequate parking, as it can be expensive or impossible to add later, and can take your project out of the market on certain deals.

C. Do not start construction of a high-rise thinking that will prevent other pending high-rises from getting financing, knowing that if all pending buildings were built, the market would be horrendous.

RICHARD HILL

Per your request, listed below are things that I would do differently in a bad market:

STRATEGY:

1. When the market is hot and there are plenty of buyers, lenders, users; we should be more of merchant builders and sell more buildings.

2. Do not worry about your land position when land is at an all time high. Wait till you are actually ready to build the building. Pay retail for your sites and inventory small amounts of land.

3. Stick with credit even in a good market, and do not do a deal just because it's an expanding company that has good lines of finance. When the debt or the lines of finance have vanished the company is left with its true worth.

4. Sell all the high finish buildings, keep the bulk warehouse and low finish buildings. Do not cross collateralize. On joint ventures be careful not to limit the liability of our joint venture partners. Do not agree to fund their deficits.

5. Obtain as long as possible land loans, and building loans with no pre-payment payments.

PERSONNEL:

Do not over staff and over hire! It is much easier to hire than fire. All construction and production personnel (i.e. land planners, tenant finish, site development, construction staff) should be contract labor other than one or two key employees. It is easier to let a contract employee go than a full time employee. Keep emphasis on leasing and property management -- service to the customer. Do not indulge in the luxuries such as in-house advertising specialist, excess secretaries, etc. Do not over pay in a good market, because people do not understand when you try to reduce their wages to market conditions when the market turns bad. Use a lower base salary and more of a bonus program.

ADMINISTRATION AND OVERHEAD:

Keep overhead low! Run lean, you can't cut fast enough. Watch long term leases with high rates entered into at the peak of your business. Do not get into long term contracts for leasing a vehicle or purchasing major equipment.

INDIVIDUAL PROJECTS: Stay away from unproven markets and fringe areas. Do not build just because money is available and demand is good. Think scared!

External Forces – Financing (continued)

- Never finance long term assets (such as a large mixed-use land tract, i.e. Stonecreek) with short term debt.
- Move quickly when markets peak or are declining. Don't hesitate to sell at a fair price today because you think you can get more for it tomorrow.
- One way to stay financially healthy is to "sell too soon".
- Don't deal with 2nd and 3rd tier lenders to save 1/8%. When times are tough, good relationships do help!

PAUL SILVERMAN

In response to your March 6th memo I have the following observations and comments.

1. Strategy

After operating for six years as a lone ranger the character of this organization changed dramatically without having a strategy. I did not recognize that I was making this transition until after I had already done so and started surfacing the problems that came with it. When the market peaked, rents that we had projected would keep going up started to fall faster than I would admit because I was still trying to achieve the projected yields on a couple of projects. Because I did not admit that the market was moving against me, I didn't take the appropriate actions. I also acquired real estate for which I did not have a clear product identified. This basically make me a speculator on two different acquisitions. I bought them thinking that they were good locations, money was available, and that in the long run I could figure out what we could do with them. In one particular situation, I consummated an acquisition against the best judgement of my senior partner (you), kept climbing over the ever-higher hurdles which were placed in front of me in order to do so. Again, this was an acquisition based on gut reactions of knowing that the real estate was good and being too confident that I would easily come up with a solution.

2. Personnel

After making numerous mistakes, I have come to realize that this is the single most important issue in our business. Making the transition from a lone ranger to a manager has been absolutely the most difficult transition in my life. By not wanting to face personnel issues and doing a poor job when I finally did, as well as being incredibly insensitive to the other people with whom I worked, I managed to somehow commit every personnel blunder known. These include: not listening, not hiring the right people, not continually interviewing to know what was available within the marketplace, sticking with people way too long, improperly supervising, improperly motivating, not communicating and failing to inspect the work. These are only a few of the highlights of the sins which I have committed in this area.

3. Administration and Overhead

Being fairly frugal, I don't think we have made too many mistakes in this particular area. The biggest error is failing to properly budget and account for expenditures. We basically did not know what, where and how we were spending our overhead dollars. At times, I think that some of the mistakes that I have made were failing to spend enough money in certain areas or at the proper time. I feel that a large part of our personnel problem has been due to having inferior quarters and in some cases not enough equipment to get the job done.

4. Individual Projects

There are five deals which were all done at the height of the boom that I wish I could erase off of the board. The mistakes that I made on each of those are as follows:

Project A - This project was predicated on an adjacent project working which never did. This project also deviated from our normal economies of scale by being a small project and deviated from our normal formula by not being an anchored property. All in all, it has been a rather unrewarding project.

Project B - Particular problems with this project include: way over-building the amount of spec space relative to the anchors, not having second and third anchors in place from day one, thinking that good architecture and materials would allow us to claim a premium rental rate in the market (it won't), and finally allowing the anchor tenant too much flexibility in the construction schedule and in the restrictive covenants. We didn't have the right people working the project until recently and we didn't bring our rates down to market fast enough.

Project C - I way underestimated the difficulty in undertaking this project. We were not as thorough as we should have been in analyzing the existing leases in the project and failed to have a thorough plan designed and priced prior to committing to the project. We also had bad people working this project originally.

Project D - I committed the error of buying something because I thought that I might need it as opposed to having a definitive need at the time of purchase.

Project E - Problems on this project were: buying this piece of real estate on bank debt when it should have been equity dollars, counting on people that failed me, not having an adequate plan, and buying too much.

Overall our projects have gotten bigger, more complicated and with smaller margins. We have tried to do too many projects at one time without having adequate bench strength or manpower to cover the projects. The concept of putting one guy on one project from start to finish, not letting attention be diverted until it is finished is the best discipline that we can have and it's the one that I strayed the farthest from. When we get our problems sorted out, that is the model that I think works best in the long run in good and bad markets.

I hope this will be of some help to you. I really look forward to seeing how many of us have made the same mistakes and I hope that you will forward a copy of the compilation to those of us who unfortunately had the opportunity to contribute.

PAUL BARKER

1. Strategy

In the initial stages of our activity, the city was a rapidly growing market. To get involved and be competitive with the other developers, we had to reduce yield expectations, increase the amount of land, building and associated costs we were willing to pay to outbid other potential buyers and builders and to create better quality projects. This increased our risk and made us more susceptible to downturns. As we "stretched" for some of these projects, market conditions declined causing our pro formas to be substantially less favorable than we had anticipated.

The strategic implication to our business is that we need to be very selective in choosing our projects and adhere to our yield and profitability requirements. Interest expenses, loss to lease-up, effective rents and other costs can fluctuate outside our control during the development process; therefore, we must be very careful in our initial decisions before we enter into a development project.

We were fortunate to have made some capital transactions early on in the cycle when the market was hot and the other buyers were stretching to enter into a "growth" market. These capital transactions provided liquidity which allowed us to remain as an active participant when our market turned into a downward cycle. As a strategy implication, we should always have a portion of our real estate assets which we sell, joint venture, or refinance to provide liquidity in case the market turns into a less favorable posture.

We became aware that others were encountering the same difficulties in the marketplace. Because of our capital transactions and the structuring of our deals, we were in a better relative position in a difficult market. As a consequence, we were able to enter into new transactions that were more advantageous to us and help defray some of the problems the marketplace had created. Some opportunities came to us because we were recognized as stronger than other competitors; therefore, we were able to enter into new, less risky business or restructure existing ventures. We used this to defray some of the costs of decline in other sectors of the market.

Another strategy lesson was to focus on several deals at the same time. As the market changed over a period of time, if we focused on one or two possible transactions and they did not come to fruition, the next round of opportunity was at a lower level. Therefore, what was a less attractive option earlier on became relatively very attractive as time passed. One of the mistakes we made was to focus on the "best" deals and, in effect, remove ourselves from the market for several months. If those deals did not close and we entered into a new round of negotiations, it would be at a lower level. In retrospect, we should have broadened our base earlier and negotiated more deals which would have enhanced the probability of a deal closing even if it was at a lower value than we anticipated. The time/value relationship may be far more important than any single aspect of a sale or capital transaction.

2. Personnel

In general, our personnel decisions did not relate to changes in the market conditions as rapidly as they should have. Everyone was busy and concentrating on their responsibilities rather than looking at the profitability of the specific direction we were heading in. As a consequence, we had many requests to increase staff in areas which might have been people-intensive but not profitable. We should have been focusing on changes in the marketplace and redeploying our personnel to react to the changes within the market.

3. Administration and Overhead

Many of the overhead and administrative decisions are made on a longer term basis and are not subject to immediate change. There are, however, places where cutbacks are possible. Our major mistake was to assume in our yearly budget and financial plans that last year's level of expenditure would be equaled or exceeded next year. This, in a sense, built in some discretionary spending which may not have been necessary had it been more closely analyzed. Each line item within our budget and financial plans should by analyzed independently to verify whether that expenditure is prudent under a "changed market" condition.

4. Individual Projects

The key to success in each individual project was the financial structure of that project. It was important to have joint venture partners, equity participating loans, or significant leasing or preleasing to buffer the project from variations in the market. Based upon our previous experience in our growth market, we anticipated the performance of our projects would improve month-by-month and year-by-year. This assumption proved invalid and, in some cases, the highest value period for a project may have been very early on in the cycle when we were holding it, waiting for it to "improve". As we held it, the costs increased and the value declined, thus reducing our profit significantly. We also found that it was very difficult to control costs in a softened market. Interest rates increased, free rent increased, leasing activity decreased, and tenant improvement and other costs increased. We need to build in more flexibility in our budgets for these cost variations. Furthermore, we need to emphasize to all decision makers, construction managers, property managers, leasing agents and partners the high cost of passage of time to emphasize the importance of closing leases and other transactions quickly.

In general, we found business to be more difficult and less fun; however, there still were many opportunities to structure sales, refinancings, or joint ventures. The challenge was to control our costs, make prudent business decisions in a difficult environment, and find new business or fee opportunities to offset some of the deterioration which occurred in some of our specific lines of business.

Despite our down market, we have found that by being more astute, more careful and more knowledgeable about opportunities than our competitors, we can become market leaders in spite of the environment.

MIKE POLACHEK

I. STRATEGY

A. Inflexibility in site plan design
B. Lack of aggressiveness
C. Budgets too conservative
D. Not establishing third-party fee management, leasing and construction services for tenant improvements
E. Inability to secure financial partner for land acquisition of future shopping center sites
F. Too many open-ended loans without considering interest rate hedges
G. Not coming to closure on final site plan during option period

II. PERSONNEL

A. Not adequately checking prospective employees' background and references
B. Lack of quarterly or semi-annual reviews
C. Need to do more documentation during personnel critiques
D. When interviewing, not evaluating how prospective employee will fit in with other members of the division

III. ADMINISTRATIVE AND OVERHEAD

A. Keep entire staff together; accounting should office with division rather than regional office
B. Reduce office space requirement
C. Do not frivolously hire
D. Moderately priced office space requirements, hopefully within our projects
E. Increase fee management business
F. Better use of vendors, i.e., attorneys, architects, engineers, etc.

IV. INDIVIDUAL PROJECTS

A. Not agreeing on workable site plan; two projects cost additional one-year carry
B. Inability to secure construction loan prior to spending a great deal of money on plans, studies, etc.
C. Too conservative on budgets
D. Do not hold out for the last dollar on pad prices
E. Not being tough enough with major tenant in forcing it to buy and improve its entire pro rata share of the development

MARTY FARNSWORTH

Suffering through a bad market and watching the mistakes pop out is a learning experience that I am not sure is replicable. The financing strategy we made years ago, in retrospect, was obviously flawed. The combination of a good market, personal ego, strong credible partners, and the best name in the industry lead to a sense of invulnerability that is foolish in a volatile industry. I would like to think we wouldn't make the same mistakes again. Nevertheless, here they are:

1. <u>Strategy</u>

We determined, I believe correctly, that the way to make money in the industrial business is by controlling a continually larger base with ever increasing tenant control. By and large, we developed good projects and good locations with broad market coverage. When rental rates were high and land prices ever increasing, we were able to keep afloat. The bulk of this expansion was financed with open-ended, full recourse bank loans. When absorption slowed down, and rental rates dropped, the weakness in our financial strategy was revealed.

We took on far more debt (and risk) than our ongoing cash flow and current liquidity could support. We should have patiently and assiduously courted joint venture partners to build the tenant base and then used our own resources to skim off the cream.

3. <u>Personnel</u>

A. You cannot afford not to hire the very best.
B. The cost of being long suffering with an incapable employee or a capable employee in the wrong position is far more (for both the company and the employee) than the short term discomfort of having a tough evaluation or termination. The financial costs are less burdensome than the lower morale for the other employees and greater time commitments on the part of management.

4. Administration and Overhead

A. It is too easy to get accustomed to the luxury of valet services - construction managers, financial managers, financial controllers, etc. There may be some dollar savings (i.e. from construction management) but the lack of direct involvement on the part of the partner removes the partner from immediate familiarity with the numbers.
B. Industrial divisions belong in the field near the tenants, the projects, the markets, and away from high rise rents. Being away from the projects removes property management, leasing, and partners from the market in which they are working.

C. Tight control of cash flow forecast, project costs, tenant delinquencies, and leasing performance are vital.

D. We have been too quick to approve buying word processing/computer equipment for everybody. Each secretary has a word processor/computer and a typewriter (including keyboard, screen, and printer).

5. Individual Projects

A. I had no business speculating on land when the division clearly had insufficient cash flow and net worth to bear the loss.

B. In some of the projects we chose to be a jack-of-all-trades and master of none. That is, rather than seeking to diversify by having different product types available through different projects, we chose to diversify within each project. For example, Project A consists of 156,000 s.f. - 100,000 s.f. is bulk warehouse, 13,000 s.f. is small multi-tenant, and 40,000 s.f. is somewhere in between. Project B is 113,000 s.f. - 36,000 s.f. of front loading warehouse, 21,000 s.f. of small incubator bays, and about 60,000 s.f. in between. By trying to diversify within each project, we were able neither to get the economies of scale nor the focus of deciding what the project should be and building accordingly.

C. I have been too willing to justify expanding our portfolio for tenants who have expressed a desire to expand (in spite of poor credit).

GEORGE LIPPE

Gary, mistakes I have made include:

1. STRATEGY

- Built for inventory, market share, tenant expansion when the project economics said no. Wrongly assuming that rents will go up as quickly as they went down and/or that inflation will carry rents up.

- "Make the deal" first then live with the economics later -- should have said no more often.

- Tried to hold out on premium rents too long while the general market was leading with concessions.

- Did not communicate to institutions and other o/s investors how bad a shape our market was in until it was too late. Could have gotten help earlier and probably preserved a better relationship.

- Should have gotten into third party management earlier while fees were higher and more plums available.

- Should have sold more buildings on a regular basis.

- Should have sold land.

- Should have had a war chest of cash.

- Should have become a better, more capable, buyer of property.

- Should have done fewer three year deals and more 5-7 years in office and R&D buildings in particular.

- Should have started renewal discussions 18 months prior to lease expiration.

- Should have stroked broker more.

2. PERSONNEL

- Should have hired/trained higher quality property management people.

  More well rounded businessmen.

- Should have moved accounting to the field with partner oversight earlier.

- Should have developed more bench strength across the board.

- Should have done formal business plans and evaluations sooner to communicate the "button down the hatches" strategy to everyone.

- Should have changed expectations of leasing agents to slower road to partner and need for more super salesmanship skills.

3. ADMINISTRATIVE/OVERHEAD

- Should have changed the organization structure from a development office to a leasing and management office (i.e. replace some specialty skills that were no longer needed with more generalists, utility, jack-of-all-trades staff people).

- Gotten rid of all mediocre people and replaced with fewer, better paid superstars.

- Should have balanced overhead cost against marketing and leasing fees only (no development fees).

4. INDIVIDUAL PROJECTS

- Should not have built three phases of service center at one time.

- Should have slacked off on amenities in favor of more cost efficient functional products - lower price.

- The best location is more important than the building itself. The double whammy was building on a secondary site and loading up with amenities (frivolous cost).

- Need to be more gaudy on design, color and cosmetics and less staid, conservative and traditional - more curb appeal.

- Not enough parking for land coverage sake.

- Don't do expensive marketing brochures - put your money in the onsite "for lease" sign.

- Don't build an industrial park across from a federally subsidized HUD apartment project - security problems.

Gary, these are only the ones I admit to.

BARRY HENRY

I. STRATEGY

1. Proper assessment of market before starting project and proper assessment of return objectives, finance alternatives, hold period and exit strategies.

2. Projects should be "proforma-ed" based on 90% occupancy, not 95%.

3. Leasing assumptions should be driven by market, not proforma.

4. Depending on inflation to "bail us out."

5. Proper diligence on tenant credit. Free rent given to tenant with less than "AAA" rating is always bigger risk than perceived.

6. Have a thorough understanding on renewals and on options, particularly on large square footage, because they always have a large impact upon value.

7. Personal liability on ground leases on undeveloped land is ill-advised.

8. Leaders not being objective or dispassionate about potential opportunity.

9. A good market is the best time to institute cost controls and achieve operating efficiencies on projects, divisions and region.

10. Not having more organized, more often and more specific focus on problems and planning, and leaders not changing course more often and rapidly enough.

11. Delay in implementing corrective action

    - continuing to pay debt service on non-recourse debt
    - avoiding lenders because of "pride"

12. Say "no" more often to deals, people or whatever.

13. "Brainstorm" deals more often as the fire drills occur.

14. Failure of Division to truly run as a multi-faceted business.

15. Not having developed more of a "sale" mentality - sell more projects. Need more of a semi-broker mentality on selling, fee business, etc.

16. Use a better balance between owning and selling, especially where assets might be isolated.

17. Meet market early with rate reduction for good tenants instead of holding out, especially where projects are more isolated.

18. Sell 100% and get out of 20% or less equity positions if liability exists for starts on projects -- risk does not compare favorably with the potential return.

19. Select markets early for concentration and focus energy there.

20. Avoid the delusion that particular markets or "things will improve" faster than they really will -- and run business accordingly (good defense).

21. Failure to overlook refinancing or sales opportunities to free up trapped equity.

22. Failure to be more proactive in Portfolio/Asset Management.

23. Not getting in 3rd Party and other operating side businesses that generate meaningful fee income more quickly and making it a solid part of our operations.

24. Lender relations -- marketing approach.

25. 3rd Party - marketing approach.

26. Early on and consistent program of tenant retention, expansions and renewals -- <u>led by Partner</u> -- make it his job.

27. Specific point focus/responsibility for 3rd Party/ Pinnacle <u>and</u> acquisitions.

28. Get into 3rd Party and other ways to earn fees -- acquisitions, dispositions, loan restructuring, etc.

29. Broker relations

30. No room for slop -- future not forgiving.

II. <u>PERSONNEL</u>

1. Terminate weak links and make the tough decisions quickly.

2. Have enough strength and depth in finance/accounting/ reporting in order to have the collective brains and

information to properly run the business, plan and change course.

3. Don't overhire during boom times because almost impossible to properly cut back to run business as if "starting new group."

4. Bottom line objectives and performance measures are essential; leasing agents, asset managers, and Partners need financial training and expertise.

5. Failure to have bench strength until too late in leasing ranks, asset management, finance, etc.

6. Hire the right person -- critical to take the time, then train.

7. Failure to hire people who have capability to "switch hit" or change focus to adapt to cycles. For example, a person moving to leasing from finance.

III. ADMINISTRATION AND OVERHEAD

1. Keep it simple.

2. Cut costs immediately if tenants don't realize it.

3. Understanding of specific joint venture agreements, etc. by finance of Division Partners. For example, we wasted 2 years of overhead costs that could/should have been billed back to the project/venture. Don't assume Partners and lenders are aware of or on top of financial agreements.

4. Failure to appreciate that our business now is more labor and overhead intensive than the past. We can't operate as we did before.

5. Don't pinch pennies to squander dollars -- focus on the dollars.

6. Watch needless paperwork and "special" needless distractions.

7. Failure to properly bill tenants for escalations. Collections of receivables -- more timely.

8. Failure to recognize than being "in a ditch" creates more fire drills.

9. Office, wherever possible, with low or no rent. Don't get locked into high rent just to finance next building. You're knocking your future for a building you will probably own 50% or less.

IV. <u>INDIVIDUAL PROJECTS</u>

1. Ego seems to sometimes stretch proformas.

2. Raise equity from outside partners where risks are really shared.

3. Sell!

4. Don't assume that a project will exceed the market by 10%; project should work at market or down to 10%.

5. Never personally guarantee construction starts. (Affirmative covenants to JV partners.)

6. Avoid being caught up in the build-build-build mentality without an anchor in place.

7. Other Crow entities should be treated as third parties when buying/selling or joint developing.

8. Do proper sitework and engineering due diligence studies before closing on land.

9. Having an anchor does not guarantee success; demographics can be too thin to support speculative tenants.

10. Spend too much on quality where, in certain markets, it is <u>not</u> appreciated <u>or</u> paid for, <u>and</u> vice-versa.

11. Don't count on your development to change the fabric of the neighborhood.

12. Don't build just because there is capital available to do so.

13. <u>Always</u> get the opinions of the users and the market and people whose judgement you respect on your design and massing, etc., <u>before</u> you finalize it.

14. While a project should not be built unless it is quality, <u>do not</u> overspend on certain kinds of quality elements that will not be appreciated in some types of markets.

15. Do not rely entirely on consultants -- learn and study the details for yourself.

16. Do not build a project based on market surveys done by outsiders -- build from <u>your</u> sensitivity and familiarity with the market from being in it, or don't build at all.

17. Generally, do not put an office building too close to industrial-type neighborhoods without a residential base.

18. Generally, do not build projects without a discernable "front door" and logical site plan.

19. Try to build in submarkets that have an identifiable growth-oriented tenant profile.

20. Buildings must not only look good on the outside, but function well and efficiently from the inside.

21. Buildings should be generally rectangular or modified rectangular in shape -- lending more efficiency and flexibility to the user.

22. Buildings seem to work best, style-wise, that have a discernable bottom and top to the building form.

23. Generally, dollars should be spent on finishes and attention to detail in common areas.

24. Good landscaping is a must.

25. Buildings should have real "people orientation" near the base of the building -- welcome them in -- outside, inside, landscape-wise, signage/graphics, and in the plaza areas.

26. Buildings should incorporate up-to-date building technology and life-safety systems.

27. Buildings work/lease especially well that are located in close proximity to clusters of larger corporate users who continuously have demand.

28. Build the right floor size!

29. Don't "try too hard" or be "trendy" in design.

30. Don't under-elevator a building.

31. Don't make a decision to build a project just because "demographics" as we typically know them indicate growth. For example, outlying towns in this area all have great demographics for retail or residential or maybe industrial, but office buildings do not want to be there unless it's a special circumstance.

32. Build a project that is "truly special" in nature, or don't build. Nothing's worse than building a building that "is just another building on another freeway in another city." It's interesting to note that when looking at the office building market in any city or submarket within that city during the construction of a generation of buildings of approximately 4-6 new projects (typical) that there is always one or possible two of

those buildings that are "special" and more successful than others. They are usually so special that they can almost lease themselves. Several factors have added this "special nature" to them:

- Location (a special site access, topography, trees, water, etc.)
- Design
- Superior or innovative technology
- Timing
- Price
- "Neighborhood"
- Amenities included in the project or nearby
- The existing tenant profile that will be in the building
- The tenant base that is the make-up of the area
- The strength of sponsorship of the project (reputation, depth, capability, and service orientation of the developer)

3-16-89

Copy RF Massey HC
VR SiMi JH
BG TL NJP LN
PB TD LS
JN WT Holland
SH UW Rogers
JB TL CA
Knode

Input per GS, request on Southwest lessons to next to co. - Thanks to those of you who offered input.

Gary Shafer

Barry Henry

March 16, 1989

Mistakes

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16.) Use a better balance between owning and selling, especially where assets might be isolated.

17.) Meet market early with rate reductions for good tenants instead of holding out, especially where projects are more isolated (Greenhill).

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1.) Ego seems to sometimes stretch proformas.

2.) Raise equity from outside partners where risks are really shared.

3.) Sell!

4.) Don't assume that a project will exceed the market by 10%; project should work at market or down to 10% (Texas Commerce and Greenhill).

5.) Never personally guarantee construction starts.

6.) Avoid being caught up in the build-build-build mentality without an anchor in place (Courtyard).

7.) Other Crow entities should be treated as third parties when buying/selling or joint developing (Westchester).

8.) Do proper sitework and engineering due diligence studies before closing on land (Burleson).

9.) Having an anchor does not guarantee success; demographics can be too thin to support speculative tenants (Westside).

10.) Spend too much on quality where, in certain markets, it is <u>not</u> appreciated <u>or</u> paid for, <u>and</u> vice-versa.

11.) Don't count on your development to change the fabric of the neighborhood.

12.) Don't build just because there is capital available to do so.

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15.) Do not rely entirely on consultants -- learn and study the details for yourself.

16.) Do not build a project based on market surveys done by outsiders -- build from your sensitivity and familiarity with the market from being in it, or don't build at all.

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28.) Build the right floor size!

29.) Don't "try too hard" or be "trendy" in design.

30.) Don't under-elevator a building.

31.) Don't make a decision to build a project just because "demographics" as we typically know them indicate growth. For example, Grand Prairie, Mesquite, Garland, De Soto, parts of San Antonio, etc., all have great demographics for retail or residential or maybe industrial, but office buildings do not want to be there unless it's a special circumstance.

32.) Build a project that is "truly special" in nature, or don't build. Nothing's worse than building a building that "is just another building on another freeway in another city." It's interesting to note that when looking at the office building market in any city or submarket within that city during the construction of a generation of buildings of approximately 4-6 new projects (typical) that there is always one or possibly two of those buildings that are "special" and more successful than others. They are usually so special that they can almost lease themselves. Several factors have added this "special nature" to them:

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- Superior or innovative technology
- Timing
- Price
- "Neighborhood"
- Amenities included in the project or nearby
- The existing tenant profile that will be in the building

- The tenant base that is the make-up of the area
- The strength of sponsorship of the project (reputation, depth, capability, and service orientation of the developer)

- etc.
- etc.
- etc.
- etc.

It never ends!

Trammell Crow Con ,. ...ny

Memorandum

To: DISTRIBUTION Office:

From: GARY SHAFER Office:

Date: 3/27/89

Subject: "MISTAKES I'VE MADE" EXERCISE

Thank you so much for supplying me with the information on the quote "Mistakes I've Made" request. While reviewing all of this information during my vacation in Vail, I realized that this was a first step in a four step exercise. The other steps are as follows:

1. What did we do right?

2. What were the influences that encouraged us to make the mistakes?

3. Are there any universals, any axioms that could be applied to our business in good times and bad?

Attached you will find some straw man proposals on steps 1 and 2 above. I would appreciate it if you would check yes or no if you agree with each of the line items. Please take a pencil and delete, add to or critique any of the straw mans.

Look forward to your replay ASAP.

GS:jl

cc Office of the Managing Partners
Don Williams
Trammell Crow

DISTRIBUTION

George Lippe	Barry Henry
Rob Farrell	Jim Hendricks
Marc Myers	Steve Meyer
John Walsh	Sandy Gottesman
Jim Buchanan	Richard Hill
Mark Palmer	Mike Birnbaum
Mike Jaffe	Paul Silverman
Robert Watson	Bill Rothacker
Marty Farnsworth	Paul Barker
Mike Polachek	

THINGS WE DID RIGHT

1. We consistently outperformed the market in all respects particularly in leasing and renewals.

2. We did prepare for a market reversal:

   a. Raised $150 million plus of cash through sales and jv's - as a unit, Trammell Crow Company Southwest was the last development company in the area to run out of cash.

   b. We did not take on P.L. debt on big deals (larger than $20 million).

   c. We joint ventured most major land positions and large projects.

   d. We just never expected or planned for a massive force majeure market shift.

3. We did cut costs, removed marginal players and got into acquisitions in the 3rd party business but a little late.

4. Most important, we had great people. We have held our line. Not a single man in the face of the most adverse circumstances to occasion our industry since the great depression, bucked and ran. While often we focus on what's wrong with TCC, we need to take pause and remember there are a hell-of-a-lot of people in this company made out of the "right stuff".

5. <u>Quite possibly, if we had not done the right things above, we could have lost the company.</u>

6. Others?

WHAT WERE THE CIRCUMSTANCE THAT MADE OUR MISTAKES SEEM LIKE A "GOOD IDEA AT THE TIME"

a. Success lulled us into a sense of complacency)in some cases of almost feeling bulletproof).

   1. Everything worked - leasing, sales, values, zoning, etc. - we were on a roll.

   2. We had great, experienced people.

   3. We had liquidity.

   4. We had capital markets chasing us. There was an incredible supply of money.

   5. We felt that there was always a (back door) buyer for our projects.

   6. We let land and/or financing costs sometimes dictate what we developed.

b. The company culture lionized growth and demanded that we be aggressive.

   1. "We are the number 1 developer", "most assets", "most square feet", "record leasing year", "new offices", etc.

   2. "In the history of the world the seller is wrong".

   3. "In city X, we got 70% of market share but why did we miss the other 30%?"

   4. "We always carry a significant inventory of space to provide expansion for our tenants and to keep pressure on the competition."

   5. "We buy land to frustrate the competition and to control our future."

   6. "If partner X can carry land, build big office buildings and two story service centers or fashion retail centers, why can't I"?

c. Our compensation system demaded that we grow. We were pushed hard by our young people who all wanted "their" share of the boom. We let relationships obscure objectivity. We didn't use tough love.

d. In the euphoria of a hot market, we tended to ignore true market fundamentals. We didn't have and/or prudently evaluate good information. Often our market research was last week's leasing meeting.

(CONTINUED)

WHAT WERE THE CIRCUMSTANCE THAT MADE OUR MISTAKES SEEM LIKE A "GOOD IDEA AT THE TIME"

e. We let success lull us into high images and attendant high overheads (some costs were fixed like fancy offices with high rents).

f. Pride kept us from cutting projects, debt, rents, and overhead in a timely manner (psychologists have proven that the human psyche will take enormous risks before it will admit to a loss - "press the bet on the last hole" - "hidden odds for the house in Vegas" - etc.).

g. We tended to focus on great real estate while ignoring the storm clouds of overbuilding and increasing debt and overhead burdens. "If we didn't buy it, the competition would".

h. We tended to drift away from direct contact with the market and became unduly influenced by our staff, the brokerage community and the press, all of whom have a tendency to be myopic.

i. We were lulled into a sense of security by the EVBS with its many trap doors (deferred F.I.T.; negative leverage debt; non-market determined cap rates; nonrecognition of sales costs and prepayment penalties). The EVBS is only a snapshot not a full length movie.

j. The hot market kept us focused on the future (the next deal) while we often ignored prudent asset management.

k. Others?

Trammell Crow Company

Memorandum

To: DISTRIBUTION

Office:

From: GARY SHAFER

Office:

Date: 3/27/89

Subject: "MISTAKES I'VE MADE" EXERCISE

Gary,
This is a great idea
and learning experience.
Suggest we include the
other [illegible] in the exercise.
Vance

Thank you so much for supplying me with the information on the quote "Mistakes I've Made" request. While reviewing all of this information during my vacation in Vail, I realized that this was a first step in a four step exercise. The other steps are as follows:

1. What did we do right?

2. What were the influences that encouraged us to make the mistakes?

3. Are there any universals, any axioms that could be applied to our business in good times and bad?

Attached you will find some straw man proposals on steps 1 and 2 above. I would appreciate it if you would check yes or no if you agree with each of the line items. Please take a pencil and delete, add to or critique any of the straw mans.

Look forward to your replay ASAP.

GS:jl

cc Office of the Managing Partners
Don Williams
Trammell Crow

DISTRIBUTION

George Lippe
Rob Farrell
Marc Myers
John Walsh
Jim Buchanan
Mark Palmer
Mike Jaffe
Robert Watson
Marty Farnsworth
Mike Polachek
Barry Henry
Jim Hendricks
Steve Meyer
Sandy Gottesman
Richard Hill
Mike Birnbaum
Paul Silverman
Bill Rothacker
Paul Barker

#4

THINGS WE DID RIGHT

1. We consistently outperformed the market in all respects particularly in leasing and renewals. yes

2. We did prepare for a market reversal:

   a. Raised $150 million plus of cash through sales and jv's - as a unit, Trammell Crow Company Southwest was the last development company in the area to run out of cash.

   b. We did not take on P.L. debt on big deals (larger than $20 million).

   c. We joint ventured most major land positions and large projects.

   d. We just never expected or planned for a massive force majeure market shift.

3. We did cut costs, removed marginal players and got into acquisitions in the 3rd party business but a little late.

4. Most important, we had great people. We have held our line. Not a single man in the face of the most adverse circumstances to occasion our industry since the great depression, bucked and ran. While often we focus on what's wrong with TCC, we need to take pause and remember there are a hell-of-a-lot of people in this company made out of the "right stuff". yes, yes, and not getting any credit!, unappreciated!

5. <u>Quite possibly, if we had not done the right things above, we could have lost the company.</u>

6. Others?

- We recruited a generation of super talented people!
- We greatly increased property management systems capabilities.
- Expanded into related businesses such as title insurance - Tenant finish construction.
- Exported great - needed talent from Texas to other markets
-

WHAT WERE THE CIRCUMSTANCE THAT MADE OUR MISTAKES SEEM LIKE A "GOOD IDEA AT THE TIME"

a. Success lulled us into a sense of complacency)in some cases of almost feeling bulletproof).

   1. Everything worked - leasing, sales, values, zoning, etc. - we were on a roll.

   2. We had great, experienced people.

   3. We had liquidity.

   4. We had capital markets chasing us. There was an incredible supply of money.

   5. We felt that there was always a (back door) buyer for our projects.

   6. We let land and/or financing costs sometimes dictate what we developed.

b. The company culture lionized growth and demanded that we be aggressive.

   1. "We are the number 1 developer", "most assets", "most square feet", "record leasing year", "new offices", etc.

   2. "In the history of the world the seller is wrong".

   3. "In city X, we got 70% of market share but why did we miss the other 30%?"

   4. "We always carry a significant inventory of space to provide expansion for our tenants and to keep pressure on the competition."

   5. "We buy land to frustrate the competition and to control our future."

   6. "If partner X can carry land, build big office buildings and two story service centers or fashion retail centers, why can't I"?

c. Our compensation system demaded that we grow. We were pushed hard by our young people who all wanted "their" share of the boom. We let relationships obscure objectivity. We didn't use tough love.

d. In the euphoria of a hot market, we tended to ignore true market fundamentals. We didn't have and/or prudently evaluate good information. Often our market research was last week's leasing meeting.

Axioms

- When you're out of cash, you're out of business!
- Leverage can be awful
- Non-recourse debt does not mean automatic extrication from a problem deal -
  - often are obliged to keep current for the "firm's good"
  - deferred tax problem
- The easiest "sale" is another "salesman" - i.e. convincing each other about a deal without necessary objective analysis!
- People are more expensive than we realize - Easy to hire, but difficult to terminate!"
- Our strategy should focus on "get rich slowly" -

Axioms

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- People are more expensive than we realize - Easy to hire, but difficult to terminate!"
- Our strategy should focus on "get rich slowly" -

Anon: John Walker

#1 (

THINGS WE DID RIGHT

1. We consistently outperformed the market in all respects particularly in leasing ~~and~~, renewals, Asset, property management and prospecting.
2. We did prepare for a market reversal:

   a. Raised $150 million plus of cash through sales and jv's - as a unit, Trammell Crow Company Southwest was the last development company in the area to run out of cash.

   b. We did not take on P.L. debt on big deals (larger than $20 million). (our share)

   c. We joint ventured most major land positions and large projects.

   d. We just never expected or planned for a lengthy, massive force majeure market shift.

3. We did cut costs, removed marginal players and got into acquisitions in the 3rd party business but a little late.

4. Most important, we had great people. We have held our line. Not a single man in the face of the most adverse circumstances to occasion our industry since the great depression, bucked and ran. While often we focus on what's wrong with TCC, we need to take pause and remember there are a hell-of-a-lot of people in this company made out of the "right stuff".

5. <u>Quite possibly, if we had not done the right things above, we could have lost the company.</u>

6. Others? We did what was right for our customer as long as we were able, even if it caused us to bleed.

7. We continued to maintain relationships (with lenders, tenants and partners even when "transaction" ideals were [illegible]

WHAT WERE THE CIRCUMSTANCE THAT MADE OUR MISTAKES SEEM LIKE A "GOOD IDEA AT THE TIME"

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   3. We had liquidity.

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   5. We felt that there was always a (back door) buyer for our projects.

   6. We let land and/or financing costs sometimes dictate what we developed.

b. The company culture lionized growth and demanded that we be aggressive.

   1. "We are the number 1 developer", "most assets", "most square feet", "record leasing year", "new offices", etc.

   2. "In the history of the world the seller is wrong".

   3. "In city X, we got 70% of market share but why did we miss the other 30%?"

   4. "We always carry a significant inventory of space to provide expansion for our tenants and to keep pressure on the competition."

   5. "We buy land to frustrate the competition and to control our future."

   6. "If partner X can carry land, build big office buildings and two story service centers or fashion retail centers, why can't I"?

c. Our compensation system demaded that we grow. We were pushed hard by our young people who all wanted "their" share of the boom. We let relationships obscure objectivity. We didn't use tough love.

d. In the euphoria of a hot market, we tended to ignore true market fundamentals. We didn't have and/or prudently evaluate good information. Often our market research was last week's leasing meeting or next year's intuition

(CONTINUED)

WHAT WERE THE CIRCUMSTANCE THAT MADE OUR MISTAKES SEEM LIKE A "GOOD IDEA AT THE TIME"

e. We let success lull us into high images and attendant high overheads (some costs were fixed like fancy offices with high rents).

f. Pride kept us from cutting projects, debt, rents, and overhead in a timely manner (psychologists have proven that the human psyche will take enormous risks before it will admit to a loss - "press the bet on the last hole" - "hidden odds for the house in Vegas" - etc.). We [illegible] with tenants "dreams" too long as well.

g. We tended to focus on great real estate while ignoring the storm clouds of overbuilding and increasing debt and overhead burdens. "If we didn't buy it, the competition would". "Quality will carry us through a bad cycle without regard for current market conditions.

h. We tended to drift away from direct contact with the market and became unduly influenced by our staff, the brokerage community and the press, all of whom have a tendency to be myopic.

i. We were lulled into a sense of security by the EVBS with its many trap doors (deferred F.I.T.; negative leverage debt; non-market determined cap rates; nonrecognition of sales costs and prepayment penalties). The EVBS is only a snapshot not a full length movie.

j. The hot market kept us focused on the future (the next deal) while we often ignored prudent asset management. We did not see problems until they were too large to miss

k. Others?

We tended to make deals based on gut feel, even when logic showed otherwise

THINGS WE DID RIGHT

1. We consistently outperformed the market in all respects particularly in leasing and renewals. YES

2. We did prepare for a market reversal:

   a. Raised $150 million plus of cash through sales and jv's - as a unit, Trammell Crow Company Southwest was the last development company in the area to run out of cash. YES

   b. We did not take on P.L. debt on big deals (larger than $20 million). YES

   c. We joint ventured most major land positions and large projects. YES, but should have given up equity for "softer" money;

   d. We just never expected or planned for a massive force majeure market shift. YES

3. We did cut costs, removed marginal players and got into acquisitions in the 3rd party business but a little late. YES

4. Most important, we had great people. We have held our line. Not a single man in the face of the most adverse circumstances to occasion our industry since the great depression, bucked and ran. While often we focus on what's wrong with TCC, we need to take pause and remember there are a hell-of-a-lot of people in this company made out of the "right stuff". YES

5. <u>Quite possibly, if we had not done the right things above, we could have lost the company.</u> YES

6. Others?

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   3. We had liquidity.

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   5. We felt that there was always a (back door) buyer for our projects.

   6. We let land and/or financing costs sometimes dictate what we developed.

b. The company culture lionized growth and demanded that we be aggressive.

   1. "We are the number 1 developer", "most assets", "most square feet", "record leasing year", "new offices", etc.

   2. "In the history of the world the seller is wrong".

   3. "In city X, we got 70% of market share but why did we miss the other 30%?"

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c. Our compensation system demaded that we grow. We were pushed hard by our young people who all wanted "their" share of the boom. We let relationships obscure objectivity. We didn't use tough love.

d. In the euphoria of a hot market, we tended to ignore true market fundamentals. We didn't have and/or prudently evaluate good information. Often our market research was last week's leasing meeting.

(CONTINUED)

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j. The hot market kept us focused on the future (the next deal) while we often ignored prudent asset management.

k. Others?

Trammell Crow Company

Memorandum

#5

To: Gary Shafer Office:

From: Steve Meyer Office:

Date: April 5, 1989

Subject: "MISTAKES I'VE MADE" EXERCISE

I agree with all your straw man proposals except that when we joint ventured most of our major positions, we could have given up equity for softer money and higher fees. Some univeral thoughts that I think would hold true in good and bad times are as follows:

- Our tenant base is our most important asset. The above average yields and the "fat" deals were made with existing long-term tenants, which allowed us to sell these buildings and raise liquidity.

- High quality projects leased to quality tenants continue to demand a premium, even in the down market. People want to invest in higher-end real estate; and are willing to pay a premium to do so.

- If the building is leased, you can build it, finance it, sell it, etc. Even if the yields on the pro-formas do not meet your original projections, if your building is leased, you have a variety of options.

THINGS WE DID RIGHT

YES 1. We consistently outperformed the market in all respects particularly in leasing and renewals.

2. We did prepare for a market reversal:

   a. Raised $150 million plus of cash through sales and jv's - as a unit, Trammell Crow Company Southwest was the last development company in the area to run out of cash.

   b. We did not take on P.L. debt on big deals (larger than $20 million).

   YES c. We joint ventured most major land positions and large projects.

   YES d. We just never expected or planned for a massive force majeure market shift.

YES 3. We did cut costs, removed marginal players and got into acquisitions in the 3rd party business but a little late.

YES 4. Most important, we had great people. We have held our line. Not a single man in the face of the most adverse circumstances to occasion our industry since the great depression, bucked and ran. While often we focus on what's wrong with TCC, we need to take pause and remember there are a hell-of-a-lot of people in this company made out of the "right stuff".

YES 5. Quite possibly, if we had not done the right things above, we could have lost the company.

6. Others?

   a. Kept our spirit

   b. Kept the team together

   c. Worked hard to have fun

   d. Worked offense and defense

   e. Continued to work to hire top notch people

   f. Got top notch controller

   g. Worked very hard on tenant relationships

   h. Put together team of professional street fighters

WHAT WERE THE CIRCUMSTANCE THAT MADE OUR MISTAKES SEEM LIKE A "GOOD IDEA AT THE TIME"

a. Success lulled us into a sense of complacency)in some cases of almost feeling bulletproof).

1. Everything worked - leasing, sales, values, zoning, etc. - we were on a roll.

2. We had great, experienced people.

3. We had liquidity.

4. We had capital markets chasing us. There was an incredible supply of money.

5. We felt that there was always a (back door) buyer for our projects.

6. We let land and/or financing costs sometimes dictate what we developed.

YES b. The company culture lionized growth and demanded that we be aggressive.

YES 1. "We are the number 1 developer", "most assets", "most square feet", "record leasing year", "new offices", etc.

YES 2. "In the history of the world the seller is wrong".

YES 3. "In city X, we got 70% of market share but why did we miss the other 30%?"

4. "We always carry a significant inventory of space to provide expansion for our tenants and to keep pressure on the competition."

5. "We buy land to frustrate the competition and to control our future."

YES 6. "If partner X can carry land, build big office buildings and two story service centers or fashion retail centers, why can't I"?

YES c. Our compensation system demaded that we grow. We were pushed hard by our young people who all wanted "their" share of the boom. We let relationships obscure objectivity. We didn't use tough love.

d. In the euphoria of a hot market, we tended to ignore true market fundamentals. We didn't have and/or prudently evaluate good information. Often our market research was last week's leasing meeting.

(CONTINUED)

WHAT WERE THE CIRCUMSTANCE THAT MADE OUR MISTAKES SEEM LIKE A "GOOD IDEA AT THE TIME"

e. We let success lull us into high images and attendant high overheads (some costs were fixed like fancy offices with high rents).

f. Pride kept us from cutting projects, debt, rents, and overhead in a timely manner (psychologists have proven that the human psyche will take enormous risks before it will admit to a loss - "press the bet on the last hole" - "hidden odds for the house in Vegas" - etc.).

YES g. We tended to focus on great real estate while ignoring the storm clouds of overbuilding and increasing debt and overhead burdens. "If we didn't buy it, the competition would".

h. We tended to drift away from direct contact with the market and became unduly influenced by our staff, the brokerage community and the press, all of whom have a tendency to be myopic.

i. We were lulled into a sense of security by the EVBS with its many trap doors (deferred F.I.T.; negative leverage debt; non-market determined cap rates; nonrecognition of sales costs and prepayment penalties). The EVBS is only a snapshot not a full length movie.

YES. j. The hot market kept us focused on the future (the next deal) while we often ignored prudent asset management.

k. Others?

TrammellCrowCompany

301 Congress Avenue
Suite 1300
P.O. Box 2176
Austin, Texas 78768-2176

512/474-9900

MEMORANDUM

TO: Gary Shafer

FROM: Mark Palmer

DATE: April 24, 1989

RE: "Mistakes made" memo response

The following is an attempt to clarify my prior "mistakes made" memo with a few specific examples:

- Failing to sell enough product. Northpoint was a 30,000-square-foot center which was unanchored and fully leased. Could easily have been sold for over $1.5 million profit in 1987. Instead, tenants failed to renew or went out of business, and the center has gone back to the lender in 1989.

- Approximately ten retail centers were developed in 1984, 1985, and 1986 with a deliberate effort to keep all lease terms at three years. Consequently, the majority of our tenants are up for renewal in the same down cycle. We have several centers where most of the tenants are up for renewal in the same year, and it has almost been a collective bargaining effort to preserve the asset.

- It took us at least a year to eliminate an in-house land development department, which had become redundant due to a greatly-reduced number of new projects.

- Signed a lease for our own TCC office in 301 Congress at $28 per-square-foot for five years. Deliberately took more space than we needed (banking on future growth). Now we are the only guys in the building not to have renegotiated our rent.

- Sold Tom Thumb their pad at Round Rock rather than leasing space to them. Six months after opening their store they have closed it. We now have an anchorless shopping center where we do not have total control over the release of the anchor space.

- Achieved up-front construction savings by using asphalt instead of concrete for parking lots. In most cases the pothole repair costs over the first several years have exceeded the savings.

- Developed the Market at Wells Branch in anticipation of future subdivision growth. The major homebuilder in the area, NPC, went into bankruptcy, and new housing growth completely stopped. The center is now very soft, despite having several major anchors, based on lack of demographics in the area.

THINGS WE DID RIGHT

1. We consistently outperformed the market in all respects particularly in leasing and renewals.

2. We did prepare for a market reversal:

   a. Raised $150 million plus of cash through sales and jv's - as a unit, Trammell Crow Company Southwest was the last development company in the area to run out of cash.

   b. We did not take on P.L. debt on big deals (larger than $20 million).

   c. We joint ventured most major land positions and large projects.

   d. We just never expected or planned for a massive force majeure market shift.

3. We did cut costs, removed marginal players and got into acquisitions in the 3rd party business but a ~~little~~ lot late.

4. Most important, we had great people. We have held our line. Not a single man in the face of the most adverse circumstances to occasion our industry since the great depression, bucked and ran. While often we focus on what's wrong with TCC, we need to take pause and remember there are a hell-of-a-lot of people in this company made out of the "right stuff".

5. <u>Quite possibly, if we had not done the right things above, we could have lost the company.</u>

6. Others?

Gary
Great thoughts. Good comments as noted.
Mark Palmer

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   4. We had capital markets chasing us. There was an incredible supply of money.

   5. We felt that there was always a (back door) buyer for our projects.

   6. We let land and/or financing costs sometimes dictate what we developed.

   7. We are salesmen and optimists by nature / given time you start believing your own hype

b. The company culture lionized growth and demanded that we be aggressive.

   1. "We are the number 1 developer", "most assets", "most square feet", "record leasing year", "new offices", etc.

   2. "In the history of the world the seller is wrong".

   3. "In city X, we got 70% of market share but why did we miss the other 30%?"

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   6. "If partner X can carry land, build big office buildings and two story service centers or fashion retail centers, why can't I"?

c. Our compensation system demaded that we grow. We were pushed hard by our young people who all wanted "their" share of the boom. We let relationships obscure objectivity. We didn't use tough love.

d. In the euphoria of a hot market, we tended to ignore true market fundamentals. We didn't have and/or prudently evaluate good information. Often our market research was last week's leasing meeting.

7. We can control comers, market etc.

8. Performance needs to be measured in absolute terms not [illegible] market [illegible]

(CONTINUED)

WHAT WERE THE CIRCUMSTANCE THAT MADE OUR MISTAKES SEEM LIKE A "GOOD IDEA AT THE TIME"

e. We let success lull us into high images and attendant high overheads (some costs were fixed like fancy offices with high rents).

f. Pride kept us from cutting projects, debt, rents, and overhead in a timely manner (psychologists have proven that the human psyche will take enormous risks before it will admit to a loss - "press the bet on the last hole" - "hidden odds for the house in Vegas" - etc.).

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point j. The hot market kept us focused on the future (the next deal) while we often ignored prudent asset management.

k. Others?

- We didn't pay enough attention to rewarding and cultivating the best players * consequently they were lost to the strong markets and when the market got truly tough we were left with weak bench strength (* especially [illegible] leasing agents and partners)

By not focusing on superior asset management (especially prop mgmt & accounting) we started to lose value in projects quicker than we could create value in new development

- We put 150% effort into projects the [illegible] of the stretch then focused on the next deal without finishing the original job

over →

Greatly increased staffs multiplied the personnel issues requiring a partners attention. Given that many partners are not great managers anyway, this had a double negative of taking a partner away from real production while also leaving questions which suffered from inadequate organization and managerial control.

We probably also failed to share experience between areas adequately. You've always said that ~~also~~ bad news travels slowly in the company and perhaps it wouldn't have been heeded anyway, but it seems that the lessons learned in Houston could have been pressed home in the rest of Texas and local markets. Cumulative experience benefitted the rest. This exercise you are having us go through now will prove particularly valuable to the future of the company and is very worthwhile.

Trammell Crow Company

James D. Buchanan
Division Partner

Trammell Crow Company
301 Congress Avenue
Suite 1300
P.O. Box 2176
Austin, Texas 78768-2176

512/474-9900

MEMORANDUM

Jim Buchanan, page 1

TO: Gary Shafer

FROM: Jim Buchanan

DATE: April 4, 1989

RE: Mistakes I've Made

---

1. Started construction of 301 Congress mistakenly thinking we could preempt Southland and Vantage from getting financing on their planned high-rises.

2. Started construction of Arboretum Point when Arboretum Plaza One and Two were only 60% leased, rather than 85% leased. Three years later the occupancy at Arboretum Plaza One and Two finally reached 90% and is now down to 75%.

3. Bought a piece of downtown land at retail prices when our high-rise was only 20% preleased, rather than waiting to buy land when actually needed for production, which was probably two years away, absolute best case.

4. Had an opportunity to sell several projects in a hot market and only sold a half interest in one project.

5. Spent approximately $300,000 on plans for Stonecreek II to save twelve weeks on a potential construction start for IBM. The plans have been sitting on the shelf for four years.

6. Spent $350,000 on tenant finish for a ten year lease with rents higher than proforma guaranteed personally by the owner of a local accounting practice that had been in business for eight to ten years. He paid 15 months of operating expenses before he was faced with personal bankruptcy (this same problem occurred several times with different tenants).

7. Kept adding leasing agents (up to six) to help lease all the space being built, rather than stretch the initial core group. The last two new agents significantly increased management time without adding any real productivity.

cc: Sandy Gottesman

THINGS WE DID RIGHT

yes 1. We consistently outperformed the market in all respects particularly in leasing and renewals.

2. We did prepare for a market reversal:

   a. Raised $150 million plus of cash through sales and jv's – as a unit, Trammell Crow Company Southwest was <u>the last development company in the area to run out of cash</u>. — should have liquidated more in some divisions — yes

   b. We did not take on P.L. debt on big deals (larger than $20 million). — yes – generally

   c. We joint ventured most major land positions and large projects. — some but not enough (Gateway, HEB ...)

   d. We just never expected or planned for a <u>massive</u> force majeure market shift — of this magnitude – yes

yes 3. We did cut costs, removed marginal players and got into acquisitions in the 3rd party business, ~~but~~ however all of these measures were a little late.

yes 4. Most important, we had great people. We have held our line. Not a single man in the face of the most adverse circumstances to occasion our industry since the great depression, bucked and ran. While often we focus on what's wrong with TCC, we need to take pause and remember there are a hell-of-a-lot of people in this company made out of the "right stuff".

yes 5. <u>Quite possibly, if we had not done the right things above, we could have lost the company.</u>

6. Others?

WHAT WERE THE CIRCUMSTANCE THAT MADE OUR MISTAKES SEEM LIKE A "GOOD IDEA AT THE TIME"

a. Success lulled us into a sense of complacency)in some cases of almost feeling bulletproof).

1. Everything worked - leasing, sales, values, zoning, etc. - we were on a roll.
   One more amenity or finish item will separate it further from the competition. It will help it lease even quicker.
2. We had great, experienced people. ← yes, but not experienced in deep cyclical swings.
3. We had liquidity. – Not in all cases, but the profits would be so high we would "borrow" from the future profitability.
4. We had capital markets chasing us. There was an incredible supply of money. — yes
5. We felt that there was always a (back door) buyer for our projects. - yes
6. We let land and/or financing costs sometimes dictate what we developed. ← Unfortunately I think the opposite was true – we let the hot market override common sense on the basis
7. The market is so strong, we'll make the budget numbers work.

b. The company culture lionized growth and demanded that we be aggressive. Absolutely

1. "We are the number 1 developer", "most assets", "most square feet", "record leasing year", "new offices", etc. ** Strongly agree — yes!
2. "In the history of the world the seller is wrong". ** Strongly agree — yes!
3. (some) "In city X, we got 70% of market share but why did we miss the other 30%?"
   "Developer X, bought that piece of land, why aren't we in that market? and/or why can't we buy land at that price?"
4. "We always carry a significant inventory of space to provide expansion for our tenants and to keep pressure on the competition."
   "We have inventory in every part of the city to address every user."
5. "We buy land to frustrate the competition and to control our future."
   "If we don't start the next project we may miss a lease deal."
6. "If partner X can carry land, build big office buildings and two story service centers or fashion retail centers, why can't I"? — and market fivers

c. Our compensation system demaded that we grow. We were pushed hard by our young people who all wanted "their" share of the boom. We let relationships obscure objectivity. We didn't use tough love. — or tough analysis

d. In the euphoria of a hot market, we tended to ignore true market fundamentals. We didn't have and/or prudently evaluate good information. Often our market research was last week's leasing meeting. ← Do not agree? Rather did not implement a system that allowed us the flexibility to adapt quickly enough to the market ch...

e. We were so focused on [illegible] development and leasing we didn't [illegible] the stock (debt levels, overhead, running costs)

(CONTINUED)

WHAT WERE THE CIRCUMSTANCE THAT MADE OUR MISTAKES SEEM LIKE A "GOOD IDEA AT THE TIME"

e. We let success lull us into high images and attendant high overheads (some costs were fixed like fancy offices with high rents). yes

yes yes some, particularly the first price increases

f. Pride kept us from cutting projects, debt, rents, and overhead in a timely manner (psychologists have proven that the human psyche will take enormous risks before it will admit to a loss - "press the bet on the last hole" - "hidden odds for the house in Vegas" - etc.). yes

definitely yes

g. We tended to focus on great real estate while ignoring the storm clouds of overbuilding and increasing debt and overhead burdens. "If we didn't buy it, the competition would". yes

h. We tended to drift away from direct contact with the market and became unduly influenced by our staff, the brokerage community and the press, all of whom have a tendency to be myopic. disagree (see ¶ d above)

i. We were lulled into a sense of security by the ~~EVBS~~ current strength of the market and the success of the last project we just finished with its many trap doors (deferred F.I.T.; negative leverage debt; non-market determined cap rates; nonrecognition of sales costs and prepayment penalties). The EVBS is only a snapshot not a full length movie.

j. The hot market kept us focused on the future (the next deal) while we often ignored prudent asset management. [illegible]

k. Others?

(X) We wanted the land profit, the development profit, and the market rent rollover profit, we were not willing to hedge our bet in one or more of these profit components - further increasing exponentially our exposure to market swings - especially to office products with long product life cycles!

(X) We tended to lose patience with a conservative building program in the midst of the market activity and concern about being outdone by a competitor.

(X) We lost sight of the significant cost, time and inefficiencies associated with trying to squeeze every opportunity out of the marketplace, rather than maintaining flexibility (organizationally, product orientation, and financially).

(X) We [illegible] about being lean and mean but often were just the opposite because

Trammell Crow Company

Memorandum

To: Gary Shafer Office:

From: Richard Hill Office:

Date: April 25, 1989

Subject: Mistakes We Made in Austin Industrial

In receipt of your memo dated March 27, 1989, the following are mistakes that we have made in the Austin Industrial division:

1. Two story R & D buildings - competed with office market and blind-sided our absorption/market information.

2. Too much land inventory.

3. R & D building, too deep (greater than or equal to 100') and not enough perimeter glass.

4. Free rent and concessions to tenants with poor credit in advance.

5. Excessive tenant finish dollars.

6. Not enough parking to turn bulk warehouse into a manufacturing building.

7. Focus on development in lieu of the customer.

8. Saved $1.00 per square foot for foundation preparation and cost $4.00 per square foot down the road.

9. Pursuit/(time and dollars) of bad land and lease deals.

Gary, if I can provide you with any further information, please call. Thank you.

cc: Sandy Gottesman

ROBERT WATSON

In response to your request, I have thought about and submit to you the list of actions or omissions which caused us much of the problems we face today. Of course, any one of these is serious, but added together and placed in an atmosphere where our economics basically were halved, the result was catastrophic. The following situations stick out in my mind:

I. We did not run our business as a business. We operated as if our business was made of discrete events with little bearing on each other. We did not really pay attention to aggregate levels of personal liability debt. We did not study our existing assets to see what should be sold, kept, or reworked until too late. We didn't know where we made money or how we made money. If we had more business discipline we would not be where we are today.

II. We let our borrowing ability get the better of us. We covered up our mistakes for at least two years because we could borrow more money. If we would have had to face up to the problem earlier, we probably would not have

a. had the magnitude of loss we have experienced, or

b. done more deals with our cash instead of using it to retire debt.

III. We pushed too hard on two deals with spec space because we were feeling our oats. This is the face of market information telling us that much competitive space was coming on the market.

IV. We bought land for retail development with leverage and without major tenants in hand.

V. We made a bet that the market would come back in 3 years and tried to bottom fish. When you don't have staying power and the market stays bad, you turn into the fish.

VI. We made a bet that there is a reasonable sale market at all times in any market. We have found that just when you most need to sell there is no market.

VII. I was timid in handling personnel. We are still suffering from not having upgraded the leadership in all our divisions when times were good. In tough times you need your best people.

VIII. We did not narrow our focus even when we knew times were getting worse. Basically, we continued business as usual. This was partly due to the distraction of the combination, but more likely was due to a lack of the maturity necessary as an organization to draw back and review the situation with a discerning eye and gain control of our direction.

IX. We did not realize that people and institutions cannot be expected to predictably act as they have in the past. Competitors, customers, lenders, vendors and your own organization all act in strange ways which exacerbates all of your problems.

X. Without question our perceived need to keep busy (working, deals, leases, etc.) caused us to spend and commit unnecessarily. We would have been far better off to have played golf on some days rather than doing a deal.

XI. And finally, it is dangerous to listen to your Regional Partner. I remember one who got me to buy 6 acres of expansion land so that a competitor couldn't capitalize on our "future success".

Gary, I know that we have made other errors and omissions, but if we had done better on these we would have been far better off than we are today. As we go forward, I have pledged to bring myself and the people I work with to a heightened state of business leadership. By enforced market pressures, events and effort we are more mature and seasoned. It has been and continues to be an expensive education but one which will bear fruit in the future.

Please share these thoughts as you see fit.

THINGS WE DID RIGHT

1. We consistently outperformed the market in all respects particularly in leasing and renewals. Yes

2. We did prepare for a market reversal:

   a. Raised $150 million plus of cash through sales and jv's -- as a unit, Trammell Crow Company Southwest was the last development company in the area to run out of cash. Yes

   b. We did not take on P.L. debt on big deals (larger than $20 million). Yes / except those with Substantial Pre leasing

   c. We joint ventured most major land positions and large projects. Yes

   d. We just never expected or planned for a massive force majeure market shift. I wouldn't put this here - this was an error

3. We did cut costs, removed marginal players and got into acquisitions in the 3rd party business but a little late. We did not really use any best case/worst case analysis

4. Most important, we had great people. We have held our line. Not a single man in the face of the most adverse circumstances to occasion our industry since the great depression, bucked and ran. While often we focus on what's wrong with TCC, we need to take pause and remember there are a hell-of-a-lot of people in this company made out of the "right stuff".

5. <u>Quite possibly, if we had not done the right things above, we could have lost the company.</u>

6. Others?

   a. We worked hard at keeping the morale of the people up. Leasing agents and marketing principals along with employees were not demoralized

   b. When we did have problems to face we faced them. I do not know of an instance where we have harmed our integrity by lying or misrepresenting the facts as we knew them at the time.

   c. We moved good people into the financial management role. They have been a

WHAT WERE THE CIRCUMSTANCE THAT MADE OUR MISTAKES SEEM LIKE A "GOOD IDEA AT THE TIME"

a. Success lulled us into a sense of complacency }in some cases of almost feeling bulletproof).

   1. Everything worked - leasing, sales, values, zoning, etc. - we were on a roll.

   2. We had great, experienced people.

   3. We had liquidity.

   4. We had capital markets chasing us. There was an incredible supply of money.

   5. We felt that there was always a (back door) buyer for our projects.

   6. We let land and/or financing costs sometimes dictate what we developed.

b. The company culture lionized growth and demanded that we be aggressive.

   1. "We are the number 1 developer", "most assets", "most square feet", "record leasing year", "new offices", etc.

   2. "In the history of the world the seller is wrong".

   3. "In city X, we got 70% of market share but why did we miss the other 30%?"

   4. "We always carry a significant inventory of space to provide expansion for our tenants and to keep pressure on the competition."

   5. "We buy land to frustrate the competition and to control our future."

   6. "If partner X can carry land, build big office buildings and two story service centers or fashion retail centers, why can't I"?

c. Our compensation system demaded that we grow. We were pushed hard by our young people who all wanted "their" share of the boom. We let relationships obscure objectivity. We didn't use tough love.

d. In the euphoria of a hot market, we tended to ignore true market fundamentals. We didn't have and/or prudently evaluate good information. Often our market research was last week's leasing meeting.

(CONTINUED)
WHAT WERE THE CIRCUMSTANCE THAT MADE OUR MISTAKES SEEM LIKE A "GOOD IDEA AT THE TIME"

e. We let success lull us into high images and attendant high overheads (some costs were fixed like fancy offices with high rents).

f. Pride kept us from cutting projects, debt, rents, and overhead in a timely manner (psychologists have proven that the human psyche will take enormous risks before it will admit to a loss - "press the bet on the last hole" - "hidden odds for the house in Vegas" - etc.).

g. We tended to focus on great real estate while ignoring the storm clouds of overbuilding and increasing debt and overhead burdens. "If we didn't buy it, the competition would".

h. We tended to drift away from direct contact with the market and became unduly influenced by our staff, the brokerage community and the press, all of whom have a tendency to be myopic.

i. We were lulled into a sense of security by the EVBS with its many trap doors (deferred F.I.T.; negative leverage debt; non-market determined cap rates; nonrecognition of sales costs and prepayment penalties). The EVBS is only a snapshot not a full length movie.

j. The hot market kept us focused on the future (the next deal) while we often ignored prudent asset management.

k. Others?

1. Our own successful hiring methods ie. MBA's with a small amount of business experiance followed by a relatively non-rigerous management style allowed us to do things that most experianced business people would not do. We need a larger mix of experianced people to challange our direction and emphasis.

2. We never said no - enough - stop.

THINGS WE DID RIGHT

NO 1. We consistently outperformed the market in all respects particularly in leasing and renewals.

not really 2. We did prepare for a market reversal:

Maybe true else where but not N.M./W.T.

a. Raised $150 million plus of cash through sales and jv's - as a unit, Trammell Crow Company Southwest was the last development company in the area to run out of cash.

NO. b. We did not take on P.L. debt on big deals (larger than $20 million).

NO. c. We joint ventured most major land positions and large projects.

YES d. We just never expected or planned for a massive force majeure market shift.

YES 3. We did cut costs, removed marginal players and got into acquisitions in the 3rd party business but a little late.

+ true 4. Most important, we had great people. We have held our line. Not a single man in the face of the most adverse circumstances to occasion our industry since the great depression, bucked and ran. While often we focus on what's wrong with TCC, we need to take pause and remember there are a hell-of-a-lot of people in this company made out of the "right stuff".

we for the ones that remain

true 5. <u>Quite possibly, if we had not done the right things above, we could have lost the company.</u>

6. Others?

We underwrote our projects in a prudent manner allowing for enough margin that even though the market shifted, instead of losing money we were still able to breakeven.

WHAT WERE THE CIRCUMSTANCE THAT MADE OUR MISTAKES SEEM LIKE A "GOOD IDEA AT THE TIME"

a. Success lulled us into a sense of complacency)in some cases of almost feeling bulletproof).

YES 1. Everything worked - leasing, sales, values, zoning, etc. - we were on a roll.

NO 2. We had great, experienced people.

YES 3. We had liquidity.

YES #1 ENEMY 4. We had capital markets chasing us. There was an incredible supply of money.

YES 5. We felt that there was always a (back door) buyer for our projects.

NO 6. We let land and/or financing costs sometimes dictate what we developed.

b. The company culture lionized growth and demanded that we be aggressive.

YES 1. "We are the number 1 developer", "most assets", "most square feet", "record leasing year", "new offices", etc.

YES 2. "In the history of the world the seller is wrong".

NO 3. "In city X, we got 70% of market share but why did we miss the other 30%?"

NO 4. "We always carry a significant inventory of space to provide expansion for our tenants and to keep pressure on the competition."

YES ~~NO~~ 5. "We buy land to frustrate the competition and to control our future."

#2 ENEMY 6. "If partner X can carry land, build big office buildings and two story service centers or fashion retail centers, why can't I"?

NO c. Our compensation system demaded that we grow. We were pushed hard by our young people who all wanted "their" share of the boom. We let relationships obscure objectivity. We didn't use tough love.

#3 ENEMY d. In the euphoria of a hot market, we tended to ignore true market fundamentals. We didn't have and/or prudently evaluate good information. Often our market research was last week's leasing meeting.

(CONTINUED)

WHAT WERE THE CIRCUMSTANCE THAT MADE OUR MISTAKES SEEM LIKE A "GOOD IDEA AT THE TIME"

NO e. We let success lull us into high images and attendant high overheads (some costs were fixed like fancy offices with high rents).

NO. f. Pride kept us from cutting projects, debt, rents, and overhead in a timely manner (psychologists have proven that the human psyche will take enormous risks before it will admit to a loss - "press the bet on the last hole" - "hidden odds for the house in Vegas" - etc.).

YES g. We tended to focus on great real estate while ignoring the storm clouds of overbuilding and increasing debt and overhead burdens. "If we didn't buy it, the competition would".

YES 4 ENEMY h. We tended to drift away from direct contact with the market and became unduly influenced by our staff, the brokerage community and the press, all of whom have a tendency to be myopic.

NO i. We were lulled into a sense of security by the EVBS with its many trap doors (deferred F.I.T.; negative leverage debt; non-market determined cap rates; nonrecognition of sales costs and prepayment penalties). The EVBS is only a snapshot not a full length movie.

3 #5 ENEMY j. The hot market kept us focused on the future (the next deal) while we often ignored prudent asset management.

k. Others?

Failed to follow the old retail maxioms of (a) The first markdown is the cheapest (3) Mark it down & move it out (c) No likes to buy stale merchandise except in the bargain basement.

Other thoughts

(1) Great entrepreneurs don't necessarily make great managers

(2) Have your plan worked out before you commit to the deal.

THINGS WE DID RIGHT 1/85 NO

1. We consistently outperformed the market in all respects particularly in leasing and renewals.

2. We did prepare for a market reversal:

   a. Raised $150 million plus of cash through sales and jv's - as a unit, Trammell Crow Company Southwest was the last development company in the area to run out of cash.

   b. We did not take on P.L. debt on big deals (larger than $20 million). TOOK ON LIMITED P.L.

   c. We joint ventured most major land positions and large projects.

   d. We just never expected or planned for a massive force majeure market shift.

3. We did cut costs, removed marginal players and got into acquisitions in the 3rd party business but a little late.

4. Most important, we had great people. We have held our line. Not a single man in the face of the most adverse circumstances to occasion our industry since the great depression, bucked and ran. While often we focus on what's wrong with TCC, we need to take pause and remember there are a hell-of-a-lot of people in this company made out of the "right stuff".

5. Quite possibly, if we had not done the right things above, we could have lost the company.

6. Others?

Yes No

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   1. Everything worked - leasing, sales, values, zoning, etc. - we were on a roll.

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   3. We had liquidity.

   4. We had capital markets chasing us. There was an incredible supply of money.

   5. We felt that there was always a (back door) buyer for our projects.

   6. We let land and/or financing costs sometimes dictate what we developed.

b. The company culture lionized growth and demanded that we be aggressive.

   1. "We are the number 1 developer", "most assets", "most square feet", "record leasing year", "new offices", etc.

   2. "In the history of the world the seller is wrong".

   3. "In city X, we got 70% of market share but why did we miss the other 30%?"

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   6. "If partner X can carry land, build big office buildings and two story service centers or fashion retail centers, why can't I"?

c. Our compensation system demaded that we grow. We were pushed hard by our young people who all wanted "their" share of the boom. We let relationships obscure objectivity. We didn't use tough love.

d. In the euphoria of a hot market, we tended to ignore true market fundamentals. We didn't have and/or prudently evaluate good information. Often our market research was last week's leasing meeting.

Yes No

(CONTINUED)

WHAT WERE THE CIRCUMSTANCE THAT MADE OUR MISTAKES SEEM LIKE A "GOOD IDEA AT THE TIME"

e. We let success lull us into high images and attendant high overheads (some costs were fixed like fancy offices with high rents). ✓

f. Pride kept us from cutting projects, debt, rents, and overhead in a timely manner (psychologists have proven that the human psyche will take enormous risks before it will admit to a loss - "press the bet on the last hole" - "hidden odds for the house in Vegas" - etc.). ✓

g. We tended to focus on great real estate while ignoring the storm clouds of overbuilding and increasing debt and overhead burdens. "If we didn't buy it, the competition would". ✓

h. We tended to drift away from direct contact with the market and became unduly influenced by our staff, the brokerage community and the press, all of whom have a tendency to be myopic. ✓

i. We were lulled into a sense of security by the EVBS with its many trap doors (deferred F.I.T.; negative leverage debt; non-market determined cap rates; nonrecognition of sales costs and prepayment penalties). The EVBS is only a snapshot not a full length movie. ✓

j. The hot market kept us focused on the future (the next deal) while we often ignored prudent asset management. ✓

k. Others?

L. THE DEAL WE THOUGHT WOULD SOLVE OUR PROBLEMS FELL THROUGH, THE MARKET [illegible] MOVED DOWN, AND THE NEXT DEAL WAS [illegible] LESS [illegible]. WE SHOULD HAVE OPTED FOR [illegible] PROBABILITY AS OPPOSED TO HIGHER POTENTIAL PROFITABILITY

THINGS WE DID RIGHT

1. We consistently outperformed the market in all respects particularly in leasing and renewals.

2. We did prepare for a market reversal:

   YES a. Raised $150 million plus of cash through sales and jv's - as a unit, Trammell Crow Company Southwest was the last development company in the area to run out of cash.

   YES b. We did not take on P.L. debt on big deals (larger than $20 million).

   YES c. We joint ventured most major land positions and large projects.

   NO d. We just never expected or planned for a massive force majeure market shift.

YES 3. We did cut costs, removed marginal players and got into acquisitions in the 3rd party business but a little late.

YES 4. Most important, we had great people. We have held our line. Not a single man in the face of the most adverse circumstances to occasion our industry since the great depression, bucked and ran. While often we focus on what's wrong with TCC, we need to take pause and remember there are a hell-of-a-lot of people in this company made out of the "right stuff".

YES 5. <u>Quite possibly, if we had not done the right things above, we could have lost the company.</u>

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Yes 5. We felt that there was always a (back door) buyer for our projects.

Yes 6. We let land and/or financing costs sometimes dictate what we developed.

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NO 1. "We are the number 1 developer", "most assets", "most square feet", "record leasing year", "new offices", etc.

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No 6. "If partner X can carry land, build big office buildings and two story service centers or fashion retail centers, why can't I"?

c. NO Our compensation system demaded that we grow. We were pushed hard by our young people who all wanted "their" share of the boom. We let relationships obscure objectivity. We didn't use tough love.

d. Yes In the euphoria of a hot market, we tended to ignore true market fundamentals. We didn't have and/or prudently evaluate good information. Often our market research was last week's leasing meeting.

(CONTINUED)

WHAT WERE THE CIRCUMSTANCE THAT MADE OUR MISTAKES SEEM LIKE A "GOOD IDEA AT THE TIME"

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g. NO We tended to focus on great real estate while ignoring the storm clouds of overbuilding and increasing debt and overhead burdens. "If we didn't buy it, the competition would".

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j. ? The hot market kept us focused on the future (the next deal) while we often ignored prudent asset management.

k. Others?

#3

We may not have always been the first to drop our rates

THINGS WE DID RIGHT

1. We consistently outperformed the market in all respects particularly in leasing and renewals.

2. We did prepare for a market reversal:

   a. Raised $150 million plus of cash through sales and jv's - as a unit, Trammell Crow Company Southwest was the last development company in the area to run out of cash.

   b. We did not take on P.L. debt on big deals (larger than $20 million).

   c. We joint ventured most major land positions and large projects.

   d. We just never expected or planned for a massive force majeure market shift.

We focus on limiting liability on big deals, which is good. We did not exercise the same restraint on smaller deals (which comprise most industrial and retail deals)

3. We did cut costs, removed marginal players and got into acquisitions in the 3rd party business but a little late. Did we?

4. Most important, we had great people. We have held our line. Not a single man in the face of the most adverse circumstances to occasion our industry since the great depression, bucked and ran. While often we focus on what's wrong with TCC, we need to take pause and remember there are a hell-of-a-lot of people in this company made out of the "right stuff".

5. <u>Quite possibly, if we had not done the right things above, we could have lost the company.</u>

6. Others?

7. We continued to take a market approach to our building. Our buildings are generally flexibly designed general purpose buildings that are institutional quality.

Hold for others to come in
JB

WHAT WERE THE CIRCUMSTANCE THAT MADE OUR MISTAKES SEEM LIKE A "GOOD IDEA AT THE TIME"

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2. We had great, experienced people.

3. We had liquidity

4. We had capital markets chasing us. There was an incredible supply of money.

5. We felt that there was always a (back door) buyer for our projects and didn't consider the cost of timing of the sale.

6. We let land and/or financing costs sometimes dictate what we developed.

b. The company culture lionized growth and demanded that we be aggressive.

1. "We are the number 1 developer", "most assets", "most square feet", "record leasing year", "new offices", etc.

2. "In the history of the world the seller is wrong".

3. "In city X, we got 70% of market share but why did we miss the other 30%?"

4. "We always carry a significant inventory of space to provide expansion for our tenants and to keep pressure on the competition."

5. "We buy land ~~to frustrate the competition and~~ to control our future."

6. "If partner X can carry land, build big office buildings and two story service centers or fashion retail centers, why can't I"?

c. Our compensation system demaded that we grow. We were pushed hard by our young people who all wanted "their" share of the boom. We let relationships obscure objectivity. We didn't use tough love.

d. In the euphoria of a hot market, we tended to ignore true market fundamentals. We didn't have and/or prudently evaluate good information. ~~Often our market research was last week's leasing meeting~~. (While we may outperform the market, we need to justify a product based on overall market conditions as well as our own vacancies/financial condition.)

(CONTINUED)

WHAT WERE THE CIRCUMSTANCE THAT MADE OUR MISTAKES SEEM LIKE A "GOOD IDEA AT THE TIME"

e. We let success lull us into high images and attendant high overheads (some costs were fixed like fancy offices with high rents). We let the office building business control our location rather than our needs.

Y f. Pride kept us from cutting projects, debt, rents, and overhead in a timely manner (psychologists have proven that the human psyche will take enormous risks before it will admit to a loss - "press the bet on the last hole" - "hidden odds for the house in Vegas" - etc.).

Y g. We tended to focus on great real estate while ignoring the storm clouds of overbuilding and increasing debt and overhead burdens. "If we didn't buy it, the competition would".

N h. We tended to drift away from direct contact with the market and became unduly influenced by our staff, the brokerage community and the press, all of whom have a tendency to be myopic.

i. We were lulled into a sense of security by the EVBS with its many trap doors (deferred F.I.T.; negative leverage debt; non-market determined cap rates; nonrecognition of sales costs and prepayment penalties). The EVBS is only a snapshot not a full length movie.

Y j. The hot market kept us focused on the future (the next deal) while we often ignored prudent asset management.

k. Others?

(Lulled into a sense of security by the huge "net worth" of the senior partners rather than focusing on liquidity, cash flow, and other business fundamentals.)

#2

THINGS WE DID RIGHT

1. We consistently outperformed the market in all respects particularly in leasing and renewals. no

2. We did prepare for a market reversal:

   a. Raised $150 million plus of cash through sales and jv's - as a unit, Trammell Crow Company Southwest was the last development company in the area to run out of cash. no

   b. We did not take on P.L. debt on big deals (larger than $20 million). yes

   c. We joint ventured most major land positions and large projects. no

   d. We just never expected or planned for a massive force majeure market shift. yes

3. We did cut costs, removed marginal players and got into acquisitions in the 3rd party business but a little late. yes

4. Most important, we had great people. We have held our line. Not a single man in the face of the most adverse circumstances to occasion our industry since the great depression, bucked and ran. While often we focus on what's wrong with TCC, we need to take pause and remember there are a hell-of-a-lot of people in this company made out of the "right stuff". yes

5. <u>Quite possibly, if we had not done the right things above, we could have lost the company.</u> yes

6. Others?

We got into the 3rd party fee business to earn [illegible] & make a profit.

i. We took an aggressive position in restructuring P/L debt to obtain permanent (not deferred) solutions when possible.

WHAT WERE THE CIRCUMSTANCE THAT MADE OUR MISTAKES SEEM LIKE A "GOOD IDEA AT THE TIME"

a. Success lulled us into a sense of complacency)in some cases of almost feeling bulletproof).

1. Everything worked - leasing, sales, values, zoning, etc. - we were on a roll. yes

2. We had great, experienced people. no

3. We had liquidity. no

4. We had capital markets chasing us. There was an incredible supply of money. yes

5. We felt that there was always a (back door) buyer for our projects. yes

6. We let land and/or financing costs sometimes dictate what we developed. yes

b. The company culture lionized growth and demanded that we be aggressive.

1. "We are the number 1 developer", "most assets", "most square feet", "record leasing year", "new offices", etc. yes

2. "In the history of the world the seller is wrong". yes

3. "In city X, we got 70% of market share but why did we miss the other 30%?" no

4. "We always carry a significant inventory of space to provide expansion for our tenants and to keep pressure on the competition." yes

5. "We buy land to frustrate the competition and to control our future." yes

6. "If partner X can carry land, build big office buildings and two story service centers or fashion retail centers, why can't I"? no

c. Our compensation system demaded that we grow. We were pushed hard by our young people who all wanted "their" share of the boom. We let relationships obscure objectivity. We didn't use tough love. yes

d. In the euphoria of a hot market, we tended to ignore true market fundamentals. We didn't have and/or prudently evaluate good information. Often our market research was last week's leasing meeting. yes

(CONTINUED)

WHAT WERE THE CIRCUMSTANCE THAT MADE OUR MISTAKES SEEM LIKE A "GOOD IDEA AT THE TIME"

e. We let success lull us into high images and attendant high overheads (some costs were fixed like fancy offices with high rents). no

f. Pride kept us from cutting projects, debt, rents, and overhead in a timely manner (psychologists have proven that the human psyche will take enormous risks before it will admit to a loss - "press the bet on the last hole" - "hidden odds for the house in Vegas" - etc.). yes

g. We tended to focus on great real estate while ignoring the storm clouds of overbuilding and increasing debt and overhead burdens. "If we didn't buy it, the competition would". yes

h. We tended to drift away from direct contact with the market and became unduly influenced by our staff, the brokerage community and the press, all of whom have a tendency to be myopic. no

i. We were lulled into a sense of security by the EVBS with its many trap doors (deferred F.I.T.; negative leverage debt; non-market determined cap rates; nonrecognition of sales costs and prepayment penalties). The EVBS is only a snapshot not a full length movie. yes

j. The hot market kept us focused on the future (the next deal) while we often ignored prudent asset management. yes

k. Others?

[illegible]

▷ If the numbers don't make [illegible] first time don't [illegible] [illegible]

▷ [illegible] most important [illegible]

THINGS WE DID RIGHT

1. We consistently outperformed the market in all respects particularly in leasing and renewals & garnering more market share & presence.

2. We did prepare for a market reversal:

   a. Raised $150 million plus of cash through sales and jv's - as a unit, Trammell Crow Company Southwest was the last development company in the area to run out of cash. – we still have some.

   b. We did not take on P.L. debt on big deals (larger than $20 million). → except: Greenhill $38m Preston Commons $60m

   c. We joint ventured most major land positions and large projects.

   d. We just never expected or planned for a massive force majeure market shift.

3. We did cut costs, removed marginal players and got into acquisitions in the 3rd party business but a little late. yes, but should have done even more.

4. Most important, we had great people for the most part. We have held our line. Not a single man in the face of the most adverse circumstances to occasion our industry since the great depression, bucked and ran. While often we focus on what's wrong with TCC, we need to take pause and remember there are a hell-of-a-lot of people in this company made out of the "right stuff". – yes

5. Quite possibly, if we had not done the right things above, we could have lost the company. – yes, and I hope others really learn from this & I hope the leadership treats our Partners in trouble with empathy.

~~6. Others?~~

→ I personally don't even think we "planned" for a 10% shift – emotionally it was kind of a security blanket to raise all our cash.

6. Others:
   – good work in lender relations & tenant alliances
   – in most cases we tried to approach lenders well in advance of the maturities on loans if we had problems.
   * – We kept together a truly outstanding team
   – continually beat the heck out of competition.
   – continued to serve national needs of co. & other offices too even.

WHAT WERE THE CIRCUMSTANCE THAT MADE OUR MISTAKES SEEM LIKE A "GOOD IDEA AT THE TIME" — by the way, this is "commonplace" in any market or business.

a. Success lulled us into a sense of complacency)in some cases of almost feeling bulletproof).

1. Everything worked - leasing (yes), sales (not enough focus), values (yes), zoning, etc. - we were on a roll. I think we "felt" more conservative than this - we were always scared & still are.

2. We had (some) great, experienced people. yes

3. We had liquidity. yes

4. We had capital markets chasing us. There was an incredible supply of money. yes

5. We felt that there was always a (back door) buyer for our projects. unfortunately we did not focus on selling more often - but answer is yes

6. We let land and/or financing costs sometimes dictate what we developed. — not so much as this, but some yes.

. We had one or more stellar successes in succession, so, of course, we could do it again?

. People would always move to be in our projects because of "better service", etc. & because of who we are.

b. The company culture lionized growth and demanded that we be aggressive.

1. "We are the number 1 developer", "most assets", "most square feet", "record leasing year", "new offices", etc. Agree - as evidenced in Mgmt. Reviews

2. "In the history of the world the seller is wrong". yes, but not so extreme as this.

3. "In city X, we got 70% of market share but why did we miss the other 30%?" Disagree w/ premise - unrealistic

4. "We always carry ~~a significant~~ inventory of space to provide expansion for our tenants and to keep pressure on the competition." Agree - leads to market share & control of important customer portfolio

5. "We buy land to frustrate the competition and to control our future." Disagree in Dallas Off.

6. "If partner X can carry land, build big office buildings and two story service centers or fashion retail centers, why can't I"? Disagree from my viewpoint, maybe because we were doing it

c. Our compensation system demaded that we grow. We were pushed hard by our young people who all wanted "their" share of the boom. We let relationships obscure objectivity. We didn't use tough love. Agree 100%

d. In the euphoria of a hot market, we tended to ignore true market fundamentals. We didn't have and/or prudently evaluate good information. Often our market research was last week's leasing meeting. Agree, however, in most cases I suspect we had the data & didn't use it.

(CONTINUED)

WHAT WERE THE CIRCUMSTANCE THAT MADE OUR MISTAKES SEEM LIKE A "GOOD IDEA AT THE TIME"

e. We let success lull us into high images and attendant high overheads (some costs were fixed like fancy offices with high rents). Yes, but true in most areas. I think we recognized pretty early & tried to fix.

f. Pride kept us from cutting projects, debt, rents, and overhead in a timely manner (psychologists have proven that the human psyche will take enormous risks before it will admit to a loss - "press the bet on the last hole" - "hidden odds for the house in Vegas" - etc.). * Yes - in case of off. guy we missed by 6-9 mos.

g. We tended to focus on great real estate while ignoring the storm clouds of overbuilding and increasing debt and overhead burdens. "If we didn't buy it, the competition would". Agree

h. We tended to drift away from direct contact with the market and became unduly influenced by our staff, the brokerage community and the press, all of whom have a tendency to be myopic. I'd say something more moderate here, but premise OK

i. We were lulled into a sense of security by the EVBS with its many trap doors (deferred F.I.T.; negative leverage debt; non-market determined cap rates; nonrecognition of sales costs and prepayment penalties). The EVBS is only a snapshot not a full length movie. YES

j. The hot market kept us focused on the future (the next deal) while we often ignored prudent asset management. YES

k. Others?

- Didn't listen hard enough to our lender's concerns that our contingent liabilities were so huge & complicated that even we couldn't quantify them — shouldn't we have worried enough to identify them?

- Hard to build a team up for hot market & then unwind — should always start w/ Chevy & add options, not Rolls Royce & trim — should be more thoughtful everywhere.

- Really should have diversified business sooner & more thoughtfully — by side businesses & lumping product types together for efficiencies.

* good R&D & "in touch" upper leadership would have recognized most of this & enabled a "turn" more quickly (i.e. look back at past Mgmt. Review notes, etc.)

RULES FOR RIDING OUT THE REAL ESTATE STORM

Development's day of reckoning has finally come, Anthony Downs, senior fellow at the Brookings Institution in Washington, D.C., told a ULI audience at the fall meeting in Chicago in early November. The blunt reality is, he said, that only if new development experiences a deep recession can the prosperity of owning and operating existing properties be restored.

There has been a fundamental and worldwide shift in real estate capital markets, Downs explained. Whereas the 1980s saw a flood of capital from many sources that generated development, the 1990s will see a shortage of capital that will choke off new development except for deals clearly fortified with equity, huge preleasing, or both.

Moreover, the U.S. economy in general and the population that underlies real estate in particular will grow more slowly in the 1990s. All this bodes ill for new development. But, after a period of falling rents and prices over the next year or two, it augurs well for the ownership and management of existing property. So the next year or so are going to be difficult for both new development and ownership.

"If you had followed my advice over the years," Downs chided the developers in the audience, "you would have known that this day was coming. Hence you would have prepared for it, partly by accumulating ownership positions and cash."

But Downs likes to view the situation positively. The fundamental changes in real estate markets from the money surplus and rapid demand growth of the 1980s to the money shortage and slower growth of the 1990s need not be a message of despair or gloom for the real estate industry as a whole. Real estate will remain a pillar of our economy and society.

And he offered advice based on a remarkable new discovery made by an archeologist friend of his. In a cave on Mt. Sinai, preserved in a huge jar, this archeologist discovered a set of scrolls somewhat like the famous Dead Sea scrolls, but apparently written for ancient real estate developers. Eight specialized commandments—authorship unattributed—were thereon inscribed.

- The first commandment is, Thou shalt manage thine existing assets with thy whole heart, thy whole mind, and thy whole soul, for it is those assets that will sustain thee.
- The second commandment is, Honor thine existing tenants as thyself, for without them thou shalt perish.
- The third commandment, which Downs calls a "biggie," is, Thou shalt not commit new construction unless thou hast enough preleasing with triple-A credits to yield a positive cash flow when thy building opens.
- The fourth commandment is, If thou must create more space, thou shalt focus on renovation of existing properties, preferably in locations where tough zoning creates quasi-monopoly positions.
- The fifth commandment is, Thou shalt maximize thy cash holdings and avoid debt like the plague.
- The sixth—Downs calls it a tough one—is, Thou shalt shrink thine own organization before its overhead drives thee into the grave.
- The seventh is, Thou shalt not sell assets in periods of falling prices, unless dire needs for cash press thee or unless thou receivest a really great price.
- And the last commandment is, Thou shalt not despair in periods of adversity. Let the heathen bureaucrats of the dreaded Resolution Trust Corporation follow the pagan principle of CTA—or cover thy ass. Thou shalt instead follow the holy principle of CTB—count thy blessings. Remember the 10 years of milk and honey that came before these few years of drought thou art now entering.

Downs admitted to the ULI audience that he was amazed how well the ancient commandments fit the circumstances of today. "In fact," he suggested, "if you follow them you'll undoubtedly ride out the current storm. Then, when vacancy rates finally fall enough so that rents can stabilize and start rising and property ownership comes into its own again, you can adopt a truly positive attitude." ■