An Analysis on Branding within the Real Estate Industry

by

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A.B., Economics
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M.B.A.
MIT/Sloan School of Management, 2002

Submitted to the Department of Urban Studies and Planning in
Partial Fulfillment of the Requirements for the Degree of

Master of Science in Real Estate Development

at the

Massachusetts Institute of Technology
September 2002

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ABSTRACT

This thesis is an analysis of the current branding landscape within the real estate industry. It focuses specifically on real estate owner/operators, and excludes the hotels, motel, and brokerage sectors. It seeks to identify the best practices of the most successful brands in the industry, and develops a real estate industry branding model based on those best practices. Both internal alignment and community recognition are incorporated into this model. Also, it investigates general trends and potential branding effectiveness by asset class.

The thesis includes a general discussion of the current real estate branding state, as well as an analysis of the current branding strategies and practices of some of the leading real estate brands, including Del Webb, Post Properties, the Irvine Company, KB Home, the Mills, AMB, Parkway Properties, Camden Properties, Archstone-Smith and Simon. Where possible, the value of brand equity is measured and quantified, and compared to its peer group, and the results are analyzed and discussed.

Thesis Supervisor: William C. Wheaton

Title: Professor of Economics and Urban Studies and Planning

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BIOGRAPHICAL NOTE

The author holds an A.B. in Economics from Yale College in New Haven, Connecticut, and a Masters of Business Administration from the MIT/Sloan School of Management in Cambridge, Massachusetts, with a focus on finance and corporate strategy. His experience within the real estate industry includes work in development, finance, marketing, acquisitions, and property management. Additionally, the author has been employed in strategic consulting by the Boston Consulting Group in Boston, Massachusetts.

DEDICATION AND ACKNOWLEDGEMENTS

This thesis is dedicated to the memory of Professor Rudi Dornbusch (1942-2002), a fantastic teacher and a friend to so many at MIT. He will be remembered and missed.

The author wishes to acknowledge and thank the following people: Professor Bill Wheaton and Professor Paul Asquith for their outstanding wisdom and guidance, and the numerous people who made themselves available to be interviewed and/or helped immensely with this project, including Mr. John Ingram, Mr. John Riordan, Mr. Jim Lesinski, Mr. Dave Stockert, Ms. Janie Maddox, Mr. Steve Rogers, Mr. Hamid Moghadam, Mr. Ric Campo, Mr. Matt Ostrower, Mr. Paul Adonato, Ms. Dana Hamilton, and many others.

The author wishes to thank Mrs. Elaine Henshon and Ms. Meghan Fitzgerald for their help in editing this thesis.

Finally, the author would like to thank Mrs. Elaine Henshon, Ms. Meghan Fitzgerald, Mr. Thomas Henshon, Mr. David Henshon, Ms. Virginia Langdon, Mr. Matthew Henshon, Mrs. Amanda Henshon, Ms. Suzanna Henshon, Mr. Brian Henshon, and Mr. Will Henshon. Without their support, help, and guidance throughout the past two years, the author would not have been able to achieve his educational goals.

INTRODUCTION

In the past decade, the real estate industry as a whole has become a much more respected and accepted investment vehicle. With the advent of the modern Real Estate Investment Trust ("REIT") era in 1993, and with the increased trend towards "nationalization" of not only public real estate companies, but private ones as well, the maturation of the industry is readily apparent. Investors today seeking value, a reliable dividend return, liquidity and diversification, see many real estate stocks as reliable and attractive options.

The management of these REITs and other publicly traded real estate companies has similarly advanced in stature and respectability. Many successful public corporations employ either directly or indirectly a team of professional managers, including those oriented towards finance, operations, economics and marketing, to guide the short and long-term direction of the given company. For the most part, the public markets have begun to accept the modern REIT as more than simply a collection of assets generating rental income, but rather as true companies with given corporate strategies, professional competencies, as well as geographic and asset-class expertise. The present value of growth opportunities is a regular component of any valuation of today's successful public real estate companies, and this fact speaks directly to investors' confidence in the capacities of modern management. The value of any such company today is dependent in part on the ability of management to effectively communicate and execute on its "story"; that is, the governing operating principles, values and ideas that will allow the company to achieve extraordinary profits going forward.

It should follow that, as the real estate industry grows over time, the practices that have allowed Corporate America as a whole to advance should begin to infiltrate the real estate industry. In some respects this is true. For example, many real estate companies today employ debt levels in line with other publicly traded companies, and far below the high debt-levels traditionally characteristic of real estate. The nature of borrowing itself has also evolved, as companies more often employ non-asset specific (unsecured) debt. While riskier as a whole to the company than secured debt, unsecured borrowing, in moderation and with a strategic usage, allows companies to borrow at debt levels often hundreds of basis points less than they otherwise would be able, thereby reducing their cost of capital and increasing their return to shareholders.

One exception to this trend, however, has come in the area of branding within the real estate industry. While many modern companies are quick to talk about the value of their corporate brand, on the whole, real estate companies have not taken advantage of the opportunity that now exists, given the scale and geographic scope of many of today's successful companies. Branding is a fundamental component of the modern corporation selling almost any type of consumer good, yet has largely been lost on all but a handful of today's real estate companies. The reasons for this general failure to date will be discussed in this thesis. By failing to build a brand name or meaningful brand equity, many of today's real estate companies are leaving value on the table that they otherwise could return to their shareholders.

The branding problems that currently afflict many modern real estate companies occur on several different levels. For some, the problem lies with the *external* brand messaging, which is either non-existent, sporadic, or, more dangerously, inconsistent with what the company delivers. For others, the problem is an *internal* one, where the company has failed to effectively communicate its values and meaning behind the brand to the very entities that effective communication is most relevant to – the company's employees.

Despite these realities, there are successful brands in the real estate industry. This thesis will discuss how great brands in modern industry are built and will then proceed into an investigation of some of the companies within real estate that are currently working towards building and growing their brands. Included in this discussion will be a real estate branding best-practice model, built around the common strategies that the most successful brands employ. Also included will be an investigation into the effect that having access to a mass consumer market plays in potential brand value. Finally, where possible, the effects of strong brands within the industry will be measured and analyzed.

Chapter 1 – The Branding Process

Branding is a concept that is widely talked about in the modern business world, yet often misunderstood. Branding in the eyes of some is a focus on the external communication and support of the brand name or product being sold. Often ignored is the internal alignment of the organization's values and actions that will ultimately have a much greater impact on the long-term brand-image of a company than a flashy slogan, trademark, logo or advertising campaign.

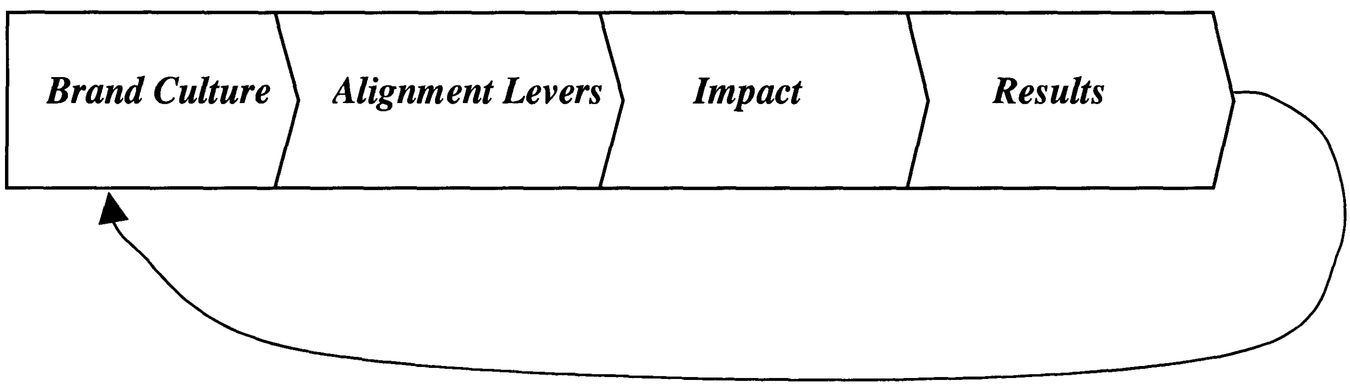
Branding is at its essence a *promise* made by a company to its customers, an expectation that is waiting to be fulfilled. An effective brand helps make the buying decision an emotional rather than rational one, and it is this emotion that gives an effective brand life. Conversely, an ineffective brand can just as easily make the decision for the customer *not* to do something an emotional one as well, which can have obvious negative consequences.

To build an effective brand, there must exist alignment of the internal and external operations of a company. A company will not be able to present a brand image that is inconsistent with its internal values, beliefs, organizational structure and focus, in the same way that a physical structure, built without the proper mix of engineering acumen, sturdy materials and competent workmanship will not stand over time. It is often said that nothing kills a bad product faster than good advertising, and that saying could apply equally well to branding.[1] Effective advertising can win customers in the short run, but it is only through delivery that customers will be kept. Without the necessary support to deliver on that promise that the brand is making, it cannot succeed over time.

[1] Donald T. Tosti and Rodger D. Stotz, "Building Your Brand From the Inside Out" *Marketing Management* (July 2001/August 2001).

Sustained strong brand performance requires four key internal levers to be aligned and functioning properly. If such conditions exist, the value of the brand will build on itself over time thanks to tangible success and feedback. These levers are defined as brand culture, leading to alignment levers, leading to impact, leading to results, and again leading to reinforcement of brand culture. [2]

Figure 1.1 – Strong Brand Performance Is Reflexive



Source: Tosti and Stotz.

Brand Culture is the same as company culture, assuming the company is only in one principle line of business. Culture is the beliefs, values, norms, internal symbols and climate that define the fundamental way the company does business. Values and symbols can often be a tangible or written manifestation of these underlying norms, and if accurately chosen, reflect the true identity of the company. Norms, beliefs and climate, meanwhile, are often unspoken, but nonetheless apparent.

Alignment Levers are the way in which the focus of the company is communicated, displayed, and measured. Often, the most effective way to demonstrate this focus comes from the top, in the

[2] *Ibid.*

actions and words of management. Active management support leads to effective and intelligent organizational structure, an extremely important component of a company and brand strategy. For example, if a company is attempting to brand itself a service company, and its organizational structure is not completely aligned around the idea of providing service to its customers, it cannot and will not be a service-oriented company. While a seemingly simplistic idea, it is nonetheless often the case that such an alignment is a missing ingredient in ineffective brands and companies. Part in parcel to this idea is the need to measure the performance of those within the organization against a chosen benchmark, relative to that which they are asked to do. While in the sales arena, this is usually a given, it is often not carried out to other areas of the company where performance is not so easily measured and proper measurement is not inherently understood to be important and necessary.

Proper Alignment Levers and Culture will lead to initial **Impact**. Within the organization, the attitudes will become aligned with the stated goals and focus of the company, leading to decisions being made that are consistent with the brand.

Impact, over time, leads to **Results**. With improved results comes a belief in the value and inherent advantage of the brand and the current system. This belief is followed by increased job satisfaction, increased loyalty to the company and the brand, as well as a preference for the company's current manner of business. Success over time, of course, when focused back towards the brand model reinforces the underlying Brand Culture and current tactics, and the process feeds on itself.

The difference between an average corporate brand and a great brand lies chiefly in its employees and their ability to execute on the brand promise day-by-day, year-by-year. An average brand becomes a great brand when it truly lives its values. [3]

[3] *Ibid.*

Chapter 2 – Brand Benefits and Measurement

Branding and brand name products have permeated virtually every facet of American capitalism. The last fifteen years, in particular, have seen unprecedented efforts by leading companies in traditionally "non-branded" industries to add value through creative brand-recognition efforts and formalized campaigns. No longer confined to the realm of consumer goods, service companies in particular have seen a profound rise in "branding" – that is, in successfully *externally* communicating that which is true *internally.* Success in branding service companies has affected many different industries including financial, travel and even funeral.

Helping to drive the push to brand amongst public companies has been the fact that the public markets have traditionally been eager to reward branding success. During the height of the dot.com bubble, the total U.S. market capitalization of these newly created companies surpassed $1 trillion. Following the lead of the likes of amazon.com, the vast majority of Internet companies sought first and foremost to firmly establish their brand identity in the minds of consumers, with only secondary consideration for profitability and perhaps operational acumen.[4] Of course, such valuations were short-lived as the promise made by the vast majority of these companies went unfulfilled in the short-term, and at the end of the day was simply unrealistic, given the capabilities of the companies.

More traditional industries, however, have benefited and continue to benefit from the outstanding brand names among them. In 2000, Interbrand, a brand consultancy, ranked its list of the world's most powerful brands. Topping the list was the Coca-Cola Company, whose main business is providing concentrate and syrup to its captive bottling partners to produce a carbonated beverage that numerous taste tests conducted by independent third parties have shown to be indistinguishable from its major competitors. Interbrand estimated the value of the Coca-Cola brand at $72.5 *billion* dollars, or approximately *51%* of its then market capitalization. The value of the Coca-Cola brand dwarfs estimates for the value of any of its major competitors.[5]

One of Coke's most famous investors and a long-time proponent of the company's business is Berkshire Hathaway CEO Warren Buffett. Buffett, a legendary investor with a career spanning thirty-six years at that point, had never let the value of a brand play as an important a role in a decision to invest as he did with Coke. Buffett is a graduate of the Columbia School of Business, where he was a student of the patriarch of the school of value investing, Professor Ben Graham. Graham professed that investment decisions should be made by carefully deconstructing a company's balance sheet and income statement and looking for unrealized, *mathematical* value, with little regard for outside factors. Buffett expanded on Graham's original vision in his own investing decisions, seeking not only rock-solid financial fundamentals, but also a valuable and defensible business underlying those fundamentals. Still, Buffett's decision to invest in Coke marked a definitive evolution in his thinking, as Coke's then stock price relative to its income statement and balance sheet was far more expensive than Graham's and even Buffett's typical investment. As Buffett said:

> [Coke] had something other than the taste -- the accumulated memory of all those ballgames and good experiences as children which Coke was a part of. [6]

As Wall Street Journal writer Roger Lowenstein in his famed biography of him, "Buffett couldn't derive [Coke's] value from the balance sheet. He couldn't *compute* the value. But he could see it...In Buffett's terms, the brand name was a sort of universal toll bridge."[7] In the next twelve years, other Wall Street investors caught on to Buffett's vision, and Coke continued to bring its

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[4] David F. D'Alessandro with Michele Owens, *Brand Warfare: 10 Rules for Building the Killer Brand* (New York: McGraw-Hill, 2001), p. xiii.
[5] *Ibid.*, p. xii-xiv.
[6] Roger Lowenstein, *Buffett: The Making of an American Capitalist* (New York: Random House, 1995), p. 328.
[7] *Ibid.*, p. 324-325.

powerful brand name and product to new international markets. Buffett's original investment in Coca-Cola, which at the time it was made represented nearly one-quarter of the total value of Berkshire Hathway, has returned approximately 800% to his shareholders, and lifted Buffett to near mythic status in the minds of the American public.

The lesson to be drawn from Buffett and Coke is first that brand is often hard to measure. It cannot be seen on a balance sheet, even by the greatest investor the world has ever known. Its true value cannot be deciphered by listening to industry insiders and mavens on CNBC. And, in the case of Coke, it cannot really even be tasted.

The value of a brand is, at least in part, the way it *feels*. It is said that a company's brand is simply everything that a consumer thinks of when he hears the company's name. A given company's brand might bring to mind images of its colorful and charismatic CEO, public service sponsorships and donations the company makes to fund events, advertisements and other external mechanisms through which the company represents itself, or a scandal and aftermath that occurred years or even decades ago. And of course, the brand most directly brings to mind the experiences that that consumer has had with that product or service, assuming such a relationship exists. For many companies, the image and brand promise were begun, at least in part, the day the company opened its doors for the very first time.

This is not to say, however, that evidence of a good brand cannot be found and measured. In fact, depending on the nature and maturity of the industry, evidence can most definitely be found to suggest that effective brands have been built. In some industries, the value of the brand can be evidenced by the premium over its competitors that the good or service in question sells for. For others, it is a lower cost of customer acquisition. For others, it is a market share or market power. And for still others it is a higher customer or employee satisfaction or retention rate. The individual metric that is most applicable differs by the nature and type of industry, the amount of information that companies within the industry are willing to disclose, and the maturity of the brands within the industry.

Chapter 3 – Role of the Brand in Real Estate

The purpose of this thesis is, for the first time, to investigate and analyze the nature and role of branding within the real estate ownership (through development or acquisition) and operating industry. Purposely excluded from this analysis are the hotel and motel industries, as their brands, relative to the rest of the real estate industry, are very mature and well-defined. Also excluded are the brands of real estate brokers, as they fall outside the scope of focus on ownership and operations. Instead, this thesis is focused on the dozen or so most high-profile, multi-regional or national real estate companies who have made branding part of their core strategy, and are actively working towards building successful brands. It is also focused on finding common attributes amongst the most successful brands, in order to build a real estate branding best practice model. For all but a few of the companies investigated, the external branding strategy has been a relative new endeavor, usually measuring no more than ten years in duration.

The question then arises as to why branding has not, until recently, played a major role in the real estate industry. The answers are three-fold. One, as previously mentioned, is the relative novelty of branding service-oriented companies. Outside of hotel operating companies and a few other notable exceptions, very little branding took place amongst service companies prior to the past two or so decades. The same question, 'Why did branding take so long?' could, for example, fairly be asked of the financial services industry. John Hancock, arguably the best recent example of insurance and financial services product branding, was recently named by the *New York Times* as one of the top one hundred brands of the 20th century. Yet it took John Hancock, which sells essentially a commodity that is completely intangible until the death of the consumer, over a century of being in business to fully realize that brand promise really does count.[8] The branding of real estate companies, the branding of financial services companies, and the like was

[8] D'Alessandro and Owens, *Brand Warfare: 10 Rules for Building the Killer Brand.*

most likely delayed in part because companies in the service sector had not fully realized the value that comes with being branded and delivering over time on a brand promise.

The second reason that real estate was delayed in branding is the highly fragmented nature of the industry. The market value of all REITs, the most common tax structure for public real estate companies, when taken together, is approximately $100 billion,[9] or approximately 40% of the August 2002 market capitalization of Microsoft. While the industry has consolidated considerably over the last ten years, the total enterprise value of all REITs, relative to the total value of real estate in the United States alone, is less than 4%.[10] And while the public markets and opportunity funds have certainly begun to change the landscape of the real estate industry, it is nonetheless apparent that the lack of conventionality and standardization in general is due in part to the highly fragmented ownership structure.

Finally, the evolution of branding in real estate has been delayed by the very nature of the industry, which is perhaps accurately referred to by some as a "dinosaur industry." While certainly farther evolved now than at any other point in its history, real estate has nonetheless been subject to ancient practices and deep-rooted methodologies of its practitioners, who are in general slow to change. Additionally, throughout its recent history, the industry has been plagued by scandal and corruption, most recently by the savings and loan debacle of the late 1980's and early 1990's, which cast its shadow far and wide. In fact, it was not until 1992 that the first modern public real estate investment trusts made their initial offerings to the markets, exactly two centuries after the New York Stock Exchange was founded.

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[9] Steve Bergsman, "The Ground Floor: Vulture Funds Present Declining Opportunities," *Barron's*, (November 19, 2001).
[10] MostChoice.com – Insurance, Investments & Financial Planning, August, 2002.

While slow to evolve, branding in real estate has certainly become much more prominent and widely practiced in recent times. Camden Properties, a multi-family REIT headquartered in Dallas but with operations though out the western and southeastern U.S., recently announced to the investment community that it was spending $8 million on a company-wide branding effort. [11] Equity Office, the largest U.S. REIT in terms of market capitalization and the first REIT to be made a component of the Standard and Poor's 500 Index, recently launched a major public relations branding campaign, resulting in numerous media placements, including a 2400-word front-page feature in the Sunday *New York Times* Money and Business section in December of 2001 entitled, "Visions of a Brand-Name Office Empire." And Donald Trump, perhaps the best-known real estate developer in the world, earlier this year boasted to the Financial Times that he could make "tens of millions" of dollars by simply putting his name on a building in which he had no capital investment.[12] Trump had recently signed such an agreement to brand a set of Florida waterfront condos and resorts in Miami through a third-party developer. As Trump pointed out, "I only put my name on places that are going to be great (and) we have a lot to do with the design of the building, the look of it...The name has brought tremendous value...because it connotes high quality and great location."[13]

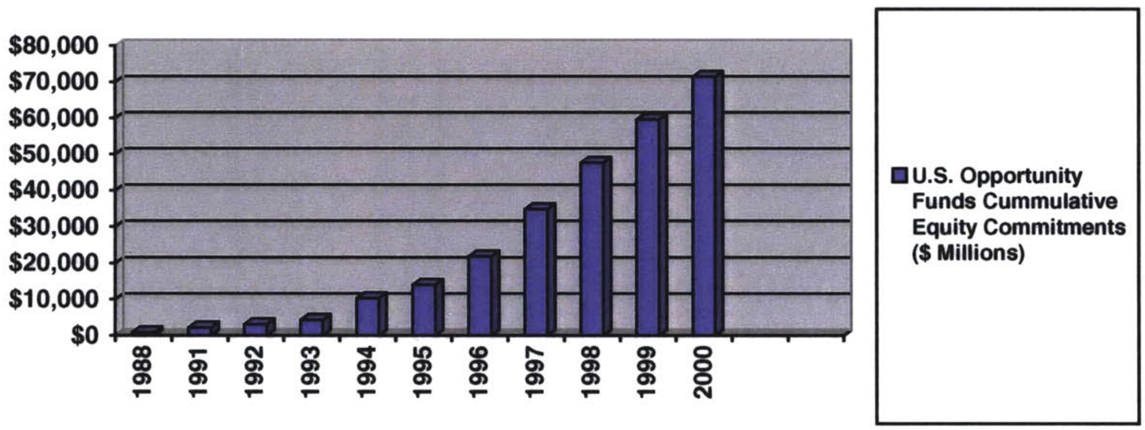
There are several reasons why branding has become such a timely topic in real estate. To begin with, there is the "copy cat" effect. That is, successful branding models have been built, and have been visible to the real estate community for the better part of the past decade. The first public real estate company credited with actively building a brand, Post Properties, a multi-family REIT headquartered in Atlanta, in fact began its branding efforts decades ago, as will be detailed later on in this thesis. Since its initial public offering, Post has drawn investor praise and, it will be seen, financial advantages from its brand throughout much of the 1990's. With the nature of

[11] *Interview Jordan Sadler*, July 17, 2002.
[12] Alison Beard, "All In the Name for a Real Estate Giant," *The Financial Times,* January 22, 2002.
[13] *Ibid.*

public companies requiring annual disclosure of the company's finances in the previous year and the companies core strategies going forward, it has been easy for competitors in multi-family as well as other real estate companies in different asset classes to witness the success and perceived success that Post has enjoyed as a result of its external brand marketing and internal execution. Others that are visible to the public and were the early beneficiaries of their respective brands include Trump's various investment projects, as well as Ritz-Carleton residences, both of which will be discussed in more detail.

The second reason that brands have taken in increased prominence is the "investor return effect." Institutional assets as a whole have traded at increasing low capitalization rates in the past three to four years. While harder to directly measure the result on returns of this pricing effect on the REIT industry itself because of the operational component of most REITs, it has significantly affected the performance of the major REIT industry bidding competitor on many of these traded assets, the opportunity fund industry.

Opportunity funds, which began their current incarnation in the early 1990's, seek to make internal rates of return in the 20% or higher range, by buying distressed or undervalued assets and holding them for short periods of time, typically seven to ten years. The first major sponsorship of these funds began in the early 1990's when equity was scarce and many real estate assets were trading at a significant discount to their historic trading capitalization rates. These few early opportunity funds were smaller, typically in the range of $10 to $50 million in total committed capital, and by-in-large achieved exceptionally high returns, often approaching 50% on an annualized basis. Riding the success of these early funds, the opportunity fund industry exploded, with at least 187 separate funds being raised, with a total combined market capitalization of over $70 billion. With an average debt ratio of around 50%, the opportunity fund industry represents approximately $140 billion in available capital to invest in institutional-quality assets. [14]



Source: Real Estate Opportunity Funds: The Numbers Behind the Story

At year end 2000, the total committed equity from the 187 opportunity funds in the sector was approximately $400 million per fund on average, or over $70 billion in aggregate, versus a total market capitalization of the NCREIF index of approximately $93.7 billion. However, the $70 billion in the opportunity fund sector represents only the committed capital, not the underlying market value of the owned assets, whereas the NCREIF index represents, in a sense, the deleveraged results over time. It is believed that were the same methodology applied to the opportunity fund sector, the market capitalization of opportunity funds would exceed the capitalization of the total NCREIF index.[15] Thus, today there is approximately $200 billion in consolidated public or professionally managed equity ownership of institutional-class assets in the United States, controlling as much as $350-$400 billion (depending on capital structure) of real estate, while a decade ago there was almost none.

[14] Nori Gerardo Lietz, David Dewey, Dennis Chan, *Real Estate Opportunity Funds: The Story Behind the Numbers,* Pension Consulting Alliance, Inc., April 2001.
[15] *Ibid,* p. 7.

As mentioned, this has certainly affected the results of the average opportunity fund. In the year 1994, the cumulative committed capital in the industry increased by 138%, from $4.3 billion to $10.3 billion. Seven to eight years later (about the time the class of 1994 funds should be maturing), their median internal rate of return in late 2001 was just 4.8%, based on cash contributions to date.[16] Opportunity funds are faced with a growing efficiency in real estate markets, as capital no longer is a scarce resource. Competitors inevitably bid up the prices, and the real estate market as a whole rose with the economic boom of the late 1990's.

Thus, REITs have had to compete against opportunity funds, as well as themselves as they have grown larger in capital resources as well as in quantity. Additionally, they have faced competition from private investors, insurance companies and pension funds engaged in direct ownership of assets. REITs differ from many of the other competing ownership forces, most notably opportunity funds, in that REITs are meant to be ongoing, self-sustaining businesses. While opportunity funds have a finite investment horizon and need a quick exit strategy to preserve premiums to internal rate of return hurdles, the management of REITs are (or at least should be) focused on the long-term well fare of their operating businesses. While an opportunity fund does not usually engage in extensive redevelopment, and is generally seeking a quick "flip," REITs not only have the option, but are in fact usually expected to be adding significant value to their acquired assets. Faced with an investment landscape that is, if not overpriced, then certainly much more competitive than it has been in the past, it is natural that REITs would be seeking new and creative ways to add value.

One avenue many REITs have pursued is development, believing that they can assume risk and produce assets in an economically advantaged way compared to simply buying other assets. A second way to add value has been through an operations/branding strategy – that is, given that

[16] Bergsman, "Vulture Funds Present Declining Opportunities."

institutional-quality assets are more expensive in a relative sense than they have been in the past, the only way to continue to achieve previous return-levels is to add significant value *after* the time of acquisition. Value can either be added by passively managing the asset and waiting for the market forces to appreciate the asset, or by actively improving the absolute performance of the asset over what it had been prior to the acquisition.

The third reason for the increased presence of branding strategies in real estate is the increased size and market relevance of many of the industry's leading companies. While the industry as a whole is still highly fragmented in nature, many real estate companies have nonetheless achieved significant market presence in their given focused geographies or increased public awareness on a national basis. This awareness and presence has of course made the opportunity for the establishment of brand names much more plentiful. This opportunity will be further detailed on a case-by-case basis throughout this paper, but it will be proposed that community recognition is not only beneficial but actually necessary for the establishment of a successful brand.

Chapter 4 – The Real Estate Branding Model

The due diligence for this thesis has included extensive research into the finances, strategies, and performance of those considered the leading branding real estate companies. Included in this analysis has been investigative interviews conducted with at least one senior executive at each of a dozen companies, as well as investigative interviews with industry experts. Research has focused on the best branding companies in any given asset class, and thus has spanned multiple asset classes, from destination retail to Class-A office to low-end residential. Given the of assets, it is natural that there would be a wide disparity among the practices of the given investigated companies. While this is certainly true, there are nonetheless trends and common attributes that have surfaced. These trends have remained essentially common amongst the most successful companies regardless not only of which asset class they fall within, but also whether they are pursuing a market-creating, product, or service branding strategy, a categorization that will be expanded on later in this thesis.

It has further been found that there is a definite connection between the successful execution of one piece of the branding process, and the subsequent ability of the given company to execute on the next piece of the branding process. These steps are, in a sense, building blocks on one another, and over time the process itself is reflexive and reinforcing as the brand promise gains value externally and support internally. Additionally, each piece of this process, in its own right, contributes to the overall strength and value of the brand, but all are necessary for the ultimate health of the brand.

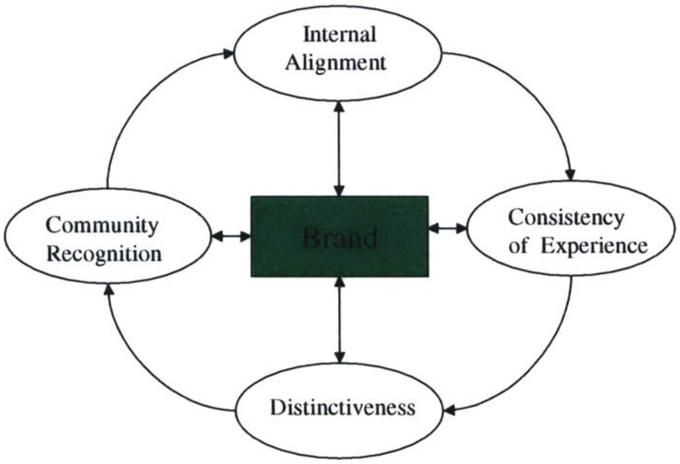
It is necessary at this time to dispel a common industry misconception and define what a brand in real estate is *not. Placing consistent and prominent signage on a property is not successful real estate branding*. While consistent signage and other collateral may be part of an overall branding strategy, it is, in and of itself, virtually worthless from a long-term brand equity building perspective. While it may generate recognition and new business leads in the short term, it is, as alluded to in the first chapter with all corporate brands, merely part of an external branding promise being made to the company's customers and potential customers. Behind that external promise, there must be consistent delivery on what is directly or inherently being promised. If the underlying promise is unfulfilled, great signage is, like good advertising, the fastest way to hurt the value of a company. In the case of at least one of the investigated brands, that of the Irvine Company, their internal marketing studies found that prominent signage actually *detracts* from the value of the assets, because of their unique market position and history.[17] While it may be unfortunate for the Irvine Company that such a situation exists, it is nonetheless to their credit that they have identified and accepted this condition, and hence no longer place prominent signage at many of their buildings.

Access to a mass consumer market is considered a pre-requisite for a successful branding strategy. This is what distinguishes branding from reputation. Reputation has "brand" elements inherent in its definition, but it is limited to a small group of either direct or nearly direct industry contacts and customers. Conversely, brand effects encompass those not directly or closely affiliated with a given company – it is a scalable effort intended for a mass market. At least one company investigated, AMB, had established what appears to be a solid reputation within the industrial space industry, but given its asset focus and the nature of its operating business, it has not, nor could it necessarily be expected to, built a true brand.

[17] *Interview with Murray Krow*, July 23, 2002.

Figure 4.1 - The Real Estate Branding Model

When Access Exists to Mass Consumer Market



Internal Alignment

Branding in real estate, as alluded to in Chapter 1 as being true with all corporate branding, begins with internal alignment. This means that there exists within the organization a passionate pursuit of that which the company is attempting to brand. Internal alignment means values that are clearly defined and readily understood by the employees of a company. It means a consistency in the company's internal messaging, climate, culture, symbols and history that will resonate and help define a framework by which the employees of the company are directed to act. Essential to effective communication is a clearly defined message as to how the company will differentiate itself and return value to the company's shareholders. It is particularly important that this message be understood by senior management and effectively relayed to other decision-makers of the company, most especially the middle and front-line management. One of the most common causes of internal alignment inefficiency in real estate is a misunderstanding as to what the profit drivers and true strategy of a company are. For example, those seeking to differentiate themselves and add value through outstanding service must recognize that providing such service requires the proper internal company configuration to accomplish such a goal, as well as expenditures, sometimes above the industry norm. A company attempting to brand itself as an extraordinary service provider, yet also seeking to maintain service costs below the industry norm, without a unique way to deliver those services at a lower cost, would be an example of inconsistent internal alignment.

Communication and understanding, however, do not go far enough. Instead, the product of the desired goals must be not only measured but also rewarded within the organization. Failure to devise adequate performance measurement and reward systems is an extremely common mistake in many businesses, and real estate ownership and operations are no exception. In Professor Steven Kerr's landmark article entitled, "On the Folly of Rewarding A, While Hoping for B," he writes of the commonplace discovery in his research of "...reward systems that 'pay off' for one behavior even though the rewarder hopes clearly for another."[18] Throughout the course of his article, Kerr details numerous examples in every day business and life where someone in a given situation is compensated for results other than the desired outcome. One particularly poignant example outlines the misalignment of incentives by the United States military during the Vietnam War:

> If some oversimplification may be permitted, let it be assumed that the primary goal of the organization (Pentagon, Luftwaffe, or whatever) is to win. Let it be assumed further that the primary goal of most individuals on the front lines is to get home alive. Then there appears to be an important conflict in goals – personally rational behavior by those at the bottom will endanger goal attainment by those at the top.
>
> But not necessarily! It depends on how the reward system is set up. The Vietnam war was indeed a study of disobedience and rebellion, with terms such as "fragging" (killing one's own commanding officer) and "search and evade" becoming part of the military vocabulary. The difference in subordinates'

[18] Steve Kerr, "On the Folly of Rewarding A, While Hoping for B," *Academy of Management Journal* (December 1975), p. 769.

acceptance of authority between World War II and Vietnam is reported to be considerable, and veterans of the Second World War often have been quoted as being outraged at the mutinous actions of many American soldiers in Vietnam.

> Consider, however, some critical differences in the reward system in use during the two conflicts. What did the GI in World War II want? To go home. And when did he get to go home? When the war was won! If he disobeyed the orders to clean out the trenches and take the hills, the war would not be won and he would not go home. Furthermore, what were his chances of attaining his goal (getting home alive) if he obeyed the orders compared to his chances if he did not? What is being suggested is that the rational soldier in World War II, whether patriotic or not, probably found it expedient to obey.
>
> Consider the reward system in use in Vietnam. What did the man at the bottom want? To go home. And when did he get to go home? When his tour of duty was over! This was the case whether or not the war was won. Furthermore, concerning the relative chance of getting home alive by obeying orders compared to the chance if they were disobeyed, it is worth noting that a mutineer in Vietnam was far more likely to be assigned rest and rehabilitation (on the assumption that fatigue was the cause) than he was to suffer any negative consequence. [19]

Kerr is using a vivid example to illustrate an all too-common folly of business and other life situations as well. In real estate, it is common to offer incentive pay to, for example, a property manager based on annual profitability, as measured by net operating income at a given building, while hoping that somehow the company's brand equity will be grown by the same property manager at the same building. Of course, the net operating income at a building is an important component and essential for the company to stay in business, but it is merely a shorter-term tangible realization of a long-term (stated) goal – that is, to increase the value of the brand and the company as a whole through outstanding service. The problem is, achieving profitability and building brand equity are not the same thing! Building meaningful and lasting brand equity may mean that profitability at a given building is reduced in a certain year, and this is a consequence that a company seeking to build a brand must accept.

If a country is spending millions of dollars to achieve victory in a war, yet rewarding (in a sense) its operators for results other than those which contribute to the ultimate goal of winning the war, there is a lack of internal alignment. Similarly, if a real estate company is spending millions and millions of dollars branding itself as service-oriented company, yet is failing to either measure or reward the achievement of outstanding service (or failing to set up the necessary conditions to provide such service), then there is also an inconsistency. The stated goals of the company, as communicated in part through its branding effort, must relate directly to how those in the company are rewarded, an idea that will be examined elsewhere in this thesis.

Consistency of Experience

Clear alignment of internal goals will contribute to the attainment of a consistency of experience on the part of the customer. This consistency can be evidenced either through the physical appearance or layout of the asset in question, but need not be. Consistency can be evidenced merely through quality – that is, the way a given home is constructed and finished. It may also be evidenced through service. An office REIT may buy very different looking and functioning buildings in several markets, but may still establish a valuable service brand through ease of interaction with the customers, a clean and well-maintained asset, and the timeliness and attention of the operatives of the company.

One common mistake that has been made is attempting to build a brand around experiences that are fundamentally inconsistent. One example of this is Simon, the largest mall owner in the U.S., which had spent over $25 million[20] through January 2001 on a national branding campaign at its regional and super-regional malls. Their malls were designated "Simon" malls through plentiful signage and media and print advertising. They even went so far as to produce and air a national television ad campaign focused on the service benefits of a Simon mall versus its competitors.

Reaction to the campaign speaks of customers reporting confusion, misunderstanding, and indifference as to the branding effort. According to one former Simon marketing director, "It's creating confusion in consumers' minds. When a shopper doesn't know who that is or understand

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[19] *Ibid.*, p. 771.

the message, it creates a lot of confusion."[21] To consumers, the mall was no different than it had been a week earlier when it existed without the Simon signage and banners. There also did not seem to be a strong connection (in the minds of the consumer) between one Simon mall and the next in terms of quality, service, or experience. According to Al Ries, a marketing strategist, "If a branding campaign is working, people are talking about it. There doesn't seem to be anybody talking, and there's no buzz."[22]

The problem may have, in fact, been inherent in the nature of regional malls themselves. The vast majority of employees inside a mall do not work for Simon, rather for the individual tenant stores. The average number of Simon employees at a Simon mall is around ten, with even security outsourced to a third-party vendor. Outside of a friendly person stationed at the help desk and the unusual situation that requires management's attention, there really existed very little interaction between the mall employees and the customer. The question then arises as to whether a regional or super regional mall like Simon should be branded at all. And if, at the end of the day, the experience cannot be made consistent on any dimension, the answer is probably no. Perhaps it is no coincidence that the Simon branding effort is, in the words of their vice president of investment relations, "more subconscious now." [23]

Distinction

Distinction refers to the ease by which a consumer is able to tell the difference between the branded real estate asset and its competitors. It feeds directly off the consistency of experience, as distinction fundamentally is made relative to other experiences. That is, the human mind can make comparisons only against what it has previously experienced. Thus, someone may be in a building and recognize it to be clean or well-designed or inviting, but that same person may only

[20] Renee DeGross, "Advertising Campaign: Simon's $25 million gamble," *Atlanta Journal and Constitution*, January 16, 2001.
[21] *Ibid.*
[22] *Ibid.*

base that comparison on what he otherwise has experienced. (Or, they may make that comparison retroactively – that is, make a current comparison retroactive to a past experience, but always in a relative sense). Thus, it is only through experiences that true distinction can be recognized and understood.

Aiding in this process may be things like signage, collateral, logos, and distinction-oriented advertising. If properly researched, chosen and implemented, these will help to reinforce the experience and help the consumer make the distinction from one asset to the next.

Security Capital Pacific Trust, for example, went through extensive market research before pursuing a renaming campaign in 1997 in which it chose the "Archstone Communities" name based on its imagery, connotations and market testing. It then went about the process of renaming all of its existing assets to incorporate the name "Archstone" in them, a process later detailed in a Harvard Business School case study. The Archstone Community name for them was the best available means to aid their customers in drawing a distinction between their product and the competing marketplace. However, they deliberately chose a name that had no previous association with the company, and focused their improvements first on the internal operations of the company, rather than the external signage. It was the experience, coupled with the name common to the portfolio, which they believed aided in the distinction process. It was not the name driving the experience.

Another aid in the process of building distinction are trademarks – these might include tulips, which are found in abundance at every Post property, the replica lighthouse found at the upper-end storage assets of Shurgard, or an impressive and elaborate entrance, a consistency at all Del Webb residential developments.

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[23] *Interview Shelly Doran*, July 12, 2002.

Distinction is ultimately at the heart of the value of a brand; that is, a brand is valuable if the distinction of experience associated with that brand is different, or perceived to be different than the experience associated with a competitor.

Community Recognition

A brand is built not only on distinction, but also on recognition for that distinction. Particularly for companies looking to generate a premium to their competitors, there must exist some reinforcing mechanism for the average consumer that allows them to be willing to pay that premium and hence recognize the value of the brand. Community recognition in many ways could be thought of as "buzz" which surrounds a brand and makes it valuable.

A mechanism by which recognition can be augmented and aided is through concentration. As mentioned before, this may not merely be geographic concentration, but rather may also include market space concentration, as the Mills has achieved within the value center space. However, concentration, either in a geographic or market space perspective is not essential for a powerful brand name. Take, for example, the Four Seasons in the hotel sector. It is neither geographically concentrated (they are in fact very few in number) nor is it the only high-end full-service hotel in the business (in fact there are numerous competitors). It still owns one of the preeminent brands in the entire industry, however, and has even expanded this brand to include residences with significant sale-price premiums attached to them.

Advertising can also help to achieve recognition. This need not be in the traditional print form, but can include television, radio, billboard, and especially Internet advertising, a medium that some of the leading brand multi-family firms, among others, have become skilled at using. Advertising of course also aids in the distinction process, but creative advertising done well can easily go beyond merely being informative to actually being influential. Advertising directly to brokers is another way by which a firm can identify and distinguish itself, and is often employed by leading brand companies in spaces where broker interaction is an important component.

A third way that community recognition is often augmented by the leading brand real estate companies is through community involvement and corporate citizenship. Companies have become increasingly involved in their core communities over the past decade. Although obviously it is hoped that some of the reason for this involvement is other than purely for community recognition, it nonetheless appears through anecdotal evidence to have made a significant difference in the ability of companies to not only be recognized, but also to have their projects approved and permitted. [24]

One company that helped to achieve community recognition and aid through this avenue is Post, whose founder and current Chairman, John Williams, became heavily involved in the Atlanta service and political fund-raising community throughout the 1970's and 1980's. Williams, described by Post's current CEO as a "larger than life figure,"[25] helped spread the Post brand message when the company was in its formative years by becoming a major player in the civic activities of the city. Today, others in the company shoulder this responsibility with Williams, and Post has made strides to become involved in the service and community landscape at their other major markets, Dallas and Tampa.

Post achieved significant community recognition that was certainly aided by this involvement. Post, in fact, used to brag to Wall Street analysts that if one questioned a flight attendant while flying into Atlanta where to find an apartment, the flight attendant would almost inevitably answer "Post."[26] Additionally, Post today speaks of the benefits, particularly in the entitlement

[24] *Interview Dave Stockert*, June 25, 2002.
[25] *Interview Dave Stockert,* July 15, 2002.
[26] *Interview Trisha Hoffman-Ahrens*, July 30, 2002.

and approval process, that their brand name carries with it – although apartments may not be particularly highly thought of in most communities, the company's development leaders have realized the benefits of the Post brand on multiple occasions. [27]

The real estate branding model is a framework to help the user understand what is involved with successful branding in real estate. It is, in some ways, a simplification, but its principles and representations are, the author believes, accurate with respect to his industry best-practice study of how successful brands have been built and maintained within the industry.

[27] *Interview Stockert,* June 25, 2002.

Chapter 5 – Overview of the Real Estate Landscape Today

Branding in real estate, once the domain of a few, today receives emphasis from many of the leading public firms in the industry. Camden Properties, a multi-family REIT headquartered in Dallas, recently announced an $8 million branding initiative[28] at 127, or nearly all, of its properties. Security Capital Pacific Trust several years earlier performed much the same exercise, becoming Archstone Communities and embarking on an extensive repositioning effort that dramatically changed the look and feel of its portfolio. Simon recently spent over $25 million on an external advertising, marketing, branding and renaming effort at nearly all of its malls, attempting in the process to vault itself into the public conscious. And two years ago, Kaufman & Broad became KB Home, developed an in-house marketing machine, and focused its dramatically strengthened advertising and branding efforts around selling lower-end homes to first-time home buyers in communities located through out the Western, Southwestern and Southeastern United States. This emphasis from new entrants in the branding market, coupled with the continued growth of the traditionally stronger brands in the industry, means that branding within real estate is dramatically more prominent than it has been in the past.

Measuring Brand Equity

The effect of these efforts is difficult to measure, to say the least. For example, John Williams began building the Post brand name some thirty years ago – to look at Post's annual marketing budget and attempt to use that to calculate a mathematical return on investment is incorrect. Camden, which is really just beginning its external branding effort today, hopes to be commanding 5% premiums on average rents within its core markets in the next five years.[29] Whether they achieve that goal will depend somewhat on the logo it chose last year and the signage that will be placed throughout its facilities. It will also depend heavily on external

[28] *Jordan Sadler Interview,* July 17, 2002.
[29] *Interview Trisha Hoffman-Ahrens*, July 30, 2002.

economic factors, as well as the internal company culture and passion to achieve their goal, their employee recruiting and retention success, their internal focus and communications with regards to what the brand represents and ultimately their execution and delivery of their brand promise. The company's overall financial performance, another lens through which the branding effort will eventually be judged, will depend heavily on a number of other non-branding related factors including capital structure, cost of capital, and future growth management, as well as acquisition and disposition decisions.

The Mills, meanwhile, elected to brand nearly all of its assets with a common name, feel and function from its origins. By doing this in a market space that was not well-developed when it began this process, and by growing significantly within the market, it has come to dominate the market. Thus, it really had and has no comparable peer by which to measure the success of its branding efforts.

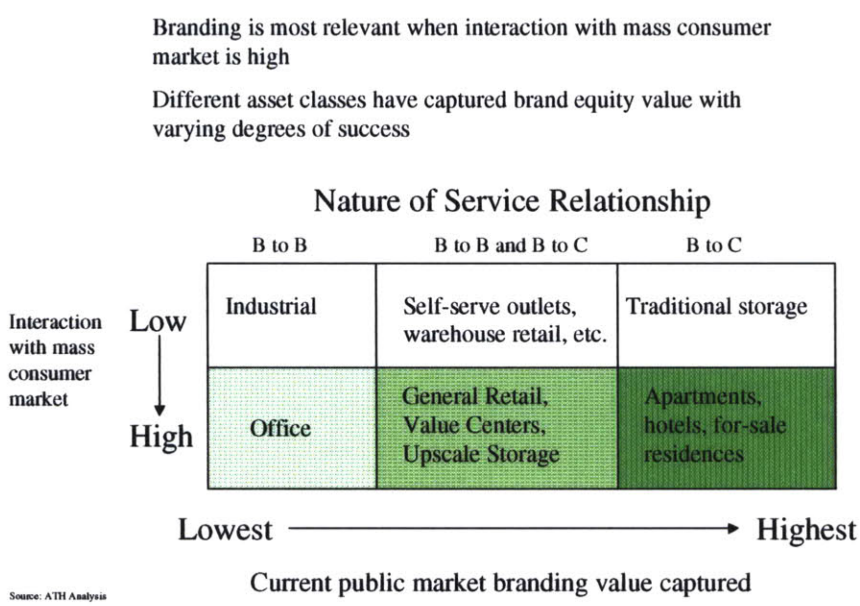
However, it *is* possible to measure some value and most definitely quantify some of the benefits of brand equity. For example, the Mills was the best performing REIT stock within the mall sector in 2001, returning 75.9% to its shareholders. Also, Post Properties within Atlanta,[30] a market from which they draw approximately half of their net operating income, and the Irvine Company within Irvine, California, command an average rent premium of approximately 3% on their assets. [31]

The measurable effects do not stop there, however. For example, an anonymous poll taken internally at Archstone at the very start of their branding effort began revealed that 85% of employees believed that the brand gave the company an inherent advantage over its

[30] *REIS.com metropolitan data*, June 15, 2002, and *Post Properties 2001 Annual Report.*
[31] *Interview Murray Krow*, July 23, 2002.

competitors,[32] even though almost nothing at the company had changed. As Archstone Executive Vice President Dana Hamilton explains, "Whether or not the brand truly brings an advantage, if 85% of the employees think it does, it *will*."[33] The branding consistency at Archstone has also reduced marketing expenditures as a percent of total revenue by 10%. Del Webb and its parent company Pulte Homes, meanwhile, enjoy a repeat customer to total customer percentage ratio that far exceeds their market share.[34] And Parkway Properties, through comprehensive and highly innovative operating practices, maintains a tenant retention ratio approximately 10-15% higher than the industry average,[35] a statistic that the author has calculated to add $60 to $80 million to its market capitalization.

Figure 5.1 - Branding by Asset Class Within Real Estate



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[32] *Interview Dana Hamilton,* July 16, 2002.
[33] *Ibid.*
[34] *Interview Jim Lesinski,* July 29, 2002.
[35] *Parkway Properties 2001 Annual Report*, and industry sources.

Branding Within Asset Classes

Potential branding effectiveness is dependent on having access to a mass consumer market. Amongst those that have such access, the value captured to date has differed, in a general sense, by asset class. The residential and Int to other asset classes, have captured a large amount of potential value (see Figure 5.1), as the various brands within the industry are defined and widely understood. Additionally, in the last five years or so, some of the leading multi-family REITs have implemented a branding strategy. Despite this fact, all publicly traded multi-family REITs account for only 12-15% of the total multi-family market.[36] Furthermore, a subset of those public companies within multi-family are doing any sort of branding, and a subset of those are actually doing it well. Even Del Webb/Pulte and KB Home, although established brands and both amongst the top five new home builders in the United States, each enjoy less than a 4% market share of the new home market.[37]

It should perhaps be no surprise that residential and hotels are the most highly evolved to date of any real estate segment, for they are touching closest to the consumer. The way the typical consumer treats a housing decision is inherently emotional, and therefore, there is readily available value to be extracted by appealing to the consumer'

The mass market business-to-business and business-to-consumer space providers enjoy a few high profile brands like the Mills and Shurgard in the up-scale storage space, but outside of these few companies, do not boast of many well-developed brands. General retail in particular has had almost no success in establishing effective brands, the reasons for which will be discussed later in the thesis.

[36] *Interview Paul Adonato*, July 29, 2002.
[37] *Lesinski,* July 29, 2002.

The office sector has perhaps the most opportunity embedded in it. It is technically a B-to-B service provider, but with a twist. That is, it has access to a mass consumer market through the employees (of the tenant) who work at the building, and those engaged in business practices with the tenant who are visiting the building. While the final leasing and re-leasing decision will be made by the person in charge of real estate for the tenant, the opinions and wishes of the operatives of the tenant will undoubtedly factor into the process. If the quality of the building is seen by tenants as important to their employees' morale and the company's image, then the chance to deliver in that regard has not been fully exploited.

At least one office REIT, Parkway Properties, has produced outstanding results through service. It is a small player, with a total enterprise value of approximately $1 billion, but nonetheless has been able to implement effective and consistent practices throughout its portfolio that undeniably add significant value. Office Company "X", meanwhile, which asked not to be identified by name, has achieved large-scale name recognition, but it is unclear what brand promise is attached to that name. They are primarily a company that has grown through acquisition, and it is uncertain as to the emphasis that delivery on the brand promise has received relative to the emphasis that further growth through acquisition has.

Branding Audiences

Branding initiatives are undertaken with three principle audiences in mind, those being customers, employees, and the Wall Street and the investment community at large. Another goal of a centralized branding effort is often to reduce marketing expenditures, as has been accomplished at Archstone.

Some companies have approached their branding effort with Wall Street as the central focus. One such company is Camden Properties, a multi-family REIT headquartered in Texas. Senior management at Camden felt that, because of their lower average monthly rents (partly as a result of the core markets they operate in, which simply command less rent) and their lack of a clearly-defined image as a result of rapid growth through acquisition, they were viewed by the investment community as a lower-end and poorly managed company.[38] Prior to embarking on their branding campaign, they conducted numerous "focus group" meetings, not only with employees and customers, but also with groups of Wall Street analysts to review their strategy and receive input and feedback.

Archstone, meanwhile, did not rank its branding constituencies in order of importance, but did place a great deal of emphasis on the role the brand has played internally with employee morale and retention.

Types of Branding Within Real Estate

There are three identified "types" of branding that have been identified in this analysis: market-creating, product, and service. These distinctions will be used to compare and contrast branding strategies, executions and results for the remainder of this thesis.

Market-creating branding is the process by which a company creates a market that simply did not exist before, through the unique delivery of product. Perhaps the ultimate example of this is the Irvine Company and its development of the Irvine Ranch, a 93,000 acre parcel that was used to create the City of Irvine and stretches into parts of five other surrounding cities, including Newport Beach, Laguna Beach, and Anaheim. Another example is the Mills, which effectively created and controls almost the entire discount shopping/entertainment segment known as value centers. KB Home is also creating new markets with its creative advertising and marketing, by making homeowners out of those who would otherwise be renters.

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[38] *Interview Trisha Hoffman-Ahrens*, July 30, 2002.

Figure 5.2 - Companies Pursue Different Types of Branding

Market-Creating Branding	Product Branding	Service Branding
•Mills	•Post Properties	•Archstone-Smith
•Irvine Company	•Del Webb	•Parkway Properties
•KB Home		•Office Company "X"
		•Camden
		•AMB
		•Simon

Product branding differs from market creating branding in that the market space has essentially been defined, but the company in question has used its unique product to differentiate itself from its competitors. There are two examples of this type of branding that will be examined in this report. The first is Post Properties, which redefined the concept of what upscale multi-family apartments should look and feel like using innovative landscaping at prime locations. The second is Del Webb, a company and brand recently acquired by Pulte Homes, and the leading developer of active adult communities in the United States.

Finally, **service branders** will be examined. This is the area of branding that new entrants to branding in real estate have most often occupied. Service branders are in well-established markets and have generic products, relative to their peers. They are attempting to distinguish themselves using service as a differentiating ingredient. Included in this analysis will be Parkway, Office Company "X", Simon, Archstone-Smith, Camden and AMB.

Exclusions from the Brand Analysis

Excluded from this analysis will be those bringing unique brands built outside of the real estate industry to their product. This group includes the likes of Donald Trump, Ritz-Carlton and Four Seasons residences. It also includes Thomas Kinkade, the popular artist whose artistic landscapes have recently served as the inspiration for "The Village, A Thomas Kinkade Community," a 101-house development in northern California. "The Village" appears to be a success in at least attracting crowds; at the opening of the sales office in late 2001, nearly 2,000 people visited, a turnout that the developer called, "ridiculously incredible."[39] Ritz-Carlton Residences, meanwhile, reports premiums of 20% to 25% over average condominium prices because of its name on the door and the services its provides.[40]* And Trump appears to incur similar premiums, at least in the eyes of one of his partners, Barbara Corcoran from the General Electric Pension Fund. According to Ms. Corcoran, who negotiated with Mr. Trump to buy the Gulf & Western Building in New York City, having Mr. Trump's name on the residential and hotel property increased its value by 20%.[41]

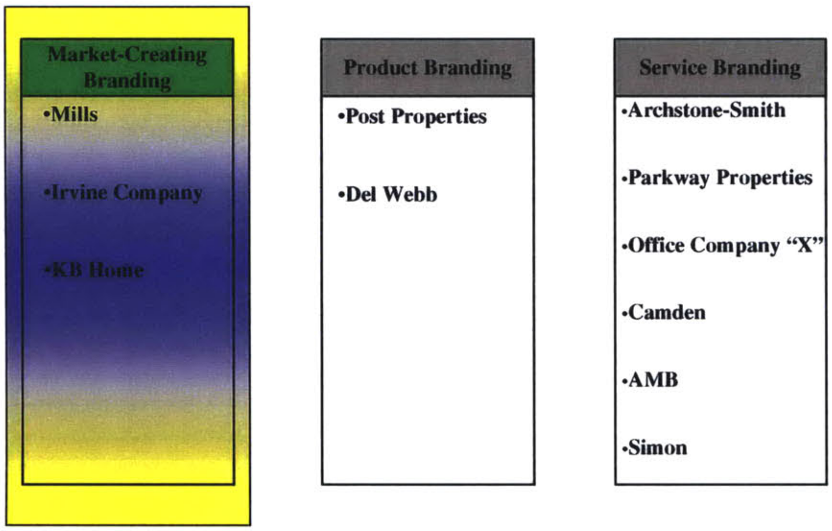
These companies are excluded because the brands they bring to a given project were built outside of the realm of real estate ownership and operations. Ritz-Carlton and the Four Seasons were obviously hotels that made the relatively natural transition to condominium real estate. Both enjoy fantastic reputations built on the strength of their full-service luxury hotel operations. Kinkade and Trump, on the other hand, have both become part of American pop culture. Even though Trump has made (and lost) several fortunes in real estate, he came of age at a time in America when the stars were aligned for the American public to embrace him as an icon first, and

[39] Shawn Neidorf, "Gallery homes; Artist's name being used to co-brand gated community," *The San Diego Union Tribune*, September 16, 2001.
* Ritz-Carlton numbers are self-reported, and there is obviously some cost for the service that is provided.
[40] David W. Dunlap, "What's in a name? For Ritz-Carlton, about 25%," *The New York Times*, April 10, 2002.

a real estate owner and operator second. He was fortunate enough to be able to build an extremely powerful image in the public conscious when "business books" were extremely popular, when the celebrity "rainmaker" was lauded, and when New York, a town he is most associated with, began the cultural and economic resurgence that it has ridden throughout much of the past decade. While he is a real estate owner and operator, he is a celebrity first, comparable to the likes of Richard Branson of Virgin or Henry Ford. He is also a tireless self-promoter, a best selling author, and a would-be presidential candidate. Well after that, in terms of the public conscious, Trump is a series of real estate concerns. He is, simply, an outlier to the branding model.

[41] Beard, "All In the Name for a Real Estate Giant."

Chapter 6 – "Market-Creating" Branding



Whether in real estate or any other industry, the ability to create an entirely new market category is perhaps the greatest potential means to extract value. It is also among the biggest risks that can be taken, for the company in question is not merely incrementally improving a tested concept, but rather taking a leap off and away from the existing business models. Within real estate, at least three companies that have defined new market categories can be readily identified. These three have at least one attribute in common—radically different concepts for how to deliver an otherwise fairly standard product to their customer.

For the Irvine Company, their concept was "smart growth" some thirty to forty years before the market had caught on to the concept. Witnessing the uncontrolled and unattractive urban sprawl that had afflicted much of California in the 1950s, the Irvine Company took a much longer-range view of what they owned and what they hoped to create with it. They recognized early on that they could produce a far more valuable product by constructing a master plan in the early 1960s and adhering to that plan, rather than selling parcels off in a piece-meal fashion. As former company president Raymond J. Watson said, "The people would have come whether we had planned for their arrival or not. We chose to plan."[42]

At the center of their development, they planned a 10,000-acre city for 100,000 people that would be known as Irvine, and would include ample open space, residential, commercial, industry, retail and institutional components, all constructed with quality materials and "classic" architecture. At the center of the city, they made arrangements with the University of California to construct a new campus on a 1,000-acre parcel that was sold to them for $1. This parcel became the University of California, Irvine, and helped to promote and enhance the image of the new city. The original master plan called for approximately 11,000 acres of open space, a number that has risen to 50,000 acres today. This open acreage has become a central part of the Irvine Ranch's "Let's Go Outside" marketing campaign. Today the company boasts a total of approximately 40 million square feet of virtually every kind of real estate asset. The majority of their space lies within the confines of the Irvine Ranch, but they also have acquired office buildings and neighborhood shopping centers in San Diego, West Los Angeles and Silicon Valley.

For KB Home, a $4.6 billion residential construction and development company with operations throughout the western and southern United States as well as in France, the bold delivery concept has been the branding of lower-end residential houses, something that has never before been done on the scale or with the tactics that KB Home has employed. One of the nation's five largest builders in terms of revenues, the KB Home branding idea is simply to be "everywhere people

[42] The Irvine Company, *The Irvine Ranch*, (Irvine, California), 2001, p. 19.

are."[43] The marketing machine was implemented internally two years ago, complete with a name change from Kaufman & Broad, a change dictated by market research and the desire to strategically reposition the company. With the name change and new focus on selling not merely homes, but rather "KB Homes," the company has experienced unprecedented growth, increasing revenues by over 87% from 1998 to 2001.[44] The company is specifically focused on first-time homebuyers who otherwise would be renting. Advertising today is very consistent and comprised of virtually every conceivable medium, including billboards, radio, print and Internet advertising.

More innovative marketing has included the likes of sponsored community coffee/donut gatherings, and most creative of all, a half-hour infomercial aired in all of their 14 U.S. markets. This slick production is by and large a non-community specific focused message; that is, it does not focus on a particular development in, for example, northern Arizona. Rather, it sells the KB Home brand and concept—housing for the same price as rental, with the buyer deciding on floor plan, layout, furnishing, etc. The infomercial begins with company "lifestylist" Sandra Lee asking:

> Have you every dreamed about owning a new home? A comfortable home in a beautiful area. One you can personalize to suit your own individual tastes, and all of it brand new, just for you and your family?[45]

The video goes on to offer numerous testimonials from young professional-looking KB Home owners emphasizing the benefits of buying a new rather than previously-owned home, the ease of buying their KB home, the "size for price" value delivered and the benefits of buying rather than renting. Included in these testimonials is an endorsement by Henry Cisneros, former Secretary of Housing and Urban Development in the Clinton Administration. One particularly compelling

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[43] *KB Home 2002 Annual Report*, 2002.
[44] *KB Home 2001 Annual Report.*
[45] *KB Home Infomercial*, provided by KB Home.

testimonial features a young father of three proclaiming, "There's not many things in life that turn out exactly how you envision them, but this one did…this one did."[46]

This infomercial has been run in every major domestic market, although the frequency of runs varies by market-need. While the company would not release exact traffic generation numbers, it did reveal that the infomercial is the fastest growing source of new traffic, and may soon overtake both billboard signage and print media, currently the number one and number two sources of traffic.[47]

For the Mills, value was created by making outlet and discount shopping fun for the consumer; in the process, they have come to be synonymous with an entirely new market category, the value center. Drawing inspiration for its name from the New England tradition of townspeople buying overage directly from manufacturing mills, the Mills Corporation today seeks to "merchandise" its assets in the same way that an operator might merchandise a grocery store. That is, within any given Mills, which number thirteen and are typically between 1.2 and 1.7 million square feet, they seek innovative and creative mixtures of tenants that might otherwise have never been associated with one another. Although they no longer require tenants to have the word "outlet" in their store name, the Mills have nonetheless come to represent discount value. They also seek to offer the shopper entertainment, and have been perhaps the industry leader in seeking innovative ways to offer spectacle within retail. For example, a Gibson Guitar space exists in the Opry Mills in Nashville, Tennessee, where the shopper can not only buy a Gibson guitar, but can also watch guitars being made at an on-site factory, and listen to a "garage" band perform in a Gibson-run mini-theater. Other Mills developments boast such attractions as an archery range and a planned development in Spain that will feature an indoor 17-story snow slope for snowboarding and skiing.

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[46] *Ibid.*

Brand Focus

The Irvine Company is obviously very well known in Orange County, but by its own admission is relatively unknown in its other markets.[48] KB Home also enjoys broad name recognition within its fourteen core markets, and relative anonymity outside of them. Neither, however, desires to be anything other than a regional brand, nor would it necessarily help their business if they were. The Mills, on the other hand, is seeking to establish a national identity, and appears to be well on its way to such a designation. In all but its Florida markets, it is the number one "tourist destination," with tourists defined as those travelling greater than forty miles in order to visit a given attraction.[49]

Brand Strategy and Results

The Irvine Company, like the Mills, in some ways backed into a brand. That is, they became synonymous with their market without necessarily intending to do so at the start. For Irvine, the brand has been defined by higher-quality products, open space and long-range planning to achieve that open space. Their brand has also been defined by the fact that at one time they owned most of Orange County. Perhaps it is no coincidence then, that the Irvine Company is the only company the author studied that made the conscious decision not to externally brand its assets, a decision based on extensive market perception testing, which revealed such branding would actually detract from the attractiveness and hence value of the property. In fact, until last year, the company did no paid marketing of its product or its brand at all.[50]

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[47] *Interview Tony Shramko*, July 29, 2002.
[48] *Krow*, July 23, 2002.
[49] *Interview Matt Ostrower*, July 29, 2002.
[50] *Krow*, July 23, 2002.

In the last twelve months, the company has ramped up a marketing effort focused around a "Let's Go Outside" campaign, stressing the ease of living and ample open space as a reason to move or come to various assets on the massive property. Marketing has been focused around a great deal of print advertising, including an extensive public relations effort that has fed off the company's recent decision to voluntarily designate an additional 11,000 acres of open space at the Irvine Ranch, bringing the total acreage allocated for open space to 50,000. Its marketing efforts have also involved television advertising for its retail properties, radio advertising for its hotels, direct mail, Internet advertising and billboard signage.

Today, the company owns 10% of the office buildings in Orange County, and 15% of the office properties on the Irvine Ranch. This offers, perhaps, the only measurable view of the power of the Irvine Company brand. Although the company is privately held, the company reports that it receives "not more than" a 5% premium in rents on that office space, but in any event not less than 2%.[51] It also reports that its vacancy rates are 2-3% lower than competing comparable properties.[52] In the words of Murray Krow, vice president of corporate marketing, "Generally there is an understanding that you pay more to do business with the Irvine Company, to lease or buy, but there is a reason."[53] The reason lies in the quality of the asset. Krow also states that these premiums are not found in properties located outside of the Irvine Ranch, including those in Silicon Valley or San Diego.

The Mills, as reported previously, is the top tourist destination at all of its markets outside of Florida. While the company has not formally collected data to confirm this, it is believed that the Mills brand name is a considerable draw in the various markets in which it operates. That is, there is considerable brand-name equity, as the Mills development concept has basically been

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[51] *Ibid.*
[52] *Ibid.*
[53] *Ibid.*

held constant from the company's inception. All Mills are roughly the same size, and in fact, the smallest "Mills"-branded development of 1.1 million square feet actually opened in 2001. All Mills have a similar "neighborhood" layout, with different sections of the asset identified by neighborhood. All strive to incorporate entertainment with retail shopping, and, as previously mentioned, tenant mix and originality is given particular emphasis when leasing decisions are made.[54]

Understandably, the Mills Corporation is protective of its trademark brand name, and has not used it on several occasions when it could be argued that it would have been beneficial to leverage it for business-economic purposes. For example, in its Los Angeles-market development, a much smaller-than-typical 655,000 square foot mixed-use project was called "The Block at Orange" rather than being given a Mills name. Similarly, the company's newest development in Madrid, Spain, will not operate under the Mills name (despite local desire to the contrary) because of the large mid to upper-scale retail nature of a large portion of the development. The one break from this brand-name protection occurred in Atlanta, where the corporation sold naming rights for the development to the Discover credit card, and the two jointly elected to name the project "Discover Mills." It is a decision that company Vice Chairman John Ingram feels was perhaps short-sighted, given the possible confusion and subsequent potential damage to the brand. Ingram also feels that it is unlikely that naming rights will be sold again in the future. [55]

To mathematically assess the value of the Mills brand name is difficult, given the fact that they have invented and defined an entirely new market category. "Rents commanded versus the competition," does not appear to be a meaningful metric of comparison, given the unavailability of true competitors in the same space, the uniqueness of the asset relative to any quantifiable

[54] *Interview John Ingram*, August 1, 2002.

"competition," namely regional malls, the nature of the assets delivered to tenants, which include fewer tenant improvements than the typical mall, and the lower market value of land at the more remote Mills locations. Some evidence of the successfulness of the concept is found in the half dozen or so "copy-cat" developments sprinkled throughout the U.S. None operates under a meaningful brand name, and the projects have achieved widely varying degrees of success. To further analyze the company, it is beneficial to compare them to their competitors in the closest available market, that being the regional mall, in metrics other than rent per square foot. The following table summarizes this comparison:

	Market Cap	Occupancy*	Sales PSF*	Profit Margin	Oper. Margin	ROE
The Mills	$ 1,100.00	93.00%	$ 330.00	30.50%	44.90%	50.22%
Simon	**$ 6,180.00**	91.80%	**$ 378.00**	19.60%	40.20%	14.88%
Crown American	$ 274.70	87%	$ 268.00	7.40%	6.30%	-0.34%
Glimcher	$ 606.00	85.60%	292.57	8.50%	39.30%	5.81%
Weingarten	$ 1,850.00	92.20%	n/a	**31.40%**	30.50%	11.21%

*For Simon, "Regional Malls" only Included in Occupancy and Sales PSF.
For Glimcher, "Malls" only considered for Occupancy and Sales PSF.
Market Cap reported in MMs as of 8/2/2002. Occupancy and Sales PSF data reported for FY 2001.
Profit Margin, Operating Margin, and ROE from Yahoo! Finance as of 8/2/2002.

As is seen, the Mills has easily achieved the highest Return on Equity of any of the comparable companies considered—this is arguably the most relevant measure of the performance and value of a company, which measures net income over shareholders equity. It is particular relevant in this comparison, given the lack of other suitable comparison metrics. The Mills also operates at the highest operating margin of any comparable and at the highest occupancy level. Its sales per square foot are lower only than Simon's regional malls, which exclude Simon's "community centers," whose sales per square foot are only $201.50. The sales per square foot comparison may also be skewed by the admitted inefficiency of some of the company's earliest projects, and the high entertainment component of any Mills. Furthermore, the profit margin of Weingarten,

[55] *Ibid.*

which is slightly higher than the Mills, may be skewed by the fact that it is not a "pure play" mall operator, but also has a smaller but considerable industrial space component.

For KB Home, brand strategy is a focused but new part of the company's operations. A similar analysis as performed on the Mills with its "comparables," the five largest home builders in the United States, is interesting but far less relevant.

	ROE	Profit Margin	Oper. Margin
KB Home	25.05%	5.40%	9.40%
Lennar	27.46%	7.00%	11.40%
Pulte	16.98%	5.50%	8.90%
Centex	20.25%	5.00%	8.00%
D.R. Horton	22.49%	5.80%	9.30%

Analysis made using Yahoo! Finance as of 8/2/2002

Although KB Home compares favorably, particularly on the dimension of Return on Equity, the analysis is far less useful for several reasons. For one, KB Home is the only of its comparables, and in fact the only company studied and known of, that is specifically focused on the lowest-end of its market. While they construct a small amount of "move-up" housing, the vast majority is specifically geared at the first-time homebuyer and is constructed in reasonable but less than prime locations. Thus, it would follow that the KB Home strategy over time is a higher-volume, lower margin business.

Return on equity would still be a relevant metric by which to measure the performance of the company, but the results for KB Home are tempered by the newness of their core strategy. That is, it was not until January 2001 that the name change went into effect, which signaled the new emphasis of reaching a vast consumer market with very extensive marketing and advertising. The infomercial was first aired around this time, and the company's new 1-800 number (to which it hopes to guide new sales inquiries) debuted around this time as well.

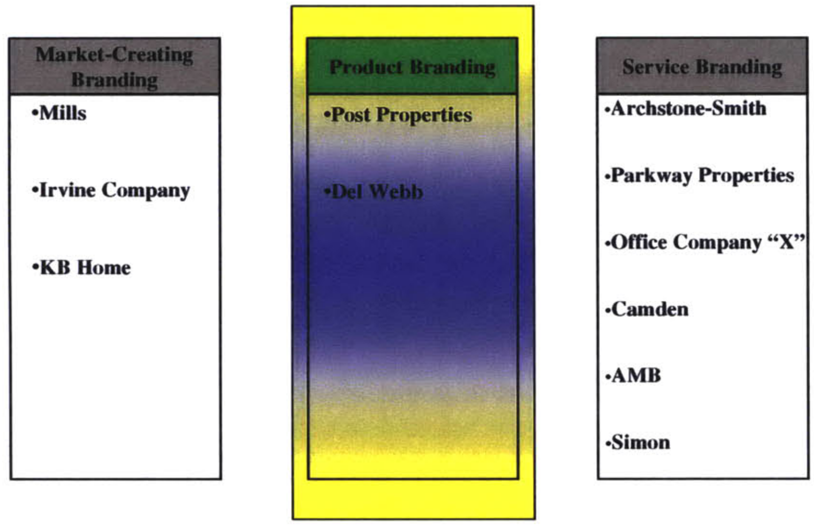
Finally, the comparison with the five largest homebuilders is less relevant because, although not perhaps as extensive or as focused as the KB Home brand strategy, most of the five largest have some brand-name recognition. For example, Lennar homes, the nation's largest homebuilder, is a known entity in some markets simply because of its size. Also, Pulte Homes, which recently acquired the Del Webb brand, sponsors a Pulte Home float in the very highly visible Macy's Day Parade, among other marketing efforts. Thus, in the high-revenue residential market, it is not a comparison between "branding and no-branding." Rather, it is shades of gray.

The success of KB Home will ultimately rest on many factors, but important among them is its delivery of the brand promise over time: that is, a reasonable house that is affordable, and delivered in a professional and customer-friendly manner. One interesting statistic is that despite the extensiveness of the KB Home branding effort, their SG&A ratio is actually lower than the "industry"-wide average. That is, amongst the GIANT 400, an industry compilation of the largest 400 housing builders in the country, which cumulatively accounted for 32.6% of the total U.S. new home closings in 2001, the average Selling, General and Administrative expense as a percentage of total housing revenue was 12.7%, as compared to 11.9% for KB Home. Ironically, even with its extensive and pervasive marketing effort, KB Home enjoys economies of scale and consistency that its competitors to date do not.

While the Irvine Company builds higher-end apartments, houses and office buildings, they are certainly comparable to ones offered by their competitors in hundreds of markets throughout the United States. Although KB Home allows for a great deal of input on the part of the homebuyer in the construction process, the finished product is average, to say the least. J.D. Power, for example, does not rate KB Home's quality of workmanship and materials or home design to be better than 3 out of 5* in any of the six markets in which it was rated.[56] And by the company's own admission, they are building in less-than-prime locations. As for the Mills, the actual outlets within a Mills development are virtually indistinguishable from outlet stores that have existed for decades. The Mills, like its peers in the market-creating brand category, has distinguished itself and brought value to its shareholders through innovative and new ways to deliver its product, and in the process has created a market.

[56] *J.D. Power Consumer Ratings*, www.jdpower.com, August 2, 2002.
* 3 out of 5 translates to "Does not really stand out" according to J.D. Power and Associates.

Chapter 7 – Product Branders



Product branders are those who distinguish and focus their brand around the uniqueness of the product experience they deliver relative to their competitors. They are in all likelihood developers, as the brand is truly defined in the development and construction process. Their brand usually also contains some element of service inherent in it, but it is the product itself, and not the complementary service provided, that most defines the brand.

Two brands being investigated are product brands. One, Post Properties, became known from its base in Atlanta during the 1980's and 1990's for building apartments of an arguably higher quality than had previously existed in any scale in Atlanta and perhaps any market. Del Webb, meanwhile, is regarded as the nation's preeminent builder of active-adult and other "themed" communities. Beginning with its Sun City developments in the 1960's, the company has built a very strong brand identity based upon consistent delivery of its brand promise of high quality. Furthermore, it has also distinguished itself and defined its brand by the "programming," or organization, it offers to its growing adult communities.

Another brand believed to be a successful product brander, Shurgard, is based in Seattle and builds and operates high-end storage, complete with its trademark lighthouse replica at all properties, but they were unavailable to discuss their brand strategy for this thesis. Both Del Webb, which must be considered with its parent company Pulte Homes, along with Post, show very strong evidence of having achieved significant brand value. Yet, both face very large challenges today unlike any in their history.

Post Properties was begun in the early 1970's by its current chairman, John Williams. Williams saw the apartment industry as unsophisticated, and set about to revolutionize the industry by catering and focusing his product around the upper-end consumer. Williams elected to include Post as the first word in the names of all of the company's properties, beginning a naming convention that both Camden and Archstone, among others, have copied. Post became most known for its award-winning landscape architecture, a detail that other developers, even of garden-style apartments, had not taken full advantage of as a distinguishing mechanism prior to Post. Tulips became the company's trademark. They were always planted in abundance, and were costly to maintain, an expense that Post was willing to bear to draw distinction between itself and those attempting to copy it. Today, Post plants over one million tulips annually. Outstanding amenities have also become common at Post properties, including front-entrance gates, swimming pools, unit-specific washers and dryers, 24-hour doormen, spiral staircases, high ceilings, rooftop gardens, fitness centers and laundry rooms.

Del Webb, meanwhile, has become the best selling brand of active adult/lifestyle homes, selling nearly 80,000 units in its 40-year history. Operating master-planned active adult communities in nine markets, higher-end Country Club communities (introduced in 1993), and today entering the Family Living market, the company enjoys a 95% positive referral rate amongst its homebuyers.

Referrals, in fact, "touch" Del Webb sales in some way approximately 40% of the time.[57] Del Webb also has collected and developed a very extensive customer lead database, which when coupled with the company's brand name, can lead to significant results. When Del Webb took over a floundering active-adult project in the Phoenix market recently, the Del Webb brand drew approximately four times as many perspective buyers to its grand opening (ground breaking) as the identical piece of land had drawn in its previous grand opening with a different developer.[58]

Del Webb attempts to sell its product not merely on the quality of its homes, although that is obviously a component, but more importantly on the lifestyle that a Del Webb community will provide to its typically 55-and-older population. The lifestyle experience at Del Webb includes numerous amenities like elaborate clubhouses, pools, fitness centers, spas, as well as a Del Webb organized roster of groups and activities (bridge, arts and crafts, etc.), that are eventually transitioned over to resident organizers and leaders. Del Webb sees the greatest benefit of its brand being in the relocation market (as opposed to buyers relocating within the same geographic market), which account for roughly 20% of all new home sales nationally.[59] Thus, they have focused much of their marketing efforts on the 50+ market in high-income areas of the Northeast and California, which have traditionally produced much of the relocation flow. Del Webb advertising may include purchases in AARP publications, as well as other forms of targeted media advertising.

Both brands were amongst the earliest established in the entire real estate industry, and both were upheld over decades by a consistent commitment to what the brand represented. For both, this meant finding outstanding locations, and representatives from both companies discussed the

[57] *Interview Jim Lesinski*, July 3, 2002.
[58] *Ibid.*
[59] *Ibid.*

location of a property, proximity to landmarks and attractions, and the like as being one of the most important components of the decision whether or not to develop. [60] [61]

Post gives attention to customer service in line with its peer group, performing yearly surveys of its customers, and conducting annual training and re-training sessions with its management staff. Like Camden and Archstone, Post employees do not systematically benefit directly from the level of satisfaction reported by residents in these yearly surveys, but do receive a bonus based on the economic profitability of the given building. Employees also receive stock in Post on a periodic basis, although details as to the exact nature of this program were unavailable.

Both companies operate in the upper-end of the market. For Post, understanding what this meant has been a learning process – today, according to CEO Dave Stockert, they are seeking to exit markets which have less than 4 million people, because trial and error has shown that markets with fewer than this amount of people, or markets in which Post represents greater than 10% of the supply in a market, lead to situations where Post is competing against itself for upper-end tenants. That is, supply outstrips demand.[62]

Delivery for product branders relies on delivery of a consistent product. It appears that, relative to each other, Del Webb has been more consistent in the type of product it has built and delivered. Post acquired another REIT, Columbia Realty Trust. Located primarily in Dallas, Columbia was a company with a very different culture than the one at Post, and with a portfolio that differed significantly enough from Post's that the two operations were (temporarily) renamed "Post West" and "Post East." Furthermore, in recent years the company has become increasingly involved in the development of mixed-use urban projects, a departure from the traditional Post garden-style

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[60] *Lesinski*, July 23, 2002.
[61] *Stockert*, June 25, 2002.
[62] *Ibid.*

product.[63] Not only do mixed-use projects pose different operational challenges that Post has struggled somewhat to deal with,[64] but the construction and development of them is also significantly different. Sources inside and outside of the company point to dramatic cost overruns on the development of recent mixed-use projects as a significant problem for the company in recent years.[65]

Del Webb, meanwhile, has become increasingly vigilant about protecting its brand name, even going so far as to develop a comprehensive framework by which to consider projects. (That is, a project under consideration may be flagged as either a Pulte or Del Webb project, or may be flagged as neither). For a project to carry the Del Webb brand, the division president, who is essentially a franchisee, must be prepared to meet the framework outlined in **Appendix 1**. Chief among the concerns of the Del Webb/Pulte corporation is evidence of a strong presence ("something special") that is located physically at the entrance of the community (the entrance has become a trademark for Del Webb). Additionally, Del Webb requires evidence of lifestyle enriching elements (based around the concept that Del Webb sells a lifestyle first and a home second), and will only approve projects that in their estimation make a positive contribution to brand equity.[66]

Results

For Post, the effects of their brand are more easily quantifiable. In Atlanta in 2001, where Post received approximately one-half of its net operating income, the company received approximately a 3% premium on asking rents. Post's average asking rent amounted to $986,[67] while the average

[63] *Stockert* July 15, 2002.
[64] *Interview Janie Maddox*, July 15, 2002.
[65] *Stockert*, July 15, 2002.
[66] *Lesinski,* July 3, 2002.
[67] Post Properties 2001 Annual Report.

asking rent for all Class A apartments in the Atlanta area was $954.[68] Asking rents are used as a proxy for actual rents because asking rents are widely reported for metro region statistical data, and effective rents, including concessions data, are not reported by Post and others for competitive reasons. The vacancy rate for Post and the metro region Class A multi-family as a whole were 89% and 90%,[69] respectively, or essentially the same. Post did not seem to receive as significant a premium in its other geographic markets.

Post also benefited from a high percentage of relocating tenants who elected to move to another Post property, which is seen as further evidence of an effective brand. While the company did not wish to have the exact numbers disclosed within this thesis, across their entire portfolio, Post's ratio of those moving to another Post portfolio property versus those electing to move to a competitor's property or those electing to move because they were unhappy with the Post property or Post management was 0.93 to 1. This includes those who answered not only "Moving to Competitor Property" directly, but also all answers considered to be a proxy for "Moving to a Competitors Property" which were controllable or related to Post delivery of product or service. Proxies include answers such as "Unhappy with Management" and "Noise Problems." See **Appendix 2**.

The ratio of those moving to another Post property versus those listing "Moving to a Competitor Property" specifically was 11.78 to 1 (see **Appendix 2**). Of course, there are undoubtedly people moving to a competitor's property who did not list that as their primary reason for leaving, as an attempt was made to correct for above. In any event, either result produces a percentage of those moving into another Post property to those moving to a competitor's property far higher than Post's market share across all of its markets.

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[68] REIS.com, Metropolitan Data, June 15, 2002.

As a final metric, the measure of moves to other Post portfolio properties to all moves (included house purchases, moves to competitors properties, etc.) amounted to 13.5%. As the total market share of all REIT multi-family companies together is only 12-15%, this also indicates the value of the Post brand. **See Appendix 3.**

From a monetary perspective, the moves within the portfolio amount to approximately $23 to $25 million in top-line revenue, or approximately 8.6% of the total revenues of the company.

It is harder to measure the tangible effects of the Del Webb brand because the nature of their industry does not lend itself to as much disclosure. Furthermore, the purchase of Del Webb by Pulte means that what numbers are available are reported in aggregate. Tangible evidence of the brand consists of the anecdotal evidence already discussed, as well as Pulte/Del Webb's market share. In the United States, approximately 20% of all homes purchased are new homes. The combined Pulte/Del Webb entity has a market share of approximately 4% of all new homes. Therefore, the odds of having a repeat customer buying a Pulte or Del Webb homes ought to be approximately 4% of 20%, or 0.8%. The actual percentage of repeat customers to Pulte/Del Webb is in reality significantly higher than this number. While the company requests that the exact number not be reported in this thesis, it is higher beyond a reasonable margin of error.

Finally, Del Webb has consistently received awards for the quality of its homes. In the most recent ratings by J.D. Power, the industry's leading voice on quality, Del Webb was ranked in four major markets. In three of those markets it was awarded a "Top Three" award (Chicago, Las Vegas and Phoenix), while in the fourth, Southern California, it received the "Highest Ranked" award. In Las Vegas, Phoenix, and Southern California, the company achieved a ranking of five

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[69] *Ibid.*

out of a possible five in "Quality of Workmanship & Materials", while in Chicago, it received a mark of four out of five.[70]

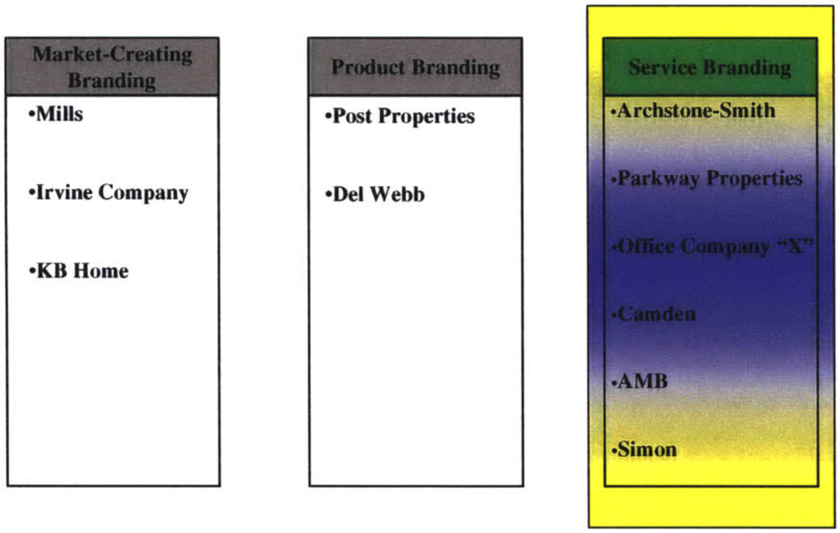
Challenges

Del Webb faces challenges in maintaining its brand identity within Pulte. While the mechanisms appear to be in place to protect its brand equity, nonetheless the company must be vigilant in maintaining and distinguishing the brand promises that Pulte and Del Webb each offer.

Post Properties, meanwhile, faces significant financial challenges in the near future. The company has experienced high turnover within senior management in the past few years. It has also been subject, according to sources within and outside of the company, to severe cost overruns on many of its recent development projects, particularly its urban mixed-use projects. Today, the company faces an income shortfall with respect to its dividend. In order to avoid cutting the dividend, the company has been forced to be a net seller of assets, and has thus been paying essentially a "liquidation dividend." CEO Dave Stockert, who assumed his current position on July 1, 2002, faces the difficult challenge of restoring financial order to the company in the midst of an apartment rental slump in two of its three core markets, Dallas and Atlanta. This slump has been caused in part by job losses and a general economic slowdown, oversupply on account of new development, and low interest rates that have fueled new home supply and sales.

[70] *J.D. Power Consumer Ratings*, www.jdpower.com, August 2, 2002.

Chapter 8 - Service Branders



Service branding is arguably the hardest type of branding to execute over an extended time period. Unlike market-creation, which involves a new means of product delivery and therefore is devoid of competitors in the short-run, and product branding, which relies heavily on the product built to define the brand, service branders have no such inherent "advantage" in which to define themselves. That is, they are taking an otherwise identical product in a competitive market and attempting to distinguish and separate themselves through only the level and quality of service they provide. It is a far less tangible metric than that by which the other types of branders seek to measure themselves. Both market-creating and product branders have a visual and physical reinforcing mechanism by which customers and employees are reminded of the brand promise and what it represents. With service branding, these reinforcements are subtle. While consistent signage and collateral may aid in this process, the brand promise will only be fulfilled if the experience the property is measurably "better" than a comparable service experience at a typical building within the asset class.

In each of the six companies grouped in this category, the branding effort has begun in the past five years. These campaigns have begun through a proactive and conscious effort made by management to add value by distinguishing the service of the company *after* the company had been operating for some period of time. This by itself raises inherent challenges to any company if their new external branding effort is not entirely consistent with their previous operational execution. The company must realign the interests and actions of the company's employees around the new brand promise. The company may also have to alter the perceptions of the general public to recognize the new brand promise and delivery.

Furthermore, the companies being considered, which are believed to be the leading service branding companies in the United States today, have generally gone about their external branding strategy as public companies and in many instances with direct input from Wall Street analysts. Some have formally presented their branding plan to analyst "focus groups," from which they have elicited feedback and critiques of their branding strategy. Wall Street, because of the influence it yields on stock price and investor sentiment particularly in the short-run, should certainly have such initiatives explained to it, and feedback should be gathered and considered. However, doing so does bring about interesting challenges for management – that is, the brand promise and execution in both the short and long-term needs to be focused around the actual customer who goes to or lives in the assets. Wall Street can, as mentioned previously, affect the fortunes of a company, but the long-term success or failure of a brand will ultimately depend on the day-by-day, year-by-year execution of a company on its brand promise. When a company makes Wall Street the central customer and focus of its initiatives, then the real consumer is not the focus of same those initiatives.

Archstone-Smith and Camden

Both Archstone (which recently changed its name to Archstone-Smith after a merger with Charles E. Smith), a multi-family owner and operator of 225 communities containing 79,982 apartment units, and Camden Properties, a multi-family owner and operator of 145 communities containing 51,345 units, drew inspiration for their recent branding initiatives from confusion in the marketplace. For Archstone, this confusion was internal as well as external – prior to 1997, they operated under the names SCG Realty Services, which managed properties for the ownership entity SCPT, or Security Capital Pacific Trust, which was in turn controlled by SCGroup, or Security Capital Group. Executive Vice President Dana Hamilton, who was hired to run the new branding effort in 1997 and had her efforts chronicled in the Harvard Business School case study *Security Capital Pacific Trust: A Case for Branding* speaks not only of a confusing organizational structure where employees "didn't understand who they were working for" but also "zero name recognition" amongst customers.[71]

Camden as well faced confusion, although much of it more external in nature. According to one company source, the major reason they chose to begin an extensive branding effort was because they felt they were being treated unfairly by Wall Street.[72] The investment community, for example, looked at the rents generated by Camden properties and thought, incorrectly, that the company owned mostly 'B-' quality properties. According to Trisha Hoffman-Ahrens, who runs the branding effort at Camden, the company did not have a clearly defined image or continuity of how they presented themselves. Worse yet, what image the company did enjoy was not at all reflective of who or what they were about.[73]

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[71] *Interview Dana Hamilton*, July 16, 2002.
[72] *Interview Trisha Hoffman-Ahrens*, July 30, 2002.

A secondary reason for the Camden branding effort was its desire to unite the company's workforce, as the company has actually acquired a substantial number of properties in the past five years. When the company went public in 1993, it had 350 employees in three states, but now employs 1,800 in eight states. The company today is really a combination of three companies, the original Texas based Camden, as well as a southeastern and a Las Vegas-based company.[74]

Branding a multi-family company is no easy task – for one, companies undertaking such efforts are generally trying to build regional identities on a national scale, a characteristic true of both Archstone and Camden. Furthermore, the nature of the industry, perhaps more so than other real estate asset classes, is such that complaints are the primary form of interaction between the lessor and the lessee. As Hamilton points out, "Let's face it: the typical image of a tenant-landlord relationship is not a positive one."[75]

That being said, market research conducted by Archstone at the start of their branding effort convinced them that there was certainly value to establishing a brand name and providing outstanding service in the industry. At that time, they surveyed 428 current SCPT residents who had signed a lease within the past six months and were the leasing "decision-makers." The most pertinent results of this research is as follows:

Apartment Residence Selection Criteria

	Agree	Disagree	Mean
Friendly, responsive office staff	81	1	8.2
Leasing Agent that treats you with respect	78	0	8.2
Knowledgeable leasing agent	70	2	7.8
Ability to tour actual apartment you would live in	68	4	7.7
Being able to move into apartment right away	56	2	7.4
Having plenty of time to look around at many apt. communities and think through decision	54	2	7.3
Apartment management company with excellent reputation	50	6	6.9

[73] *Ibid.*
[74] *Interview Ric Campo*, July 25, 2002.
[75] Susan Fournier and Sarah Thorp, "Security Capital Pacific Trust: A Case for Branding," *Harvard Business School Case Study,* (#9-500-053), 2000, p. 10.

Source: SCPT Customer Brand Identity Program, September 1997

Survey respondents rates on a 9 point importance scale where 9 = extremely important,

And 1 = not at all important

Reasons for Leaving Last Apartment

	Total (%)
Job Location	49
Unhelpful Staff	32
Move to a better location	29
Behavior of neighbors	17
Crime	17
Larger apartment	17
Poor maintenance	15
Price	13

Percentage responding positively on an open-ended basis

Source: SCPT Customer Research Brand Identity Program, September 1997

The survey results show the importance that management has in attracting and retaining tenants. While "Changing job location" is the leading reason for a tenant to move to another apartment location, there are numerous other factors, including an unhelpful staff and the behavior of neighbors, that are to a certain extent controllable, that play an important part in many peoples' decision to leave a given apartment. Additional survey results also revealed that most people have more confidence in a well-known management company.[76] The results of the various surveys painted a different consumer profile than had previously been understood by SCPT, and showed that good management was a far more important component of the apartment renting decision process to most people than price.[77] According to Hamilton:

> "We had never looked at our business this way before. It had always been about the property – the product – and not about the customer. Listening to those results, we realized we hadn't fully known who are customers were! [Over time]...we began to identify our key customer segments and key drivers of customer choice, preference, and satisfaction. We were on our way to formulating the brand strategy that would take us forward in a leadership role."[78]

[76] *Ibid.*
[77] *Ibid.*

Camden, meanwhile, carefully analyzed its current position in the market prior to beginning its branding initiative. Like SCPT/Archstone, it fully considered a name change, but discovered, according to Chairman and CEO Ric Campo, that the Camden name was highly respected and known among customers and apartment lessees in general in their core markets. Additionally, it was well liked by the company's employees. Campo points to an 80% property manager retention ratio as evidence of a strong corporate culture which they elected not to alter with a name change.[79] They did elect a new company slogan, "Living Excellence" as well as a new trademark, the hummingbird, both of which will appear on all company collateral going forward.

Both companies made highly visible and consistent signage a tangible part of the branding process. Archstone elected to rename nearly all its residences Archstone Communities, with a descriptive adjective encompassed in part of the name, for example, "Archstone Downtown." Unlike Camden, Archstone began its branding effort internally, by working to bring its employees to an understanding as to what the renamed and branded company would stand for. The renaming was, in fact, the last piece of the branding strategy that was implemented, following an internal focus on bettering the communities and delivering service to the customer. A poll conducted just prior to the name changes revealed that 10% of residents believed that the name of the community they lived in contained the word "Archstone," even though such was not yet true.[80] Another striking poll taken at the start of the branding initiative revealed that 85% of Archstone employees believed they enjoyed an advantage over the competition as a result of their name change, even though ostensibly nothing about the company had changed.[81] Camden elected to pursue a similar naming convention, but is began the signage component of their branding process almost immediately. Both companies have elected to use their names strategically, and have thus elected not to name certain properties under the respective brand names. The

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[78] *Ibid.*, p. 10.
[79] *Campo*, July 25, 2002.
[80] *Hamilton*, July 16, 2002.

companies have generally elected to do this either because of a lack of control of the operations of the property, or because a given property does not meet the given company's criteria for what a branded community should represent.

When Archstone began its branding effort, it also began a strategic repositioning, whereby it actively sought to dispose of assets in "commodity" markets without restrictions on supply in favor of purchasing assets in so-called supply-constrained markets. Other components of their repositioning strategy included far greater geographic diversity of their portfolio, a move from the lower end to the upper end of the rental market, and a conscious change of focus from being a development and acquisition-oriented company to being a service-oriented one.

In contrast, Camden's branding strategy, which is being implemented in earnest this year and will cost, according to external sources, $8 million, does not fundamentally change any of the company's strategic focus. Camden owns today approximately half 'A' and half 'B' quality properties, but has elected to brand all of these under the "Camden" name, with no distinction between the two sets. Camden also has no plans to reposition its portfolio in any major way. Campo explains that delivery of services to the tenant is what the company does best, and for this reason it is neither prudent nor necessary to develop the branding strategy differently.[82] Both companies point to advertising and marketing efficiencies that Archstone-Smith has realized, and Camden expects to realize as a result of its consistent and now centralized (as opposed to asset-specific) marketing campaign, as another benefit of the brand.

Both Archstone and Camden, like Post, survey their residents at move in, move out, and for the most part during or after an "event," such as a maintenance call. Both have contact with their residents at least one time per year. Archstone has augmented this customer interaction by

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[81] *Ibid*

placing its toll-free complaint/comment hotline on every piece of print collateral the company produces. This 1-877-ARCHSTONE line receives approximately 3,500 calls per month, representing approximately 1.4% of the total customer population.[83] Intended as a way for customers to speak directly with the company while avoiding interaction with the property manager, the most common questions asked pertain to conditions of leases or lease expiration dates.[84] It does, however, play a role in reinforcing the company's focus on providing outstanding service to its customer, and at the end of the day, this may be its greatest benefit.

Interestingly, the property management bonus schemes for both companies, like Post, are tied almost exclusively to the operating performance and profitability of the property at which the individual employee works. Only Post gives any sort of recognition to the property management team with the highest customer approval ratings in the portfolio, and that recognition goes to only one property management team.[85] None of the companies directly tie any salary or bonus to customer satisfaction, even though all have regular mechanism in place by which to measure this performance. For companies that purport to be focused on delivery of service to the customer and are building their entire branding strategy around this delivery, this is a surprising revelation. It may closely relate back to the discussion in Chapter 4 concerning the common fallacy of paying for 'A' while hoping for 'B.'

Camden has to its credit, however, instituted some alignment of incentives amongst its property managers and field personnel through the use of its stock. Each employee, upon hiring, is given 100 shares of Camden stock, vesting over five years. This roughly equates to a $900 guaranteed bonus per year during the employee's first five years, based on the current market price.[86]

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[82] *Campo*, July 25, 2002.
[83] *Hamilton*, July 16, 2002.
[84] *Ibid.*
[85] *Interview Janie Maddox*, August 1, 2002.
[86] *Campo*, July 25, 2002.

Furthermore, in May of this year, 690,000 stock options were awarded to middle-management, including property managers, based on the employees then salary (roughly tied to length of tenure).[87] Although not a direct reflection on performance relative to customer satisfaction on a property-by-property basis, this nonetheless obviously helps to align the interests, in a broad sense, of the employees of the company with its overall welfare.

Results and Challenges for Archstone-Smith and Camden

Neither company commands any sort of premium in their respective markets as a result of their branding effort. Camden internally hopes to be receiving a 5% top-line market premium within the next five years as a result of its effort, but would be "probably happy" with 3%.[88] Archstone-Smith, meanwhile, appears less focused on a premium as it does on achieving better performance on several other dimensions, which it has tracked since 1997. The results made available for this thesis are reported below.

Archstone (-Smith) Communities Performance Comparison - Select Metrics		
	1997	***2001***
Residents reporting complete satisfaction	80%	88%
Residents reporting better experience versus competition	~ 50%	~70%
Residents who would recommend Archstone	80%	84%
Marketing expense as a percentage of gross revenues	1.8%	1.6%
Cost of customer acquisition		Down 10%
"Traffic" per property (perspective tenants seeking information)		Up 23%
Current Archstone residents identifying Archstone as property manager – no "aid"		~75%
Current Archstone residents identifying Archstone as property manager – w/"aid"		~90%

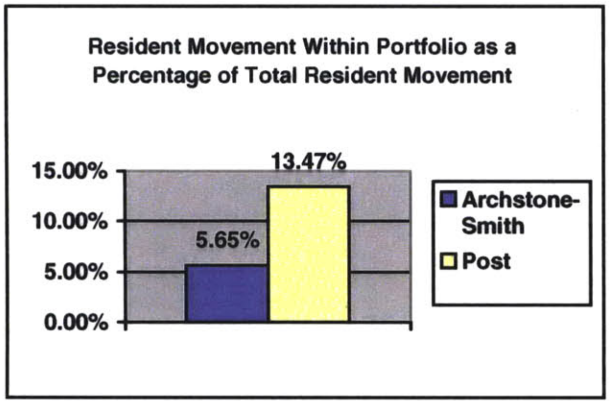
Source: Dana Hamilton Interview on July 16, 2002.

As is seen from the data, there was improvement on several dimensions, including customer satisfaction and cost of customer acquisition, of which marketing is a component. Another metric the company points to as evidence of the success of the initiative is the number of current tenants

[87] *Ibid.*

[88] *Hoffman-Ahrens*, July 30, 2002.

electing to move to another Archstone property, which totaled 2,780 last year.[89] While far higher than what is believed to be the industry average, this number, which is reflective of a company's geographic scope as well as its customer's satisfaction level, is still significantly smaller on a percentage basis than Post.



Source: Company data and ATH Analysis
See Appendix 3

Archstone reports that retaining these tenants accounted for $32 million in incremental rental revenue, or approximately 4.5% of total rental revenue.[90]

Challenges ahead for Archstone-Smith include maintaining and sharpening their brand promise in an increasingly geographically diverse and growing portfolio. The name change itself represents another challenge – according to company sources, the name change was dictated against company wishes as a condition of the recent merger with Charles E. Smith.[91] For a company that had spent as much time and effort on its name as Archstone has, this was indeed an unfortunate condition. The merger itself is a challenge, naming issues aside, on at least two fronts. One, the new company must integrate and adopt a common culture, a challenge that afflicts every merger is one of the most common pitfalls of merger activity. And two, Charles E. Smith's assets, urban

[89] Camden Properties 2001 Annual Report.
[90] Archstone-Smith 2001 Annual Report.

high rises, are completely different than Archstone's garden-style apartment complexes. As Post discovered, the two types of products are distinct, and each poses its own challenges in operations, maintenance and development. Additionally, the new Archstone-Smith brand must be expanded to encompass outstanding service delivery in both these product types.

Challenges ahead for Camden include maintaining internal focus around the new brand promise and establishing community recognition and distinction in its products. Also, the company must meet the challenges of having a single brand encompass two different quality products, a challenge that is not usually undertaken by companies engaged in branding. Finally, they must continue to work to define what the brand will mean to the actual customer, as opposed to what it will mean to Wall Street.

Office Company "X" and Parkway Properties

Both "X" and Parkway operate in the Class A office market. X, which asked not to be identified by name at the conclusion of their interviews for this thesis, is a portfolio with national scope that has been at the forefront of the entire real estate industry in marketing their branding effort. They have grown almost entirely through acquisition and have made a point of having their name made highly visible through signage and other means at all existing office portfolio assets (they have a far smaller portfolio of non-office assets as well). The brand identity has also been crafted by its prolific leader, who is known throughout the industry and could be considered the "public face" of the company. This leader enjoys a reputation as a shrewd businessman, but it is unclear whether this reputation extends to service delivery.

While X has actively marketed the value of its brand, it is believed that the intended recipient of this marketing has been the investment community. Aside from company officials meeting with

[91] *Hoffman-Ahrens*, July 30, 2002.

an acquired building's current property management, there does not seem to be a marked change which occurs with the service or quality delivered to a building once it is purchased by X. Furthermore, there does not appear to be a particular emphasis on service delivery within the company on an ongoing basis as well. The company does enjoy name recognition, but such recognition is not consistent with the internal alignment of the company, which seems more geared towards acquisition than it does towards service. While the company does survey its tenants on a yearly basis, the results of these surveys do not appear to have a tangible effect on the operations of the company. As is thought to be the case with Simon, to be discussed below, it is uncertain whether an extensive branding effort focused around service delivery without the necessary alignment towards that delivery actually has a detrimental affect on the brand in the long run.

In contrast, Parkway has extensively billed itself as being in the "tenant retention business," and has aligned itself around this brand promise. The company is headquartered in Mississippi, and has property holdings stretching from Chicago to Phoenix. While operating a portfolio of 57 properties with a total enterprise value of around $1 billion, the company has achieved tangible results as a result of this focus. The most striking results are a tenant retention ratio 15-20% higher than the industry average, and incremental net income as a result of this retention of $3 to $4 million per year, representing roughly 12% to 15% of income from operations. See **Appendix 4**.

Parkway has developed a comprehensive program for property management and alignment. For a given building, the management program aligned around the customer begins with its "4F" campaign, whereby each property is required to have flags, flowers, fixtures, and fellowship initiatives in place. Flags are to consist of U.S. and State flags, major tenant corporate flags (upon request) and Parkway flags in select locations; flowers include fresh cut flowers in the men's and women's restrooms, as well as flowers maintained throughout the building and grounds, and fresh flowers delivered to customers upon move-in; fixtures include statues and furniture in the lobbies and throughout the building; and fellowship includes tenant appreciation parties annually and upon move-in, special event gatherings, health maintenance programs brought on site, and periodic and consistent contact with the customer.

As another means of service delivery, Parkway employs two full-time "tenant advocates." Borrowing on a similar program conducted by Trammell Crow, CEO Steve Rogers implemented this program at Parkway as a way for a company representative other than the direct property manager to interact with tenants at least one time per year, conducting a thorough analysis of the building and management performance. In some ways, it is like an audit, although Rogers shies from this comparison.[92] These tenant advocates produce a report on the property, including problem areas, which are in turn shared with Parkway management and with the property manager. Rogers reports that the tenant advocate program has been an important way to improve performance and tenant retention.[93] Additionally, tenants are surveyed yearly independent of their tenant advocate interaction.

Rogers' initiatives stretch to the symbolic as well – he has rejected the terms "tenant" and "landlord" as, according to him, they refer back to feudal times and relationships inconsistent with the Parkway brand.[94] Instead, tenants are referred to as "customers", and Parkway is referred to as the "service provider." Customers typically do not sign a lease, rather a 12-page "customer service agreement," a length significantly shorter than the standard industry document. The standard renewal, meanwhile, is limited to a one-page document that serves as a customer service agreement amendment. Brokers, meanwhile, are given a "Brokers Bill of Rights,"

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[92] *Interview Steve Rogers*, July 23, 2002.
[93] *Ibid.*
[94] *Ibid.*

delivered in a scroll-form, which outlines how brokers doing business with Parkway can expect to be treated – for example, that they will be paid commissions within 48 hours.

Parkway, relative to the other companies examined, has perhaps the strongest incentive program on a property-specific basis. It is also the incentive program most directly aligned with a company's goals. Parkway's stated goal is to retain tenants, and property managers are directly compensated on their ability to retain tenants. Rather than hiring an outside broker, as is the industry standard, the tenant renewal process at Parkway is conducted directly by the property manager, who has at his access the aforementioned one-page renewal agreement. Should the lease be successfully renewed without an outside tenant representative, the property manager keeps one-third of what would be a standard lease renewal commission paid to a broker at 2% of the total lease revenue total. Should a tenant representative be utilized, it is understood that the Parkway employee would "split" the commission,* meaning a bonus of one-third of 1% of the total lease revenue. In either case, the remainder of what would have been the lease renewal "commission" is kept by Parkway.

The property manager is the person who has had the relationship with the tenant, which he has presumably built and strengthened through time. While a given number of tenants will move simply because they have changing space needs that cannot be met by Parkway, many others will move or not move based on their experience in the building. Thus, the property manager's compensation will be tied directly to his ability to meet those needs and retain those tenants. For the average property manager, who according to Rogers receives a base salary at market,[95] the incremental bonus achieved on average in a year is approximately $8,600 (see **Appendix 4** for more detail). The incremental savings to Parkway, meanwhile, by not paying an outside leasing agent for lease renewals amounts to almost $1 million per annum, or approximately 3.7% of net

* The "splitting" of commissions was alluded to by Parkway officials, but not specifically confirmed.

income from operations. This figure represents two-thirds of 1.2%, which on average is paid neither to the Parkway property manager (who receives one-third) nor to an outside agent (see **Appendix 4**).

Parkway also receives additional benefits by its higher than average tenant retention ratio. While comprehensive figures were not available, industry averages for tenant retention in the Class A office market range from 60% to 70% on average. For purposes of this thesis, both 65% and 70% were taken as the industry average and compared to Parkway. Parkway, from 1997-2001, saw its tenant retention ratio range from 78% to 82%, or approximately 80% on average.[96] This incremental retention helps Parkway in at least four key areas. One, leasing commissions for new leasing are approximately 5%, versus 2% for renewal commissions. Two, there is typically a delay between when a tenant leaves a space and when that space is re-leased, which the industry typically estimates at six months. Three, there are higher tenant improvement costs associated with building out a space for a new tenant versus improving a space for a renewing tenant. These costs are estimated (based on a leading office REIT which reports these numbers) to be $15.90 per square foot for a new tenant versus $6.71 for a renewal tenant, or approximately a difference of $1.84 per square foot per lease year. Four, there is the incremental savings at Parkway as a result of performing tenant renewals in-house (two-thirds of a typical 1.2% commission, a weighted average between a 2% commission with no tenant representation occurring in 20% of releasing negotiations, and a 1% commission with tenant representation). These savings are quantified below for Parkway given an industry average for tenant retention of both 65% and 70%.

As Parkway currently trades at a P/E ratio of 19, the incremental income can be thought to add approximately $60 to $80 million to the company's market capitalization.

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[95] *Interview Steve Rogers*, August 2, 2002.

Industry Retention Average		**65%**		**70%**
Value of Internal Renewal "Commissions" (2/3 of 1.2%)	$	983,448	$	983,448
Incremental rental income from non-vacancy (estimated at 6 months for new leasing)	$	1,773,042	$	1,257,476
Savings from decreased tenant improvement allowance expenditures	$	2,274,056	$	1,612,806
Renewal versus original leasing savings (@ 5% versus 2%)	$	691,486	$	460,991
Less Cost of Tenant Advocates (Salary and Benefits) - estimated	$	210,000	$	210,000
Less Travel Expenses – estimated	$	57,000	$	57,000
Less Additional Incremental Expenses (estimated @ $0.10/square foot)	$	930,000	$	930,000
Total Incremental Income to Parkway from Extra Tenant Retainage	$	4,525,032	$	3,117,721

Source: company data, ATH analysis, and company review of ATH analysis
For more information, see Appendix 4

Simon

Simon, the nation's largest mall owner, has been another company that has been widely publicized for its branding efforts. Like Office Company "X," however, this public attention seems to not be supported by internal alignment around the brand promise.

Simon undertook a major branding campaign beginning in 1999, with total costs through the beginning of the year 2001 totaling $25 million. Included in this campaign were extensive signage and banners at all company properties, a national television commercial campaign emphasizing the value of the Simon shopping experience, and complementary collateral, including "S" Magazine, a since discontinued publication distributed free to shoppers, which contained news and feature content provided by Time Warner. Also discontinued in April 2001 was a program called "MallPerks," whereby shoppers would receive access to special promotional offers by paying $5 to join the program.

Like Westfield, another major mall owner in the United States, Simon sought to distinguish itself by emphasizing the distinction its brand and shopping experience delivered. However, Simon did not seem to take the steps necessary to deliver on that brand promise through internal efforts or

[96] Parkway Properties 2001 Annual Report.

programs. As Brenda Gilpatrick, former marketing director at Simon's Lenox Square Mall in Atlanta pointed out:

> Simon is trying to vanilla all these shopping centers. It's creating confusion in consumers' minds. When a shopper doesn't know who that is or understand the message, it creates a lot of confusion. Simon is doing what's best for Simon and not doing what's best for the customer. [97]

It could even be argued that there simply was no way to deliver on that promise, given the heterogeneous nature of their assets, the fact that these assets were acquired, and the limited interaction that their employees have with customers. The typical Simon mall employs ten Simon employees, some of whom, like the mall's marketing manager, do not interact with customers on a regular basis. This means that the vast majority of those employed within a mall are not Simon employees. Simon even out-sources such functions as mall security,[98] further reducing their chance to add value through promoting the brand through this interaction. As Laurie Schreiber, marketing manager of the Atrium Mall in Newton, Massachusetts points out, "interaction with our customers on a day-to-day basis is very limited."[99]

Industry insiders suggest that part of the problem for Simon rests on the fact that retail is about location and tenant mix. Despite images of strolling afternoons spent at the mall, Taubman, a competitor of Simon, reports that the average stores visited per average mall trip is 2.3.[100] Furthermore, as the industry stands today (and unlike, for example, the Mills) it is not the malls themselves that are attracting shoppers, rather it is the individual tenants. As Morgan Stanley retail REIT analyst Matt Ostrower points out, "Given two basically identical assets that are of

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[97] Renee DeGross, "Advertising Campaign: Simon's $25 million gamble," *The Atlanta Journal and Constitution*, January 16, 2001.
[98] *Doran,* July 12, 2002.
[99] *Interview Laurie Shreiber*, July 15, 2002.
[100] *Interview Carol Gies*, July 31, 2002.

reasonably the same quality, no one says I will go to Westfield versus Simon mall. People make their decision based on what's closest and which tenants are in the mall."[101]

The next obvious question is why mall ownership would attempt to brand their malls with no obvious internal alignment around that brand in the first place. When Shelly Doran of Simon's investor relations department was asked this question, she revealed that the Simon branding effort was, in fact, "more subconscious now."[102] She went on to explain that the goal of the branding effort – letting everyone know who owns the mall – had been accomplished, and therefore the branding initiative had been scaled back,[103] except for the mall gift certificate program, which allows for someone who purchases a gift certificate to have that certificate used at any Simon mall. In 2001, according to Doran, Simon sold approximately $230 million in gift certificates,[104] which equates to $1.22 in sales per square foot across the portfolio, or 0.33% of sales at all Simon malls.

Simon has been successful through its division known as Simon Brand Ventures in signing agreements with national companies, such as Pepsi and Visa, to distribute and market their products through Simon malls. Both of these alliances were formed in 1998, well before the official "branding" campaign was launched, and it does not appear there was a connection between Simon's ability to land such agreements and the official "branding" of Simon malls that has taken place over the last three years.

AMB

AMB, one of the nation's largest industrial space owners and operators, is constrained in its ability to brand itself by its asset class, which by definition does not come in contact with a mass

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[101] *Ostrower*, July 29, 2002.
[102] *Doran,* July 12, 2002.
[103] *Ibid.*

consumer market. AMB has sought to establish a consistency at its properties with signage and readily understood values throughout the organization. These values include trying to retain tenants in existing buildings through customer service, and establishing relationships in the brokerage community by doing things like sending commission checks via Federal Express.[105]

AMB appears to be at the forefront of the industrial community in terms of establishing consistency throughout its organization. All buildings that are suitable are branded with consistent signage and collateral. By all accounts, they appear to have established a solid reputation.

AMB has elected to outsource all of the day-to-day functions at their buildings, including property management and maintenance. They have numerous "alliance partners" who handle these tasks for them in various geographic markets, with AMB handling only asset dispositions, lease negotiations, and the like.[106] Given AMB's concentration in its numerous markets, this is perhaps somewhat unexpected, given its emphasis on customer service. As CEO Hamid Moghadam explains, since there is no on-site manager at industrial properties (by-in-large), it does not make much difference if this management is handled in-house or outsourced to others. Moghadam went on to describe a steep learning curve that new alliance partners must go through to reach an "AMB level of service."[107]

The industrial industry, perhaps more so than any other asset class, is still highly fragmented, with all public REITs accounting for less than 10% of the total industrial U.S. market. AMB typically competes against much smaller, non-publicly traded players, where Moghadam feels that the value of being branded comes into play, not so much with the one-off customer who care

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[104] *Ibid.*
[105] *Interview Hamid Moghadam*, July 15, 2002.
[106] *Ibid.*

mostly about price and location, but with the repeat customer. As he explains, "having consistent signage and a sharp look helps to establish us as a 'real' company, which helps when competing against the little guy," a competition that occurs in 90% of the time.[108] He describes the brand as a source of pride for employees and investors. AMB surveys its customers once a year to receive feedback on all aspects of their relationship, believed to be a non-standard practice in the industrial industry.[109]

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[107] *Ibid.*
[108] *Ibid.*
[109] *Ibid.*

Conclusion

Branding in real estate, while still in its infancy, has become an important part of the industry. Branding strategies are on the minds and in the annual reports of some of the real estate's leading firms. Firms use branding as a way to distinguish themselves and bring value to their shareholders. The scientific method for measuring the value of brand equity has yet to be developed, but there is nonetheless strong evidence indicating that branding does in fact make a profound difference in the operations and profitability of some companies, including some within the real estate industry.

The leading firms in the industry have usually followed the elements of the real estate branding model: internal alignment, leading to consistency of experience, leading to distinction, leading to community recognition. Those not following this model must face the task of establishing an effective brand in a manner not consistent with that employed by today's leading brand firms. Branding's potential effectiveness for a real estate company can also be gauged by that company's interaction level with a mass consumer market, usually considered a pre-condition for the establishment of a successful brand.

Branding strategies can be grouped into three groups. The first, market-creating branding, involves the creation of new markets using unique methods of product delivery. The second, product branding, refers to those companies using a strategy involving delivery of a superior product, along with consistency of that delivery, to distinguish themselves from their competitors. The third, service delivery, is the most common type of branding strategy employed, and involves a company distinguishing and branding itself on the strength and quality of its service.

Over the course of this thesis, the leading brand firms in real estate have been analyzed, and where possible, the value of their brand has been investigated. There is no standard way to exactly measure the value of a brand, as each company's goals, implementation, and historical effort are different. However, many of the firms investigated showed definite evidence of brand value. Such value included premiums to rents commanded to the market, repeat customer percentages that outstrip the company's market share, returns on equity surpassing those of a given company's peer group, incremental income generated as a result of better performance relative to a given company's competitors, and higher employee retention and satisfaction.

Branding is not a panacea. The number of branding strategies has risen in recent years because of evidence of successful brand models, the consolidation of the industry, and increased competition on the buy-side. However, the value of a brand ultimately rests on the value of the company behind the brand and its commitment to a sound brand and corporate strategy. External branding can only work if it is an accurate representation of the internal values and focus of the company. If the two are inconsistent, the relationship will not stand over time. Successful branding requires strong execution, an unwavering commitment, and faith in the value of a brand.

Appendix 1

Del Webb Brand Implementation Criteria

1) Financial case for use of brand – will utilizing the brand produce better economic results for the project?

2) Will the product fit the brand promise?

   a) Review all qualifications of those who will play a role in the day-to-day operations and development of the project.

   b) Review whether there is evidence of a strong presence that will be located physically at the entrance of the community. (This has become a trademark of the Del Webb brand).

   c) Review as to whether there are or will be built suitable lifestyle-enriching elements (Del Webb sells lifestyle first, homes second, which is the opposite of the Pulte brand).

   d) Analysis as to whether the development will make a positive contribution to brand equity. (Will anyone who is already familiar with the Del Webb brand have a positive brand-enhancing experience?)

   e) Review of adherence to identity standards (collateral, uniforms, etc.)

3) Review as to the extent to which completion of project will represent a seamless Del Web experience. (That is, is it consistent with other Del Webb developments?)

4) Review of how the community will be marketed and sold.

5) Analysis of the commitment from the division president as to the ongoing maintenance of the brand.

Source: Jim Lesinski, Vice President of Sales and Marketing, Pulte Homes, July 29, 2002.

Appendix 2
From Post Internal Report
All answers taken as proxy for "Moving to Competitor Apartment" are highlighted

External (Left Post)
Apartment Location
Apartment Price
Apartment Rehab Problems
Apartment Size
Bought House
Community Age
Construction Environment
Corporate Apt
Deceased or Death in Family
Employment Change
Employment Loss
Employment Transfer
Evicted
Family Status Change
Financial Difficulties
Fire on Property
Health Reasons
Incident on Property
Living Guarantee
Maintenance Problem
Military Transfer
Move Closer to Workplace
Move to Competitor Property
Neighbors
No Longer a Model-NonRevenue
Noise Problems
NonRenewal by Post
Not Given
Parking Problems
PCA Vacate Unit
Personal
Pet Does Not Meet Requirements
Post Employee Transfer
Property Location
Relationship Change
Relocation
Rent House
Return to School
Roommate Change
School Ended
Skip
Unhappy with Community
Unhappy with Management
Unhappy with School System

Appendix 3

Comparison of Percentage of Residents Moving Within Portfolio at Archstone-Smith, Post

	Archstone-Smith	Post
Total Units	79,982	31,525
Occupancy	94.7%	94.9%
Average Units Occupied	75,743	29,917
Turnover (annually)	65%	n/a
Turnover (in units)	49,233	n/a
Residents moving within portfolio	2,780	n/a
% of moving residents electing to move within portfolio	5.65%	13.47%

Data on Total Units, Occupancy provided by Archstone-Smith and Post 2001 Annual Report

Data on Turnover, Residents Moving within portfolio at Archstone-Smith provided by 2001 annual report

Data on Turnover, Residents Moving within portfolio at Post provided directly by Post to author

Data on Turnover (annually), Turnover (in units) and Residents moving within portfolio not reported at Post's request

Appendix 4

Calculated using 65% as average tenant retention ratio (70% not shown)

Value of Internal Tenant Renewal Commissions to Managers and Parkway

Total Square Feet	9,300,000	
Average Occupancy	94%	(2001)
Total Square feet occupied	8,742,000	
Average Percentage of Leases Rolling	14.5%	(2002-2005)
Total Square Feet Rolling	1,267,590	
Average Lease Length in Months	78	(2001)
Average Rent PSF	$18.65	
Total Buildings	57	
Total Value of Average Leases Rolling/Building	$ 2,695,853	
Total Average Retention Rate	80%	
Total Value of Leases Rolling and Retained/Building	$ 2,156,682	
@ 1.2% of total value	25,880.18	
Average Share to Property Manager (1/3 of total "commissions")	$ 8,627	
Savings on commissions at all buildings to Parkway (as result of no outside broker)	$ 983,448	per annum

Value of Higher Tenant Retention Ratio to Parkway

Parkway Tenant Retention Ratio	80%	
Typical Industry Tenant Retention Ratio	65%	
Difference	15%	

Additional Rental Income

Typical Industry Vacancy Duration	0.5	Years
Total Square Feet in Parkway Portfolio	9,300,000	
Average Leases Rolling per Annum	14.5%	(2002-2005)
Total Square Feet Rolling Per Annum	1,348,500	
Additional Retain Tenants versus Industry Average	15%	
Additional Square Feet Retained Versus Industry Average	202,275	
Average Rent Per Square Foot	$18.65	
Incremental Rental Income as Result of Parkway Tenant Retainage (no vacancy)	*$ 1,886,214*	*per annum*

TI Allowance Savings on Retained Space

Additional Square Feet Retained Versus Industry Average	202,275	
Typical TI Allowance Savings of Retained versus New Tenants	$1.84	sf/year
Average Lease Length	78	Months
Additional Square Feet Retained with Renewal TI Across Portfolio versus Industry Average	1,314,788	
Total Savings on TI over Portfolio/Annum	*$ 2,419,209*	

Savings on Leasing Commissions (as result of Incremental Retainage)

Industry Commission Spread of New Leases versus Lease Extension	3% (5% - 2%)
Square Feet Rolling per Year	1,267,590
Incremental Retainage Over Industry Average	15%
Incremental Square Feet Retained versus Released	190,139
Average Lease Length	78 months
Average Rent PSF	$18.65
Total Value of Incremental Retained Leases Signed per Year	$ 23,049,540
Commission Savings by Renewing Rather Than Releasing	*$ 691,486*

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