A DEVELOPER'S SURVIVAL GUIDE:
A PROACTIVE APPROACH TO MANAGING IN A DECLINING MARKET ENVIRONMENT

by

DAVID GEORGE BLOORE
B.S., Chemistry
Ursinus College, (1973)

Master of Business Administration
Harvard Business School, (1975)

STEPHEN EVERETT FOWLER
B.A., Economics
Stanford University, (1984)

Submitted to the Department of Urban Studies and Planning in partial fulfillment of the requirements of the Degree of Master of Science in Real Estate Development at the Massachusetts Institute of Technology

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Signature of Author
David G. Bloore
Department of Urban Studies and Planning
July 31, 1989

Signature of Author
Stephen E. Fowler
Department of Urban Studies and Planning
July 31, 1989

Certified by
Gloria Schuck
Lecturer, Sloan School of Management
Thesis Supervisor

Accepted by
Michael Wheeler
Interdepartmental Degree Program in Real Estate Development
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ABSTRACT

Over the past thirty years, the real estate industry has
been subject to three cycles of increasing amplitude.
During periods of prosperity developers often find most of
their projects are successful. Even poor development
decisions may be profitable in a strong market. However,
to avoid scrambling to survive in the downturn portion of
the cycle, carefully reasoned management responses are
necessary. This paper provides development companies with
specific action recommendations to survive a market
downturn.

An experiential learning model is used to analyze the
management responses of four Denver, Colorado real estate
development firms. Denver was chosen because it has been
mired in the downturn portion of a market cycle since 1984.
The firms interviewed have experienced at least one
complete real estate cycle, and were still operating in
July 1989. The study integrates the theoretical approach
of the experiential learning model, with the actual
management responses of the four development firms to
provide insight on surviving a downturn in the market.

The principal conclusion of this thesis is that companies
that follow the steps of the experiential learning model
can take a proactive approach to managing in a declining
market. They are more likely to anticipate the direction
of the market and achieve superior results. In contrast,
firms that omit any of the steps of the learning model
become reactive. Typically, they are unable to stay ahead
of changing market conditions and performance suffers.

Thesis Supervisor: Gloria Schuck
Title: Lecturer, Sloan School of Management
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Randy Nichols was instrumental in the search for companies willing to participate in our research. Without his generous sharing of knowledge and contacts, we would have had great difficulty in locating and meeting the principles and managers of the Denver developers we spoke with.

Special appreciation goes to Joyce Conley, Richard Ford, Mike Winchester, and Steve Patterson for the open and frank discussions that provided the basis for our research. Although their names have been changed their insight was straightforward.

We would also like to thank the Urban Land Institute for its generous funding of this thesis. We hope that our research advances the study of this subject and is useful to its member firms.

We would like to thank Ann and Brad Wallace, Steve's sister and brother in law, for their insightful commentary and editorial assistance in the writing of this thesis.

David G. Bloore
Stephen E. Fowler
July 31, 1989
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INTRODUCTION

I reject get-it-done, make it happen thinking. I want to slow things down so I understand them better.

-Governor Jerry Brown

The real estate industry is undergoing rapid changes. Management will need to resist the "get-it-done" mentality and make carefully reasoned responses. Historically, the real estate industry has been subject to repeated cyclical swings. Furthermore, some development firms have resigned themselves to accepting the cycles as a normal part of the real estate business rather than planning strategies to mitigate an unexpected downturn.

During periods of rapid or even sustained growth, there is tendency for those who create and operate real estate space to get overly confident about their successes and, consequently, they may make some poor development/investment decisions. Even some of the most inept real estate participants can appear to be doing well when the economy is strong. The true test of real estate strategic management practices becomes more evident when the market turns down (Green, 1988, p.64).

The question then becomes:

Why are some companies unable to alter their... strategies in response to market changes, while others, when confronted with the same conditions,
quickly modify their behavior to achieve continued marketplace success? (Bonoma, 1981, p.116)

Real estate cycles are commonly acknowledged, but little research has been done regarding the responses of real estate development companies that have survived a complete cycle. Kolb, a researcher at the MIT Sloan School of Management, believes that improving a company's ability to learn is a vital component of a successful organization. He argues that,

continuing success in a changing world requires an ability to explore new opportunities and learn from past success and failures....If managers and administrators had a model about how...organizations learn, they would better be able to enhance...their organization's ability to learn. (1973, p.27)

Kolb goes on to propose a learning model to help facilitate management responses in a changing world.

This thesis will explore ways to improve the ability of development companies to plan and implement strategies for a real estate downturn. Can the learning model be a prescriptive framework for surviving a declining market? What can we learn from development companies' responses in a downturn? This thesis seeks to answer these questions and produce a proactive approach to managing in a declining market. We analyzed the experiences of four development companies in Denver, Colorado. Denver was chosen because in 1989 it is in the midst of an extended real estate downturn.
This study begins in chapter one with a review of the cyclical nature of real estate markets and a historical look at the Denver real estate market. Chapter two begins the review of formal management literature and explains Kolb's learning model. In chapter three, we review our field research from the four Denver development firms. Chapter four then integrates the field data with the learning model to evaluate the performance of the companies. The thesis concludes with generalized lessons and recommendations for surviving the downturn phase of a real estate cycle.
REAL ESTATE CYCLES

Real estate is cyclical. For every opportunity, there's a problem waiting in the wings. For every problem, there's an opportunity waiting in the wings (Gollinger, 1989, p. 6B).

An examination of real estate cycles provides useful information for making management decisions. Although good time series data on non-residential real estate markets is limited, Wheaton (1986) surveyed real estate markets in the United States and determined the following:

1. Data back to 1960 indicate a repeated real estate cycle with a periodicity of approximately 10 years.

2. The amplitude of the cycle increased in each of the last two cycles indicating that vacancy peaks had been climbing.

3. The market did not clear within a short time. It remained either soft or tight for a number of years before
clearing. In soft markets it was several years before rent concessions were offered and absorption responded. In the same way, markets were tight for a number of years until rents rose enough to slow absorption.

4. The supply of non-residential real estate was more elastic than demand, which helped explain market instability.

5. The real estate market was closely linked to both short and long run cyclical movements of the macro economy. Demand was influenced both by the rate of employment growth and by the overall level of employment. The supply side was also affected by the rate of growth of office employment, but to an even larger degree than demand. This caused construction to respond more than office absorption, further increasing market instability.

Wheaton found that much of the building boom of the 1970s and 1980s can be traced to a structural change in the United States economy, namely the reorientation towards a service economy. Yet it appears that the expansion of the service sector cannot, and will not continue at the same pace as during the 1970s and 1980s (Wheaton, 1986). Thus the stage is set for another downturn in the real estate cycle, and many professionals are pessimistic about the near term future of the real estate sector.
THE DENVER MARKET

The Denver real estate market has experienced sharp changes in activity since 1960. In addition, Denver is currently experiencing a real estate downturn with office vacancy rates of 25%. Therefore, Denver development firms are an excellent resource of past management responses to a real estate downturn. This information may be helpful to other firms as they plan management responses to a downturn in the real estate market.

Data on new residential units in the Denver Metropolitan area indicate three cyclical peaks between 1960 and 1988. The data illustrating the cycles are shown in Table 1.

The number of residential units produced annually varied greatly over the course of a market cycle. From 1965 to 1972, total residential production rose 517%. However, when the market turned downward three years later production dropped 80%. Multi-family production, which includes everything except single family homes, was the most volatile segment in the residential market. Between 1972 and 1975, total production fell 97% - from over 25,000 units to fewer than 1,000. The expansion between 1975 and 1983 saw residential production increase at a slower rate than the prior cycle. In contrast, the downturn portion of the current cycle, which continues in 1989, has been just as severe as the downturn in the prior cycle.
### TABLE 1

**NEW RESIDENTIAL UNITS**

**DENVER METROPOLITAN AREA**

<table>
<thead>
<tr>
<th>YEAR</th>
<th>Single Family</th>
<th>Multi-Family</th>
<th>Total Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961 peak</td>
<td>9,723</td>
<td>9,230</td>
<td>18,953</td>
</tr>
<tr>
<td>1965 trough</td>
<td>5,147</td>
<td>2,129</td>
<td>7,303</td>
</tr>
<tr>
<td>Percent decline</td>
<td>47%</td>
<td>77%</td>
<td>61%</td>
</tr>
<tr>
<td>1972 peak</td>
<td>19,189</td>
<td>25,874</td>
<td>45,063</td>
</tr>
<tr>
<td>Percent growth</td>
<td>273%</td>
<td>1,115%</td>
<td>517%</td>
</tr>
<tr>
<td>1974/5 trough</td>
<td>8,102</td>
<td>884</td>
<td>8,986</td>
</tr>
<tr>
<td>Percent decline</td>
<td>58%</td>
<td>97%</td>
<td>80%</td>
</tr>
<tr>
<td>1983/4 peak</td>
<td>23,664</td>
<td>9,731</td>
<td>33,395</td>
</tr>
<tr>
<td>Percent growth</td>
<td>192%</td>
<td>1,001%</td>
<td>272%</td>
</tr>
<tr>
<td>1988 trough*</td>
<td>5,422</td>
<td>1,431</td>
<td>6,853</td>
</tr>
<tr>
<td>Percent decline</td>
<td>77%</td>
<td>85%</td>
<td>79%</td>
</tr>
</tbody>
</table>

(* Assumes trough occurred in 1988*)

Source: Home Builders Association of Metropolitan Denver, Monthly Statistical Reports.
Data on office vacancy rates are also available for 1961 through 1986. Although the timing of the cycles illustrated in Table 2 is based on national real estate cycles, three distinct cycles are apparent for the Denver market.

**TABLE 2**

**HISTORIC DENVER OFFICE VACANCY RATES**

<table>
<thead>
<tr>
<th>Year</th>
<th>Occupancy Peak</th>
<th>Occupancy Trough</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961</td>
<td>7%</td>
<td></td>
</tr>
<tr>
<td>1966</td>
<td></td>
<td>16%</td>
</tr>
<tr>
<td>1969</td>
<td>3%</td>
<td></td>
</tr>
<tr>
<td>1975</td>
<td></td>
<td>21%</td>
</tr>
<tr>
<td>1980</td>
<td>4%</td>
<td></td>
</tr>
<tr>
<td>1986</td>
<td></td>
<td>27%</td>
</tr>
</tbody>
</table>

Source: Wheaton, 1986
Data from the most recent Coldwell Banker Office Vacancy Index of the United States is illustrated in Table 3. The data for the downtown Denver office market indicate the peak of the current market cycle occurred in 1981 when the vacancy rate was 0.1%. The trough of the current cycle was reached in 1987 when vacancy rates hit 30%. Since then the market has been recovering slowly and had a 26.1% vacancy rate in March, 1989.

<table>
<thead>
<tr>
<th>Year</th>
<th>Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978</td>
<td>6.1</td>
</tr>
<tr>
<td>1979</td>
<td>1.8</td>
</tr>
<tr>
<td>1980</td>
<td>0.3</td>
</tr>
<tr>
<td>1981</td>
<td>0.1</td>
</tr>
<tr>
<td>1982</td>
<td>8.3</td>
</tr>
<tr>
<td>1983</td>
<td>23.0</td>
</tr>
<tr>
<td>1984</td>
<td>23.7</td>
</tr>
<tr>
<td>1985</td>
<td>26.0</td>
</tr>
<tr>
<td>1986</td>
<td>29.7</td>
</tr>
<tr>
<td>1987</td>
<td>30.0</td>
</tr>
<tr>
<td>1988</td>
<td>26.4</td>
</tr>
<tr>
<td>1989, March</td>
<td>26.1</td>
</tr>
</tbody>
</table>

Source: Coldwell Banker Office Vacancy Index of the United States, March 31, 1989
OBSERVATIONS OF CURRENT CYCLE FROM FIELD SOURCES

Our fieldwork concentrated on firms that developed and managed office space in the downtown Denver or suburban Denver markets during the 1980s. Like most markets, the downtown space in Denver is tightly focused. However, in contrast to the sprawling development pattern of many suburban markets, suburban space in Denver also tends to be concentrated, in this case South of the City near the intersections of I-25 and I-225, (see Figure 1).

According to our field sources, in 1980 the downtown Denver market contained approximately 9 million square feet of office space, while the suburban market contained just a few million. By 1989, the downtown market had grown to 27 million square feet, with most of that growth occurring between 1980 and 1985.

While growth in the Central Business District (CBD) in the early 1980s was quite rapid, the suburban market expanded even faster. Of eighteen business parks featured in the Denver Business Journal's 1989 Map, only three were opened before 1980. Between 1980 and 1989 suburban office space increased from just a few million square feet to 24 million square feet. However, by 1989, construction activity in both the CBD and suburban markets had virtually come to a halt.
Many developers believed that the primary impetus behind the building boom was sharply rising oil prices. As oil prices increased, domestic oil producers expanded their research on synthetic fuels. In the early 1980s, when oil prices were forecasted to reach the $40-$50 per barrel range, synthetic fuels appeared economically feasible. Denver was well positioned to benefit from the synthetic fuel industry because of the large concentrations of oil shale in the region.

To exploit the perceived opportunity, oil companies began relocating exploration and production personnel to the area. Legal, accounting and other firms that provided support functions for the oil companies also increased staff. Consequently, according to a Coldwell Banker survey (March, 1989), the downtown vacancy rate fell from 6.1% in December 1978 to 0.1% for all four quarters of 1981.

The tight market caused rents and prices for office buildings to increase rapidly. At the peak, gross rents were between $30 and $35 per square foot in the CBD, while suburban rents were slightly lower. Sales prices for suburban office space reached $130 per square foot, while construction costs were just $90 per square foot. Needless to say, development activity increased dramatically.

By 1982, oil prices were declining and the oil-induced real estate "boom" had begun to unravel (see Table 4). Vacancy
rates in the CBD rose above 10% in March 1983, and were above 20% by September 1983. To maintain face rental rates, concessions in the form of free rent and large allowances for tenant improvements became the norm.

TABLE 4

AVERAGE CRUDE PETROLEUM PRICES ($/bb1)

<table>
<thead>
<tr>
<th>Year</th>
<th>Price($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>3.18</td>
</tr>
<tr>
<td>1975</td>
<td>7.67</td>
</tr>
<tr>
<td>1976</td>
<td>8.19</td>
</tr>
<tr>
<td>1977</td>
<td>8.57</td>
</tr>
<tr>
<td>1978</td>
<td>9.00</td>
</tr>
<tr>
<td>1979</td>
<td>12.64</td>
</tr>
<tr>
<td>1980</td>
<td>21.59</td>
</tr>
<tr>
<td>1981</td>
<td>31.77</td>
</tr>
<tr>
<td>1982</td>
<td>28.52</td>
</tr>
<tr>
<td>1983</td>
<td>26.19</td>
</tr>
<tr>
<td>1984</td>
<td>25.88</td>
</tr>
<tr>
<td>1985</td>
<td>24.09</td>
</tr>
<tr>
<td>1986</td>
<td>12.51</td>
</tr>
</tbody>
</table>
| 1987, preliminary | 15.41 

Source: U.S. Energy Information Administration, Annual Energy Review
The development firms interviewed believed that rising oil prices drove the expansion in the Denver real estate market. The data also indicate the relationship between oil prices and demand for office space worked in reverse. When oil prices fell, demand for additional office space ceased and vacancy rates rose almost immediately. If they all recognized the importance of oil prices, why did some developers recognize the declining real estate market earlier than others? How did developers react to the downturn? The learning model outlined in chapter two will help to explain the varying reactions development firms made to the market downturn.
The right organization structure for a given enterprise is uniquely determined by four different inputs, which include: (1) the requirements for competitive success in the business; (2) the objectives and plans of the enterprise; (3) the "givens" of the present situation; and (4) tested organization theory (Daniel, 1966, p.99).

Daniel's argument, taken from a *Harvard Business Review* article, describes Kolb's experiential learning model. Kolb, in his research at MIT's Sloan School of Management, created the experiential learning model to enhance the process of learning from past experiences. The experiential model is a four step dynamic, iterative learning model; it is illustrated in Figure 2.
In the Kolb model, the learning process starts with a concrete experience that changes the normal operational situation. This concrete experience is the basis for observation and reflection, the second stage of the model. The third stage of the learning model involves the formation of abstract concepts and generalizations. These concepts and generalizations are the strategic options which integrate observations into theories to make decisions and solve problems. The final stage of Kolb's model is active experimentation utilizing the strategic options developed in new situations. The learning model is iterative, and successful firms will continue to monitor the new experiences and objectively reflect on them.

The first section of this chapter reviews articles that discuss ways to improve a firm's reflection and observation
skills. Literature on marketing, product differentiation, growth niches and product quality are reviewed to assist in the generation of the strategic options. We also review literature specific to the real estate field to further establish strategic options for a firm facing a declining market. Finally, implementation literature is reviewed to help firms more effectively implement the strategic options generated.

The second section of this chapter utilizes concepts from the literature to develop an analytical framework, a revision of Kolb's experiential learning model. This model will be used later in the analysis of companies' experiences, and to make action recommendations for firms facing a declining market.
REFLECTION AND OBSERVATION LITERATURE

Experiential learning begins with a historical experience. For Denver development firms, the historical experience was recognition that a downturn in the real estate market was either imminent or in progress. Only after recognition of the changing market, could a firm move on to the second step in Kolb's learning model, reflection and observation.

The fundamental question for management is: What business are we in? Until you have a full understanding of exactly what commodity you produce, or service you provide, responding to the experience is impossible. This understanding is especially relevant for real estate development companies. For example, Leinberger (1987, p.48) states the obvious when he says, "we define ourselves as being in the development business...this implies that we will only be active during the good times".

Failure to understand your business can have devastating results. Levitt (1960) argues that a number of industries have declined because they were product oriented rather than customer oriented. He adds that firms would be better served by probing deeply into the basic human needs their industry is trying to satisfy and determining the best way to fulfill them. Thurston (1983, p. 168) expresses the same idea by suggesting a firm ask itself...
"What are the central competitive ideas and competence on which my business rests"? Real estate development firms need to determine whether they are in the development business (i.e., they only develop new property) or the real estate business (i.e., they provide a range of new development and post development real estate services).

Thurston believes the process of determining strategic alternatives begins with a thorough understanding of your business. If you do not know what your company has been, and particularly what it is now, you may be planning in an environment you do not fully understand. Once a firm has a thorough understanding of its business, it can move to reflect upon the experiences it faces. Reflection should start with a review and restating of corporate objectives. In the case of Denver, these objectives will help guide the development firms' responses to the market downturn.

At times, corporate goals remain fixed while the external business environment is constantly changing. To remain competitive, firms must be able to remain focused on long term objectives while staying flexible enough to solve the day to day problems in this changing environment. This is the challenge Denver developers face today. They need to remain flexible to respond to the daily problems and crises they face in the weak market, but still need long term objectives to properly position the company to survive the downturn (Isenberg, 1987).
Once management has identified the components of their business and determined corporate objectives, they need to develop a strategy to achieve the objectives. Kolb identifies this stage as creating concepts that integrate observations into logically sound theories that can be used to make decisions and solve problems.

One strategic option available to firms in a declining market is improvement of marketing capabilities. In his classic article, *Marketing Myopia*, Levitt (1960) argues that "what usually gets emphasized is selling, not marketing. Marketing, being a more sophisticated and complex process, gets ignored" (p. 34). Levitt argues that selling focuses on the needs of the seller. Marketing, in contrast, focuses on trying to create value-satisfying goods and services that consumers will want to buy....Most important, what it offers for sale is determined not by the seller but by the buyer. The seller takes his cues from the buyer in such a way that the product becomes a consequence of the marketing effort, not vice versa (p. 38).

Hanan (1974) reinforces Levitt's argument by saying "there is no substitute for market orientation as the ultimate source of profitable growth" (p. 63).

Levitt (1977) believes that:

An organization's principal marketing policies and strategies affect that organization's...
principal overall corporate policies and strategies. That in all this variation...there is a persistent...orderliness and logic, no matter how much things seem to be different or to change. This is the logic of the marketing concept. The market calls the tune and the players had better play it right (p. 113).

The way the marketing process is managed provides an opportunity for companies to establish a competitive advantage, especially in a competitive downturn environment. Bonoma (1981) believes that one simple step to redirect upper management's attention to the market is to simply encourage contact between managers and customers. This is easily accomplished by getting out in the field and interacting with clients. A renewed commitment to marketing can help identify the products customers are demanding and produce a competitive advantage for the market-driven firm. In the case of Denver, development firms might accomplish this by contacting existing office tenants to determine what it is they look for when making occupancy decisions.

A second strategic alternative available to firms in a declining market is product differentiation. Levitt argues that all products are differentiable since "a customer attaches value to a product in proportion to its perceived ability to help...meet his needs" (1980, p. 84). Bonoma (1981) expands on this idea:

To stay flexible and prepared for change, management must regularly ask itself what "augmentations" of existing products or service lines might be added for competitive purposes (p.120).
Differentiating your product to go beyond what is minimally "expected" by customers can enhance performance and provide competitive benefits. Furthermore, a competent marketing program provides the information needed to make product or service differentiation successful.

Additional strategic options to the downturn can be found in literature on stagnant industries. Hamermesh and Silk (1979) stress that it is essential for managers not to let wishful thinking color their view. Instead, they must accurately assess the long-range prospects and face the problems of competing in a stagnant marketplace. Management's acceptance of the reality of a continuing slow demand is a prerequisite for developing successful strategies (p. 162).

In addition, competition is more intense in stagnant markets than it is in growing ones because one firm's growth comes at the expense of their competitors. Hamermesh and Silk found there were three common characteristics of the strategies of businesses that have succeeded in stagnant industries: they identify, create, and exploit growth segments within their industries; they emphasize product quality and innovative product improvement; and they...consistently improve the efficiency of their production and distribution systems (p. 163).

Real estate is generally acknowledged to be a localized commodity, and the existence of small growth areas within a largely stagnant metropolitan marketplace is common. Harrigan and Porter (1983) recommend searching for a "niche" which will have stable demand or decay more slowly
than the market as a whole. The objective is to avoid stagnant areas by competing in a sub-market that is still growing. Finding a niche requires an innovative and creative management that looks beyond the obvious problem areas. Nevertheless, utilizing niches to improve corporate performance is a proven strategy for surviving declining markets. For Denver development firms, this may mean avoiding the CBD office market and concentrating on certain suburban areas with strong demand or on product areas that are not well served.

Hamermesh and Silk also found that innovation and quality are successful responses to decline. Their research shows that higher product quality is associated with a higher return on investment, even in stagnant markets. By emphasizing quality products, a firm is able to place itself above some of the price competition prevalent in stagnant markets. Product innovation takes it a step further by improving the product and setting it further above the competition.

Harrigan and Porter (1983) summarize:

> Companies that can view an industry's decline as an opportunity rather than just a problem, and make objective decisions, can reap handsome rewards (p. 120).

Leinberger outlines specific alternatives in his article in the National Real Estate Investor:

> The downturn development cycle is the best time
to pick up troubled projects, position the company with land purchases or options...and/or concentrate on third party fee business. It is the time to get one's company ready for the good development times. It is also the time to buy (rather than make) existing real estate products to create value through better financial terms, better management or just a good purchase price (1987, p. 48).

Green (1988) conducted a survey of development firms in Anchorage, Alaska to determine what factors were most important for surviving in a volatile economic climate. The responses indicated the following survival strategies:

1. Maintain high equity position to protect against falling rent and property values, use leverage carefully along with prudent market timing, and sell off portions of your inventory during prosperous times.
2. Have a strong property or two with seasoned cash flow.
3. Concentrate on quality properties as they are in demand in declining markets as well as strong markets.
4. Maintain the ability to expand the company during prosperous times and contract it during a downturn.
5. Horizontal diversification such as property management, leasing and other third party business, was helpful.

In summary, the literature identifies both specific and
general strategic options that can be utilized by real estate firms facing a declining market. Successfully implemented, it may be possible to profit from the decline and emerge as a stronger, better positioned competitor.

IMPLEMENTATION LITERATURE

Machiavelli wrote in The Prince,

it must be considered that there is nothing more difficult to carry out, nor more doubtful of success, nor more dangerous to handle, than to initiate a new order of things.

Yet firms facing a stagnant market need to do just that, initiate a new order of how they operate their business.

Greiner (1967) believes that approaches most often used to introduce change are on a power continuum distribution. To the far left are those approaches that rely on unilateral authority. The center of the continuum is occupied by shared approaches while on the far right are delegated approaches to change. The shared approaches produce the most successful changes because "individuals develop more commitment to action when they have a voice in the decisions that affect them" (p. 121). Furthermore,

the overarching goal seems to be the same: to get everyone psychologically redirected toward solving the problems and challenges of today's business environment (p. 120).

Therefore, the shared approach is best.

Another key to successfully implementing change lies in
overcoming resistance. One common mistake managers make is "to approach change in a disjointed and incremental way that is not part of a clearly considered strategy" (Kotter and Schlesinger, 1979, p. 112). Education and communication of the new ideas often help people see why change is necessary. In addition, involving the potential resisters in the design and implementation of the change is also successful. Kotter and Schlesinger propose a decision making continuum similar to Greiner's, and recommend choosing a point to the right on the continuum. This point does not force change on people, but involves them in it. They conclude by stating,

"Change efforts using the strategies on the right side of the continuum can often help develop an organization and its people in useful ways" (p. 113).

Testing and implementation complete the experiential learning model. However, the management challenge does not end with implementation. Real estate professionals need to observe the new results and experiences brought about by the changes implemented and continue the learning process.
This thesis compares management theory and the real world experiences of four Denver, Colorado based real estate development companies. We will analyze the steps these firms took in response to the market decline, determine if they fit our process model — an adaptation of Kolb's model, and finally make recommendations for better ways to implement management change.

The process model has four stages. The first stage is the recognition of a concrete experience that has affected the firm. The second stage of the model is reflection and observation. The firm must consider the implications of the experience and establish goals that will guide the response. The third stage is creation of strategic options to be implemented in the new environment. Finally, the fourth stage of the model is implementation of the strategic responses. After implementing the changes, the firm needs to monitor the results. These results then become the concrete experience for the next iteration. The process model is illustrated in Figure 3.
FIGURE 3

PROCESS MODEL OF PLANNING AND IMPLEMENTATION OF RESPONSES TO A REAL ESTATE MARKET DOWNTURN

CONCRETE EXPERIENCE I
Recognition of market decline

CONCRETE EXPERIENCE II
Results of post downturn strategy

IMPLEMENTATION OF POST DOWNTURN STRATEGY
post decline strategy

OBSERVATIONS & REFLECTION
define business
set corporate & personal objectives

FORMATION OF STRATEGIC OPTIONS
marketing focus
differentiation
growth segments or "niches"
quality and innovation
wise land purchases
third party business
diversification
Surviving in a rapidly changing business environment requires a willingness to explore new opportunities and to learn from past actions. In Chapter 2, we presented literature and a learning model to help frame and guide the process. However, we also intend to study past actions to properly utilize the learning model. Case studies allow one to learn by studying the experiences of others who have already faced the downturn stage of a real estate cycle. The lessons these Denver development firms provide may help others prepare for the day their market slows.

In selecting subjects for the case studies it was necessary to choose firms from a major metropolitan area that was experiencing a downturn in the real estate cycle. Denver, with an office vacancy rate of about 25%, met these criteria. In addition to the current market downturn, Denver also experienced a sharp "boom" period in the early 1980s. The opportunity to study development firms in a market that had experienced strong peaks and troughs in the
decade of the 1980s provided an opportunity to compare our learning model with the way in which change was handled in the "real world".

We deliberately sought to speak with several types of development companies. Accordingly, our four subject firms included: 1) a local commercial developer, who during the 1980s, was also heavily involved in residential development, 2) one national commercial developer with a regional office in Denver, 3) a local developer specializing in high quality suburban office development, and 4) a local developer specializing in land development.

All four development firms had established track records and were well respected in the Denver marketplace. In addition to surviving the current downturn in the Denver market, the local firms also endured a sharp real estate cycle in the 1970s. The names of the firms and principals have been altered at their request. Table 5 provides summary data for each firm.
<table>
<thead>
<tr>
<th>Location in Denver</th>
<th>Mountain</th>
<th>Southwick</th>
<th>Patterson</th>
<th>Winchester</th>
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<tr>
<td>S. Suburban</td>
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<tr>
<td>Person Interviewed</td>
<td>Joyce Conley</td>
<td>Richard Ford</td>
<td>Steve Patterson</td>
<td>Mike Winchester</td>
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<tr>
<td>Title</td>
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<td>Vice President</td>
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<td>Rents fell</td>
<td>Large tenants</td>
<td>Supply/demand</td>
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</table>

* Not including third party management business
The research technique employed for this study was face-to-face interviews. Prior to his or her interview, each person was informed of the topic of our research, and of the learning model being utilized. We spoke directly with the presidents of the Denver based firms, and in the case of the national development company, to the vice president in charge of the Denver office. Interviewing only one individual per company was a weakness of the research methodology as it could provide a limited viewpoint on the company response to the downturn. The actual interview questions are included in the Appendix. The case write-ups cover each stage of the learning model to illustrate what each firm did in response to the downturn, as well as provide additional background information on the firm.

Our goal in conducting each interview was simple: we wanted the interviewee to tell us the story of how their firm realized the market had entered a downturn and what it did in response.
Mountain Properties

Joyce Conley, President

Company Background

Mountain Properties was the land development and property management branch of Conley Construction Company. Paul Conley established the contracting company in Chicago in 1958. As the company grew, he developed a close working relationship with a local partner of a national real estate development company. Conley Construction provided turnkey construction services, and the partner handled the land development and leasing.

In the early 1960s, Conley moved the company to Denver. Soon after, Conley entered the development business in the Denver area. He initially concentrated on office-warehouse and small office park projects. Like most developers, his business went through a sharp downturn in the Denver market during the mid 1970s. However, the combination of having general contracting operations in multiple areas in the Midwest, plus a development company insulated Conley Construction from sharp swings in the Denver market.
Pre-Decline Strategy

Mountain Properties handled the development operations of Conley Construction from land acquisition through to leasing and management of the projects. Conley Construction handled the actual construction of all company development projects. Leasing of the projects was accomplished by a combination of in-house leasing staff and cooperation with the local brokerage community. The tenants in the warehouse and office projects were generally wholesalers, distributors or local companies in need of general office space. Mountain also handled the property management duties for all properties retained by the Conley family.

Development projects were concentrated south of Denver near the intersection of the two main metropolitan area highways, I-25 and I-225. Mountain began residential housing development in response to the strong market of the early 1980s. As with commercial projects, Mountain acquired the land, Conley Construction built the projects, and Mountain marketed the finished product in cooperation with local brokers. However, due to the nature of the housing business, Mountain also had to take on many of the final construction tasks and warranty work. Expansion into residential development led to a rapid growth of Mountain's organization. At its peak, the residential division employed sixty employees and was the main impetus of
Mountain's growth to seventy five employees from a low of eight in 1980.

Recognition of Market Decline (Concrete Experience I)

Mountain realized the commercial market had softened significantly in 1984 and early 1985 when lease negotiations toughened. Although the company was able to maintain nominal rent levels, often because of requirements by lenders, free rent and more attractive tenant work letters quickly became necessary to close lease deals. In the residential division, sales traffic at the projects dropped sharply. Home sales stopped as buyers balked at pre-decline prices. In spite of the soft market, Mountain continued to believe that "this was the last year of the decline".

Reflection and Observation

When the Denver market entered the downturn in 1984, Mountain had both commercial and residential projects underway. Since Mountain considered itself primarily a commercial developer, the company decided to get out of the residential development business and concentrate on the area it knew best, the commercial market.

Mountain had acquired land for new office projects and was funded to start construction when it recognized the
market decline. Nevertheless, the deals still "penciled out" and their bankers agreed Mountain should complete the projects. Mountain believed it had sufficient cash on hand to meet expenses and complete the projects, so it believed there was no need for immediate, drastic action.

During this time, Paul Conley was head of both Conley Construction and Mountain Properties. Since Conley spent most of his time overseeing the construction company, his experience of almost three decades was not immediately brought to bear on the problems facing Mountain. In 1986, as the market decline lengthened and problems at Mountain mounted, Paul Conley recognized the need for a full time president. Conley believed an seasoned real estate professional would bring experience and a fresh outlook to the problems facing the firm. Conley hired the new president in late 1986 and he joined Mountain in 1987.

Although Mountain had recognized the market decline, projects continued to be started. New projects could receive approval from any of five people (the president, Paul Conley, Joyce Conley, or two of Conley's sons who also worked at the company). Project managers would often seek approval from all of them, hoping that one would say yes.

**Formation of Strategic Options**

Since home sales at its residential developments had
virtually stopped, it was important to cut costs. Residential staffing was reduced as quickly as possible. Mountain planned to continue to meet its obligations in the residential projects, and where possible, to transfer tasks to subcontractors.

Historically, Mountain had operated under the philosophy of "worry about making money, don't worry about saving dollars." Now that the market had softened, management believed it important to watch expenses more closely. Expenses that Mountain had previously absorbed, now would be billed directly to the tenants. Joyce Conley, president, also indicated that Mountain needed to make major improvements to its accounting system. The old system did not provide accurate information on operating costs and the financial condition of various development projects.

Other options Mountain considered included build-to-suit projects, and expansion outside of its traditional office and office-warehouse development products. Mountain believed it was important that new projects be heavily pre-leased or pre-sold to reduce the development risk. In addition, since Mountain managed its own properties, the company believed pursuing third party management contracts was a logical step to take at this time. Third party management and fee development work could provide revenue to help cover overhead.
A final option on which Mountain focused was enhancement of its marketing and leasing abilities. Mountain's newly found commitment to leasing space was evidenced by Joyce Conley's statement that, "...it is better than having nobody, that is how you make your decisions in this type of market." Brokerage would be a natural outgrowth of the third party management business. It would provide additional services for clients, act to prevent other brokers from taking customers, and further increase cash flow.

Implementation of Post Decline Strategy

As the decline lengthened, several internal problems began to surface. First, the residential development staff, which accounted for 65% to 75% of corporate overhead became a large cash drain. Second, accrued expenses were coming due and Mountain did not have a cash flow accounting system to accurately forecast cash needs. Consequently, the company could not manage its cash needs or determine how much money its projects were consuming. Third, commercial projects coming on line were renting at less than 50% of the pro forma rental rate, and the cash flow from these projects could not service the debt.

Mountain implemented a number of corrective actions. However, due to management's belief that the decline would
be short lived, these actions were not taken rapidly. The actions implemented fell into the following categories: get out of unprofitable businesses, increase marketing efforts to sell or lease existing inventory of products, produce new products in the Denver area, and produce current products in new markets.

To reduce cash losses, Mountain began to cut staff and curtail its residential development effort. No new houses were started unless they were pre-sold. Prices were reduced on existing inventory to spur sales. Sales closers were brought in to augment the existing team. As the houses were sold off, Mountain reduced overhead by subcontracting marketing and maintenance services.

The first commercial development response was to cease all speculative development. Instead, Mountain developed only projects that were pre-sold or heavily pre-leased. This led the company to develop a small retail shopping center with a partner. Mountain undertook the deal only after raising the equity capital to cover the cost of the land by pre-selling a number of pads for free standing retail stores. Another response, undertaken to keep the project managers employed was to search out new markets. Through the construction company, Mountain was able to get involved with office-warehouse projects in Baltimore and Orlando. Like other new development projects, these were pre-sold or substantially pre-leased.
Another management response was to improve the property management effort. Existing properties were intensively managed to attract new tenants and retain existing occupants. To increase cash flow, Mountain began to manage and lease property for third parties.

Despite the improved management services, cash flow from properties fell, and loans had to be renegotiated. Permanent loans on the properties were non-recourse, hence Mountain had considerable leverage with its lenders. All loans were successfully renegotiated, but in the process properties were revalued to current market prices thereby greatly reducing Mountain's net worth and ability to finance new projects.

Joyce Conley became president of Mountain Properties in 1989, succeeding the former president who had quit in 1988. Joyce remained optimistic about future development opportunities in the Denver area. She indicated that the downturn had taught Mountain many lessons which would stick with the company. Mountain would concentrate on the following: maintain an improved accounting system, structure projects to limit risk, take profits as they are earned rather than roll them over into new projects, increase equity levels in all future development projects to 20-30%, and stay out of residential development as it is too capital intensive. Joyce indicated that they "are
regrouping now" and will "maintain until things [the market] change".

THE SOUTHWICK COMPANY

Richard Ford - Regional Vice President

Company Background

The Southwick Company was a family owned, full service national development firm concentrating on investment-grade office buildings. These properties were generally located in or near major cities and often served as headquarters or regional offices for Fortune 500 companies. Denver was the western regional office of the firm, responsible for development and operations west of the Mississippi River.

Pre-Decline Strategy

Southwick entered the Denver market in the late 1970s to develop a major office tower at a premium downtown location. According to Richard Ford, "with the oil boom in full swing, many large national companies - some of whom were clients, were making plans to move operations to Denver." Southwick wanted to be a part of its customer's plans and be ready to serve their clients' future needs.
The office staff of fourteen was divided into two groups - marketing and leasing, and project management. Initially the marketing staff concentrated on marketing and leasing Southwick's downtown project and did not engage in third party leasing or brokerage activities. Like the marketing staff, the project management team was tightly focused on the downtown property. However, as that building neared completion, Southwick began to look at other locations. Proposals were considered for office buildings in the Denver midtown area and in southern suburban locations. Land was put under contract, but when the market downturn began, these projects were abandoned.

Both national clients and local firms were sought as tenants for Southwick's new downtown office tower. When national firms with an ongoing relationship with Southwick were looking for space in Denver, national sales people would often bring those clients to the Denver office. There, national and local marketing personnel would work with clients to meet the clients' needs. Prospecting for local clients was, of course, done by local Southwick leasing agents. Southwick would approach local clients directly since its property was not listed with other brokers. However, if outside brokers approached them, Southwick would consider the deal.

Recognition of a Changing Market (Concrete Experience I)
By 1984, when rents began dropping rapidly, Southwick knew the market was in trouble. Concessions also began getting out of hand. Tenants such as accounting and law firms that had been expanding fast and demanding more space at ever higher prices, stopped growing. Suddenly they became price sensitive. They began looking for better quality and less expensive space as much as two years before existing leases expired. Prospective landlords would offer attractive packages of lower rent, free rent and tenant improvements to lure new tenants into empty space. Current landlords would often counter with attractive deals of their own. Gross rents in the downtown area fell from a peak of $30-$35 per square foot in 1982 to $10-$12 per square foot in 1985.

According to Ford:

When oil prices began to fall in 1982, major oil companies that had been leasing anything available vanished from the market. Then, they began to transfer Denver based personnel to other locations and sublease space as it became available.

Reflection and Observation

Southwick's management in Denver considered many options before asking Southwick's chairman for a decision. Options presented to the chairman were: 1) close the regional office and leave Denver, 2) pursue development projects in other western cities, 3) expand into third
party management and brokerage, and 4) establish a real estate consulting practice. Since the chairman believed in the long term prospects for the Denver market, he chose to keep the office open and establish Southwick as a committed member of the Denver market. Subsequently, he refocused the Denver office on four areas:

1) Enhance the leasing effort for the downtown office tower,
2) Locate and acquire either investment grade properties with cash flow for the Southwick portfolio, or distressed properties that could be turned around,
3) Explore development opportunities in other western cities, and
4) Establish third party management and leasing relationships.

Formation of Strategic Options

Southwick's number one priority was to lease the new downtown building. Cash flow had to be increased enough to make the office self supporting. Only after the tower had been leased, could Southwick's strengths in brokerage and property management be applied to the general market and thereby generate additional cash.

Acquiring additional properties, either for long-term
investment or turnaround projects, was a second priority. A declining market offered many possibilities to acquire well built property, in good locations, at distressed prices. Such property could be held in the Southwick portfolio until the market recovered, and then it could be sold.

New projects outside of Denver would have to be started, or project development staff would have to be transferred to other offices. Increased travel and customer contact might lead to property acquisitions that met the new objectives for the group.

Expanding into third party brokerage and management offered Southwick two major opportunities. First was the chance to diversify and gain additional revenue. Second, increased contact with customers and brokers could produce leads on investment grade property or distressed property for the Southwick portfolio or new development projects.

Implementation of Post Decline Strategy

Southwick's first move was to market its existing downtown project more intensively. Prospective large tenants were courted two or more years before their leases expired. Floor plates that were designed for large users were divided and built-out to attract smaller tenants. Since other brokers were constantly trying to steal
tenants, tenant retention became a critical factor in keeping the building occupied. Much more attention was focused on keeping the space currently leased competitive with alternative space in other buildings and with sublease space in Southwick's own building.

As the tower began to lease up, Southwick's Denver office also began to branch into new areas. The office looked into investment grade properties and turnaround properties for the Southwick family and other investors. Building on its success in leasing its own building, Southwick entered the third party property management and brokerage business. The Denver office was successful and in 1989 had 800,000 square feet of third party management business and 200,000 square feet of third party leasing contracts.

Since the Denver office market was in decline, all further development efforts in that area were abandoned. However, because Denver was the regional office for the western United States, office development projects in other major western cities could be considered. Unfortunately, as Ford noted, "the oil bust affected most of the southwest. We looked in Seattle too, but no feasible deals were found."

When the tower was complete, the project management staff was transferred out of the area. The office which had been staffed with 14 people in 1981, was reduced to just 6 marketing and leasing people by 1985. However, as the
third party brokerage and management effort became successful, the office gradually added people. By 1989, the office was back up to a staff of 14 and was profitable.

As Ford reflected on the lessons he learned over the past eight years, three things came to mind. First, do your homework and know your market. Second, keep in mind that exogenous factors such as the price of oil can kill a market. Finally, use outside resources to help forecast your market and check your assumptions. "Maybe there were some signals out there someone else might have seen."

PATTERSON AND COMPANY

Steve Patterson, Jr., President

Company Background

Steve Patterson founded Patterson and Company in 1967 in Kansas City. In 1970, Patterson and Company relocated its headquarters to Denver. Analysis of properties in the Denver area led Patterson to purchase a large tract of land in the southeastern suburbs of Denver. The company concentrated on the development of an office park on that parcel. Patterson was a fully integrated development company with the ability to handle everything from the
acquisition and development of raw land, to tenant build-out.

While Patterson acquired the land on its own, it was not willing to develop it without equity partners. Speculative office buildings were developed with institutional joint venture partners who provided "patient" equity. In addition, Patterson constructed two buildings for large clients who purchased the buildings upon completion. This approach reduced Patterson's development risk while achieving the build-out of the office park.

Pre-Decline Strategy

When the Denver office market expanded in the early 1980s, Patterson was well positioned to benefit. The company's suburban office park was in the early stages of build-out and additional buildings were in the planning stages. In contrast to many developers, Patterson differentiated both its buildings and office park by developing the finest quality commercial office environments. Steve Patterson stated the objective:

to create office environments of unsurpassed beauty and efficiency, to offer distinctive designs that capture the eye and the imagination, and to make a lasting contribution to Denver's business community.

Patterson was successful at creating these distinctive
projects and it was rewarded with several awards for excellence in architectural and landscape design.

To enhance the office park's contribution to the community, Patterson and Company incorporated an outdoor art museum on the grounds of its buildings in the office park. The outdoor museum was a popular attraction for school outings and weekend trips. In addition to the art museum, Patterson constructed an open air amphitheater in its office park. The amphitheater brought music to the business community and was operated by a national entertainment company on Patterson's behalf.

Marketing and leasing activities were conducted by salaried in-house personnel. When marketing space, Patterson and Company involved not only the leasing agent, but also the tenant finish division and property management department to fulfill prospective tenant's needs. Patterson believed in providing an integrated service package to satisfy all the real estate needs a tenant may have, thereby creating maximum real estate value for its customers.

Recognition of Market Decline (Concrete Experience I)

In 1983, Steve Patterson knew the market had turned soft when "large tenants vanished". The major tenants leasing large blocks of spaces had been the oil companies and the regional telephone company created by the breakup of AT&T.
When those users left the market, there were not enough smaller tenants to fill the space coming on line.

**Reflection and Observation**

Patterson decided to maintain its commitment to the development of high quality suburban office space. In addition, management wanted the company to remain a fully integrated developer and to offer additional services where appropriate. Finally, since the Denver office market was declining, Patterson believed it was wise to diversify both geographically and by product mix.

**Formation of Strategic Options**

Patterson planned to follow a conservative game plan to reduce market and financial risks. A market decline would be avoided and profits would be locked in by selling assets that would bring a good price. Financial risk would be reduced by using the proceeds to pay off debt on other property and by utilizing financial partners in future development projects. The company would avoid assuming additional risks by cancelling all plans to start new speculative office buildings. However, build-to-suit projects and development of new product types would be pursued as a source of new development projects in the current market. New geographic areas would be explored for opportunities to develop office space.
Projects underway followed a strategy based on designing to upscale market needs. This objective focused on a high level of quality and innovation that would differentiate Patterson's buildings and provide value for its customers. Thus, the properties could maintain their premium rent levels and property values. However, maintaining higher rent levels would require additional tenant allowance costs and lead to a longer lease-up period.

Expanding into third party businesses fit into Patterson's commitment to developing high quality suburban office products. In-house tenant fit up services would insure quality construction and control during build-out. Branching into cleaning services would let Patterson set a high standard in that area and give customers another reason to renew their leases.

Patterson also believed that overhead expenses had to be reduced.

People that did not fit would have to leave. Their duties would be absorbed by others. Increased efficiency and the elimination of non-essential tasks would keep the ongoing work load manageable by a skeleton staff. If additional help were required for a project, contract employees would be hired as needed.

Implementation of Post Decline Strategy

Soon after the market softened, Patterson sold its
headquarters building to a large corporate user. The staff, which had grown during the market expansion years, was reduced to earlier levels. Design efforts became more focused on "designing for the market place".

In spite of reduced rental rates in the market, Patterson maintained lease rates in its buildings. The company believed the level of quality was such that the rents were justified. However, maintaining the lease rates in a declining market slowed the leasing process considerably. To provide additional value to new tenants, Patterson increased the value of tenant improvements.

Tenant retention also received renewed focus. Tenants were surveyed periodically to identify and correct any deficiencies. As current leases approached expiration dates, tenants were offered competitive upgrades to their existing space to encourage lease renewal.

To further enhance the office park and diversify its product base, additional amenities were provided. Principle among those amenities was a new athletic club, developed by Patterson, which was located near the entrance to the park. Membership was available to park tenants and the general public. The success of the athletic club has led Patterson to explore the development of additional clubs in other areas.
Patterson was successful in finding build-to-suit work during the downturn. The company constructed two large office buildings for large corporate clients within its office park and was looking to do additional build-to-suit projects. Since office development in Denver was at a standstill, Patterson decided to explore other geographic areas that were not impacted by the oil bust. After examining opportunities in several midwestern cities, Patterson learned of an opportunity in Cleveland. The company was able to take over a downtown office project, secure approvals and begin construction on the city's first new office tower in ten years.

When asked what advice he would give other developers facing a declining market, Patterson said:

Always build the best product for the market place within your budget. Always use equity unless you have a credit tenant with a long lease so that you can ride out the cycle. Have other operations for cash flow. Only have a skeleton staff: sub-out projects where possible, use contract employees.
JAMES M. WINCHESTER INC.

Mike Winchester, President

Company Background

James M. Winchester established his company in 1954 in Denver. His son, Mike, joined the company in 1976, soon after graduating from college.

Winchester's primary business was land development for suburban office buildings and office parks. After subdividing the land and zoning the lots, Winchester sold them to office developers who constructed the actual improvements. The company also developed approximately 350 apartment units in the 1960s and early 1970s. These units were held in the family portfolio, and by 1989, approximately 200 units were owned free and clear. The cash flow from the apartment complexes was a major element in the firm's conservative financial structure.

Risk management was a key concept of the company's development strategy. Winchester deliberately did high equity, low debt deals. "Leverage only works in hot markets with inflation." The company did not take risks in the financial area. Winchester would accept the timing and marketing risks inherent in land development, but would not compound those risks by taking on high levels of debt.
Mike illustrated the desire to avoid debt when he said, "people do desperate things when debt is big".

What debt the company did utilize was structured in a conservative manner. Mike and his father would not sign for loans personally. If Winchester entered into a joint venture, a note on the land would be subordinated to the construction loan. Sometimes in a joint venture, the company would contribute the land free and clear. However, in either case, if a project got in trouble there was no recourse to the company or to the Winchesters.

Pre-Decline Strategy

During the early 1980s, Winchester concentrated on land development. It anticipated the direction and rate of growth of the Denver real estate market and acquired raw land close to Denver shortly before the construction wave reached that area. By the time development demand reached them, Winchester had the land subdivided, approved and ready for construction. Funds from sales were used to pay off debt or to buy additional land.

When Winchester believed that land prices were higher than justified by office rents, it would not raise its bids to acquire the land. Consequently, other developers often outbid them. As a result, the company's land purchases slowed down as the market heated up.
Occasionally, Winchester would joint venture office building development and construction with a money partner who would also be the prime tenant. In this manner, a total of 350,000 square feet of office space was developed by the firm during the early 1980s.

Winchester also entered the single family residential development field in the early 1980s. Like commercial land development, Winchester subdivided the land into individual house lots. If homes could be pre-sold, the company would construct homes in a joint venture with a general contractor. Any remaining lots were then sold to other residential developers. Winchester did not build speculative homes. By utilizing the staffing infrastructure of its partners, Winchester was able to participate in residential development while keeping overhead low.

Recognition of Market Decline (Concrete Experience I)

Winchester believed the building frenzy and previously unheard of prices being paid for land in the early 1980s indicated an imbalance in the real estate market. In some respects it was a "gut feeling" that things were too good to be true.
Mike indicated that the company recognized how dependent the Denver area was on the oil industry. He understood that the economics of the synthetic fuel industry were such that oil prices of $45 per barrel were necessary for synthetic fuel production. Therefore, when the OPEC price accords began to unravel in 1982, Winchester became wary.

A second indicator of an impending decline was the "frenzy" of building activity and land acquisition. According to Mike Winchester, "developers were building office space for a total of $90 per square foot and selling it for $130 per square foot. This was too good to be true". By examining the prices paid for land, it also became obvious that developers were betting on sharply higher rents which Winchester did not expect would materialize. Mike Winchester believed that "computers allowed you to build pro formas you wanted to see" thereby contributing to the frenzy of acquisition activity and to the problem of overbuilding.

Reflection and Observation

Winchester's primary business since its inception had been commercial land development. Management believed that well located land would be a profitable product, but realized the inherent risks in land acquisition. Mike Winchester believed the "reward window [the opportunity to sell] is open a very short time, and as a result management of debt
and overhead really is key". Winchester tried to minimize risk by limiting the level of debt used for land acquisition. Equity used for land acquisition was either funded internally or raised from wealthy individual investors. In addition, the company did not undertake speculative development, but would develop pre-leased commercial structures and pre-sold homes with joint venture partners. Winchester deliberately tried to limit overhead by forming partnerships and utilizing its partners staff to complete a project.

**Formation of Strategic Options**

Winchester had a conservative philosophy, and believed that detailed market knowledge was critical to success in the land business. Winchester had to know trends in local economic and geographic expansion in order to buy raw land in advance of development. As a result, Winchester never considered diversifying its operations into markets management did not know well. The Winchesters believed they "needed to know their backyard" and they could only do so in Denver.

Mike Winchester believed the company's long standing philosophy had served it well and that it should be maintained. The Winchesters believed land development was a basic and fundamental business that they understood. Winchester also believed there was a short market window
for selling. When the window appeared, profits should be taken and used to pay down debt. In fact, the Winchesters believed paying down a loan was equivalent to taking a profit, even though the cash went to the lender.

Winchester also believed in the concept of a quality pyramid. The company believed quality was a key to real estate and that better quality products have the ability to pull up the market. Winchester believed high quality projects would be successful even during the downturn phase of a real estate cycle and was willing to consider such development opportunities.

Implementation of Post Decline Strategy

In response to the downturn, Winchester stopped office development entirely and began to get out of the residential home market. The company reduced its portfolio of commercial office space from 350,000 square feet to 50,000 square feet by selling to its institutional partner. Proceeds from these sales were used to pay down debt. By this method, the Winchesters used their profits to make much of their land inventory free and clear. The company viewed its land holdings as excellent assets and was willing to hold onto them indefinitely.

An unanticipated opportunity arose when a local property
management company went bankrupt. Winchester believed third party management was an opportunity to earn additional fee revenue during the downturn, so Winchester acquired the bankrupt company's staff and client base. Initially, Winchester managed over one million square feet of office space and had a profitable operation. However, the third party management business proved to be volatile. Winchester's major management client sold the properties and the third party management business had to be abandoned. After that experience, Winchester decided to stay out of the third party management business in the future.

Winchester had the opportunity to participate in the development of what it believed was a high quality apartment project. In keeping with its conservative nature, the company entered the project with a partner. Winchester believed the high quality nature of the product would succeed even in a weak market. In 1989, the project was under construction and Mike Winchester was extremely optimistic about its prospects for success.

Winchester continues to believe in the long-term prospects for the Denver real estate market. The company will continue to proceed in a conservative fashion and will concentrate future development efforts on the high quality component of the market. The company plans to get back into the same businesses it pursued previously, but will
wait until it believes the timing is right.

CONCLUSION

From the four cases presented above, we can see that recognition of the decline varied in timeliness from 1983 to 1985. Observation and reflection about corporate goals and philosophies ranged from incomplete to a reaffirmation of long-term company goals and policies. Firms considered strategic options that focused on a well known and understood "backyard", to a nationwide search for projects. Implementation of the post decline strategy kept all the firms in business, but some firms prospered as a result of their responses to the downturn, while others appeared to be struggling.
CHAPTER FOUR

ANALYSIS

The analysis begins with a consideration of what each firm did at each stage of the experiential learning model. This indicates how companies planned their responses to the market downturn, and illustrates the strengths and weaknesses of firms at various stages of the learning model.

Case Study Analysis Within the Experiential Learning Model

Recognition of Market Decline (Concrete Experience I):

Real estate developers must be able to anticipate market declines. Early recognition of change is critical to effective decision making and successful implementation of new strategies. The four firms we interviewed recognized the market decline at different stages. Three of the four firms indicated that their primary recognition of the decline came through changes in the leasing market in 1983 to 1985. The fourth firm recognized the imminent market change in 1982, before it affected the leasing market.
For Mountain Properties, the first noticeable change was tougher negotiations followed by a need to offer free rent to close deals. Southwick did not recognize the change until the lease rates at its project began to fall. Since both firms recognized the decline only when it became generally known, neither firm was able to avoid the ensuing sharp declines in property value.

Patterson recognized the impending decline before it was reflected in the leasing market or in building values. The company focused on supply and demand for office space. When the demand from large users, who had been actively leasing space in its suburban projects, began to dry up, Patterson knew that the supply of new space in the pipeline would drive prices down. Since the company recognized the decline before rent levels were affected, it was able to sell one of its office buildings before it fell in value.

Winchester recognized impending change in the land market, before it was reflected in land prices or the leasing market. As a land developer, the company focused on the supply and demand of land. Winchester recognized that the supply of land being purchased by office developers, and the amount of new office space it would support, far exceeded the anticipated demand for office space. From experience, Winchester knew that this fundamental market
imbalance would lead to lower rental rates and higher vacancies. Since Winchester recognized the decline before real estate prices and rent levels were affected, it was able to sell 85% of its office space before it declined in value.

Our research indicates that early recognition of a real estate market decline requires looking at indicators of the future balance between supply and demand in various real estate segments. Since land development is the beginning of the production cycle, it provides the earliest evidence of future building activity. An understanding of the supply implications of land sales activity coupled with an understanding of potential demand can provide early recognition of the future direction of the market.

Reflection and Observation

The literature on reflection and observation indicated two key considerations: carefully defining your business and setting company objectives. To some extent, all of the firms considered what businesses they wanted to be in, but not all established clearly stated corporate objectives and philosophies.

Mountain decided it wanted to get out of the residential development business because it had become unprofitable. However, it did not sharply focus on a specific market and
product segment, but focused on the need to produce. This can be seen in Mountain's goal of keeping its project managers employed. The company pursued this objective by seeking out development opportunities in what it believed were stronger markets. Rather than determining a company goal or philosophy to pursue, Mountain chose to concentrate on familiar products that had been profitable in the past.

A major cause of Mountain's inability to carefully reflect on company goals and philosophy was lack of leadership. As was discussed in the case, the chairman, Paul Conley, spent the majority of his time running Conley Construction and left the supervision of Mountain Properties to his three children - none of whom had absolute authority. Without a strong, focused leader, Mountain reverted to historically successful, familiar practices rather than reflect on market changes and innovate accordingly.

Richard Ford, Vice President of Southwick, was in a different position than the other executives. As a regional vice president without an ownership interest in the company or the project, he was not in the position to set corporate goals or philosophy. He could propose a set of alternatives and recommend a course of action, but the authority to set goals for the corporation and regional office rested with the chairman. Thus, Ford was prevented from using his personal knowledge of the market to reflect upon and optimize the strategy of the Denver office as if
were an independent company. He proceeded from the concrete experience stage of the learning model directly to the formation of strategic options. This appears to be a drawback of national real estate firms. Individual regional operations are forced to suboptimize their strategies to accommodate the goals of the corporation.

In contrast, Winchester and Patterson had strong leadership and were sharply focused on the needs and health of their market. This was reflected by an established, and clearly stated corporate philosophy. In the case of Winchester, the philosophy was developing land in the path of growth. For Patterson, it was developing the finest quality commercial office environments. This was clearly demonstrated by Patterson's commitment to distinctive architecture and use of art in its developments. These philosophies were the result of repeated reflection to determine the direction of each business and guided both companies through one or more market cycles.

Strategic Options

Each of the four firms indicated they planned to cease additional speculative development. Mountain and Winchester planned to curtail new residential development, while Southwick and Patterson planned to stop speculative office development. In addition, Winchester and Patterson planned to sell office buildings and use the proceeds to
pay down existing debt levels. These decisions were designed to take profits before the market declined too sharply and to minimize financial risk.

In an effort to continue development activities during the downturn, Mountain and Patterson planned to pursue build-to-suit opportunities. Build-to-suit development offered three major advantages: development risk would be shifted to the buyer, fee income would be generated for the company, and project development teams would be kept employed.

Since the Denver market no longer offered enough business to keep the development teams active, Mountain, Southwick, and Patterson decided to expand their development efforts to other geographic areas. Mountain planned to look nationwide to find strong markets in which it could develop office and office-warehouse products. Southwick planned to explore development opportunities west of the Mississippi river. Patterson, on the other hand, planned to search for an outstanding development opportunity. By focusing on development projects, Patterson could consider niches within larger markets that were generally thought of as unattractive, but were less competitive and potentially more profitable.

Three of the developers interviewed planned to look for new products to develop and services to offer. Mountain and
Southwick planned to enter the third party management and leasing business in the Denver area. Southwick also planned to acquire existing income producing properties or turnaround possibilities. Patterson planned to look for customer needs that were not being adequately served. Patterson discovered a lack of high quality athletic club facilities, and a need for high quality maintenance and custodial services. As a result, Patterson developed an athletic club, and expanded in-house maintenance and custodial operations to include third party business.

Finally, three of the firms decided to increase efficiency by enhancing their management systems and controls. This move would serve two purposes: 1) it would increase profits or cut losses during the downturn, and 2) it would position the firms for faster, more profitable growth during the next expansion. Mountain, Southwick and Patterson planned to concentrate on improving their marketing capabilities. Mountain also planned to gain control over costs by improving its accounting systems. Patterson planned to improve its depth of services by strengthening management, maintenance, and tenant design and build-out capabilities.

The planned management responses represent four levels of priority; they are summarized in Figure 4.
FIGURE 4
FOUR LEVELS OF PLANNED MANAGEMENT
RESPONSE TO A MARKET DOWNTURN

LEVEL ONE

* Reduction of market and financial risk.
* Sell some of existing holdings.
* Curtail further speculative development.

LEVEL TWO

* Shift market risk to buyer with build-to-suits.
* Seek development opportunities in better markets.
* Geographic diversification.
* Find new product types unaffected by market decline.

LEVEL THREE

* Horizontal product diversification.
* Third party management and leasing.
* Third party maintenance and tenant improvement work.

LEVEL FOUR

* Improve internal systems and operations.

The first level was reduction of market and financial risk. To minimize losses in market value, developers must sell properties before the market decline is generally recognized. Consequently, all four firms planned to sell some of their holdings and curtail speculative development before values declined. Net proceeds from the sales were to be used to pay down existing debt and reduce financial risk to the company.
After reducing market and financial risk, second level responses concentrated on continuing development operations with a lower degree of risk. One strategy was to shift market risk to the buyer by moving into build-to-suit developments. A second strategy was to seek development opportunities in markets with an acceptable level of market risk. The firms planned to accomplish the second objective through geographic diversification into stronger markets and expansion into new product types that were unaffected by the decline in the Denver market.

Third level strategies involved diversifying into new businesses closely aligned with current activities. The most common response was to expand into third party management and leasing. A secondary response of one firm was to seek third party business for its maintenance and tenant build-out operations.

Fourth level responses concentrated on improving internal operations and systems. Three firms planned to enhance their marketing and leasing capabilities. This activity was intended to improve each company's ability to sell or lease its own products, and for two of the firms, to improve its third party services as well. In an effort to control overhead costs, three companies planned to reduce payroll expenses by a combination of layoffs, transfers, and use of contract employees or subcontractors. Finally,
in an effort to improve cost control and cash flow, one firm planned a complete reorganization of its accounting operations.

Implementation of Post Decline Strategy

All four firms attempted to cease all new speculative development and complete existing projects in the Denver area. However, this was not possible for all of the developers. Mountain Properties was in the midst of the production phase of a residential project and could not simply abandon or sell the project. The infrastructure was in place, speculative houses were finished, additional units were under construction, and units that had been sold required warranty work and other post sale services. As a result, Mountain had to intensify its sales efforts and maintain much of its construction activity. Nevertheless, over a span of four years, Mountain sold the inventory, subcontracted the sales and marketing effort, and finally subcontracted the warranty and maintenance work.

Southwick, which had several additional office developments in the planning stages, abandoned the proposed projects and let land options expire. Winchester stopped all commercial development plans and curtailed further residential building activity even though it only had been building pre-sold homes. Patterson stopped speculative development within its office park and concentrated on other
activities. In addition, both Winchester and Patterson were successful at selling existing properties and used the proceeds to reduce debt.

Mountain and Patterson pursued build-to-suit opportunities in the Denver market, but only Patterson was successful. Many build-to-suit opportunities require prior ownership of land. Patterson, with its land holdings in an established office park, was well situated. As a result, Patterson completed two large office buildings in the office park for major corporations. Mountain did not own land in existing developments and was unable to attract any build-to-suit work.

Three of the firms had planned geographic diversification to find development opportunities. Southwick examined projects in many western cities, but was unsuccessful at finding attractive deals, as many of the cities were overbuilt. Mountain and Patterson, however, were both successful at finding development opportunities in other states. Mountain went into known growth markets and found development opportunities that it was able to successfully pre-sell or pre-lease. On the other hand, Patterson found an attractive development opportunity in Cleveland, a market that had been overlooked by other real estate development firms.

All four firms entered new businesses in the Denver area.
Mountain and Southwick took the path of expanding a current business to a new set of customers. Mountain captured a modest amount of third party management contracts in its suburban market area. Southwick leveraged off its successful experience in leasing and managing its downtown tower, and went on to capture major third party leasing and management contracts.

Patterson entered an entirely new business by adapting its high quality strategy to a new market. The company developed an architecturally distinctive athletic club near its office park. As with its office strategy, Patterson refused to compete on price, but chose to deliver a high quality product in an area without similar competition.

Although unplanned, Winchester entered the third party management business when a local property management firm went out of business. Winchester was able to hire staff from the defunct firm, retain the client base, and enter the new business with few start-up costs.

Three of the firms chose to respond to the market decline by improving their business practices. Mountain, Southwick, and Patterson successfully improved their marketing and leasing capabilities to become more competitive. Mountain also made efforts to improve its accounting and financial forecasting systems, but as of 1989, these systems were still not operating to
management's satisfaction. Patterson enhanced its asset and property management capabilities, but only applied those resources to properties owned by Patterson or its partners. The company also strengthened tenant design and build-out capabilities to bring that work in-house. Additionally, Patterson actively sought third party design and build-out business in other buildings both in and near its office park.

Analysis of Fit Within The Learning Model

The subject firms followed the stages of the experiential learning model to differing degrees. Figures 5 through 8 indicate the steps taken by the firms at each of the four stages.
FIGURE 5
MOUNTAIN PROPERTIES

Concrete Experience I
lease negotiations toughened
free rent concessions needed

Concrete Experience II
four years to get out of residential
have stayed out of spec. comm. development
successful geographic diversification
no build-to-suit work
successful pre-sold retail project
marginal third party mgmt. contracts
internal systems need further improvement

Strategy Implemented

got out of residential
geographic diversification
pre-sold retail project
third party management
accounting system upgrade
improved marketing abilities

Reflection & Observation

prevented by leadership problems

Strategic Options

get out of residential
ceased spec. comm. development
geographic diversification
build-to-suits/pre-sold development
third party management
improve internal systems
enhance marketing abilities
Concrete Experience I

- Lease rates fell
- Rental concessions increased
- Tenants start lease negotiations in advance of need

Concrete Experience II

- Increased occupancy rate in downtown project
- Successful third party mgmt. and leasing contracts
- No new spec. development
- No development opportunities in new markets
- No investment or turnaround properties purchased

Strategy Implemented

- Stopped spec. development
- Explored new cities for devel. opportunities
- Sought third party mgmt. & leasing contracts
- Sought investment & turnaround property
- Enhanced marketing of downtown tower

Reflection & Observation

- Not done locally

Strategic Options

- Stop new spec. development in Denver
- Seek devel. opportunities in new western cities
- Acquire investment & turnaround property
- Expand into third party mgmt. & leasing
- Lease up downtown tower
Concrete Experience I
large tenants disappeared

Concrete Experience II
still not doing spec. comm. development
sold headquarters building
1988 Detroit project started
two successful build-to-suits
athletic club reached member capacity
improved maintenance and tenant improvement operations

Strategy Implemented
ceased spec. development
sold headquarters building
office project in Detroit
two build-to-suits
developed athletic club
maintenance and tenant improvement operations strengthened

Reflection & Observation
long term philosophy of high quality, arch.
distinctive design

Strategic Options
stop spec. development
sell assets
geographic diversification
build-to-suit office development
improve quality of operations
Concrete Experience I

supply and demand imbalance
development profits "too good be true"
"building frenzy"
recognition of market dependence on oil prices

Concrete Experience II

owned land free of debt
owned 200 apartments free of debt
1989 - high quality apt. proj. started
lost third party mgt. business

Strategy Implemented

sold 85% of office space
paid down debt
got out of resid. development
started high quality apt. proj.
third party management

Reflection & Observation

renewed commitment to
owning well located
land
renewed commitment to
conservative
financial strategy

Strategic Options

sell office buildings
pay down debt
stop residential development
stay in known (Denver) market
consider only high quality development
The analysis would not be complete without considering how well each firm's management responses followed the steps of the learning model. It will be interesting to determine if there is a direct correlation between using the model and "success". The degree to which each firm followed the learning model is illustrated in Figure 9.

FIGURE 9
CONFORMANCE TO THE STAGES OF THE EXPERIENTIAL LEARNING MODEL

Mountain Properties

The Southwick Company

Patterson & Company

James W. Winchester Inc.
Mountain Properties undertook steps in the first, third and fourth stages of the learning model. Although Mountain did not recognize the downturn in its early stages, the company did recognize its arrival when it affected company business and the general market. Management realized that it needed to make changes and began to plan a strategy. However, because of leadership problems, Mountain did little reflection to set a corporate philosophy. Management identified numerous strategic options and attempted to implement most of them, but was only successful with a limited number. In general, Mountain did not plan or implement its responses to the downturn effectively. In addition, late recognition of the downturn precluded many strategic options. Mountain's approach appeared to be more reactive than proactive.

Since Southwick was a regional office of a national developer, it had constraints the other firms did not have. After recognition of the decline with the general market, Southwick generated strategic options for submittal to the home office. As a regional office, Southwick's Denver office was not in the position to reflect on corporate philosophy and make changes to fit local market conditions. Overall corporate policy and philosophy was set by the chairman. Southwick attempted to implement its strategic options, but like Mountain, recognition of the decline with the general market severely limited its response. Of all the options planned, Southwick was only
successful in gaining third party management and leasing contracts. It appears that being a regional operation of a national concern impedes a company's ability to be proactive in a changing business environment.

In contrast, Patterson's response was proactive and included steps in all four stages of the learning model. The company recognized the decline early by noting changes in the characteristics of the leasing market. Before considering strategic options, Patterson spent time reflecting on where it wanted to go as a company. Patterson decided to sell assets before prices dropped, to continue following the company philosophy of building the finest quality projects, and to utilize conservative financing arrangements. After clearly stating its goals, Patterson listed numerous strategic options. Patterson then proceeded to successfully implement all of its strategic options.

Like Patterson, Winchester was a local development firm capable of independent decision making. Its proactive response also utilized all stages of the model. Winchester reaffirmed its commitments to owning land in the path of future expansion, and to conservative project financing. This philosophy helped shape the strategic options that Winchester considered. Early recognition of the decline provided time to reflect, plan, and act before the market fell. Winchester successfully implemented all of its
planned options and even capitalized on an unanticipated opportunity to get into third party management.
CONCLUSION

There are people who make things happen.
There are people who watch things happen.
There are people who wonder what happened.

-Anonymous

The stated purpose of this thesis is to determine whether using Kolb's experiential learning model could improve the ability of development companies to plan and implement strategies for a real estate downturn.

The results of our field data indicate that the firms which adhered more closely to the learning model implemented strategies that were more successful. The explanation seems clear, two of the four firms carefully reflected upon past experience and corporate goals, and thereby produced superior planned responses to the downturn.

The field data indicated that the most successful firms, Winchester and Patterson, analyzed the balance between supply and demand in the Denver market. They recognized when potential supply exceeded anticipated demand. Using Kolb's terminology, this was their concrete experience. Since they recognized the impending decline early, they had
time to act before the market decline was more generally recognized.

After recognizing an impending downturn, Winchester and Patterson reflected on corporate goals and objectives. This enabled them to determine what businesses they wanted to be in and where to lead the company. After careful reflection, Winchester and Patterson reconfirmed their commitment to a clearly stated corporate philosophy. The firms then utilized the corporate philosophy to shape appropriate responses to the downturn.

Implementation efforts by Winchester and Patterson appeared to be more coordinated and focused than the other firms. Less time was spent on unsuccessful ideas. Efforts were usually concentrated on areas where each company had expertise. When new product or geographic markets were considered, market research and due diligence preceded entry into the market.

After implementation of their strategic responses, Winchester and Patterson monitored the results. After observing the results, they began the learning process anew with additional reflection and observation. Although they did not consciously utilize the experiential learning model, their actions followed each stage of the Kolb model.
Firms need to follow all steps of the learning model to be proactive. Remaining proactive allows a firm to stay ahead of changing market conditions and achieve superior results. If a firm sacrifices, omits, or in any way bypasses any stage of the learning model, its management responses become reactive. Once a firm becomes reactive, it loses the ability to stay ahead of the changing market and performance suffers. Utilization of the experiential learning model, in conjunction with the survival strategies and four levels of planned management response to a market downturn, will produce superior operating results during a market downturn.

Firms can gain a competitive advantage by improving their learning ability. Kolb states his belief in the importance of learning:

"Today's highly successful manager or administrator is distinguished not so much by any single set of knowledge or skills but by his ability to adapt to and master the changing demands of his job and career, i.e., by his ability to learn. The same is true for successful organizations. Continuing success in a changing world requires an ability to explore new opportunities and learn from past successes and failures....Learning should be an explicit objective that is pursued as consciously and deliberately as profit or productivity. Managers and organizations should budget time to specifically learn from their experiences....In my experience, all too few organizations have a climate which allows for free exploration of questions like "what have we learned from this venture?" (1973, p.40)."
APPENDIX
INTERVIEW QUESTIONS

SECTION 1

0) Could you give us a brief history of your company?

1) What was your business strategy prior to the market decline?
   a) products?
   b) locations?
   c) market segments?
      1. customer type
      2. customer size
      3. location
   d) promotion
      1. how did you sell or lease your product?
      2. compensation of sales force?
      3. motivation of sales force?
   e) define your marketing effort
      1. selling vs. marketing
      2. did you use (post) occupancy surveys to increase knowledge of customer wants
      3. did you use professional econometric forecasts in your planning effort?

2) How was product produced?
   a) "greenfield development" or rehab?
   b) purchase existing property?
   c) in-house development or turn key?
   d) what production expertise was in-house?
e) how were production people organized?

f) where did your firm add value in the production process?

3) How was the company financed?
   a) equity
   b) debt
   c) partners/partnerships

4) How were properties/projects financed?
   a) equity
   b) debt
   c) partners/partnerships

5) How was your company originally organized prior to the decline?
   Staffed?
   a) size
   b) organizational concept and structure
   c) key employees
   d) ownership of company and projects
   e) planning system/process

6) What do you think caused the market decline?

SECTION 2

1) How did you add value prior to the market decline?

2) Did this give you a competitive advantage? How?

3) How have you been adding value since the market declined?

4) Do you feel you currently have a competitive advantage over other firms? How?
SECTION 3

1) What is your business strategy post market decline?
   a) products?
   b) locations?
   c) market segments?
      1. customer type
      2. customer size
      3. location
   d) promotion
      1. how do you sell or lease your product?
      2. compensation of sales force?
      3. motivation of sales force?
   e) define your marketing effort
      1. selling vs. marketing
      2. do you use (post) occupancy surveys to increase knowledge of customer wants?
      3. do you use professional econometric forecasts in your planning effort?

2) How is product produced?
   a) "greenfield development" or rehab?
   b) purchase existing property?
   c) in-house development or turn key?
   d) what production expertise is in-house?
   e) how are production people organized?
   f) where does your firm add value in the production process?

3) How is the company financed?
   a) equity
   b) debt
4) How are properties/projects financed?
   a) equity
   b) debt
   c) partners/partnerships

5) How is your company currently organized? Staffed?
   a) size
   b) organizational concept and structure
   c) key employees
   d) ownership of company and projects
   e) planning system/process

6) Where do you think the market is going?

SECTION 4

1) What was the stimulus that prompted change?
   a) external?
   b) internal?

2) How was your strategy for change chosen?
   a) who decided and had input?
      1. unilateral
      2. delegated
      3. shared
   b) was there outside help?

3) How was your new strategy implemented?
   a) timeframe
   b) was outside help used?
      1. facilitator or consultant
      2. is facilitator/consultant still involved with
your firm?

c) which internal people were involved?

d) what was the implementation process/strategy?

4) Do you feel the new strategy has been successfully implemented?

a) why?

b) why not?

SECTION 5

1) Did reorganization (changes) change the company in any of the following ways?

a) make it stronger?

b) make it more competitive?

c) make it more customer oriented?

d) make it more profitable?

2) Are you planning any additional changes?

a) why?

b) what are the current stimuli facing the firm?

   1. external

   2. internal

3) In the process of change or reorganization what was the most...

a) difficult thing?

b) easiest thing?

 c) rewarding thing?

d) frustrating thing?

e) surprising thing?

4) If you were to do it again what would you do differently?
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