

RUTHERFORD INTERNATIONAL EXECUTIVE SEARCH GROUP INC.
Real Estate Executive Search / Leadership Assessment

ADJUSTING YOUR CAREER TO A TEETERING ECONOMY – ULI Speech – Toronto – March 12, 2008

Ladies and Gentleman,

It's an honor to have an opportunity to address you tonight and discuss my career as was described in the preamble – however I doubt any of you would have even the remotest interest in how a “headhunter” became specialized in real estate executive search.

I'm more of an observer of the industry; I have the unique position of acquiring little snippets of information about a multitude of companies which span everything from strategic direction, management style and general gossip that if properly catalogued can be used to my and my clients benefit while recruiting.

I understand we have 10 minutes for this portion of the session, I'd like to spend 7 minutes speaking about industry in general – what I've seen; where we are and where I think we might be going.

The remaining 3 minutes I'll speak to What opportunities I believe you might want to consider in the future assuming my prognostications are even marginally true.

Some of you may consider my perspective as a “glass half empty” or Pollyannaish however I should remind you that I opened my search firm in 1990 as a dedicated real estate search firm and never lost money. I've been around real estate development in Canada and real estate syndication in Europe stretching back to the late 70's – I've been through more than one cycle and I have the scars as do my fellow panelists to show for it.

I'm not looking forward to BUT I'm accepting the possibility of a correction in the market. There are always opportunities for those that have the creativity to see it – we should consider the possibility that we are entering a chaotic phase in the business cycle, however in “chaotic systems” one can find, albeit ever so briefly substantive patterns – in real estate as in any business, there are opportunities to be found within chaotic economies.

Let me briefly reference to what's going on in the United States – they're our 2 ton “Tess” skating partner – we're holding hands and were skating on thin ice....

DOES ANYONE SERIOUSLY BELIEVE THAT WE'RE NOT GOING TO GET WET!

The bursting of the United State's housing credit bubble, is the result of pumping an industry with super-easy financing and profligate lending, which is reminiscent of the commercial real estate meltdown in the early 90's. Clearly we are entering a chaotic economic period, with the reverberations seemingly chasing the time zones.

American mortgage lenders have exercised the same undisciplined penchant for writing ‘no’ or ‘little’ documentation mortgage loans in the residential industry as they did in previous decades with commercial lending.

We believed then that an underlying driver of that debacle was “personal performance compensation” run amok; and we believe a contributing driver for the sub-prime debacle today is rapacious personal enrichment without appropriate safe guards.

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Poor short-term compensation architecture that rewards fatuous results serves neither customer nor shareholder in a meaningful way but allows management to calculate bonuses against phantom value creation.

The spillover effect on other sectors of the economy including the commercial real estate industry is likely to be dictated by the degree of optimism the American consumer has in their future.

The Federal Reserves aggressive rate cut and the government's efforts at fiscal stimulus during this election year run up may give stocks and optimism a shot in the arm however the jury is still out. The effect of monetary tinkering takes time and may not be enough.

Housing in the United States is a \$23 trillion asset class that is in an aggressive deflationary mode. The supply of intended homes for owners has reached a level of vacancy which surpasses all records since 1956. Business Week reports that the supply of unsold homes will carve an average of 10 percent out of home values over the balance of this year. Match this reduction in consumer asset wealth against current household financial obligations relative to their disposable income, which is just shy of 20 percent and one would conclude that the American consumer is walking a high wire.

REFERENCE TO THE TERM "RESOLUTION TRUST" HAS BEEN RAISED BY MORE THAN ONE AMERICAN SENATOR THESE PAST MONTHS.

IN CANADA - I don't believe we are immune to the turmoil south of the border but layered over this lack of immunity are some not so subtle indicators that will lead to some very dramatic shifts:

1. Shifting geo-political influences – half of Canada's head-offices have moved to Calgary along with financial influence;
2. Central government planning has been trumped by provinces exerting their rights under the constitution;
3. Ontario is slouching toward the status of a "half-not" province. In February we lost 20,000 manufacturing jobs – gained 31,000 construction and 20,000 business, building related and support jobs. Governments hired 11,000.

Historically, the unspoken contract governments had with the private sector was to keep their compensation and benefits at the middle quartile of the private sector range – the trade off offered to government workers was "security" over "money." This social contract with the private sector has been shattered – TODAY - GOVERNMENTS ARE OUTBIDDING US IN THE LABOUR MARKET WITH OUR OWN MONEY!

4. The impact of negative birth rate and increasing retirements of our workers has created not only a skills shortage but more importantly a knowledge shortage. Organizations are losing the capacity to mentor their bright lights – assuming of course that they can retain them long enough....

THE GREATEST HUMAN CAPITAL CHALLENGE FOR A CEO CURRENTLY IS "MOTIVATION" AND MANAGING THE EXPECTATIONS OF THEIR X AND Y GENERATION EMPLOYEES.

4. OTHER INTERESTING ANTEDOTAL INDICATORS ARE:

- A. FRICTION IN THE DEVELOPMENT PROCESS – Planners making decisions without real world expertise – for example a developer north of Toronto applying to build a warehouse was permitted on the basis that the building qualified

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as a LEEDS design – the economics wouldn't work, the building wasn't built – the region ended up with less warehouse capacity and no additional tax base simply because this planner was adhering to his university text book.

B. As in the early 90's, when municipalities trebled their development and permitting fees – being always the last to the table - you know the cycle is nearing an end;

C. Condo sales in 416 – I'm confused – the pundits are reporting that business is brisk- but I'm hearing from builders' that 50 percent of condo sales are coming back within the 10 day cooling off period. I'd like to think the pundits are right, but when have they ever been right before?

What is one to do with respect to managing their career in an economy that is teetering weighted by a general morass of insecurity?

Resilient businesses cultures and agile management will always succeed.

If you tend to be conservative and adverse to risk - it makes sense to me that you consider companies with a strong balance sheets and a tenant mix within its portfolio that is relatively insulated from the angst of the American and Canadian consumer.

Ownership positions meltdown but assets remain and require management; tenants' contract and shift to lower cost facilities but need modern amenities; vacancy needs to be filled – asset value erosion mitigated.

YOU SHOULD seek property owners and managers with portfolios that are well located and occupied by commercial and retail tenants that have solid, ongoing businesses and are well situated within commercial, retail and transportation nodes.

Municipal and regional governments are bound to hit the financial wall – corporate services, infrastructure and out-sourcing services should abound as PPP or some new palatable definition will likely become a trend.

In a global economy, real estate is local however the investment in commercial and infrastructure assets is international – employers with good diversification offer greater peace of mind.

If like me, you see opportunity in unsettled times – you need to elevate your game, stay informed, widen your network; and most importantly, you learn to recognize business opportunities, which always albeit briefly reveal themselves within the cracks of chaotic systems.

Thank you for your time.....

Forbes J. Rutherford, President

Rutherford International, March 12, 2008

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