



COMMERCIAL REAL ESTATE  
DEVELOPMENT ASSOCIATION

CHICAGO CHAPTER

## **“A View from the Top: The Nation’s Leading Real Estate CEOs Provide Insight into the Industrial Market”**

*by Matt Baron, NAIOP Chicago Staff Writer*

*This is a summary of the March 11, 2010, meeting of the Chicago chapter of NAIOP, the Commercial Real Estate Development Association.*

*Its members gathered at the Riverway Auditorium in Rosemont to hear insights from moderator Jim Kammert, Principal of Transwestern Investment Company, and panelists Bruce Duncan, President and CEO of First Industrial Realty Trust, Inc.; Mike Mullen, CEO of CenterPoint Properties; and Denny Oklak, Chairman and CEO of Duke Realty Corporation.*

Mike Mullen may be a CEO, but he also knows how to handle the intricacies and mysteries of the switchboard.

His diverse skill set illustrates a broader point that permeated this wide-ranging hour-long discussion. In today’s industrial marketplace, it’s crucial to develop skills and seize opportunities wherever you can.

And, at least for the time being, panelists agreed the lion’s share of those opportunities will continue to come from tending to your own business rather than expanding into new markets.

In short, with an economy tentatively emerging from two years of turmoil, it’s still much more likely—and less risky—to deal with the properties you already own or manage than to make new deals.

Corporate valuations have risen significantly in the past year, Kammert noted. But the thrashing they took between 2007 and last year—by an average of 85 percent among eight companies cited by Kammert—means that they climbed from a much smaller figure and are still trading at values well below their 2007 peaks.

Opportunities will increase over time, but they likely will take longer to develop and demand more patience than most would like to give, said panelists.

Duncan predicted that “a lot of private companies will go public” in the coming years, largely because of the difficulty of raising money in the private markets, and that there is an

“extraordinary opportunity over the next eight years to make a lot of money....public companies will benefit from it.”

A growing market force among public companies, noted Kammert, has been the emphasis on social responsibility, such as pursuing LEED (Leadership in Energy and Environmental Design) certification.

Mullen said his firm has a “green wave initiative” that came when the company was acquired in 2006. “For our investment buildings, for our own account, everything is LEED-certified and we try to convince our clients to do it.”

Duke Realty Corp., said Oklak, in the past four years has had at least some level of LEED certification with everything the company has developed.

“It’s not a lot of cost, for the most part,” added Oklak, who is co-chair of the Sustainability Policy Action Committee for the Real Estate Roundtable. “We look at existing properties and see how to increase energy efficiency.”

Duncan said the issue “comes down to economics.....you do it because it makes sense economically, not because it’s mandated.”

“I have yet to see that many tenants who say they must be in a green building,” added Duncan, noting that most are focused on location and price. “It’s a great thing to have LEED-certified buildings, but look at whether people are paying for them or not.”

In response to Kammert’s question about their respective firms’ capital plans over the next 18 months to two years, Duncan said First Industrial Realty Trust’s mission is to de-leverage through buying back debt at a discount, raising equity and leasing out more space, even if it’s a lower-than-ideal rate.

First Industrial’s properties are about 82 percent leased up, said Duncan, and “if we just get into the 90s, the incremental cash flow for shareholders is dramatic....we think it’s a slog but we’re pretty excited about it.”

His firm is “happy to do a fairly aggressive deal” for one- to three-year leases to help fill up vacancies, Duncan added. But it does not make sense to lock into longer-term deals, he and other panelists agreed.

“We’re sensitive to long-term value destruction,” Oklak noted. “Most tenants know they are getting a bargain now and want to take advantage of it.”

Duke Realty, in 20 cities mostly in the Midwest, Southeast, East and Texas, is “always focused on major distribution centers,” Oklak said. “Some intermodal, but our bigger focus is on the port business the last four or five years.”

CenterPoint, said Mullen, sold 22 million square feet of space a few years ago and is now under-allocated in the real estate market by about \$7 billion. “We’re looking to get that and put

it into productive use in real estate...allocating capital is the biggest challenge—everyone wants it.”

Meantime, the company is building out eight intermodal parks—in Savannah, Northern California, Kansas City, Dallas, Houston, Norfolk and multiple sites in the Chicago area.

“There are other infrastructure plays that we’re pursuing very heavily....our parent (company) and other pension funds want to invest in infrastructure,” said Mullen. “Big organized labor pension funds want to invest in it and buy construction jobs.”

With municipal bond yields at paltry levels (0.5% for Triple A-rated two-year maturities), “people will start to tiptoe back into real estate,” Mullen noted. “I think that we are probably going to improve. It’s going to happen slower than most of us want...(but) we’re going to survive this. I think the worst is over.”

Duncan agreed that the economic climate today is better than a year ago, but “interest rates at zero mean that the world is still sick. It’s not just the United States, it’s the whole world.”

Oklak expressed caution regarding the state of the retail economy. He predicted that we may expect a “flat period until we see the unemployment rate come down...Consumer confidence numbers are not great and that does not bode well.”

Early on, Kammert asked each of the panelists about traits that anyone aspiring to be a CEO ought to cultivate. The ability to understand all aspects of the business is crucial, they replied.

In addition to Mullen’s switchboard-operating skills—“which I thought was also job security,” he said, sparking laughter—he handled acquisitions, due diligence, leasing, and development, among other tasks.

“Especially in the real estate business, one of the keys is perseverance,” Oklak advised. “There are a lot of cycles, good times and very difficult times...you have to have that personality and attitude that you’re going to try to keep an even keel through all these cycles.”

Duncan encouraged attendees to try different things, including managing people, delving into different parts of an organization and “thinking about the big picture” in terms of expanding business even as you carefully assess the risks involved.

“You also have to think whether you want to be a CEO....the fun part has always been the leadership side, getting good people together and organizing yourself so everyone understands what the objectives are,” said Duncan. “It’s kind of fun when it works...when it’s tough, it’s not so fun.”

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